Deutsche Bank
Markets Research

Rating
Buy

Asia
China

Banking / Finance
Banks

Company
China Construction Bank Alert

Reuters	Bloomberg	Exchange	Ticker
0939.HK	939 HK	HKG	0939

ADR Ticker	ISIN
CICHY	US1689191088

Date
27 March 2015

Results

Price at 27 Mar 2015 (HKD)	6.31
Price target - 12mth (HKD)	8.18
52-week range (HKD)	6.52 - 5.27
HANG SENG INDEX	24,497

Tracy Yu
Research Analyst
(+852) 2203 6191
tracy.yu@db.com

Hans Fan, CFA
Research Analyst
(+852) 2203 6353
hans.fan@db.com

Michael Zhang, CFA
Research Associate
(+852) 2203 6158
michael.zhang@db.com

Stock data

Market cap (HKDm)	1,577,570
Market cap (USDm)	203,446
Shares outstanding (m)	250,011.0
Avg daily value traded (USDm)	207.8

Source: Deutsche Bank

FY14: Stable results; asset quality slightly weaker than expected

In-line results with the highest dividend yields offered; Buy rating maintained

CCB reported FY14 NPAT of Rmb227.8bn, up 6.1% yoy, which was 1.3% below consensus estimates. The results were driven by PPOP growth of 11.7% yoy and credit costs of 66bps. CCB lowered the dividend payout ratio to 33% (FY13: 35%) and declared a DPS of Rmb0.301 (or up 0.33% yoy), implying a dividend yield of 5.9%, which is the highest amongst the big four banks. Despite NPL formation rate accelerating to 93bps in 2H14 (1H14: 50bps), CCB's relatively high NPL coverage ratio at 222.3% should help buffer risks. We maintain a Buy rating on CCB's H-share and a Hold rating for its A-share.

Key positive for 4Q14 results: tight cost control

In 4Q14, CCB reported NPAT of Rmb37.5bn, down 1.7% yoy, as PPOP growth of 10.8% yoy was offset by the higher credit costs of 93bps (4Q13: 82bps). Net interest income rose by 2.0% qoq and 10.8% yoy, driven by flat NIM of 2.8% and AIEA growth of 2% qoq (11.8% yoy). Net fee income resumed growth of 2.2% yoy (or 4.6% qoq), as against -3.8% yoy in 3Q14. Given the tight operating cost control, up 4.2% yoy, and revenue growth of 7.6% yoy, CIR had improved to 46.5% (4Q13: 48%). For the full year, other G&A expenses, which accounted for 21.5% of total operating expenses in 2013, fell by 10.2% yoy. Loan balance grew 1.3% qoq (10.3% yoy), while deposit balance marginally declined 0.6% qoq (+5.5% yoy), leading to a higher LDR of 73.5%.

Weakening asset quality leading to a modest rise in credit costs

CCB's NPL balance grew by 7.5% qoq to 1.19% of loans (3Q14: 1.13%). We estimate that the NPL formation rate had accelerated to 93bps in 2H14 from 50bps in 1H14 after incorporating the NPL write-off of Rmb12.5bn and transfer out of Rmb13.5bn. Lending to the wholesale and retail sector and manufacturing had faced the greatest asset quality risks, with NPL ratio reported at 6.1% and 3.71% respectively. In contrast, asset quality for the retail loans remained stable, with NPL ratio of 0.38% only (2013: 0.32%). CCB's provision to NPL and loan ratio was reported at 222.3% (down from 234.5% in 3Q14) and 2.66% (up from 2.64% in 3Q14) respectively.

Strong capital position to support future growth

With the adoption of the IRB approach, CCB's RWA grew by 3.35% yoy. As such, the bank reported improving core tier 1, tier 1 and CAR of 12.1%, 12.1% and 14.9%. We believe CCB's strategy to increase profit mix in favor of retail business has been bearing fruit. In 2014, personal banking generated PBT growth of 24.6% yoy (corporate banking: up 4.1% yoy), with personal loans growing by 17% yoy, of which mortgage loan balance went up by 19.9% yoy. We will seek more details from the post results analyst briefing to be held at 5:45pm on 30 March 2015 (next Monday) on 30/F, CCB Tower, 3 Connaught Road Central, Hong Kong.