



Rating
Hold

Asia
China

Banking / Finance
Banks

Company
**Bank of Chongqing
Alert**

Reuters
1963.HK

Bloomberg
1963 HK

Exchange
HKG

Ticker
1963

Date
22 March 2015

Results

Price at 20 Mar 2015 (HKD)	6.30
Price target - 12mth (HKD)	6.85
52-week range (HKD)	6.50 - 4.88
HANG SENG INDEX	24,375

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Stock data

Market cap (HKDm)	17,048
Market cap (USDm)	2,198
Shares outstanding (m)	2,706.0
Avg daily value traded (USDm)	0.0

Source: Deutsche Bank

FY14 results - mix trends; Hold maintained

FY14 Results - a small beat but a drop in capital ratio

Bank of Chongqing (BOCQ) released FY14 NPAT of Rmb2.83bn (up 21.4% yoy), which was 4.6% above our estimates. The stronger-than-expected results was driven by robust PPOP growth of 30.2% yoy in 2014, slightly offset by the higher credit cost of 74bps and provision of Rmb154mn set aside on receivable investment. Reflecting the weakening asset quality, the gross NPL formation rate rose to 0.82% in 2H14 (1H14: 0.4%) after incorporating the NPL write-off of Rmb228mn in 2H14. Noticeably, BOCQ's tier 1 ratio and total CAR has dropped significantly by 90bps and 109bps hoh to 9.63% and 11.0% respectively, due to its fast asset expansion of 21% hoh (33% yoy). We maintain a Hold rating on the bank.

Rising exposure to non-standardized assets with insufficient provision

BOCQ grew its non-standardized assets (excluding those held under reverse repos) by 36.3% hoh to Rmb53bn, or 19.5% of total assets as of end 2014 (1H14: 17.3%), against CMB (7.7% of total assets), PAB (11.3%) and CNCB (17.6%). As the end of 2014, the bank set aside provisions of Rmb154mn against these non-standardized assets, equivalent to 0.29% of the total exposure, which may fall short of regulatory requirement and potentially subject it to further earnings risk.

Asset quality deterioration likely to accelerate

BOCQ reported NPL balance up by 37% hoh to 0.69% of total loans, with SML balance up by 120% hoh to 2.12% of total loans. Incorporating the NPL write-off of Rmb228mn, the gross NPL formation jumped to 0.82% in 2H14, compared with 0.4% in 1H14 and 0.17% in 2013. Given the fast growth in SML and loan overdue less than 90 days (+439% hoh to 0.79% of total loans), we expect asset quality deterioration to accelerate in the next few quarters. With credit cost of 0.96% in 2H14, the bank reported NPL coverage ratio and total loan coverage ratio of 319% (1H14: 390%) and 2.19% (1H14: 2.1%).

Running the numbers – 2H14 results

The full-year NPAT of Rmb2.8bn implies net profits of Rmb1.2bn for 2H14, up 26.2% yoy, which was driven by robust PPOP growth of 37.2% yoy but slightly offset by the provision charge against the receivable investment of Rmb154mn (none for 2013). The strong asset expansion of 21.4% hoh offset the compression in NIM (down 7bps hoh), leading to net interest income growth of 20.1% yoy in 2H14. Non-interest income grew remarkably by 185% yoy to Rmb627mn as a result of robust fee income growth of 63.6% yoy and net gains from FX and interest rate instruments (net loss of Rmb 78mn in 2H13). As operating income growth of 32.5% yoy outpaced operating expense growth of 26.6%, CIR improved modestly to 42.1% in 2H14 (2H13: 44.1%).

Deutsche Bank AG/Hong Kong

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