

RESULTS FLASH

CHONGQING RURAL COMMERCIAL BANK 3618 HK

CHINA / BANKS

BUY

TARGET PRICE	HKD5.30
UP/DOWNSIDE	+12.2%
CLOSE	HKD4.72

HOW WE DIFFER FROM CONSENSUS		MARKET RECS	
TARGET PRICE (%)	(1.9)	POSITIVE	9
EPS 2014 (%)	1.4	NEUTRAL	4
EPS 2015 (%)	4.3	NEGATIVE	3

Impressive 4Q14 results

■ NPAT growth of 14% y-y in FY14

CRCB posted solid results with FY14 NPAT up 14% y-y to RMB6.8b, in line with our estimate and 1.8% above the BBG consensus. PPOP grew 35.4% y-y in 4Q on NIM expansion, strong non-interest income growth and better cost control, but NPAT was only up 17.1% y-y to RMB1.5b as the bank conservatively set aside provisions in 4Q14. CRCB declared a DPS of RMB0.2, a 27.2% dividend payout ratio (FY13: 29.5%). ROA and ROE were 1.2% and 17.6% in 2014.

■ The good: better NIM, non-interest income and asset quality

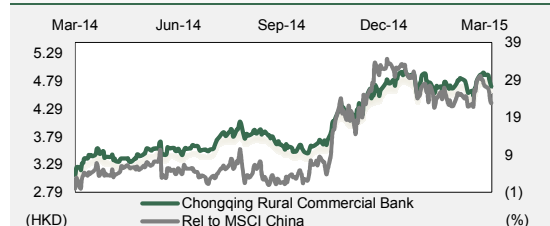
1) NIM expansion: The NIM was up 7bp q-q to 3.39% in 4Q14 on a higher LDR and lower funding cost. **2) Strong non-interest income:** net fee income was up 116% y-y in 4Q, on strong bank card and advisory fee growth. **3) Cost efficiency:** Total revenue rose 24.8% y-y in 4Q (vs expense growth of 14.6% y-y), resulting in the CIR falling 4.2ppt y-y to 46.6%. **4) The best asset quality trend among peers:** NPLs fell 0.8% q-q with the NPL ratio down 4bp q-q to 0.78% in 4Q. Adding back RMB229m write offs, gross NPLs rose 11.3% q-q with the gross NPL ratio down from 0.88% in 3Q to 0.87% in 4Q. SML fell 3.0% h-h and overdue loans >3m only grew 2.4% h-h in 2H. The overdue loan <3m to NPL ratio was down from 139% in 1H to 89% in 2H, reflecting its conservative approach to NPL classification. Credit cost was 77bp in 4Q (3Q: 89bp), with gross loan coverage down to 3.58% (3Q: 3.6%) and NPL coverage up to 459.8% (3Q: 442.5%). New NPLs mainly originated in manufacturing (NPL ratio: 1.25%), which accounts for 27.6% of total NPLs.

■ The bad: deposit growth slowdown and lower CAR

1) Deposit growth slowdown: Deposits only grew 1% q-q vs loan growth of 3.7% q-q, driving the LDR up to 59.1% in 4Q14 from 57.5% in 3Q14. **2) Lower CAR:** The tier-1 CAR improved 25bp q-q to 10.12% in 4Q. However, the total CAR fell to 12.45% in 4Q from 12.69% in 3Q after the bank redeemed 09 Chongqing Rural Commercial Bonds (subordinate bonds, RMB2.3b) last Dec. We will seek more details during the analyst briefing at 2:30pm, 31 Mar 31 in Ballroom C, 5/F, Island Shangri-La Hotel, HK.

KEY STOCK DATA

YE Dec (RMB m)	2013A	2014E	2015E	2016E
Operating Profit	7,916	8,988	9,967	10,722
Rec. net profit	5,991	6,805	7,549	8,122
Recurring EPS (RMB)	0.64	0.73	0.81	0.87
EPS growth (%)	11.7	13.6	10.9	7.6
Recurring P/E (x)	5.9	5.2	4.7	4.3
Dividend yield (%)	5.0	5.7	6.3	6.8
Price/book (x)	1.0	0.9	0.8	0.7
ROE (%)	17.6	17.6	17.3	16.5
ROA (%)	1.28	1.22	1.15	1.11



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(2.3)	(0.6)	42.2
Relative to country (%)	(1.8)	(8.5)	23.2
Mkt cap (USD m)	5,661		
3m avg daily turnover (USD m)	5.3		
Free float (%)	16		
Major shareholder	MOF and Huijin (71%)		
12m high/low (HKD)	4.98/3.31		
3m historic vol. (%)	34.3		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	9,300		

Sources: Bloomberg consensus; BNP Paribas estimates



Judy Zhang
judy.zhang@asia.bnpparibas.com
 +852 2825 1810

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EXHIBIT 1: CRCB 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	3,830	4,133	4,084	4,258	4,482	4,997	5,008	5,315	6.1	24.8
NPAT	1,616	1,601	1,531	1,242	1,834	1,757	1,783	1,454	(18.4)	17.1
Loan growth (q-q %)	5.3	5.2	3.4	3.2	4.8	5.4	3.0	3.7	0.7	0.5
Deposit growth (q-q %)	13.9	0.9	2.5	0.3	10.4	2.9	2.7	1.0	(1.7)	0.7
LDR (%)	54.5	56.8	57.3	59.0	56.0	57.4	57.5	59.1	1.6	0.1
NIM (%)	3.31	3.47	3.42	3.44	3.39	3.38	3.32	3.39	0.1	(0.1)
NPL ratio (%)	0.78	0.73	0.70	0.80	0.69	0.85	0.81	0.78	(0.0)	(0.0)
Credit cost (%)	0.34	0.66	0.46	0.57	0.50	1.10	0.89	0.77	(0.1)	0.2
Tier-1 CAR (%)	11.09	10.92	11.34	11.85	10.96	9.80	9.87	10.12	0.3	(1.7)
CAR (%)	12.89	12.71	13.13	13.64	12.60	12.68	12.69	12.45	(0.2)	(1.2)
ROA (%)	1.41	1.32	1.24	0.99	1.39	1.23	1.19	0.95	(0.2)	(0.0)
ROE (%)	19.75	19.07	17.83	13.93	19.72	18.42	18.26	14.30	(4.0)	0.4

Source: CRCB; 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	'16E		
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	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	6.6	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
Average							1.0	0.9	0.8	5.5	5.4	5.2	3.4	3.1	2.9	5.6	5.8	6.0	18.7	17.1	15.7	1.2	1.2	1.1	8.7	3.6	3.4
Weighted average							1.0	0.9	0.8	5.5	5.4	5.3	3.5	3.3	3.1	6.0	6.1	6.3	19.4	17.4	16.0	1.3	1.2	1.2	8.2	2.1	2.4

Note: Priced at 27 March 2015

Sources: Bloomberg; BNP Paribas estimates

Financial statements

Chongqing Rural Commercial Bank

Profit and Loss (RMB m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Interest income	22,332	27,180	35,016	39,270	42,758
Interest expense	(9,239)	(11,477)	(16,768)	(18,501)	(19,233)
Net interest income	13,092	15,703	18,249	20,769	23,525
Net fees & commission	436	680	919	1,082	1,249
Foreign exchange trading income	0	0	0	0	0
Securities trading income	14	(208)	(12)	14	(162)
Dividend income	0	0	0	0	0
Other income	112	130	96	176	124
Non interest income	562	602	1,003	1,272	1,210
Total income	13,654	16,306	19,252	22,042	24,735
Staff costs	(3,719)	(4,374)	(5,142)	(5,929)	(6,840)
Other operating costs	(2,355)	(2,834)	(3,090)	(3,502)	(3,980)
Operating costs	(6,075)	(7,208)	(8,233)	(9,431)	(10,820)
Pre provision operating profit	7,579	9,098	11,019	12,611	13,915
Provisions for bad and doubtful debts	(271)	(973)	(1,823)	(2,436)	(2,985)
Other provisions	(240)	(208)	(208)	(208)	(208)
Operating profit	7,068	7,916	8,988	9,967	10,722
Recurring non operating income	0	0	0	0	0
Associates	0	0	0	0	0
Goodwill amortization	0	0	0	0	0
Non recurring items	0	0	0	0	0
Profit before tax	7,068	7,917	8,988	9,967	10,722
Tax	(1,690)	(1,902)	(2,159)	(2,394)	(2,575)
Profit after tax	5,378	6,015	6,829	7,573	8,146
Minority interests	(16)	(24)	(24)	(24)	(24)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	5,361	5,991	6,805	7,549	8,122
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	5,361	5,991	6,805	7,549	8,122
Per share (RMB)					
Recurring EPS *	0.58	0.64	0.73	0.81	0.87
Reported EPS	0.58	0.64	0.73	0.81	0.87
DPS	0.17	0.19	0.22	0.24	0.26
Growth					
Net interest income (%)	24.6	19.9	16.2	13.8	13.3
Non interest income (%)	(8.6)	7.2	66.5	26.8	(4.9)
Pre provision operating profit (%)	19.5	20.0	21.1	14.5	10.3
Operating profit (%)	28.6	12.0	13.5	10.9	7.6
Reported net profit (%)	26.3	11.7	13.6	10.9	7.6
Recurring EPS (%)	26.3	11.7	13.6	10.9	7.6
Reported EPS (%)	24.2	11.7	13.6	10.9	7.6
Income breakdown					
Net interest income (%)	95.9	96.3	94.8	94.2	95.1
Net fees & commission (%)	3.2	4.2	4.8	4.9	5.0
Foreign exchange trading income (%)	0.0	0.0	0.0	0.0	0.0
Securities trading income (%)	0.1	(1.3)	(0.1)	0.1	(0.7)
Dividend income (%)	0.0	0.0	0.0	0.0	0.0
Other income (%)	0.8	0.8	0.5	0.8	0.5
Operating performance					
Gross interest yield (%)	5.97	5.90	6.40	6.10	5.94
Cost of funds (%)	2.71	2.72	3.30	3.07	2.86
Net interest spread (%)	3.26	3.18	3.10	3.03	3.08
Net interest margin (%)	3.50	3.41	3.34	3.23	3.27
Cost/income (%)	44.5	44.2	42.8	42.8	43.7
Cost/assets (%)	1.56	1.54	1.47	1.43	1.47
Effective tax rate (%)	23.9	24.0	24.0	24.0	24.0
Dividend payout on recurring profit (%)	29.5	29.5	29.5	29.5	29.5
ROE (%)	17.9	17.6	17.6	17.3	16.5
ROE - COE (%)	-	-	-	-	-
ROA (%)	1.38	1.28	1.22	1.15	1.11
RORWA (%)	2.28	2.05	2.12	2.11	2.03

*Pre exceptional, pre-goodwill and fully diluted

Sources: CRCB; BNP Paribas estimates

Financial statements

Chongqing Rural Commercial Bank

Balance Sheet (RMB m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Gross customer loans	173,559	205,253	240,516	275,779	311,042
Total provisions	(5,944)	(7,102)	(8,995)	(11,445)	(14,370)
Interest in suspense	0	0	0	0	0
Net customer loans	167,615	198,151	231,520	264,334	296,672
Bank loans	93,777	119,541	155,221	175,589	185,109
Government securities	104,874	105,984	134,279	154,518	169,684
Trading securities	0	0	0	0	0
Investment securities	0	0	0	0	0
Cash & equivalents	58,964	68,782	79,981	91,578	102,568
Other interest earning assets	0	0	0	0	0
Tangible fixed assets	3,154	3,574	3,932	4,285	4,628
Associates	0	0	0	0	0
Goodwill	0	0	0	0	0
Other intangible assets	1,897	2,307	2,400	2,498	2,601
Other assets	3,547	4,107	8,623	9,552	10,027
Total assets	433,827	502,446	615,956	702,355	771,289
Customer deposits	294,510	347,883	408,067	467,237	523,305
Bank deposits	91,733	103,586	146,433	167,101	172,435
Other interest bearing liabilities	110	185	185	185	185
Non interest bearing liabilities	12,958	11,602	12,260	12,974	14,255
Hybrid Capital	2,300	2,300	7,300	7,800	8,300
Total liabilities	401,611	465,556	574,245	655,297	718,480
Share capital	9,300	9,300	9,300	9,300	9,300
Reserves	22,607	26,951	31,749	37,072	42,799
Total equity	31,907	36,251	41,049	46,372	52,099
Minority interests	309	638	662	686	710
Total liabilities & equity	433,827	502,446	615,956	702,355	771,289
Supplementary items					
Risk weighted assets (RWA)	280,865	306,159	339,125	378,914	423,090
Average interest earning assets	374,267	460,364	546,729	643,510	720,026
Average interest bearing liabilities	341,178	421,761	507,969	602,154	673,274
Tier 1 capital	31,728	36,291	41,253	46,761	52,688
Total capital	37,142	38,575	48,504	54,508	60,932
Gross non performing loans (NPL)	1,696	1,649	2,044	2,758	3,733
Per share (RMB)					
Book value per share	3.43	3.90	4.41	4.99	5.60
Tangible book value per share	3.23	3.65	4.16	4.72	5.32
Growth					
Gross customer loans (%)	20.2	18.3	17.2	14.7	12.8
Average interest earning assets (%)	19.7	23.0	18.8	17.7	11.9
Total assets (%)	25.8	15.8	22.6	14.0	9.8
Risk weighted assets (%)	46.7	9.0	10.8	11.7	11.7
Customer deposits (%)	19.7	18.1	17.3	14.5	12.0
Leverage & capital measures					
Customer loans/deposits (%)	56.9	57.0	56.7	56.6	56.7
Equity/assets (%)	7.4	7.2	6.7	6.6	6.8
Tangible equity/assets (%)	6.9	6.8	6.3	6.2	6.4
RWA/assets (%)	64.7	60.9	55.1	53.9	54.9
Tier 1 CAR (%)	11.3	11.9	12.2	12.3	12.5
Total CAR (%)	13.2	12.6	14.3	14.4	14.4
Asset quality					
Change in NPL (%)	(18.6)	(2.7)	24.0	34.9	35.3
NPL/gross loans (%)	1.0	0.8	0.9	1.0	1.2
Total provisions/gross loans (%)	3.4	3.5	3.7	4.2	4.6
Total provisions/NPL (%)	350.6	430.6	440.0	415.0	385.0
Valuation					
Recurring P/E (x) *	6.6	5.9	5.2	4.7	4.3
Recurring P/E @ target price (x) *	7.4	6.6	5.8	5.2	4.9
Reported P/E (x)	6.6	5.9	5.2	4.7	4.3
Dividend yield (%)	4.5	5.0	5.7	6.3	6.8
Price/book (x)	1.1	1.0	0.9	0.8	0.7
Price/tangible book (x)	1.2	1.0	0.9	0.8	0.7
Price/tangible book @ target price (x)	1.3	1.2	1.0	0.9	0.8

* Pre exceptional, pre-goodwill and fully diluted

Sources: CRCB; BNP Paribas estimates

Disclaimers and Disclosures

APPENDIX

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Judy Zhang, BNP Paribas Securities (Asia) Ltd, +852 2825 1810, judy.zhang@asia.bnpparibas.com.

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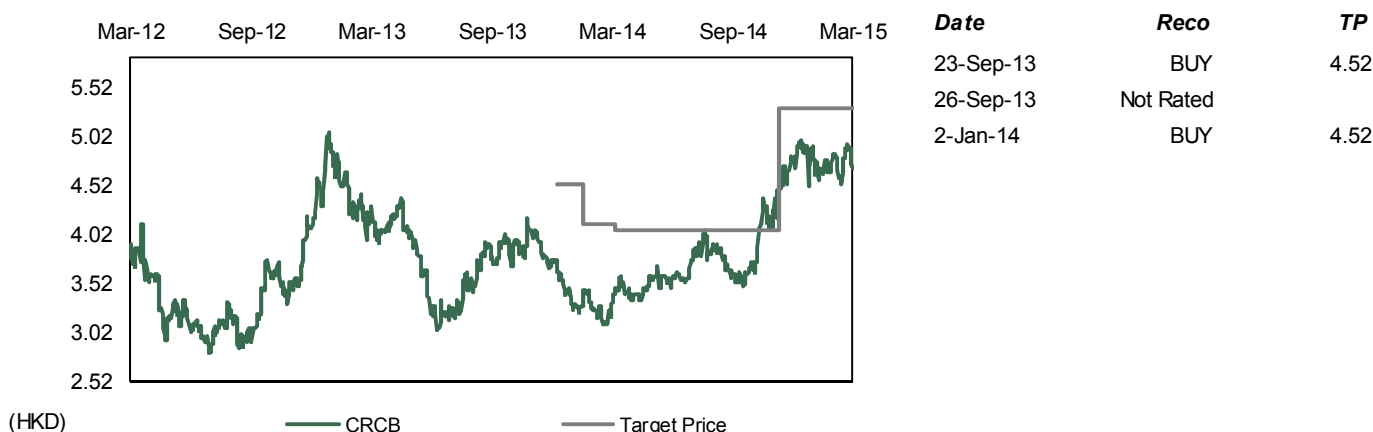
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Company	Ticker	Price (as of 27-Mar-2015 closing price)	Interest
N/A	N/A	N/A	N/A

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2. BNPPSK owns 1/100 or more of the total outstanding shares issued by the Company.
3. The Company is an affiliate of BNPPSK as prescribed by Item 3, Article 2 of the Monopoly Regulation and Fair Trade Act.
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5. BNPPSK has taken financial advisory service regarding listing to the Company within the past 1 year.
6. With regards to the tender offer initiated by the Company based on Item 2, Article 133 of the Financial Investment Services and Capital Market Act, BNPPSK acts in the capacity of the agent for the tender offer designated either by the Company or by the target company, provided that this provision shall apply only where tender offer has not expired.
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 - 2) Stock options of the Company whose securities dealings are being solicited.
 - 3) Individual stock future, stock option, and warrants that use the stocks specified in Item 1) as underlying.

History of change in investment rating and/or target price

Chongqing Rural Commercial Bank (3618 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 accelerated interest rate liberalisation putting pressure on the bank's funding cost; concerns about LGFV loans; vulnerability to an economic slowdown, given poorer asset quality than peers; and vulnerability to more stringent regulations on WMPs, interbank assets and off-balance-sheet items.

Source: Bloomberg, BNP Paribas

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