



Rating
Hold

Asia
China

Banking / Finance
Banks

Company Bank of Communications

Reuters
3328.HK

Bloomberg
3328 HK

Exchange
HKG

Ticker
3328

ADR Ticker
BCMXY

ISIN
US0616051019

Date
26 March 2015

Results

Price at 26 Mar 2015 (HKD)	6.44
Price target - 12mth (HKD)	7.64
52-week range (HKD)	7.34 - 4.76
HANG SENG INDEX	24,528

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Stock data

Market cap (HKDm)	478,254
Market cap (USDm)	61,672
Shares outstanding (m)	74,263.0
Avg daily value traded (USDm)	31.5

Source: Deutsche Bank

2014 Review: weak NIM offset by low credit costs

In the transition; Hold rating maintained on weak results

BoCom reported FY14 net profit of Rmb65.9bn, up 5.7% yoy. Despite that the NPAT beat consensus estimates by 2%, the quality of the results was weaker than expected. In 4Q14, BoCom's PPOP fell by 2.5% yoy and charged credit costs of 46bps, despite the accelerating NPL formation rate of 93bps in 2H14 (1H14: 51bps). We attribute the weak results to the change in BoCom's strategy to focus on sustainable profitability instead of asset growth, leading to a hit in earnings during the transition period. We maintain a Hold rating on both BoCom's H and A-shares, as dividend yield of 5.2% (payout ratio unchanged at 30%) should be share price supportive.

4Q14 – running the numbers

For 4Q14, BoCom reported NPAT of 14.3bn, up 5.4% yoy. Net interest income fell notably by 7.9% qoq (down 1.9% yoy), given 19bps qoq drop in NIM to 2.23% and weak AIEA growth of 0.1% qoq. Both loans and deposits contracted by 1.4% qoq and 2.1% qoq, leading to full year growth of 5.1% yoy and -3% yoy. Measuring by the daily average balance, loans and deposits rose by 6.9% yoy and 5.84% yoy, suggesting above peers volatility for its liquidity management. While net fee income growth slowed down to 2.4% yoy (4Q13: 21.1% yoy), net gains from trading activities rebounded to Rmb1.8bn in 4Q14 (4Q13: net loss of Rmb602mn), leading to strong non-interest income growth of 39.9% yoy. With operating expense growth of 16% yoy outpacing income growth of 5.8%, CIR increased by 4.3% yoy to 49% (4Q13: 44.7%).

Worsening asset quality with falling coverage ratios

BoCom reported NPL balance grew by 5.2% qoq to 1.25% of total loans (3Q14: 1.17%). Adjusting for the write-off of Rmb11.8bn (2014: Rmb158bn) in 2H14, the NPL formation rate had accelerated to 93bps (1H14: 51bps). SML and loan overdue less than 90 days rose by 23.2% and 57% hoh to 2.68% and 1.07% of total loan, respectively, reflecting continued risks of asset quality deterioration ahead. With the credit cost of 46bps in 4Q14, BoCom reported lower NPL coverage ratio of 179% (3Q14: 201%) and gross loan coverage ratio of 2.24% (3Q14: 2.36%).

Improving capital position to support future growth

BoCom reported core tier 1, tier 1, and total CAR of 11.3%, 11.3% and 14.04%, up by 20bps, 20bps, and 24bps qoq respectively. In face of the challenges posed by interest rate deregulation, management would focus on the change in asset mix in favor of assets with high yields namely, credit cards, SME loans and personal consumer loans, improving loan pricing and tight control of liability costs.

Deutsche Bank AG/Hong Kong

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