

30 March 2015

Buy
Unchanged

富饶县域

重庆农村商业银行 (3618 HK)

Market Data: Mar, 27

Closing Price (HK\$)	4.72
Price Target (HK\$)	5.74
HSCEI	11,898
HSCCI	4,547
52-week High/Low (HK\$)	5.09/3.19
Market Cap (USD Mn)	5,611
Market Cap (HK\$ Mn)	43,524
Shares Outstanding (Mn)	9,300
Exchange Rate (RMB-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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Related Reports

"CRCB (3618HK) - Fat of the land"
Dec 9, 2014

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Net interest income (Rmbm)	15,703	17,226	19,408	22,093	25,148
YOY (%)	19.94	9.70	12.67	13.83	13.83
Net income (Rmbm)	5,991	6,828	7,553	8,430	9,505
YOY (%)	11.74	13.97	10.62	11.61	12.75
EPS (Rmb)	0.64	0.73	0.81	0.91	1.02
Diluted EPS (Rmb)	0.64	0.73	0.81	0.91	1.02
BVPS (Rmb)	3.90	4.62	5.21	5.87	6.62
ROAE (%)	17.58	17.25	16.53	16.36	16.36
NPL ratio (%)	0.80	0.78	0.81	0.89	0.93
CAR (%)	12.40	13.23	12.96	12.68	12.42
PE (x)	5.86	5.14	4.65	4.17	3.69
PB (x)	0.97	0.82	0.73	0.64	0.57

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

业绩超预期。重农周五公布年报业绩。年末存款和贷款余额均同比增长 18%，净息差同比回落 4 个基点至 3.37%。净利息收入同比增速达到 17%。全年净利润达到 68 亿元，基本每股收益 0.73 元，同比增长 14%，较我们的预期高出 3%。公司核心一级资本充足率由去年末的 11.85% 下降至 10.12%，资本充足率由 13.46% 下降至 12.45%。

最坏的时刻已经过去。在经济下滑背景下，公司不良贷款余额较 2013 年末增加 16 亿元至 87 亿元。但是，公司是唯一一家年末不良率同比下滑且拨备率同比上升的港股中资银行。年末不良率下降 0.02 个百分点至 0.78%，低于行业平均的 1.25%；年末拨备覆盖率提升 29 个百分点至 460%，远高于行业平均 210% 的水平。从环比角度看，去年三季度单季公司不良率已经环比下降 0.04 个百分点，四季度单季进一步下降 0.03 个百分点，而其他所有港股中资银行的不良率同比和环比均在不断恶化。我们认为公司资产质量率先企稳主要得益于两个原因：一方面，公司立足于县域地区的定位使得其存款稳定性较高，这意味着公司资产配置策略可以更注重安全性，公司年末贷存比仅 57%，低于行业 70% 的平均水平。另一方面，本轮经济下滑中，长三角地区、环渤海地区和珠三角地区风险较大，而中西部地区资产质量相对稳定。率先企稳的资产质量和远超同业的拨备水平将为公司未来释放盈利创造足够的空间。

富饶县域。新城镇化改革和县域地区金融深化将为县域地区培养更良好的金融环境，改善当地贷款需求和资产质量。鉴于公司 70% 的存款来自于县域地区，80% 的网点位于县域，重农将是主要受益者之一。从贷款端来看，公司目前贷存比较低，提升空间较大；从存款端来看，县域地区储户品牌忠诚度和依赖度较高，投资渠道也相对单一，因此存款稳定性较高。从中间业务来看，县域地区金融产品升级和深化潜力巨大，也为公司拓展中间业务收入提供广阔空间。

重申买入。基于资产质量超预期，我们上调公司 2015 年和 2016 年 EPS 为 0.81 元和 0.91 元，对应同比增速 11% 和 12%，预计 2017 年 EPS 将达到 1.02 元，对应 13% 的同比增速。公司目前股价对应 0.73 倍 2015 年 PB，低于板块平均 0.82 倍的平均估值水平。公司 PB 折价和超额拨备隐含的不良率达 8.6%，在我们最悲观的情景假设下年末不良率会上升至 6.1%，因此我们认为市场担忧过度。我们维持公司 2015 年目标 PB 0.85 倍，上调目标价至 5.74 港币，对应 22% 的上行空间，重申买入评级。

Investment highlights :

Results beat. China Rural Commercial Bank reported total loans in 2014 grew 18% YoY and total deposits also grew by 18% due to strong funding capability. Net interest margin declined 4bp YoY to 3.37%, driving net interest income up 17% YoY. Net profit arrived at Rmb6.8bn and basic EPS reached Rmb0.73, representing 14% YoY, which is 3% higher than our expectation. Core tier-one CAR and overall CAR decreased from 11.85% and 13.64% at end-2013 to 10.12% and 12.45% at end-2014.

The worst time is over. Amid decelerating economic growth, CRCB's nonperforming loan amount increased to Rmb8.7bn at end-2014 (+Rmb1.6bn vs end-2013). However, it is the only bank reporting a declining NPL ratio and rising coverage ratio. Its NPL ratio decreased to 0.78% (-0.02ppts vs end-2013) (vs sector average of 1.25%), while its coverage ratio increased to 460% (+29ppts vs end-2013) (vs sector average of 210%). If we look at QoQ movement, its NPL ratio started to decline by 0.04ppts in the 3Q and declined by another 0.03ppts in the 4Q, while all the other banks still reported an increase in NPL ratio on both YoY and QoQ basis. This indicates asset quality remains relatively solid in Midwest China despite of the rising risks in Yangtze River Delta and Pearl River Delta. Its provision level far exceeds the other banks and leaves sufficient room for future earnings growth.

Fertile location. The State Council aimed to step up its urbanisation drive and support agricultural businesses by providing better access to financing in rural areas. Given 80% of its branches are located in county areas, e CRCB will be one of the largest beneficiaries. From the loan side, its loan to deposit ratio is just 57% (vs sector average of 70%) and 60% of its total loans are exposed to agriculture related industries, giving its loans growth larger upside potential. From the deposit side, retail and county deposits account for 70% each of its total deposits. These customers exhibit high brand loyalty and use less investment channels, making its deposits more stable and less impacted by interest liberalization than other urban-focused banks.

Reiterate BUY. In light of encouraging asset quality, we revise our EPS forecasts from Rmb0.79 to Rmb0.81 in 15E (+11% YoY) and from Rmb0.87 to Rmb0.91 in 16E (+12% YoY), and expect EPS to reach Rmb1.02 in 17E(+13% YoY). It is trading at 0.73x 15E PB (vs sector average of 0.82x). The implied NPL ratio by PB discount and excessive provision is now 8.6%, while our worst case scenario gives an NPL ratio of 6.1%, suggesting market concern is overdone. We maintain our target valuation at 0.85x 15E PB and revise our target price from HK\$5.67 to HK\$5.74. With 22% upside, we reiterate BUY recommendation.

Figure 1: Valuation table

Company	Code	Rating	Target price (HK\$)	+/- (%)	Trading PE			Trading PB		
					13A	14A	15E	13A	14A	15E
CRCB	3618 HK	BUY	5.74	21.5%	5.81	5.12	4.54	0.98	0.83	0.73
BOCOM	3328 HK	BUY	8.28	30.0%	6.02	5.68	5.30	0.89	0.76	0.69
CMBC	1988 HK	O-PF	10.9	19.6%	4.85	5.23	4.76	1.04	1.02	0.84
BOC	3988 HK	O-PF	5.23	21.1%	6.10	5.61	5.35	1.04	0.92	0.83
ABC	1288 HK	O-PF	4.19	11.7%	5.81	5.26	4.82	1.15	0.96	0.84
ICBC	1398 HK	Neutral	5.12	-7.2%	5.86	5.50	5.22	1.21	1.06	0.93
CCB	939 HK	Neutral	5.6	-11.5%	5.85	5.44	5.11	1.18	0.97	0.86
CITIC	998 HK	U-PF	5.53	-1.8%	5.33	5.13	5.00	0.93	0.79	0.69
CMB	3968 HK	U-PF	16.72	-8.6%	6.31	6.45	5.80	1.38	1.12	0.97

Source: Company data, SWS Research

APPENDIX

Figure 1: Forecast Income Statement

Rmb 000'	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Interest income	6,420,508	8,784,091	8,702,929	11,473,378	17,539,200	22,331,609	27,179,811	29,216,750	33,460,183	38,481,704	44,259,231
Interest expenses	(2,106,277)	(3,600,817)	(3,228,474)	(3,971,610)	(7,034,200)	(9,239,415)	(11,476,618)	(11,990,666)	(14,052,405)	(16,388,922)	(19,111,212)
Net interest income	4,314,231	5,183,274	5,474,455	7,501,768	10,505,000	13,092,194	15,703,193	17,226,084	19,407,778	22,092,782	25,148,019
Fee & commission income	66,042	88,302	148,833	308,909	671,100	488,375	739,079	1,185,664	1,535,435	1,842,522	2,211,026
Fee & commission expense	(12,652)	(13,978)	(12,090)	(23,133)	(35,700)	(52,651)	(59,399)	(118,566)	(153,543)	(184,252)	(221,103)
Net fee & commission income	53,390	74,324	136,743	285,776	635,400	435,724	679,680	1,067,098	1,381,891	1,658,270	1,989,924
Income from core activities	4,367,621	5,257,598	5,611,198	7,787,544	11,140,400	13,527,918	(197,640)	18,293,182	20,789,669	23,751,052	27,137,942
Income from non-core activities	1,344,839	36,742	65,587	(42,955)	(22,100)	125,400	120,564				
Operating income	5,712,460	5,294,340	5,676,785	7,744,589	11,118,300	13,653,318	16,305,797	18,293,182	20,789,669	23,751,052	27,137,942
Operating cost	(1,663,281)	(2,472,654)	(2,794,195)	(3,438,564)	(4,073,400)	(5,146,633)	(6,144,809)	(6,494,079)	(7,588,229)	(8,669,134)	(9,905,349)
Business tax & surcharges	(182,422)	(310,754)	(396,477)	(471,500)	(701,000)	(928,140)	(1,062,987)	(1,216,097)	(1,399,825)	(1,612,969)	(1,858,810)
Operating profit	3,866,757	2,510,932	2,486,113	3,834,525	6,343,900	7,578,545	9,098,001	10,583,006	11,801,615	13,468,949	15,373,783
Expense from non-core activities	18,935	(1,883)	121,402	106,432	1,000	629	0				
Pre-provision profit	3,885,692	2,509,049	2,607,515	3,940,957	6,344,900	7,579,174	9,098,001	10,583,006	11,801,615	13,468,949	15,373,783
Provision for loan impairment losses	(883,444)	(291,996)	(122,971)	45,208	(848,000)	(511,412)	(1,181,279)	(1,684,297)	(1,961,550)	(2,490,090)	(2,998,653)
Pre-tax profit	3,002,248	2,217,053	2,484,544	3,986,165	5,496,900	7,067,762	7,916,722	8,898,709	9,840,065	10,978,858	12,375,130
Income tax	0	(534,073)	(596,215)	(924,945)	(1,248,900)	(1,690,059)	(1,901,605)	(2,046,703)	(2,263,215)	(2,525,137)	(2,846,280)
Net profit	3,002,248	1,682,980	1,888,329	3,061,220	4,248,000	5,377,703	6,015,117	6,852,006	7,576,850	8,453,721	9,528,850
Minorities	0	0	0	(2,956)	1,500	16,206	24,069	24,069	24,069	24,069	24,069
Attributable income	3,002,248	1,682,980	1,888,329	3,064,176	4,246,500	5,361,497	5,991,048	6,827,937	7,552,781	8,429,652	9,504,781

Source : Company data, SWS Research

Figure2: Forecast Balance Sheet

Rmb 000'	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Assets											
Cash & central bank assets	19,170,287	19,053,410	27,415,934	37,321,633	50,662,800	58,964,060	68,782,134	81,162,918	93,337,356	107,337,959	123,438,653
Interbank assets	5,737,586	35,296,434	23,528,606	56,860,414	65,603,400	93,776,982	119,541,142	115,398,256	139,865,339	167,987,481	200,344,685
Loans	69,083,962	72,213,816	96,815,703	117,114,024	138,821,800	167,614,916	198,150,565	233,817,667	271,228,493	314,625,052	364,965,061
Investments	23,012,537	34,346,413	47,430,373	67,419,205	81,941,100	104,874,053	105,984,172	111,283,381	116,847,550	122,689,927	128,824,423
Interest earning assets	117,004,372	160,910,073	195,190,616	278,715,276	337,029,100	425,230,011	492,458,013	541,662,222	621,278,738	712,640,419	817,572,822
Non-interest earning assets	3,482,609	6,358,032	6,170,126	6,830,392	7,790,929	8,597,048	9,987,959	12,184,631	13,975,595	16,030,766	18,391,209
Total assets	120,486,981	167,268,105	201,360,742	285,545,668	344,820,029	433,827,059	502,445,972	553,846,853	635,254,333	728,671,186	835,964,031
Liabilities											
Interbank liabilities	20,483,685	36,946,462	30,641,165	47,919,259	60,412,100	96,919,581	103,770,523	83,077,028	95,288,150	109,300,678	125,394,605
Deposits	96,350,760	117,282,450	153,776,403	205,563,022	246,141,400	294,510,490	347,883,413	410,502,427	472,077,791	542,889,460	624,322,879
Issued debt	0	0	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
Interest bearing liabilities	116,834,445	154,228,912	186,717,568	255,782,281	308,853,500	393,730,071	453,953,936	495,879,455	569,665,941	654,490,138	752,017,484
non-interest bearing liabilities	3,844,800	5,147,382	5,165,824	7,332,998	7,955,500	7,867,476	11,602,731	14,400,018	16,516,613	18,945,451	21,735,065
Total liabilities	120,679,245	159,376,294	191,883,392	263,115,279	316,809,000	401,592,955	465,556,667	510,279,473	586,182,554	673,435,589	773,752,549
Shareholders' equity											
Share capital	1,639,930	6,000,000	6,000,000	9,000,000	9,300,000	9,300,000	9,300,000	9,300,000	9,300,000	9,300,000	9,300,000
Capital reserve	3,600,000	586,229	586,229	8,202,717	9,201,900	9,201,954	9,201,954	9,201,954	9,201,954	9,201,954	9,201,954
Other reserve	1,399,795	698,360	821,372	2,496,120	5,551,800	8,632,337	11,799,318	13,680,321	15,801,187	18,154,708	30,295,898
Retained reserve	(6,831,989)	607,222	2,069,749	2,646,308	3,801,800	4,786,433	5,950,176	10,747,247	14,130,781	17,941,078	12,775,774
Total Equity	(192,264)	7,891,811	9,477,350	22,345,145	27,855,500	31,920,724	36,251,448	42,929,522	48,433,922	54,597,740	61,573,625
Minorities	0	0	0	85,244	155,400	308,788	637,857	637,857	637,857	637,857	637,857
Total liabilities and equity	120,486,981	167,268,105	201,360,742	285,545,668	344,820,029	433,827,059	502,445,972	553,846,853	635,254,333	728,671,186	835,964,031

Source : Company data, SWS Research

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