

## RESULTS FLASH

## CHINA CONSTRUCTION BANK 939 HK

CHINA / BANKS

BUY

TARGET PRICE	HKD8.00
UP/DOWNSIDE	+26.7%
CLOSE	HKD6.31

HOW WE DIFFER FROM CONSENSUS	MARKET RECS
TARGET PRICE (%)	3.1 POSITIVE 23
EPS 2014 (%)	1.8 NEUTRAL 2
EPS 2015 (%)	(3.0) NEGATIVE 1

## NPAT up 6% y-y on higher provisions

## ■ NPAT growth of 6.1% y-y in 2014

2014 NPAT was up 6.1% y-y to RMB227.8b, in line with our estimate but 1.43% below BBG consensus. PPOP grew 10.8% y-y in 4Q, but NPAT was down 1.7% y-y to RMB37.5b, mainly on a high provision charge, given challenging asset quality owing to an economic downturn and management's 'kitchen-sinking' efforts to charge more provisions to smoothen out earnings growth in 2015. CCB declared a DPS of RMB0.3, i.e., a 33% payout ratio (2013: 35%). ROA and ROE were 1.4% and 19.6% in 2014.

## ■ The good: better CIR, CAR and deposit stability

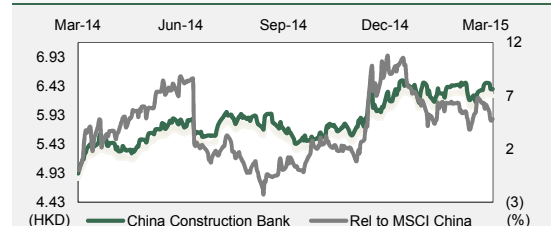
**1) Cost efficiency:** total revenue rose 6.9% y-y in 4Q (vs. expense growth of 2.6%), leading to a fall in the CIR of 2ppt to 46.1%. **2) Improved deposit stability:** Deposit stability ratio [2\*avg. daily deposit/(beginning deposits + ending deposits)] improved to 97.6% in 2H (1H: 96%). But deposits fell 0.6% q-q in 4Q vs. loan growth of 1.3%, driving up LDR to 73.5% from 72% in 3Q14. **3) Higher CAR:** CCB's efforts to deleverage 'quasi-loan' exposure led to interbank assets falling 14.1% q-q, investment receivables falling 10.8% q-q and slower B/S expansion. Hence, tier-1 CAR and total CAR rose to 12.1%/14.9% in 4Q, from 11.7%/14.5% in 3Q. We expect 2015 tier-1 CAR and total CAR to further rise to 12% and 15%, after a preferred shares issuance of RMB60b in the domestic market in 2015.

## ■ The bad: NIM, non-interest income, asset quality deterioration

**1) NIM:** NIM fell 1bp q-q to 2.79% in 4Q14. **2) Weak non-interest income:** NII declined 7.1% y-y in 4Q, mainly on higher costs incurred by CCB Life. Fee income grew 2.2% in 4Q due to regulatory scrutiny of inappropriate fees. **3) NPL** grew 7.5% q-q with NPL ratio up 7bp q-q to 1.19% in 4Q. Adding back RMB17.2b write-offs, gross NPLs rose 23.8% q-q with gross NPL ratio up from 1.2% in 3Q to 1.38% in 4Q. SML and overdue loans>3m grew 27.7% h-h and 7.3% h-h in 2H. Overdue loans<3m to NPL ratio was down from 49.1% in 1H to 48.1% in 2H, reflecting the bank's conservativeness in classifying NPL. Credit cost was 93bp in 4Q (3Q: 69bp), with gross loan coverage rising to 2.66% (3Q: 2.64%) and NPL coverage declining to 222.3% (3Q: 234.5%). New NPLs mainly originated in wholesale & retail, manufacturing and the overseas business (NPL ratio: 6.1%, 3.71% and 0.94%), which accounted for 69% of total NPLs. We will seek more details during the analyst briefing at 5:45pm on 30 March at CCB Tower.

## KEY STOCK DATA

YE Dec (RMB m)	2013A	2014E	2015E	2016E
Operating Profit	279,746	304,342	307,577	310,781
Rec. net profit	214,657	233,567	236,108	238,572
Recurring EPS (RMB)	0.86	0.93	0.94	0.95
EPS growth (%)	11.1	8.8	1.1	1.0
Recurring P/E (x)	5.9	5.4	5.4	5.3
Dividend yield (%)	5.9	6.5	6.5	6.6
Price/book (x)	1.2	1.0	0.9	0.8
ROE (%)	21.4	20.5	18.2	16.5
ROA (%)	1.47	1.45	1.35	1.27



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(2.2)	2.3	19.3
Relative to country (%)	(0.4)	(3.8)	2.3
Mkt cap (USD m)	203,434		
3m avg daily turnover (USD m)	207.8		
Free float (%)	12		
Major shareholder	Hui Jin (57%)		
12m high/low (HKD)	6.52/5.27		
3m historic vol. (%)	24.0		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	250,011		

Sources: Bloomberg consensus; BNP Paribas estimates



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## EXHIBIT 1: CCB 4Q14 results summary

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14		
	(RMB m)	(RMB m)	(RMB m)	(RMB m)	(RMB m)	(RMB m)	(RMB m)	(RMB m)	Change (q-q %)	Change (y-y %)
Revenue	125,925	126,382	126,574	132,259	147,936	128,791	138,688	141,325	1.9	6.9
NPAT	59,580	60,131	56,771	38,175	65,780	64,882	59,636	37,532	(37.1)	(1.7)
Loan growth (q-q %)	4.6	3.0	3.5	2.5	3.9	3.0	1.7	1.3	(0.4)	(1.2)
Deposit growth (q-q %)	5.8	1.2	-0.3	0.9	5.2	0.8	0.2	(0.6)	(0.8)	(1.5)
LDR (%)	65.5	66.6	69.1	70.3	69.4	70.9	72.0	73.5	1.4	3.2
NIM (%)	2.71	2.71	2.71	2.82	2.81	2.79	2.80	2.79	(0.0)	(0.0)
NPL ratio (%)	0.99	0.99	0.98	0.99	1.02	1.04	1.13	1.19	0.1	0.2
Credit cost (%)	0.44	0.38	0.45	0.82	0.49	0.47	0.69	0.93	0.2	0.1
Tier-1 CAR (%)	10.92	10.66	10.87	10.75	11.11	11.21	11.65	12.12	0.5	1.4
CAR (%)	13.63	13.34	13.52	13.34	13.50	13.89	14.53	14.87	0.3	1.5
ROA (%)	1.66	1.63	1.52	1.01	1.67	1.60	1.44	0.90	(0.5)	(0.1)
ROE (%)	24.51	24.11	22.33	14.49	23.86	22.80	20.43	12.25	(8.2)	(2.2)

Source: CCB; BNP Paribas

## EXHIBIT 2: China banks' valuation summary

	BBG code	Rating	TP	Target P/BV	Price	Mkt. cap	P/BV		P/E		P/POP		Div yield		ROE		ROA		Net profit growth								
							'14E	'15E	'14E	'15E	'14E	'15E	'14E	'15E	'14E	'15E	'14E	'15E	'14E	'15E	'14E	'15E	'14E	'15E			
					(HKD)	(USD b)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)						
ICBC	1398 HK	BUY	7.00	1.2	5.50	265.8	1.1	0.9	0.8	5.5	5.5	5.4	3.7	3.5	3.4	6.4	6.4	20.7	18.2	16.4	1.4	1.4	1.3	7.4	0.2	0.8	
CCB	939 HK	BUY	8.00	1.2	6.31	204.9	1.0	0.9	0.8	5.4	5.4	5.3	3.5	3.3	3.0	6.5	6.5	20.5	18.2	16.5	1.5	1.3	1.3	8.8	1.1	1.0	
BOC	3988 HK	BUY	4.92	1.0	4.32	193.0	0.9	0.8	0.8	5.8	5.6	5.4	3.5	3.3	3.0	6.0	6.2	6.4	17.1	15.8	14.9	1.1	1.1	1.0	6.3	3.1	3.9
ABC	1288 HK	HOLD	4.03	1.0	3.76	187.1	1.0	0.9	0.8	5.3	5.2	5.1	3.3	3.1	3.0	6.5	6.6	6.8	20.4	18.3	16.8	1.2	1.1	1.1	10.5	2.1	2.8
BoComm	3328 HK	BUY	8.00	0.9	6.38	68.7	0.8	0.7	0.7	5.8	5.6	5.4	3.5	3.3	3.1	5.4	5.5	5.8	14.9	13.8	13.2	1.1	1.0	1.0	5.5	2.3	5.1
CMB	3968 HK	HOLD	18.14	1.0	18.42	61.5	1.2	1.1	0.9	6.3	6.0	5.9	3.7	3.3	3.1	4.8	5.1	5.1	20.6	18.8	16.8	1.4	1.3	1.2	14.2	5.5	1.5
CITIC Bank	998 HK	BUY	7.10	0.9	5.64	48.2	0.8	0.7	0.7	5.2	5.5	5.4	2.8	2.8	2.5	5.7	5.5	5.5	16.8	14.8	13.3	1.0	1.0	0.9	2.9	0.5	1.0
MS	1988 HK	BUY	10.80	1.0	9.15	49.8	1.1	0.9	0.8	5.3	4.9	4.5	3.1	2.8	2.6	3.8	4.1	4.4	21.7	19.9	18.6	1.3	1.3	1.3	10.9	8.5	8.7
CRCB	3618 HK	BUY	5.30	0.9	4.72	5.7	0.9	0.8	0.7	5.2	4.7	4.3	3.2	2.8	2.5	5.7	6.3	6.8	17.6	17.3	16.5	1.2	1.1	1.1	13.6	10.9	7.6
CEB	6818 HK	BUY	4.90	0.9	4.18	33.4	0.9	0.8	0.7	5.5	5.4	5.3	3.5	3.3	3.0	5.5	5.6	5.7	17.4	15.8	14.4	1.1	1.1	1.1	6.6	2.3	1.6
<b>Average</b>							<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>5.5</b>	<b>5.4</b>	<b>5.2</b>	<b>3.4</b>	<b>3.1</b>	<b>2.9</b>	<b>5.6</b>	<b>5.8</b>	<b>6.0</b>	<b>18.7</b>	<b>17.1</b>	<b>15.7</b>	<b>1.2</b>	<b>1.2</b>	<b>1.1</b>	<b>8.7</b>	<b>3.6</b>	<b>3.4</b>
<b>Weighted average</b>							<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>5.5</b>	<b>5.4</b>	<b>5.3</b>	<b>3.5</b>	<b>3.3</b>	<b>3.1</b>	<b>6.0</b>	<b>6.1</b>	<b>6.3</b>	<b>19.4</b>	<b>17.4</b>	<b>16.0</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>8.2</b>	<b>2.1</b>	<b>2.4</b>

Note: Priced at 27 March 2015

Sources: Bloomberg; BNP Paribas estimates

## Financial statements

## China Construction Bank

Profit and Loss (RMB m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Interest income	603,241	646,253	756,218	793,103	836,836
Interest expense	(250,039)	(256,709)	(318,456)	(323,405)	(328,434)
<b>Net interest income</b>	<b>353,202</b>	<b>389,544</b>	<b>437,762</b>	<b>469,698</b>	<b>508,402</b>
Net fees & commission	93,507	104,283	116,572	123,826	129,165
Foreign exchange trading income	0	0	0	0	0
Securities trading income	5,399	4,487	4,688	4,965	5,148
Dividend income	239	446	497	532	572
Other income	10,186	12,380	10,256	10,980	11,791
<b>Non interest income</b>	<b>109,331</b>	<b>121,596</b>	<b>132,013</b>	<b>140,304</b>	<b>146,675</b>
<b>Total income</b>	<b>462,533</b>	<b>511,140</b>	<b>569,775</b>	<b>610,002</b>	<b>655,077</b>
Staff costs	(79,710)	(86,830)	(95,608)	(102,358)	(109,584)
Other operating costs	(91,371)	(101,355)	(114,684)	(121,124)	(128,648)
<b>Operating costs</b>	<b>(171,081)</b>	<b>(188,185)</b>	<b>(210,293)</b>	<b>(223,482)</b>	<b>(238,231)</b>
<b>Pre provision operating profit</b>	<b>291,452</b>	<b>322,955</b>	<b>359,482</b>	<b>386,520</b>	<b>416,846</b>
Provisions for bad and doubtful debts	(38,330)	(42,666)	(54,597)	(78,400)	(105,523)
Other provisions	(1,711)	(543)	(543)	(543)	(543)
<b>Operating profit</b>	<b>251,411</b>	<b>279,746</b>	<b>304,342</b>	<b>307,577</b>	<b>310,781</b>
Recurring non operating income	28	60	60	60	60
Associates	28	60	60	60	60
Goodwill amortization	0	0	0	0	0
Non recurring items	0	0	0	0	0
<b>Profit before tax</b>	<b>251,439</b>	<b>279,806</b>	<b>304,402</b>	<b>307,637</b>	<b>310,841</b>
Tax	(57,837)	(64,684)	(70,370)	(71,064)	(71,804)
<b>Profit after tax</b>	<b>193,602</b>	<b>215,122</b>	<b>234,032</b>	<b>236,573</b>	<b>239,037</b>
Minority interests	(423)	(465)	(465)	(465)	(465)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
<b>Reported net profit</b>	<b>193,179</b>	<b>214,657</b>	<b>233,567</b>	<b>236,108</b>	<b>238,572</b>
Non recurring items & goodwill (net)	0	0	0	0	0
<b>Recurring net profit</b>	<b>193,179</b>	<b>214,657</b>	<b>233,567</b>	<b>236,108</b>	<b>238,572</b>
<b>Per share (RMB)</b>					
Recurring EPS *	0.77	0.86	0.93	0.94	0.95
Reported EPS	0.77	0.86	0.93	0.94	0.95
DPS	0.27	0.30	0.33	0.33	0.33
<b>Growth</b>					
Net interest income (%)	16.0	10.3	12.4	7.3	8.2
Non interest income (%)	15.3	11.2	8.6	6.3	4.5
Pre provision operating profit (%)	14.4	10.8	11.3	7.5	7.8
Operating profit (%)	14.8	11.3	8.8	1.1	1.0
Reported net profit (%)	14.1	11.1	8.8	1.1	1.0
Recurring EPS (%)	14.1	11.1	8.8	1.1	1.0
Reported EPS (%)	14.1	11.1	8.8	1.1	1.0
<b>Income breakdown</b>					
Net interest income (%)	76.4	76.2	76.8	77.0	77.6
Net fees & commission (%)	20.2	20.4	20.5	20.3	19.7
Foreign exchange trading income (%)	0.0	0.0	0.0	0.0	0.0
Securities trading income (%)	1.2	0.9	0.8	0.8	0.8
Dividend income (%)	0.1	0.1	0.1	0.1	0.1
Other income (%)	2.2	2.4	1.8	1.8	1.8
<b>Operating performance</b>					
Gross interest yield (%)	4.70	4.54	4.80	4.62	4.56
Cost of funds (%)	2.12	1.98	2.21	2.05	1.94
Net interest spread (%)	2.58	2.57	2.60	2.57	2.62
Net interest margin (%)	2.75	2.74	2.78	2.74	2.77
Cost/income (%)	37.0	36.8	36.9	36.6	36.4
Cost/assets (%)	1.30	1.28	1.31	1.28	1.27
Effective tax rate (%)	23.0	23.1	23.1	23.1	23.1
Dividend payout on recurring profit (%)	34.7	34.9	34.9	34.9	34.9
ROE (%)	22.0	21.4	20.5	18.2	16.5
ROE - COE (%)	10.9	10.3	9.4	7.1	5.4
ROA (%)	1.47	1.47	1.45	1.35	1.27
RORWA (%)	2.69	2.46	2.25	2.07	1.92

\*Pre exceptional, pre-goodwill and fully diluted

Sources: China Construction Bank; BNP Paribas estimates

## Financial statements

## China Construction Bank

Balance Sheet (RMB m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Gross customer loans	7,512,312	8,590,057	9,539,347	10,488,637	11,437,927
Total provisions	(202,433)	(228,696)	(270,154)	(334,063)	(422,917)
Interest in suspense	0	0	0	0	0
<b>Net customer loans</b>	<b>7,309,879</b>	<b>8,361,361</b>	<b>9,269,193</b>	<b>10,154,574</b>	<b>11,015,010</b>
Bank loans	1,032,236	754,798	840,878	911,421	867,174
Government securities	2,866,648	3,414,617	3,582,139	3,827,967	3,854,109
Trading securities	0	0	0	0	0
Investment securities	0	0	0	0	0
Cash & equivalents	2,458,069	2,475,001	2,785,386	2,965,446	3,079,501
Other interest earning assets	0	0	0	0	0
Tangible fixed assets	113,946	135,678	142,462	149,585	157,064
Associates	0	0	0	0	0
Goodwill	0	0	0	0	0
Other intangible assets	27,051	38,448	46,138	55,365	66,438
Other assets	164,999	183,307	151,358	164,056	231,247
<b>Total assets</b>	<b>13,972,828</b>	<b>15,363,210</b>	<b>16,817,552</b>	<b>18,228,413</b>	<b>19,270,543</b>
Customer deposits	11,343,079	12,223,037	13,200,880	14,256,950	15,397,506
Bank deposits	1,106,384	989,042	1,561,246	1,591,375	1,632,142
Other interest bearing liabilities	0	0	0	0	0
Non interest bearing liabilities	310,765	719,262	363,813	534,399	239,529
Hybrid Capital	262,991	357,540	464,863	464,863	464,863
<b>Total liabilities</b>	<b>13,023,219</b>	<b>14,288,881</b>	<b>15,590,801</b>	<b>16,847,587</b>	<b>17,734,040</b>
Share capital	250,011	250,011	250,011	250,011	250,011
Reserves	691,721	815,940	967,897	1,121,506	1,276,719
<b>Total equity</b>	<b>941,732</b>	<b>1,065,951</b>	<b>1,217,908</b>	<b>1,371,517</b>	<b>1,526,730</b>
Minority interests	7,877	8,378	8,843	9,308	9,773
<b>Total liabilities &amp; equity</b>	<b>13,972,828</b>	<b>15,363,210</b>	<b>16,817,552</b>	<b>18,228,413</b>	<b>19,270,543</b>
<b>Supplementary items</b>					
Risk weighted assets (RWA)	7,637,705	9,872,790	10,915,574	11,972,981	12,952,468
Average interest earning assets	12,845,124	14,220,279	15,741,686	17,168,501	18,337,600
Average interest bearing liabilities	11,815,615	12,992,418	14,429,967	15,770,088	16,903,850
Tier 1 capital	864,588	1,061,700	1,210,039	1,358,497	1,506,706
Total capital	1,093,429	1,316,724	1,531,591	1,703,607	1,884,570
Gross non performing loans (NPL)	74,618	85,264	114,472	136,352	165,850
<b>Per share (RMB)</b>					
Book value per share	3.77	4.26	4.87	5.49	6.11
Tangible book value per share	3.66	4.11	4.69	5.26	5.84
<b>Growth</b>					
Gross customer loans (%)	15.6	14.3	11.1	10.0	9.1
Average interest earning assets (%)	13.7	10.7	10.7	9.1	6.8
Total assets (%)	13.8	10.0	9.5	8.4	5.7
Risk weighted assets (%)	13.0	29.3	10.6	9.7	8.2
Customer deposits (%)	13.6	7.8	8.0	8.0	8.0
<b>Leverage &amp; capital measures</b>					
Customer loans/deposits (%)	64.4	68.4	70.2	71.2	71.5
Equity/assets (%)	6.7	6.9	7.2	7.5	7.9
Tangible equity/assets (%)	6.5	6.7	7.0	7.2	7.6
RWA/assets (%)	54.7	64.3	64.9	65.7	67.2
Tier 1 CAR (%)	11.3	10.8	11.1	11.3	11.6
Total CAR (%)	14.3	13.3	14.0	14.2	14.5
<b>Asset quality</b>					
Change in NPL (%)	5.2	14.3	34.3	19.1	21.6
NPL/gross loans (%)	1.0	1.0	1.2	1.3	1.5
Total provisions/gross loans (%)	2.7	2.7	2.8	3.2	3.7
Total provisions/NPL (%)	271.3	268.2	236.0	245.0	255.0
<b>Valuation</b>					
Recurring P/E (x) *	6.5	5.9	5.4	5.4	5.3
Recurring P/E @ target price (x) *	8.3	7.5	6.9	6.8	6.7
Reported P/E (x)	6.5	5.9	5.4	5.4	5.3
Dividend yield (%)	5.3	5.9	6.5	6.5	6.6
Price/book (x)	1.3	1.2	1.0	0.9	0.8
Price/tangible book (x)	1.4	1.2	1.1	1.0	0.9
Price/tangible book @ target price (x)	1.8	1.6	1.4	1.2	1.1

\* Pre exceptional, pre-goodwill and fully diluted

Sources: China Construction Bank; BNP Paribas estimates

## Disclaimers and Disclosures

### APPENDIX

#### DISCLAIMERS AND DISCLOSURES APPLICABLE TO NON-US BROKER-DEALER(S): BNP Paribas Securities (Asia) Ltd

#### ANALYST(S) CERTIFICATION

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Company	Ticker	Disclosure (as applicable)
China Construction Bank	939 HK	2,3,4,6

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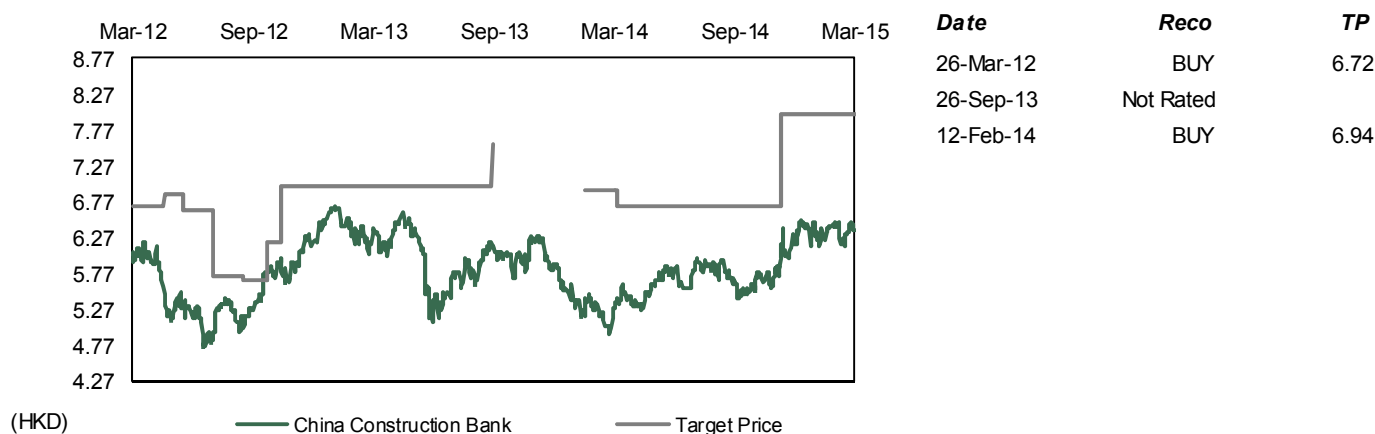
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## History of change in investment rating and/or target price

## China Construction Bank (939 HK)



judy.zhang started covering this stock from 23-Sep-2013

Price and TP are in local currency

**Valuation and risks:** EV-based valuation. Key downside risks are more intense competition from private banks and Internet lenders; higher-than-expected operating costs and funding costs; and negative impact from interest rate liberalisation and bank disintermediation.

Sources: Bloomberg; BNP Paribas

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