

COMPANY RESULTS

China Construction Bank (939 HK)

2Q24: Earnings Decline Narrows To 1.4% On Strong Trading Income

CCB's 2Q24 earnings (-1.4% yoy) were slightly below our expectation. PPOP decreased 4.7% yoy due to larger NIM dilution and fee income decline, partly offset by strong trading income. Despite that, management guided that the deposit rate cut in July could fully offset the impact of LPR cuts, and NIM downward pressure will continue to ease in 2H24. Asset quality remains decent with flattish NPL ratio but pressure on the retail segment is increasing. Maintain BUY. Target price: HK\$6.00.

2Q24/1H24 RESULTS

Year to 31 Dec (Rmbm)	2024	qoq %	yoy %	1H24	yoy %
Total asset	40,294,387	1.4	5.3		
Total loan	25,444,306	1.7	10.0		
Total deposit	28,707,067	-2.2	3.9		
Net interest income	146,328	-2.3	-8.0	296,059	-5.2
Net interest margin	1.51	-6bp	-22bp	1.54	-25bp
Non-interest income	33,219	-27.1	18.2	78,772	3.7
Operating income	179,547	-8.1	-4.1	374,831	-3.4
Operating expenses	-49,603	10.8	-2.6	-94,388	-1.7
PPOP	129,944	-13.7	-4.7	280,443	-4.0
Provision	-39,490	-18.0	-9.9	-87,637	-8.1
Net profit attributable	77,509	-10.7	-1.4	164,326	-1.8

Source: China Construction Bank, UOB Kay Hian

RESULTS

- Slightly below expectations.** China Construction Bank (CCB) reported a net profit of Rmb77.5b in 2Q24, down 1.4% yoy (vs 1Q24: 2.2%), bringing 1H24 results to 49% of our full-year forecast. 2Q24 pre-provision profit (PPOP) shrank 4.7% yoy to Rmb129.9b, mainly dragged by an 8% yoy net interest income fall on 6bp qoq net interest margin (NIM) compression and muted fee income (-15.1% yoy), partly offset by 133.7% jump in investment gains. Net profit declined 1.4% (below SOE banks' average of -1.0% yoy) due to lower opex (-2.6% yoy) and impairment charges (-6.9% yoy). The state bank announced an interim dividend of Rmb0.197 per share with a payout ratio of 30%.

STOCK IMPACT

- Loan growth slowed down further to 10.0% yoy** from 11.1% in 1Q2. This was driven by corporate loan and discounted bills growth (+13.1%/+44.7% yoy), overcoming sluggish retail loan growth of +3.9%yoy /-0.5% qoq, which was likely weighed down by a reduction in mortgage (-1.5% yoy) and personal business loans (-21.1% yoy).
- Deposit base declined 2.2% qoq** as demand and time deposit balance both fell 3.3%/1.9% qoq respectively. Corporate deposits sank 5.4% qoq, most likely due to the regulatory efforts to squeeze out idle funds from banks. CASA ratio dropped 1.1ppt hoh to 43.9%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net interest income	643,669	617,233	603,266	660,814	741,743
Non-interest income	113,841	128,382	125,845	123,449	128,025
Net profit (rep./act.)	323,533	331,502	328,862	344,194	371,104
Net profit (adj.)	320,189	327,543	325,018	340,477	367,525
EPS (Fen)	128.1	131.0	130.0	136.2	147.0
PE (x)	3.9	3.8	3.8	3.6	3.4
P/B (x)	0.5	0.4	0.4	0.4	0.3
Dividend yield (%)	7.9	8.0	8.0	8.4	9.1
Net int margin (%)	2.0	1.7	1.5	1.5	1.6
Cost/income (%)	29.0	29.5	28.0	28.1	28.1
Loan loss cover (%)	240.4	239.3	250.8	259.3	261.6
Consensus net profit	-	-	329,442	339,666	356,436
UOBKH/Consensus (x)	-	-	0.99	1.00	1.03

Source: China Construction Bank, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$5.43
Target Price	HK\$6.00
Upside	+10.5%
(Previous TP)	HK\$6.20)

COMPANY DESCRIPTION

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

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	939 HK
Shares issued (m):	240,417.3
Market cap (HK\$m):	1,384,147.3
Market cap (US\$m):	177,541.3
3-mth avg daily t'over (US\$m):	267.8

Price Performance (%)

52-week high/low			HK\$5.90/HK\$4.24	
1mth	3mth	6mth	1yr	YTD
0.6	(2.0)	11.3	29.3	15.8

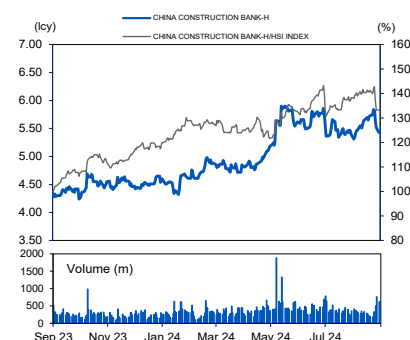
Major Shareholders

Central Huijin Investment	57.1
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FY24 NAV/Share (Rmb)	12.70
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FY24 CAR Tier-1 (%)	14.23
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PRICE CHART



Source: Bloomberg

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- **NIM compression came in larger than expected** with a 6bp qoq contraction to 1.51% (vs SOE banks' average of -1bp qoq). On a hoh basis, asset yield slid 11bp to 3.27%, mainly dragged by an 18bp hoh decline in loan yield as weak loan pricing amid lacklustre credit demand and policy rate cuts. Meanwhile, liability cost eased 4bp hoh to 1.92%, supported by a 5bp/7bp decline in deposit costs and interbank funding respectively, but partially offset by 14bp hoh surge in debt securities cost. Management highlighted that the deposit rate cuts in July and tightening regulation on manual interest subsidy (手工贴息) could fully mitigate the negative impact of LPR reductions, and NIM downward pressure would continue to ease in 2H24. They also pointed out that the reserve requirement ratio (RRR) cuts in February helped support the bank's asset yield by increasing allocation into high-yield assets such as loan and bond investments.

- **Trading income boosted NII growth.** Fee income dropped significantly in 2Q24 by 15.1% yoy, mainly attributed to sluggish agency service fees (-33% yoy) on the back of bancassurance fee cuts. However, management expects fee income growth to improve sequentially in 2H24. 2Q24 other non-interest income (NII) skyrocketed 1,785% yoy to Rmb9.8b against a low base of Rmb250m in 2Q23., accounting for 5.5% of total revenue, underpinned by a 133.7% surge in trading income and gains on revaluation in light of favourable bond market movements.

- **Asset quality remained fairly benign** as non-performing loan (NPL) ratio was largely stable at 1.35% in 2Q24, -1bp qoq. Special mention loans improved 37bp hoh to 2.07% despite a 12bp hoh uptick in overdue loan ratio. Based on our calculation, the newly formed NPL amount and annualised NPL formation rate decreased 22%/22bp yoy to Rmb65.1b and 0.52% respectively. Credit cost dropped 14bp yoy to 0.63% in 2Q24 and provision coverage ratio rose 0.58ppt qoq to 238.75%.

- **Asset quality for corporate and retail segments showed divergence.** NPL ratio for the corporate segment decreased 19bp hoh to 1.69%, as NPL ratio improvement was seen in most corporate sectors such as property (-44bp to 5.2%), manufacturing (-29bp to 1.52%) and leasing and commercial services (-8bp to 1.74%). Retail NPL ratio worsened 18bp hoh to 0.84%, as mortgage/credit card/personal business loans NPL rose 12bp/20bp/62bp hoh to 0.54%/1.86%/1.57%, respectively.

- **Closer to achieving 2025 TLAC requirement.** CET1 ratio decreased 10bp qoq to 14.01%, mainly due to the dividend payout in 2Q24. Risk-weighted asset growth was 0.5% qoq, slower than asset growth of 1.4%. The capital adequacy ratio (CAR) was 19.25%, and could increase to 19.7% after CCB issued a total of Rmb100b total loss-absorbing capital (TLAC) and tier-2 capital bonds in 3Q24. We estimate that CCB still has Rmb63b of funding gap (excluding deposit insurance funds) to fill up to achieve the 16% TLAC requirement by 2025. Management stated that CCB might require external funding to reach 20% of the TLAC requirement by 2028, but they will prioritise internal capital replenishment through earnings.

EARNINGS REVISION/RISK

- We cut our 2024-26 earnings forecasts by 2.7%/4.5%/1.5% respectively.

VALUATION/RECOMMENDATION

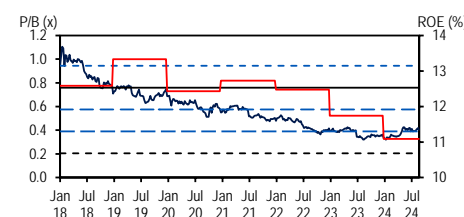
- **Maintain BUY with a lower target price of HK\$6.00**, implying 0.44x 2024F P/B. Our target price is derived from the Gordon Growth Model (long-term ROE: 11.5%, COE: 10.2%, terminal growth: 3.0%). The bank is trading at 0.36x 2024F P/B, 1.2SD below historical mean and the dividend yield has returned to 8.0% after the recent correction.

KEY FINANCIAL INDICATORS

Financial Ratios (%)	1H24	yoy ppt chg
NIM	1.54	-0.25
NPL Ratio	1.35	-0.02
Provision Coverage	238.75	-5.73
ROE (Annualized)	10.82	-1.13
Cost-Income Ratio	24.15	-0.58
CAR	19.25	1.85
Tier-1 CAR	14.92	1.53
Core CAR	14.01	1.26

Source: CCB, UOB Kay Hian

FORWARD PB VS ROE BAND



Source: CCB, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Interest income	1,247,366	1,286,771	1,388,548	1,516,282
Interest expense	(630,133)	(683,505)	(727,734)	(774,538)
Net interest income	617,233	603,266	660,814	741,743
Fees & commissions	115,746	106,994	108,942	112,576
Other income	12,636	18,851	14,506	15,449
Non-interest income	128,382	125,845	123,449	128,025
Income from islamic banking	0	0	0	1
Total income	745,615	729,111	784,262	869,770
Staff costs	(128,023)	(116,658)	(126,266)	(140,033)
Other operating expense	(92,129)	(87,265)	(93,866)	(104,100)
Pre-provision profit	525,463	525,188	564,130	625,637
Loan loss provision	(136,774)	(138,886)	(152,478)	(181,731)
Other provisions	(463)	0	0	0
Pre-tax profit	388,226	386,302	411,652	443,905
Tax	(56,917)	(58,135)	(68,152)	(73,497)
Minorities	193	695	695	696
Net profit	331,502	328,862	344,194	371,104
Net profit (adj.)	327,543	325,018	340,477	367,525

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Cash with central bank	3,066,058	3,219,473	3,454,314	3,914,236
Interbank loans	1,802,986	1,836,360	2,019,996	2,120,996
Customer loans	23,083,377	24,749,902	26,486,774	28,178,669
Investment securities	9,638,276	10,312,955	10,725,474	11,261,747
Derivative receivables	43,840	39,456	41,429	43,500
Fixed assets (incl. prop.)	172,859	166,119	159,662	153,478
Other assets	517,430	536,195	576,585	620,545
Total assets	38,324,826	40,860,460	43,464,234	46,293,171
Interbank deposits	4,590,000	4,763,018	4,884,519	5,031,415
Customer deposits	27,654,011	29,426,154	31,341,492	33,532,512
Derivative payables	41,868	48,148	55,370	63,676
Debt equivalents	2,095,703	2,414,850	2,696,841	2,819,684
Other liabilities	771,170	870,328	911,419	1,015,860
Total liabilities	35,152,752	37,522,499	39,889,641	42,463,148
Shareholders' funds	3,172,074	3,337,961	3,574,593	3,830,023
Total equity & liabilities	38,324,826	40,860,460	43,464,234	46,293,171

OPERATING RATIOS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Capital Adequacy				
Tier-1 CAR	13.1	14.2	15.2	15.6
Total CAR	18.0	19.4	20.8	21.4
Total assets/equity (x)	12.1	12.2	12.2	12.1
Tangible assets/tangible common equity (x)	12.1	12.3	12.2	12.1
Asset Quality				
NPL ratio	1.4	1.3	1.3	1.3
Loan loss coverage	239.3	250.8	259.3	261.6
Loan loss reserve/gross loans	3.3	3.2	3.3	3.4
Increase in NPLs	0.2	0.0	0.1	0.1
Credit cost (bp)	59.7	54.0	54.4	60.7
Liquidity				
Loan/deposit ratio	86.1	86.9	87.4	87.0
Liquid assets/short-term liabilities	15.0	14.7	15.0	15.5
Liquid assets/total assets	12.7	12.4	12.6	13.0

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Growth				
Net interest income, yoy chg	(4.1)	(2.3)	9.5	12.2
Fees & commissions, yoy chg	(0.3)	(7.6)	1.8	3.3
Pre-provision profit, yoy chg	(2.2)	(0.1)	7.4	10.9
Net profit, yoy chg	2.5	(0.8)	4.7	7.8
Net profit (adj.), yoy chg	2.3	(0.8)	4.8	7.9
Customer loans, yoy chg	12.6	7.2	7.0	6.4
Customer deposits, yoy chg	10.5	6.4	6.5	7.0
Profitability				
Net interest margin	1.7	1.5	1.5	1.6
Cost/income ratio	29.5	28.0	28.1	28.1
Adjusted ROA	0.9	0.8	0.8	0.9
Reported ROE	11.0	10.1	10.0	10.0
Adjusted ROE	10.8	10.0	9.9	9.9
Valuation				
P/BV (x)	0.4	0.4	0.4	0.3
P/NTA (x)	0.4	0.4	0.3	0.3
Adjusted P/E (x)	3.8	3.8	3.6	3.4
Dividend Yield	8.0	8.0	8.4	9.1
Payout ratio	30.5	30.5	30.5	30.5

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