

China Merchants Bank Co Ltd

Strong profitability and stable asset quality



StocksBnB.com

China | Banking Sector | TRADING NOTE

China Merchants Bank Co., Ltd. (CMB) operates as a commercial bank. The Company provides deposits, loans, wealth management, asset custody, finance leasing, investment banking, and other banking services. China Merchants Bank conducts businesses domestically and internationally.

Key Ratios:

- CMB reported 1Q19 net profits of RMB25bn, up 92% QoQ and 11% YoY, supported by Net Interest Margin (NIM) expansion of 6bps QoQ to 2.72%.
- Nonperforming Loan (NPL) ratio dropped by 1bp to 1.35% and NPL coverage ratio increased by 499bps QoQ to 363.2% at 1Q19.
- Core Tier 1 (CET 1) ratio went up by 14bps QoQ to 11.92%. There were also improvements in tier 1 ratio (10bps QoQ) and total Capital Adequacy Ratio (CAR) (18bps QoQ).
- Although deposits growth was only up 1% QoQ, a positive sign is that lower cost demand deposits went up by 3.4ppt QoQ to 64.4%.
- Overall, we are positive on CMB. Mainly because of the company's strong profitability and stable asset quality.

Why we like CMB:

NIM improved by 6bps q/q to 2.72%: NIM expansion benefit from improving asset and liabilities structure. Note that demand deposits in total deposits increased by 3.4ppt QoQ to 64.4% at end 1Q19. This is a key driver keeping overall funding costs low and thus NIM expansion. Also, that loan growth (+5% q/q) is ahead of asset growth (+1% q/q). 1Q19 NIM is 9bps higher than 2018 NIM.

Stable asset quality and provision level: NPL ratio dropped by 1bp to 1.35% and NPL coverage ratio increased by 499bps QoQ to 363.2% at 1Q19. The higher provision level provides a buffer to future earnings.

Improvement in capital ratios: CET 1 ratio went up by 14bps QoQ to 11.92%, and we noted an improvement in tier 1 and total CAR ratio. Risk-weighted assets growth (+4% QoQ) was faster than asset growth (+1% QoQ) and the jump in profits (92% QoQ) were the key drivers for the capital ratio expansion in 1Q19.

Some Concerns we have:

Deposits growth only went up by 1% QoQ: CMB's deposits growth slower than industry growth of 3.5% QoQ. Corporate deposits growth was flat QoQ, and retail deposits growth was ~2% q/q. The positive sign is that demand deposits went up by 3.4ppt QoQ to 64.4% at 1Q19. A rise in corporate demand deposits mainly drove this.

Recommendation

Overall, we are positive on CMB. Mainly because of the company's strong profitability and stable asset quality.

28 JUNE 19

China Merchants Bank Co Ltd	Positive
ENTRY PRICE	CNY 29.77
STOP LOSS	CNY 23.75
TARGET PRICE	CNY 45.00
CLOSING PRICE	CNY 36.45

COMPANY DATA

Bloomberg Code	600036 CH
O/S SHARES /Mn :	20,628.94
MARKET CAP /CNY Mn :	899,471
52 - WK HI/LO (CNY) :	38.50

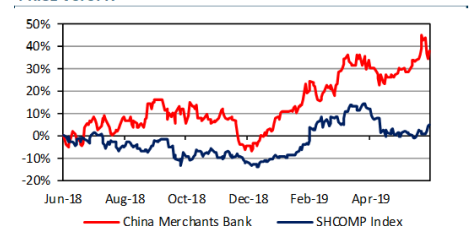
MAJOR SHAREHOLDERS

CHINA MERCHANTS STEA	15.95%
CHINA OCEAN SHIPPING	7.63%
HEXIE HEALTH INSURAN	6.10%

PRICE PERFORMANCE

	1MTH	3MTH	1YR
China Merchants Bank Co	4.7%	10.6%	42.8%
SHCOMP	2.4%	-0.5%	19.4%

PRICE VS. SPX



Source: Bloomberg, PSR

KEY FINANCIALS

RMB /Bn	2015	2016	2017	2018
Revenue	304.6	295.5	323.1	364.2
Net Profit	57.7	62.1	70.2	80.6
EPS (adj.)	2.3	2.5	2.8	3.2
PE Ratio (adj.)	7.9	7.2	10.4	7.9
P/BV	1.3	1.1	1.6	1.3
ROE, %	17.1	16.3	16.5	16.7

Source: Company Data, PSR

Zheng Jieyuan (+65 65315428)

zhengjiy@phillip.com.sg

Chua Wei Ren (+65 62121857)

chuawr@phillip.com.sg

Technicals:

China Merchant Bank Co Ltd - **Technical Buy**

Buy Limit: 29.77 Stop loss: 23.75 Take profit: 45.00



Red line = 200 periods moving average

Blue line = 50 periods moving average

Green line = 22 periods moving average

Relative Strength Index

Black Line = 14 Periods

Overbought line = above 60

Oversold Line = below 40

Support 1: 35.51

Resistance 1: 38.45

Support 2: 24.68

China Merchant Bank's bullish streak has been making new heights when prices broke past 35.51 and subsequently reached a new high of 38.45. In this aspect, we believe that the stock may continue to rally further, but with the recent formation of a rising wedge, the stock will be entering into a bearish correction base on the RSI flat top and the upward high shown in the chart. This may not be a strong bearish divergence signal, but it signifies that the momentum is waning, thus giving way to a market correction.

Should the correction occurs, the best entry price will be at 29.77, which is 61.8% of the Fibonacci retracement level.

Should price falls and close below the 61.8% level, then the price may head into the 25.00 price level at support level 2.

Head of ResearchPaul Chew – paulchewkl@phillip.com.sg**Contact Information (Singapore Research Team)****Research Admin**Siti Nursyazwina - syazwina@phillip.com.sg**Banking & Finance | Healthcare**Tin Min Ying - tinmy@phillip.com.sg**Oil & Gas | Energy**Chen Guangzhi - chenggz@phillip.com.sg**Telco | Technology**Alvin Chia - alvinchiawwy@phillip.com.sg**Property | REITs**Tara Wong - tarawongsj@phillip.com.sg**REITs**Natalie Ong - natalieongpf@phillip.com.sg**China/HK Equity**Zheng Jieyuan – zhengjy@phillip.com.sg**US Equity**Edmund Xue – edmundxuej@phillip.com.sg**Technical Analysis**Chua Wei Ren – chuawr@phillip.com.sg**Contact Information (Regional Member Companies)****SINGAPORE****Phillip Securities Pte Ltd**

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN**Phillip Securities Japan, Ltd.**

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND**Phillip Securities (Thailand) Public Co. Ltd**

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website: www.phillip.co.th

UNITED STATES**Phillip Capital Inc**

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA**PhillipCapital (India) Private Limited**

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA**Phillip Bank Plc**

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA**PT Phillip Securities Indonesia**

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE**King & Shaxson Capital Limited**

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA**Phillip Capital Limited**

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

TURKEY**PhillipCapital Menkul Degerler**

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA**Phillip Financial Advisory (Shanghai) Co Ltd**

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM**King & Shaxson Capital Limited**

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA**Asha Phillip Securities Limited**

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI**Phillip Futures DMCC**

Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's licence under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; 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, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.