



Rating
Buy

Asia
China

Banking / Finance
Banks

Company Chongqing Rural Bank Alert

Reuters 3618.HK	Bloomberg 3618 HK	Exchange HSI	Ticker 3618
ADR Ticker CRCBY	ISIN US17039V1008		

Date
27 March 2015

Results

Price at 27 Mar 2015 (HKD)	4.72
Price target - 12mth (HKD)	5.51
52-week range (HKD)	4.98 - 3.34
HANG SENG INDEX	24,497

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Stock data

Market cap (HKDm)	43,896
Market cap (USDm)	5,661
Shares outstanding (m)	9,300.0
Avg daily value traded (USDm)	5.3

Source: Deutsche Bank

FY14: Strong results with improving asset quality

A small beat; quality of the results stronger than expected

CRCB reported FY14 NPAT of Rmb6.8bn (+14% yoy), which beat consensus estimates by 1.6%. The result was driven by strong PPOP growth of 25.2% yoy, which offset the higher credit costs of 82bps (2013: 51bps). Contrary to the industry experience of worsening asset quality, CRCB's NPL balance fell by 0.8% qoq, with NPL ratio dropping to 0.78%. In addition, both SML and overdue loan balance declined by 3% and 24% hoh to 2.35% and 1.25% of total loans. CRCB declared DPS of Rmb0.2, implying dividend payout ratio of 27.2% (2013: 29.5%) and dividend yield of 5.3%. We maintain Buy on the bank with target price of HK\$5.51.

4Q14 review: everything went right

In 4Q14, CRCB reported NPAT of Rmb1.45bn, up 17% yoy, driven by strong PPOP growth of 34.6% yoy and the relatively high credit costs of 146bps to buffer risks against the strong growth in gross loans of 18% yoy and investment securities of 27% yoy. In 2H14, the provisioning (charged to P&L) mix set aside for customer loans and other assets was 70% and 30%. Despite AIYA growth of 0.1% qoq, net interest income grew by 2.6% qoq (16.7% yoy) as NIM increased by 8bps qoq to 3.4%. Non-interest income grew strongly by 240% yoy as net fee income recorded growth of 116% yoy, with trading gains of Rmb20mn (4Q13: net losses of Rmb128mn). With operating income growing by 24.5% yoy, outpacing OPEX growth of 14.6% yoy, the CIR had improved to 46.6%.

Improving asset quality and capital ratios

Given low NPL formation rate of 32bps in 2H14 on our estimates, CRCB's NPL coverage ratio improved to 459.8% (3Q14: 442.5%). Nonetheless, provision to loan coverage ratio dropped slightly to 3.58% (3Q14: 3.6%). We believe the improving asset quality should be driven by some lumpy NPLs upgrades. In 1H14, a single borrower in the chemical industry faced suspension of operation due to failure to meet regulatory environmental standards, leading to a loan downgrade worth of Rmb470mn. As of 2014, CRCB reported core tier 1, tier 1 and CAR ratio of 10.12%, 10.12% and 12.45%, which was up 25bps, up 25bps and down 24bps from the previous quarter.

Investment in non-standardized and other credit-backed inter-bank assets

Reflecting the strong deposit growth of 17.8% yoy in 2014 and relatively low LDR of 59.1%, CRCB was seen active in making debt investments. On our estimates, CRCB's proprietary investment in non-standardized assets worth of Rmb44bn (down 7% hoh) and was equivalent to 7.1% of total assets as of 2014. In addition, the bank also had another Rmb38.3bn (or 6.2% of assets) of reverse repo collateralized against trust beneficial rights and asset management plans.

Deutsche Bank AG/Hong Kong

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