

### COMPANY RESULTS

## China Merchants Bank (3968 HK)

2024: Improving Fundamentals But Valuation Is No Longer Attractive

**CMB posted a 1.2% yoy growth in net profit, in line with the preliminary results. NIM was above expectations due to better funding cost managements but fee income sluggishness persists. Meanwhile, asset quality was mixed as retail asset quality continued to be under pressure. Although fundamentals are improving, we decide to downgrade to HOLD as its valuation and dividend yield remain relatively unappealing at this juncture, with no major catalysts ahead. Target price: HK\$49.00.**

#### 4Q24/2024 RESULTS

Year to 31 Dec (Rmbm)	4Q24	qoq%	yoy%	2024	yoy%
Avg Interest earning asset	11,087,588	3.9	8.8	10,686,141	7.0
Total loan	6,888,315	1.9	5.8		
Total deposit	9,096,587	4.2	11.5		
Net interest income	53,979	2.1	1.3	211,277	-1.6
Net interest margin (%)	1.94	-3bp	-10bp	1.98	-17bp
Fee income	16,392	-5.7	-4.0	72,094	-14.3
Other NII	13,610	52.7	51.1	51,118	26.7
Operating income	83,981	6.1	7.0	334,489	-1.4
Operating expenses	-35,478	37.4	-1.0	-117,650	-2.8
PPOP	48,503	-9.0	13.8	216,839	-0.6
Provision	-4,462	-52.6	183.5	-40,819	-1.6
Net profit attributable	35,207	-8.4	7.6	148,391	1.2

Source: China Merchants Bank, UOB Kay Hian

#### RESULTS

- Results came in as per preliminary announcement.** China Merchants Bank's (CMB) net profit grew 1.2% yoy to Rmb148.4b in 2024, in line with the preliminary results released in Jan 25. This implies a net profit growth of 7.6% yoy in 4Q24, driven by a turnaround in revenue growth (+7.0% yoy) and better opex control (-1.0% yoy), partly offset by increased provision charges from a lower base (+183.5% yoy) and higher tax expenses (effective tax rate: +5.4ppt yoy). However, credit cost remained at a lower level of 26bp in 4Q24.
- Loan growth regained momentum in 4Q24.** CMB's loans grew 5.8% yoy in 4Q24 (vs 4.7% yoy in 3Q24), mainly driven by both the corporate segment (+10.1% yoy) and retail segment (+6.0% yoy), partly offset by a 19.4% yoy decline in discounted bills. Looking into the loan breakdown, we saw a recovery in retail loan demand as loan growth was more broad-based across its product lines with positive hoh growth seen across micro-finance/mortgage/credit card/consumer loans in 2H24, due to improved sentiment after the 924 policy supports.
- Deposit growth was above guidance of 10% yoy.** Deposit growth accelerated to 11.5% yoy in 2024 from 7.9% yoy in 1H24, mainly driven by a turnaround in demand deposit growth of 6.2% yoy (vs 1H24: -4.2% yoy), albeit with slower time deposit growth of 18.0% yoy. As a result, CASA ratio improved 3.5ppt qoq to 52.2%. The bank is targeting a 7-8% loan and deposit yoy growth in 2025, lower than the deposit/loan growth guidance of 10%/8% for 2024.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2023	2024	2025F	2026F	2027F
Net interest income	214,669	211,277	214,396	233,959	249,198
Non-interest income	124,454	123,212	126,152	132,746	141,230
Net profit (rep./act.)	146,602	148,391	153,932	164,618	173,816
EPS (Fen)	581.3	588.4	610.4	652.7	689.2
PE (x)	7.5	7.4	7.1	6.7	6.3
P/B (x)	1.2	1.1	1.0	0.9	0.8
Dividend yield (%)	4.5	4.6	4.8	5.1	5.4
Net int margin (%)	2.15	1.98	1.88	1.89	1.95
Cost/income (%)	35.7	35.2	33.1	32.9	32.9
Loan loss cover (%)	437.7	412.0	396.5	403.2	407.5
Consensus net profit	-	-	151,923	162,104	171,274
UOBKH/Consensus (x)	-	-	1.01	1.02	1.01

Source: China Merchants Bank, Bloomberg, UOB Kay Hian

### HOLD

(Downgraded)

Share Price	HK\$45.90
Target Price	HK\$49.00
Upside	+6.8%

#### COMPANY DESCRIPTION

China Merchants Bank is a leading bank in China. It provides comprehensive commercial banking services covering retail, corporate and treasury banking.

#### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	3968 HK
Shares issued (m):	4,590.9
Market cap (HK\$m):	1,165,956.2
Market cap (US\$m):	149,921.7
3-mth avg daily t'over (US\$m):	132.9

#### Price Performance (%)

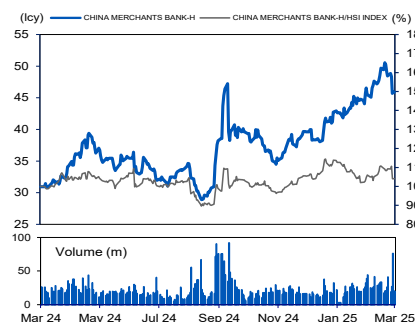
52-week high/low HK\$50.70/HK\$27.95

1mth	3mth	6mth	1yr	YTD
2.9	15.6	33.8	46.6	14.8

#### Major Shareholders

	%
China Merchants Group	29.97
-	-
FY25 NAV/Share (Rmb)	45.32
FY25 CAR Tier-1 (%)	15.0

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Kenny Lim Yong Hui**  
+603 2147 1924  
kennyylim@uobkayhian.com

- NIM movement was better than our expectation.** NIM narrowed 3bp qoq to 1.94%, mainly dragged by the impact of LPR cuts and one-off mortgage repricing in 4Q24 which led to a 20bp qoq decline in loan yield. However, improved funding cost management partially mitigated the falling asset yield. Deposit cost was down 14bp qoq, driven by a rebound of CASA ratio and more pronounced effects from previous rounds of deposit rate reductions. All in, net interest income increased 1.3% yoy in 4Q24 despite prolonged NIM compression, thanks to an 8.8% growth in interest-earning assets. The yoy NIM contraction eased from 27bp in 1Q24 to 10bp in 4Q24, despite multiple LPR cuts and mortgage repricing throughout 2024. Therefore, we believe the NIM dilution will be more benign in 2025, though the timing of a recovery will still depend on the pace of the economic recovery.

- Fee income remained muted** with a 4.0% yoy decline, which was below our expectation, despite the improved equity market performance in 4Q24. The fee income sluggishness was mainly dragged by bank card fees (-18.2%), custody fees (-18.2%) and asset management fees (-6.8%). Fee income from the wealth management business rose 4% yoy, driven by robust growth in capital market-related fee income while insurance distribution fees and trust agency fees continued to face pressure with a yoy decline. Retail AUM grew 4.1% qoq to Rmb14.9t. Management guided fee-based income to stabilise in 2025 given the restored equity market sentiment and strengthening retail franchise.

- Other non-NII income was the key revenue growth driver in 4Q24**, with a notable hike of 51.1% yoy to Rmb13.6b, thanks to a bullish bond market (10-year treasury yield: -54bp qoq). However, bond yields have risen 13bp ytd, which will put pressure on the bank's trading income in 1Q25. That said, we believe the impact will be manageable, as mark-to-market bond investments accounted for only 2.2% of total assets as of Dec 24. Additionally, management expects bond yields to trend down moderately amid a monetary easing environment.

### STOCK IMPACT

- Retail asset quality continued to be under pressure.** Non-performing loan (NPL) ratio and NPL formation edged up 1bp/3bp qoq to 0.93%/1.05% respectively in 4Q24. Retail NPL ratio deteriorated 4bp qoq to 0.98%, offsetting the improved asset quality in the corporate segment (-4bp qoq to 1.01%). Looking into details of its retail portfolio, the NPL of micro-finance loans grew 14bp qoq while the special mention loan (SML) ratio of credit cards rose 26bp qoq. CMB was more prudent in NPL recognition as the NPL-to-overdue loan ratio (more than three months) increased 6bp qoq to 1.32%. Provision coverage ratio dropped 25.7ppt yoy to 412%, as CMB charged a lower credit cost of 65bp in 2024 and released its ample provision to cover the rising retail NPL. Management noted that NPL formation in the retail segment remains elevated but is unlikely to worsen further. It believes the turning point for retail asset quality will depend on the macro development.

- Marginal hike in payout ratio.** CMB declared a DPS of Rmb2.00 for 2024 (implying a 35.3% payout ratio, up 0.3ppt yoy), and introduced an interim dividend plan to pay out 35% of 1H25 net profit. Management aims to maintain a stable dividend payout ratio, though it currently falls short of market expectation given its strong CET1 ratio of 14.86% (6.6ppt above the minimum regulatory requirement). It remains cautious about the prevailing capital adequacy ratio (CAR) level under the weighted approach and is no longer targeting to maintain its long-term ROE above 15%.

### EARNINGS REVISION/RISK

- We reduce our earnings forecasts for 2025-26 by 4.0%/2.2% respectively** as we revise our NIM and credit cost assumptions.

### VALUATION/RECOMMENDATION

- Downgrade to HOLD with an unchanged target price of HK\$49.00.** Our target price implies 1.02x 2025F P/B, 0.8SD below the historical mean. CMB has re-rated by 15% ytd, outperforming its peers as investors have priced in high expectations for its dividend payout and its current valuation is relatively rich (0.96x 2025F P/B). Therefore, despite its improving fundamentals, we find CMB less attractive at this moment due to its relatively lower dividend yield of 4.6% (lower than its large SOE peers) and its valuation being on par with its A-shares.

### KEY FINANCIAL INDICATORS

Financial Ratios (%)	2024	yoy ppt chg
NIM	1.98	-17bp
NPL ratio	0.95	0.00
Provision coverage	411.98	-25.72
Credit cost	0.65	-0.09
Formation ratio of new NPL	1.05	0.02
ROE (annualized)	14.49	-1.73
Cost-to-income ratio	31.92	-1.05
CAR	19.05	1.17
CET1 ratio	14.86	1.13

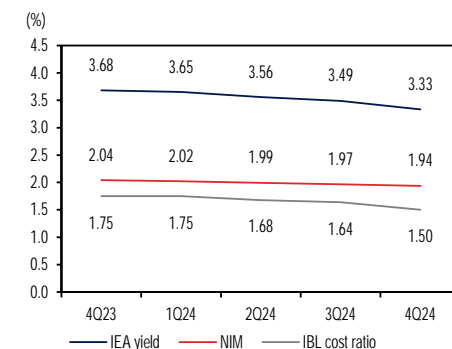
Source: CMB, UOB Kay Hian

### ASSET QUALITY BY SEGMENT

Loan breakdown	----- NPL -----		----- SML -----	
	3Q24	4Q24	3Q24	4Q24
Corporate	1.05	1.01	0.85	0.72
Retail	0.94	0.98	1.71	1.79
Micro-finance loan	0.65	0.79	0.49	0.49
Mortgage	0.46	0.48	1.27	1.28
Credit card	1.77	1.75	3.91	4.17
Consumer loan	0.99	1.04	0.58	0.58

Source: CMB, UOB Kay Hian

### QUARTERLY NIM MOVEMENT



Source: Bloomberg, UOB Kay Hian

### P/B VS ROE BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2024	2025F	2026F	2027F
Interest income	374,271	383,623	412,507	431,195
Interest expense	-162,994	-169,227	-178,548	-181,997
Net interest income	211,277	214,396	233,959	249,198
Fees & commissions	72,094	79,145	83,389	87,916
Other income	51,118	47,007	49,358	53,313
Non-interest income	123,212	126,152	132,746	141,230
<b>Total income</b>	<b>334,489</b>	<b>340,548</b>	<b>366,706</b>	<b>390,429</b>
Staff costs	-68,088	-69,472	-74,808	-79,647
Other operating expense	-49,562	-43,250	-45,838	-48,803
Pre-provision profit	216,839	227,827	246,060	261,979
Loan loss provision	-39,976	-45,679	-51,361	-56,538
Other provisions	-843	-963	-1,083	-1,192
Associated companies	2,632	2,895	3,185	3,503
Pre-tax profit	178,652	184,080	196,801	207,751
Tax	-29,093	-29,453	-31,488	-33,240
Minorities	-1,168	-695	-694	-693
<b>Net profit</b>	<b>148,391</b>	<b>153,932</b>	<b>164,618</b>	<b>173,816</b>
Net profit attributable to the common shareholders	142,810	148,351	159,037	168,235

### OPERATING RATIOS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
<b>Capital Adequacy</b>				
Tier-1 CAR	14.9	15.0	15.3	15.4
Total CAR	19.1	19.3	19.6	19.8
Total assets/equity (x)	11.6	11.5	11.3	11.1
Tangible assets/tangible common equity (x)	11.7	11.6	11.4	11.2
<b>Asset Quality</b>				
NPL ratio	1.0	0.9	0.9	0.9
Loan loss coverage	412.0	396.5	403.2	407.5
Loan loss reserve/gross loans	3.9	3.7	3.6	3.5
Increase in NPLs	6.5	6.9	2.1	4.0
Credit cost (bp)	65.1	63.8	66.5	68.0
<b>Liquidity</b>				
Loan/deposit ratio	75.7	75.7	76.1	76.6
Liquid assets/short-term liabilities	33.0	32.5	31.9	31.3
Liquid assets/total assets	28.2	27.6	27.1	26.5

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2024	2025F	2026F	2027F
Cash with central bank	583,480	531,989	427,631	365,868
Govt treasury bills & securities	1,941,580	2,135,738	2,349,312	2,537,257
Interbank loans	900,515	960,642	1,026,485	1,091,133
Customer loans	6,632,548	7,164,172	7,715,934	8,320,954
Investment securities	1,731,460	1,970,437	2,167,481	2,384,229
Derivative receivables	32,533	32,533	32,533	32,533
Associates & JVs	31,015	31,015	31,015	31,015
Fixed assets (incl. prop.)	146,768	146,092	145,444	144,821
Other assets	152,137	153,563	155,071	156,659
<b>Total assets</b>	<b>12,152,036</b>	<b>13,126,182</b>	<b>14,050,904</b>	<b>15,064,469</b>
Interbank deposits	1,209,327	1,264,570	1,349,441	1,449,232
Customer deposits	9,096,587	9,835,944	10,516,261	11,261,750
Derivative payables	31,583	31,583	31,583	31,583
Debt equivalents	403,367	421,201	440,461	458,662
Other liabilities	358,143	422,681	458,759	498,586
<b>Total liabilities</b>	<b>11,099,007</b>	<b>11,975,979</b>	<b>12,796,505</b>	<b>13,699,813</b>
Shareholders' funds	1,045,568	1,141,996	1,245,371	1,354,725
Minority interest - accumulated	7,461	8,207	9,028	9,931
<b>Total equity &amp; liabilities</b>	<b>12,152,036</b>	<b>13,126,182</b>	<b>14,050,904</b>	<b>15,064,469</b>

### KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
<b>Growth</b>				
Net interest income, yoy chg	-1.6	1.5	9.1	6.5
Fees & commissions, yoy chg	-14.3	9.8	5.4	5.4
Pre-provision profit, yoy chg	-0.6	5.1	8.0	6.5
Net profit, yoy chg	1.2	3.7	6.9	5.6
Net profit (adj.), yoy chg	1.2	3.7	6.9	5.6
Customer loans, yoy chg	6.1	8.0	7.7	7.8
Customer deposits, yoy chg	11.5	8.1	6.9	7.1
<b>Profitability</b>				
Net interest margin	1.98	1.88	1.89	1.95
Cost/income ratio	35.2	33.1	32.9	32.9
Adjusted ROA	1.2	1.2	1.2	1.2
Reported ROE	15.1	14.1	13.8	13.4
Adjusted ROE	15.1	14.1	13.8	13.4
<b>Valuation</b>				
P/BV (x)	1.1	1.0	0.9	0.8
P/NTA (x)	1.1	1.0	0.9	0.8
Adjusted P/E (x)	7.4	7.1	6.7	6.3
Dividend Yield	4.6	4.8	5.1	5.4
Payout ratio	34.0	34.0	34.1	34.2

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Analyst Certification/Regulation AC**

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries or jurisdictions by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2025, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W