

EARNINGS REVIEW

China Construction Bank (H) (0939.HK)

Buy

Equity Research

In line FY14; solid PPOP, de-risked balance sheet yet NPLs rose

What surprised us

CCB reported 2014 NPAT of Rmb228bn, up 6% yoy, or 98%/99% of GH/Bloomberg consensus FY14E. PPOP was in-line and grew strongly at 12% yoy on higher NII and lower CIR, largely offsetting softer fees and higher credit cost amid modest NPL pressure.

Key positives: 1) 4Q NIM inched up 2bp qoq, driving FY14 NII to beat GHe by 2pp, likely on stable loan/deposit pricing and better investment yields. 2) 4Q CIR declined 1.8pp, as good control of staff cost and SG&A more than offset the rising rental expense from branch expansion. 3) CCB de-risked its loan mix slightly with rapid growth in consumer mortgages and M-T project loans, vs. almost muted growth of risky loans like working capital, mfg., wholesale and real estate loans, as well as off-balance sheet guarantees. 4) Core tier 1 CAR rose to 12.12% by 47bps and RWA fell 0.5% qoq, likely on its de-risking of the balance sheet and small drop in off-balance sheet items.

Key negatives: 1) Modest NPL formation rates: we estimate 2H net NPL formation rate (excl. NPLs from the acquisition of Brazil Banco) expanded to 83bps vs. 52bps in 1H, yet better than peers. 2H overdue (1 day+) formation rate was 73bps. 2) Div payout ratio lower to 33% vs. 35% in 2013 with flat DPS. We expect 33% div payout in FY15E/16E. 3) 4Q solid fee fell 2% yoy, on settlement, advisory and agency business; 4) Deposit growth was slow at 6% yoy and -1% qoq, though with stable cost.

What to do with the stock

We view its 2014 PPOP as solid, with modest but above-peer NPL pressure. Maintain Buy on its H/A shares with 12m RIM-based TP of HK\$7.90/Rmb6.80, given solid deposit franchise, provision/loan ratio and CAR. We lower its 2015E/16E NPAT by -2%/-3% and introduce 17E NPAT. Key risks: worse-than expected NPLs.

CCB 4Q14 results snapshot

(%)	1Q14	2Q14	3Q14	4Q14
NIM	2.64	2.68	2.73	2.75
Impaired loan ratio	1.02	1.04	1.07	1.19
LLR/Total loans	2.65	2.59	2.64	2.66
Credit costs	0.48	0.46	0.70	0.92

Source: Company data, Gaohua Securities Research

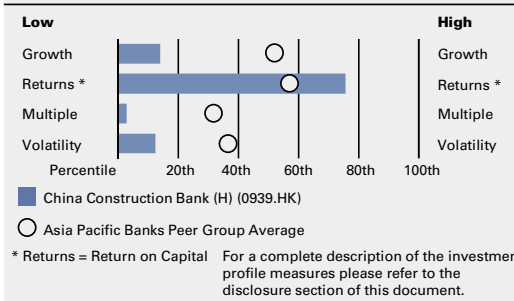
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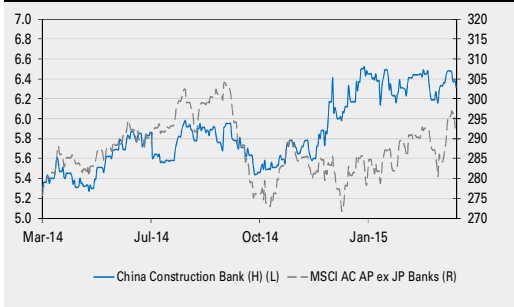
Investment Profile



Key data	Current
Price (HK\$)	6.31
12 month price target (HK\$)	7.90
601939.SS Price (Rmb)	5.99
601939.SS 12 month price target (Rmb)	6.80
Market cap (HK\$ mn / US\$ mn)	1,577,569.4 / 203,453.6
Foreign ownership (%)	--

	12/14	12/15E	12/16E	12/17E
EPS (HK\$) New	1.13	1.18	1.26	1.31
EPS revision (%)	(1.8)	(2.4)	(3.2)	--
EPS growth (%)	6.4	6.2	6.6	3.9
601939.SS EPS (Rmb) Net	0.91	0.96	1.02	1.06
P/E (X)	5.0	5.3	5.0	4.8
601939.SS P/E (X)	4.6	6.3	5.9	5.6
Dividend yield (%)	6.6	6.2	6.7	6.8
ROE (%)	19.7	18.0	17.1	15.9

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	2.3	12.1	19.3
Rel. to MSCI AC AP ex JP Banks	(1.4)	7.1	12.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/27/2015 close.

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China Construction Bank (H): Summary Financials

Profit model (Rmb mn)	12/14	12/15E	12/16E	12/17E	Balance sheet (Rmb mn)	12/14	12/15E	12/16E	12/17E
Net interest income	437,398.0	453,025.7	468,450.0	487,816.8	Gross loans	9,474,523.0	10,455,633.5	11,466,412.3	12,577,272.8
Non-interest income	119,342.0	133,100.5	147,506.8	162,215.1	NPLs	113,171.0	140,626.9	167,052.2	196,033.7
Operating revenue	556,740.0	586,126.2	615,956.8	650,031.9	Loan loss reserves	251,613.0	278,038.9	301,253.9	329,367.4
Non-interest expense	(195,988.0)	(205,937.7)	(216,429.6)	(226,589.2)	Total interest earning assets	16,350,297.0	17,824,392.7	19,367,940.8	21,024,510.1
Provisioning operating profit	360,752.0	380,188.5	399,527.1	423,442.7	Other non-interest earning assets	393,833.0	429,395.4	468,208.5	510,572.6
Total provision charge	(61,911.0)	(67,298.9)	(63,287.7)	(72,062.8)	Total assets	16,744,130.0	18,253,788.2	19,836,149.2	21,535,082.8
Associates	245.0	245.0	245.0	245.0	Customer deposits	12,898,675.0	14,012,961.6	15,158,898.8	16,386,961.9
Pretax profit	299,086.0	313,134.6	336,484.4	351,624.9	Total interest-bearing liabilities	14,809,591.0	16,062,682.4	17,361,304.9	18,757,321.8
Tax	(70,839.0)	(74,026.2)	(80,953.9)	(86,122.0)	Total equity	1,252,363.0	1,416,060.1	1,592,998.6	1,773,095.1
Minorities	(417.0)	(158.0)	(78.0)	2.0	CAMEL ratios (%)	12/14	12/15E	12/16E	12/17E
Net profit	227,830.0	238,950.4	255,452.5	265,504.9	C: Tier 1 capital ratio	12.1	12.1	12.1	12.0
Dividends	(75,253.3)	(78,514.0)	(85,408.5)	(86,931.2)	C: Equity/loans	13.5	13.8	14.2	14.4
Dividends payout (%)	33.0	32.9	33.4	32.7	C: Equity/assets	7.4	7.7	8.0	8.2
Earnings growth drivers (%)	12/14	12/15E	12/16E	12/17E	A: NPL ratio	1.2	1.3	1.5	1.6
Net interest margin	2.75	2.61	2.48	2.38	A: Loan loss reserves/NPLs	222.3	197.7	180.3	168.0
Provision charge/total loans	0.67	0.66	0.57	0.59	E: Net interest margin	2.75	2.61	2.48	2.38
YoY Growth (%)					E: Non int inc/oper revenues	21.44	22.71	23.95	24.95
Customer deposits	4.6	8.1	7.9	8.0	E: Cost-income ratio	34.8	34.7	34.7	34.4
Loans	10.3	10.4	9.7	9.7	E: ROAA	1.39	1.36	1.33	1.27
Net interest income	12.3	3.6	3.4	4.1	L: Loan/deposit ratio	71.5	72.6	73.7	74.7
Fee income	4.1	12.4	11.0	10.0	Loan portfolio (%)	12/14	12/15E	12/16E	12/17E
Non-interest income	(1.9)	11.5	10.8	10.0	Commercial & corporate	66.9	66.4	66.0	65.6
Operating revenue	8.9	5.3	5.1	5.5	Mortgages/home loans	18.0	18.0	18.0	18.0
Operating expenses	(4.1)	(5.1)	(5.1)	(4.7)	Consumer	31.0	31.6	32.1	32.6
Provisioning operating profit	11.7	5.4	5.1	6.0	Valuation (current price)	12/14	12/15E	12/16E	12/17E
Provision charges	38.9	9.1	(6.2)	14.5	P/E basic (X)	5.0	5.3	5.0	4.8
Pretax profit	6.9	4.7	7.5	4.5	P/B (X)	0.90	0.90	0.80	0.72
Net profit	6.1	4.9	6.9	3.9	P/PPOP (X)	3.5	3.3	3.2	3.0
EPS	6.4	6.2	6.6	3.9	Dividend yield (%)	6.6	6.2	6.7	6.8
DPS	0.6	5.6	8.5	1.8	EPS, basic (Rmb)	0.91	0.96	1.02	1.06
Market dimensions	12/14	12/15E	12/16E	12/17E	EPS, fully-diluted (Rmb)	0.91	0.96	1.02	1.06
No of branches	13,415.0	13,415.0	13,415.0	13,415.0	EPS, basic growth (%)	6.1	4.9	6.9	3.9
No of staff (000)	--	--	--	--	EPS, fully diluted growth (%)	6.1	4.9	6.9	3.9
Revenues/staff (US\$)	NM	NM	NM	NM	BVPS (HK\$)	6.13	6.94	7.82	8.71
Net profit/staff (US\$)	NM	NM	NM	NM	DPS (HK\$)	0.37	0.39	0.42	0.43
DuPont analysis (%)	12/14	12/15E	12/16E	12/17E					
ROE	19.7	18.0	17.1	15.9					
x leverage	7.1	7.5	7.8	8.0					
=ROA	1.39	1.36	1.33	1.27					
% of assets	12/14	12/15E	12/16E	12/17E					
Net interest income	2.72	2.59	2.46	2.36					
Fee income	0.68	0.70	0.71	0.72					
Non-interest income	0.74	0.76	0.77	0.78					
Operating revenue	3.47	3.35	3.23	3.14					
Operating expenses	1.22	1.18	1.14	1.10					
Provisioning operating profit	2.25	2.17	2.10	2.05					
Loan loss provisions	0.37	0.37	0.32	0.34					
Pretax profits	1.86	1.79	1.77	1.70					
Taxes	0.44	0.42	0.43	0.42					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Exhibit 1: CCB 2014 in-line NPAT +6% yoy. Better NII & CIR largely weaker softer fees and higher credit cost amid rising NPL formation rate. Provisions and capital kept solid.

RMB mn	Quarterly results				Half year results		Yoy		HoH		Full year results			
	3Q14	4Q14	4Q14	4Q14	1H14	2H14	2H14	2H14	2013	2014	Yoy (%)	Actual vs. GS est.		
Income statement														
Net interest income	111,945	114,161	2	11	211,292	226,106	12	7	389,544	437,398	12	2		
Non-interest income	26,492	27,415	3	(6)	65,435	53,907	(5)	(18)	121,596	119,342	(2)	(8)		
Net fee income	23,621	24,716	5	2	60,180	48,337	(1)	(20)	104,283	108,517	4	(6)		
Net trading profits	2,429	(143)	(106)	(109)	2,731	2,286	(22)	(16)	4,487	5,017	12	(10)		
Other non-interest income	2,871	2,699	(6)	(46)	5,255	5,570	(32)	6	17,313	10,825	(37)	(24)		
Memo: Non-interest income ex-trading profits	24,063	27,558	15	(0)	62,704	51,621	(4)	(18)	117,109	114,325	(2)	(8)		
Total operating revenue	138,437	141,576	2	7	276,727	280,013	8	1	511,140	556,740	9	(0)		
Operating expense	46,418	65,431	41	3	84,139	111,849	4	33	188,185	195,988	4	(1)		
Preprovision operating profit	92,019	76,145	(17)	11	192,588	168,164	11	(13)	322,955	360,752	12	0		
Loan Provision charges	16,302	21,676	33	25	21,286	37,978	43	78	42,666	59,264	39	8		
Total Impairment losses	16,302	22,487	38	28	23,122	38,789	43	68	43,209	61,911	43	7		
Pretax profits	75,717	53,853	(29)	5	169,516	129,570	4	(24)	279,806	299,086	7	(1)		
Tax	16,002	16,291	2	26	38,546	32,293	10	(16)	64,684	70,839	10	2		
Net profits	59,636	37,532	(37)	(2)	130,662	97,168	2	(26)	214,657	227,830	6	(2)		
Balance sheet														
Total assets	16,735,863	16,744,130	0	9	16,399,790	16,744,130	9	2	15,363,210	16,744,130	9	(2)		
Gross loans	9,349,489	9,474,523	1	10	9,190,601	9,474,523	10	3	8,590,057	9,474,523	10	(1)		
Non-performing loans	99,881	113,171	13	33	95,668	113,171	33	18	85,264	113,171	33	(1)		
Loan loss reserves	(246,942)	(251,613)	2	10	(238,090)	(251,613)	10	6	(228,696)	(251,613)	10	(4)		
Customer deposits	12,982,406	12,898,675	(1)	6	12,956,956	12,898,675	6	(0)	12,223,037	12,898,675	6	(4)		
Equity	1,208,179	1,252,363	4	17	1,147,012	1,252,363	17	9	1,074,329	1,252,363	17	0		
Earning Assets	16,613,290	16,601,910	(0)	9	16,238,524	16,601,910	9	2	15,234,473	16,601,910	9	(2)		
Camel ratios %														
Capital adequacy														
Equity/assets	7.22	7.48	0.26	0.49	6.99	7.48	0.49	0.49	6.99	7.48	0.49	0.16		
Equity/loans	12.92	13.22	0.30	0.71	12.48	13.22	0.71	0.74	12.51	13.22	0.71	0.12		
Asset quality														
NPL ratio	1.07	1.19	0.13	0.20	1.04	1.19	0.20	0.15	0.99	1.19	0.20	(0.01)		
LLR/NPLs	247.2	222.3	(24.91)	(45.89)	248.87	222.33	(45.89)	(26.54)	268.22	222.33	(45.89)	(5.41)		
LLR/Gross loan	2.64	2.66	0.01	(0.01)	2.59	2.66	(0.01)	0.07	2.66	2.66	(0.01)	(0.09)		
Credit cost (provision charges/loans)	0.70	0.92	0.22	0.11	0.46	0.80	0.18	0.34	0.50	0.63	0.13	0.05		
Earnings														
Net interest margin	2.73	2.75	0.02	0.01	2.69	2.75	0.06	0.07	2.68	2.75	0.07	0.08		
Non-int income/oper revenue	19.14	19.36	0.23	(2.72)	23.65	19.25	(2.75)	(4.39)	23.79	21.44	(2.35)	(1.79)		
Cost-income ratio	33.5	46.2	12.69	(1.81)	30.41	39.94	(1.44)	9.54	36.82	35.20	(1.61)	(0.32)		
Preprov operating ROAA	2.22	1.82	(0.40)	0.01	2.43	2.03	0.02	(0.40)	2.17	2.22	0.04	0.03		
ROA	1.44	0.90	(0.54)	(0.11)	1.65	1.17	(0.08)	(0.47)	1.46	1.42	(0.04)	(0.01)		
ROE	20.26	12.20	(8.05)	(2.18)	23.53	16.20	(2.11)	(7.33)	21.21	19.58	(1.63)	(0.39)		
Liquidity														
Loan/deposits	72.02	73.45	1.44	3.18	70.9	73.5	3.18	2.52	70.28	73.45	3.18	2.60		
Effective tax rates (%)	21.13	30.25	9.12	4.96	22.74	24.92	1.28	2.18	23.12	23.69	0.57	0.67		
Averages														
Average assets	16,567,827	16,739,997	1	10	15,881,500	16,571,960	10	4	14,668,019	16,053,670	9	-1		
Average equity	1,177,596	1,230,271	4	16	1,110,671	1,199,688	16	8	1,011,969	1,163,346	15	0		

Source: Company data, Gaohua Securities Research

Disclosure Appendix

Reg AC

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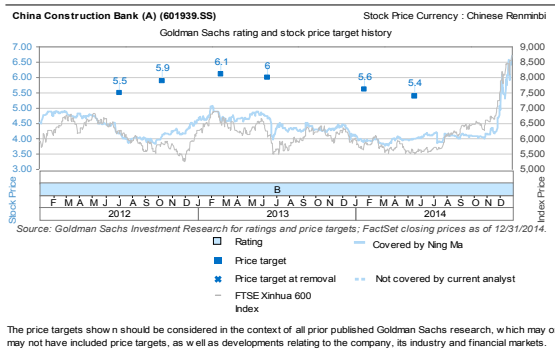
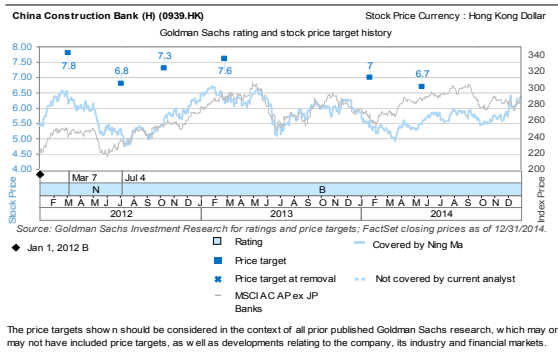
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