

# Chongqing Rural Commercial Bank (3618.HK)

## The profits increased strongly

Bloomberg | Reuters | POEMS  
 3618.HK | 3618.HK | 3618.HK  
 Industry: Finance

Phillip Securities Research

2012-8-27

### Profits meet expectation in 1H2012 and asset quality improved consistently

Rating: Buy, CP: HK\$3.24, TP:HK\$4.10

#### Company Introduction

CRCB has nearly 60 years of operational history mainly focused on Chongqing Area that is one of the leading rural commercial banks in China. The bank experienced a series of financial restructuring since 2004. In June 2008, CRCB obtained the approval from CBRC, and has registered capital of RMB6 billion. In December 2010, CRCB was listed in H Shares.

#### Summary

- As at the end of 1H2012, net profits of CRCB (or the Group) reached to RMB2.804 billion, increased strongly by 25.26% y-y, equivalent to EPS of RMB0.30, in line with our previous expectation;
- The Group's total assets increased by 16.68% to RMB402.3 billion compared with the end of 2011, equivalent to BVPS of RMB3.16, 5.41% higher than that of 2010;
- Asset quality continued to improve with dual-decrease of the amount and ratio of non-performing loans. Meanwhile, the coverage ratio increased by 37.2 percentage points to 302.44% compared with the end of 2011;
- Overall, the bank's performance met our expectation. We increase the estimation of the Group's profits in 2012 slightly due to the stable profit growth. Net profits expect to increase by 18% y-y approximately to RMB5.024 billion, equivalent to EPS of RMB0.53;
- Due to the bear market and non-surprise performance of the Group in the short term, we therefore cut the 12-m target price to HK\$4.10, around 26.5% higher than the latest closing price, equivalent to P/E6.8x and P/B1.1x in 2013 respectively, and still recommend Buy rating.

SATS Ltd

<b>Rating</b>	<b>1</b>	<b>Buy</b>
- Previous Rating	1	Buy
<b>Target Price (HKD)</b>	<b>4.1</b>	
- Previous Target Price (HKD)	6	
Closing Price (HKD)	3.24	
Expected Capital Gains (%)	26.54%	
Expected Dividend Yield (%)	6.83%	
<b>Expected Total Return (%)</b>	<b>33.38%</b>	
Raw Beta (Past 2yrs w weekly data)	N/A	
Market Cap. (HKD bn)	30,132	
Enterprise Value (HKD mn)	N/A	
52 week range (HKD)	2.15 - 4.7	
Closing Price in 52 week range		

#### Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Operating Profit (RMB mn)	7,745	11,118	13,971	16,586
Net Profit, adj. (RMB mn)	3,061	4,246	5,024	5,623
EPS, adj. (RMB)	0.45	0.46	0.53	0.60
P/E (X)	5.9	5.8	5.0	4.4
BVPS (RMB)	3.26	3.00	3.28	3.57
P/B (X)	0.8	0.9	0.8	0.7
DPS (RMB)	0.11	0.14	0.16	0.18
Div. Yield	4.14%	5.27%	6.10%	6.83%

Source: Bloomberg, PSR est.

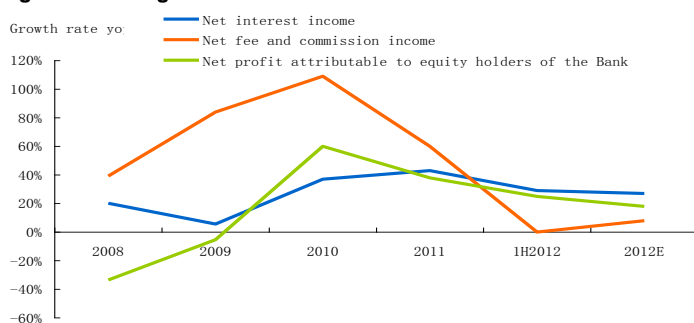
\*All multiples & yields based on current market price

Valuation Method

PE

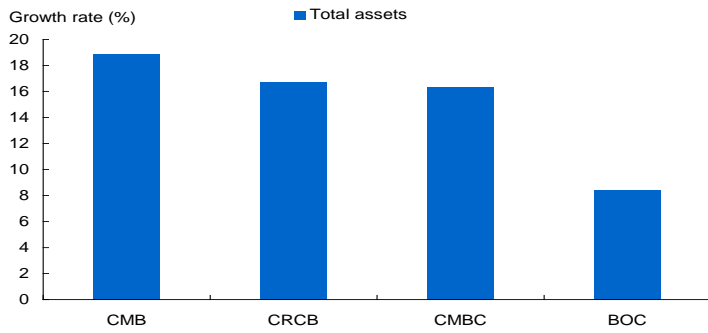
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Figure 1. Profit growth of CRCB



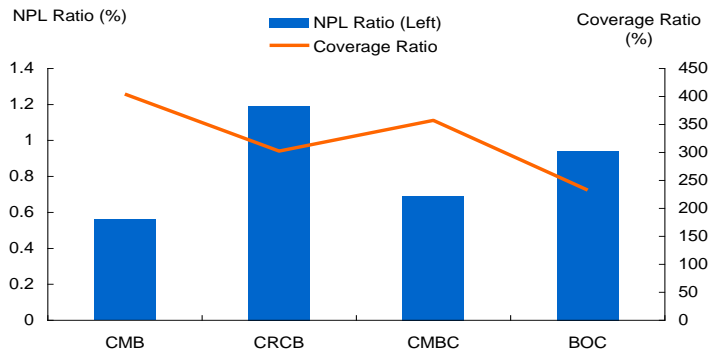
Source: PSR, Company report

Figure 2. Asset growth of some domestic listed banks in 1H2012



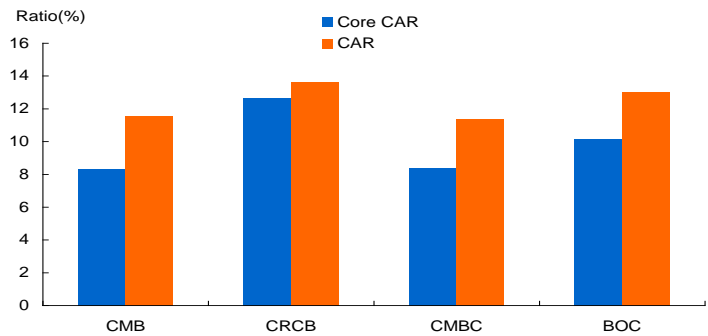
Source: PSR, Company report

Figure 3. NPL and coverage ratios of some domestic listed banks in 1H2012



Source: PSR, Company report

Figure 4. CAR and Core CAR of some domestic listed banks in 1H2012



Source: PSR, Company report

Financial Status

FYE	FY09	FY10	FY11	FY12F	FY13F
<b>Valuation Ratios</b>					
P/E (X)	8.4	5.9	5.8	5.0	4.4
P/B (X)	1.7	0.8	0.9	0.8	0.7
Dividend Payout ratio	12.29%	32.44%	30.66%	30.00%	30.00%
Dividend Yield	1.46%	4.14%	5.27%	6.10%	6.83%
<b>Per share data (RMB)</b>					
EPS, reported	0.31	0.45	0.46	0.53	0.60
EPS, adj.	0.31	0.45	0.46	0.53	0.60
DPS	0.04	0.11	0.14	0.16	0.18
BVPS	1.58	3.26	3.00	3.28	3.57
<b>Growth</b>					
Net interest income		37.0%	40.0%	27.3%	17.5%
Net fee and commission income(exp.)		109.1%	122.2%	8.3%	45.4%
Operating income		36.4%	43.6%	25.7%	18.7%
Net Income, adj.		62.1%	38.7%	18.3%	11.9%
<b>Key Ratios</b>					
ROAA	1.02%	1.26%	1.35%	1.33%	1.34%
ROAE	19.92%	13.65%	15.37%	16.69%	17.66%
Net interest margin	3.06%	3.07%	3.36%	3.33%	3.28%
Cost to income ratio	49.23%	44.40%	36.64%	40.07%	38.07%
Loan to deposit	66.21%	59.42%	56.40%	57.83%	59.34%
NPL ratio	3.88%	2.38%	1.44%	1.03%	1.13%
Coverage ratio	126.85%	172.81%	265.24%	273.43%	272.61%
CoreCapital adequacy ratio	8.14%	14.78%	13.71%	12.10%	11.85%
Capital adequacy ratio	10.23%	16.31%	14.90%	13.30%	12.90%
<b>Income Statement (RMB mn)</b>					
	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12F</b>	<b>FY13F</b>
<b>Net interest income</b>	<b>5,475</b>	<b>7,502</b>	<b>10,505</b>	<b>13,376</b>	<b>15,717</b>
Net fee and commission income(exp.)	137	286	635	688	1,000
Other non-interest income(exp.)	57	3	-22	7	10
<b>Operating income</b>	<b>5,677</b>	<b>7,745</b>	<b>11,118</b>	<b>13,971</b>	<b>16,586</b>
General expenses	(3,191)	(3,910)	(4,774)	(6,757)	(8,243)
Impairment losses	(123)	45	(848)	(800)	(1,000)
<b>Operating profit</b>	<b>2,485</b>	<b>3,986</b>	<b>5,497</b>	<b>6,543</b>	<b>7,485</b>
<b>Profit Before Tax</b>	<b>2,485</b>	<b>3,986</b>	<b>5,497</b>	<b>6,543</b>	<b>7,485</b>
Taxation	(596)	(925)	(1,249)	(1,519)	(1,861)
<b>Profit After Tax</b>	<b>1,888</b>	<b>3,061</b>	<b>4,248</b>	<b>5,024</b>	<b>5,623</b>
Non-controlling Interest	0	0	2	0	0
<b>Net Income, reported</b>	<b>1,888</b>	<b>3,061</b>	<b>4,246</b>	<b>5,024</b>	<b>5,623</b>
<b>Net Income, adj.</b>	<b>1,888</b>	<b>3,061</b>	<b>4,246</b>	<b>5,024</b>	<b>5,623</b>
Dividend	232	993	1,302	1,507	1,687
<b>Balance Sheet (RMB mn)</b>					
	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12F</b>	<b>FY13F</b>
Cash and balances with central bank	27,416	37,322	50,663	59,229	68,114
Deposits with banks and other financial institutions, net	10,154	17,220	11,445	11,882	13,664
Loans to customers, gross	99,332	121,025	144,097	169,918	198,805
Allowances for impairment losses	(2,516)	(3,911)	(5,275)	(6,570)	(7,752)
Loans to customers, net	96,816	117,114	138,822	163,349	191,052
Investment securities and other financial assets, net	47,430	67,901	82,342	85,556	89,834
Placement with other financial institutions	0	2,000	11,460	6,600	6,600
Financial assets held under resale agreement	13,374	37,158	42,297	55,551	63,884
Goodwill	440	440	440	440	440
Other assets	5,730	6,390	7,351	9,586	11,503
<b>Total assets</b>	<b>201,361</b>	<b>285,546</b>	<b>344,820</b>	<b>392,193</b>	<b>445,091</b>
Deposits from banks and other financial institutions	4,136	11,712	25,107	17,831	20,328
Deposits from customers	153,776	205,563	246,141	282,444	321,986
Subordinate debt payable	2,300	2,300	2,300	2,300	2,300
Other liabilities	31,671	43,541	43,261	59,067	67,159
<b>Total liabilities</b>	<b>191,883</b>	<b>263,115</b>	<b>316,809</b>	<b>361,642</b>	<b>411,772</b>
Paid-in capital	6,000	9,000	9,300	9,300	9,300
Reserves	1,408	10,699	14,754	17,418	19,508
Retained earnings(accumulated losses)	2,070	2,646	3,802	3,745	4,419
Equity attributable to equity holders	9,477	22,345	27,856	30,463	33,227
Minority interest	0	85	155	88	91
<b>Total equity</b>	<b>9,477</b>	<b>22,430</b>	<b>28,011</b>	<b>30,551</b>	<b>33,318</b>
Total equity and liabilities	201,361	285,546	344,820	392,193	445,091

Source: PSR

Source: Company, PSR

## **Important Information**

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