

Analyst: Paul Sham
CHINA CITIC BANK CORPORATION LIMITED (中信銀行)

Sector	: Banking	Chairman	: Mr. Kong Dan
HKSE Code	: 0998	President	: Mr. Chen Xiaoxian
Market Price	: HK\$4.18 (27/03/2008)	Vice Chairman	: Mr. Chang Zhenming
Shares Issued	: 12,401.8m (H shares)		
Mkt. Cap.	: HK\$51,839.5m (H shares)		
52 weeks Hi/ Lo	: HK\$7.08 / HK\$3.44		
HSI	: 22,664.22 / 11,828.84 (27/03/2008)		
Main Business	: Banking and related financial services		

SUMMARY OF THE INTERIM RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Interim Results Highlights

	RMB million	Vs FY2006 (%)	Vs 30/06/2007 (%)
• Net interest income	26,170	+58.9%	
• Non-interest income	1,785	+22.8%	
• Total operating income	27,955	+55.9%	
• Operating expenses	(11,795)	+27.4%	
• Operating profit before impairment losses	16,160	+86.4%	
• Impairment losses on loans and advances	(2,860)	+93.1%	
• Profit before taxation	13,172	+88.1%	
• Taxation	(4,850)	+54.3%	
• Attributable profit to equity holders	8,322	+115.7%	
• Total loans	578,028	+24.8%	+7.9%
• Total deposits	787,211	+27.3%	+18.1%
• Total assets	1,011,186	+43.1%	+16.4%
• Basic EPS (RMB)	0.23	+91.7%	
• Final DPS (RMB)	0.0535	NA	
Selected Ratios	FY2007	FY2006	1H2007
• Net interest margin	3.12%	2.62%	2.96%
• Cost-income ratio	42.2%	51.6%	43.2%
• Return on average assets	0.97%	0.59%	0.82%
• Return on average equity	14.4%	14.1%	11.7%
• NPL ratio	1.47%	2.50%	1.84%
• NPL coverage ratio	110.0%	84.6%	85.2%
• Loan-deposit ratio	73.4%	74.9%	80.4%
• Capital adequacy ratio	15.3%	9.4%	16.0%

- **FY07 results slightly ahead of expectations** China CITIC Bank (CNCB) reported FY07 net profit growth of 115.7% to RMB8,322 million, mildly above the market consensus of RMB8,117m by 2.5%. The main profit drivers were 24.8% loan growth, 58.9% surge in net interest income on a 50bps expansion in NIM from 2.62% to 3.12% and 174% growth in net fee income. CNCB proposed a dividend of RMB0.0535 per share, implying a dividend payout ratio of 23.3%.
- **Solid loan growth** Total loans increased 24.8% y-o-y to RMB578,028m. CNCB continued to show improvement in loan mix by shifting the investment capital to higher yielding assets. The discounted bills balance dropped 26.4% y-o-y to RMB33,599m, representing 5.8% of the loan portfolio (FY06: 9.9%). On the other hand, retail loans and corporate loans were up 57.3% and 26.9% y-o-y, respectively.

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- **Robust fee income** CNCB also recorded strong 174% y-o-y fee income growth, highest among the five reported H-share banks, given its low base. Key drivers are wealth management fees (+3,613% y-o-y), trust fees (+744%) and consultancy fees (+498%).
- **Non-subprime MBS exposure** The overall non-interest income was dragged by RMB834m losses mainly arising from the revaluation of US mortgage backed securities (MBS). CNCB disclosed that it had no sub-prime exposure, but had RMB9,563m US MBS (97% were Prime MBS) at the end of 2007, which accounted for 11.4% of its year-end equity.
- **Lower cost-to-income ratio** Total operating expense was up 27.4% to RMB11,795m, mainly on increase of staff cost by 63.9% to RMB4,777m as CNCB added 39 new branches and increased its total headcount by 19.8% in 2007. The increase in staff cost was partially offset by the termination of management fees paid to CITIC Group in 2007. With operating profit before impairment losses grew by 86.4%, cost-to-income ratio of CNCB decreased from 51.6% in 2006 to 42.2% in 2007.
- **Loan quality** CNCB continues to record a “double decline” in NPL — while the NPL balance was cut by 26.6%, the NPL ratio also trended down from FY06’s 2.50% to FY07’s 1.47%. The 93.1% y-o-y rise in impairment was mainly due to more prudent provisioning, which raised coverage to 110% by end-FY07 from FY06’s 84.6%.
- **Profitability and capital strengthened** CNCB’s ROA was 0.97% for FY07 whereas ROE was 14.4%. Boosted by the capital raised through the new share offering, the bank’s CAR jumped from 9.4% as of 31/12/2006 to 15.3% as of 31/12/2007.

Outlook & Prospects

- **Improving retail banking exposure** CNCB’s business strength is in corporate banking, with its retail banking representing only 5.6% of pre-tax profit in FY07, much smaller exposure than that of its peers. However, as CNCB’s retail banking delivered solid performances last year (pre-tax profit: +706.6%) and remains in an investment phase (retail cost-to-income ratio of 81.6%), there are encouraging signs that the retail segment is on track.
- **Parental support** CNCB’s parent, CITIC Group, is the leading diversified financial services group in China, with affiliates operating in banking, securities, trust, fund management, insurance and futures businesses. Through leveraging on the diversified financial services platform of CITIC Group, CNCB can increase brand recognition, customer referrals, joint product development and cross-selling activities.
- **Cooperation with BBVA** Depsite Banco Bilbao Vizcaya Argentaria (BBVA) is a well-managed bank, investors may have less faith in the BBVA partnership than HSBC/BoCom co-operation, as BBVA lacks Asian experience. However, in our view, investors might overlook the fact that BBVA could enhance CNCB’s international trade finance and treasury businesses, given the Spanish bank’s strong presence in Latin America and technology knowledge in treasury operations.
- **Getting attractive on valuations** Without a distinctive attraction like CMB’s retail franchise, ICBC’s strong distribution network and CCB’s high profitability, CITIC bank cannot demand a valuation premium against its Chinese peers. However, trading at 1.94x FY07 P/B and 18.2x FY07 P/E, as compared to the P/Bs of H-share banks (except BOC) of 2.79x-4.39x, CNCB’s shares are currently at big discount to its peers. As such, we recommend a “Buy” rating for the counter

Recommendation: Buy

I. Comparison of China CITIC Bank's loan book (by sectors): 31/12/2007 vs 31/12/2006

Loans-by industry	31 st Dec, 2007	Up/(down)	31 st Dec, 2006
	RMB million		RMB million
Manufacturing	147,762	+36.1%	108,539
Other corporate loans	320,578	+23.0%	260,617
Personal loans	76,089	+57.3%	48,375
Discounted bills	33,599	-26.4%	45,636
	578,028	+24.8%	463,167

II. Comparison of China CITIC Bank's loan book (by geographies): 31/12/2007 vs 31/12/2006

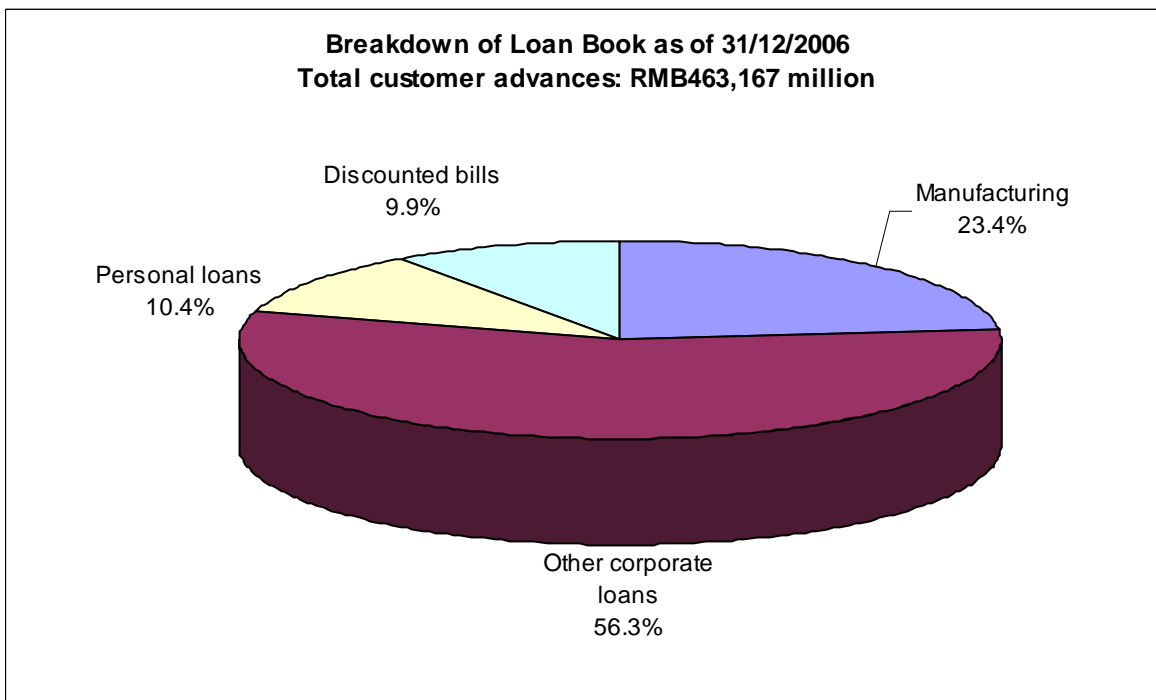
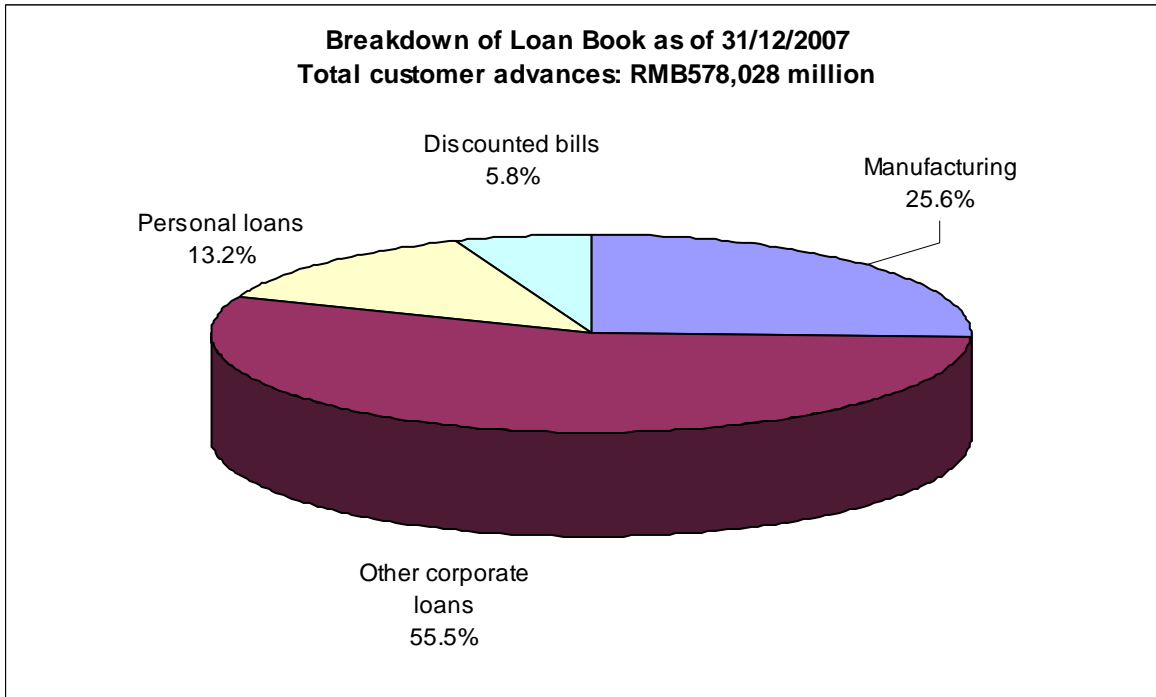
Loans-by geographies	Breakdown				
	31 st Dec, 2007	31 st Dec, 2006	y-o-y (%)	31 st Dec, 2007	31 st Dec, 2006
Yangtze River Delta	182,058	146,784	+24.0%	31.5%	31.7%
Bohai Rim	169,249	138,310	+22.4%	29.3%	29.9%
Pearl River Delta & West Strait	91,258	68,230	+33.8%	15.8%	14.7%
Central Region	60,410	46,704	+29.3%	10.5%	10.1%
Western region	55,780	43,820	+27.3%	9.7%	9.5%
Northeastern region	19,065	19,141	-0.4%	3.3%	4.1%
Hong Kong	208	178	+16.9%	0.0%	0.0%
Total	578,028	463,167	+24.8%	100.00%	100.00%

III. China CITIC Bank's pre-tax profit breakdown by businesses

Pre-tax profit by businesses (RMB million)	Breakdown				
	FY2007	FY2006	y-o-y (%)	FY2007	FY2006
Corporate banking	12,441	7,327	+69.8%	94.5%	104.6%
Retail banking	734	91	+706.6%	5.6%	1.3%
Treasury	2,079	1,264	+64.5%	15.8%	18.1%
Others	-2,082	-1,680	+23.9%	(15.8%)	(24.0%)
Total	13,172	7,002	+88.1%	100.00%	100.00%



Breakdown of loan book of China CITIC Bank by sectors





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