

Main Board H-share Listing – Research

中國建設銀行股份有限公司

China Construction Bank Corporation [Stock Code: 0939]

Joint Global Coordinators and Joint Sponsors : CICC, Morgan Stanley, CCB International Capital
Joint Bookrunners : CICC, Morgan Stanley, CSFB

Sector : Banks

Business: Commercial banking and related services

<p>Total share offer: <u>26,485,944,000</u> H shares (12% of the enlarged share capital)</p> <p>Public Offer: 1,324,298,000 H shares (5%) Placing: 25,161,646,000 H shares (95%) Greenshoe: 3,972,890,000 H shares (15%)</p>	<p><u>Business of China Construction Bank (“CCB”)</u></p> <p>CCB is 3rd largest commercial bank in China, providing a comprehensive range of commercial banking products and services. As of 30th June 2005, CCB had approximately 12% market share of the loan market and 13.2% of the deposit market in China. With total assets of RMB3,909.9 billion as of 31st December 2004, CCB was ranked 35th largest in the world.</p> <p>CCB primarily operates in China, and its principal business activities consist of corporate banking, personal banking and treasury operations. CCB is among the market leaders in China in a number of products and services – the second largest lender of infrastructure loans, the largest lender of residential mortgage loans and the second largest issuer of bank cards.</p> <p>CCB is headquartered in Beijing, with a nationwide network of approximately 14,250 branch outlets and 589 self-service banking centres as of 30th June 2005, serving an established nationwide base of approximately 68,000 corporate loan and discounted bill customers and approximately 146 million active personal deposit accounts.</p>
<p>Price: HK\$1.90 – HK\$2.40 per H share Market Cap.: HK\$419.4 billion – HK\$529.7 billion Forecast 2005 P/E: 10.40x – 13.13x (pro forma) Adjusted NTA per share: HK\$1.09 – HK\$1.15 Staffing: 304,434 (as of 30th June 2005)</p>	
<p>HK Public Offer period: 14th October 2005 – 19th October 2005 noon</p> <p>Receiving bank: China Construction Bank, HSBC, The Bank of East Asia, Bank of Communications, CITIC Ka Wah Bank, ICBC (Asia)</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 27th October 2005</p>	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

China SAFE Investments, <i>previously known as Central Huijin Investment Co</i>	62.592%
China Jianyin Investment	9.375%
Bank of America*	7.921%
AFH*, <i>a wholly-owned subsidiary of Temasek</i>	4.488%
State Grid Corporation of China	1.359%
Shanghai Baosteel Group Corporation	1.359%
China Yangtze Power	0.906%
	<u>88.000%</u>

Remarks (*): Bank of America and AFH agreed to further purchase US\$500 million and US\$1.0 billion worth of shares in the IPO, respectively. Assuming an offer price of HK\$2.15, which is the mid-point of the indicative price range, Bank of America and AFH would hold stakes of 8.739% and 6.125% in CCB, respectively, after the listing.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$55.278 billion.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.15 each, which is the mid-point of the indicative price range)

CCB intends to use the net proceeds to strengthen its capital base to support the ongoing growth of its business in the following ways:

- Further strengthen its risk management capabilities and internal controls
- Improve client management and enhance product offerings
- Further enhance its financial management capabilities and financial controls
- Improve the efficiency of its operations
- Implement information technology systems to support evolving business operations
- Promote accountability and a performance-driven culture
- Pursue new business opportunities

Selected Income Statement Data

	Year ended 31 st December			6 months ended 30 th June	
	2002	2003	2004	2004	2005
	RMB million	RMB million	RMB million	RMB million	RMB million
Net Interest Income	78,866	90,939	101,488	49,471	56,703
Non-interest income	6,333	7,665	12,488	4,114	6,219
Operating income	85,199	98,604	113,976	53,585	62,922
Pre-provision operating profit	42,499	47,864	60,577	27,629	38,429
Provision for impairment losses	(20,907)	(10,162)	(9,358)	(3,143)	(6,686)
Net profit	11,334	22,533	49,040	24,277	28,349
Earnings per share	RMB0.06	RMB0.12	RMB0.26	RMB0.13	RMB0.15

Selected Balance Sheet Data

	Year ended 31 st December			6 months ended 30 th June	
	2002	2003	2004	2004	2005
	RMB billion	RMB billion	RMB billion		RMB billion
Loans and advances	1,576	1,943	2,174		2,315
Investments	759	804	1,108		1,276
Total assets	2,858	3,557	3,910		4,224
Deposits from customers	2,823	3,196	3,491		3,781

Selected Financial Ratios

	Year ended 31 st December			6 months ended 30 th June	
	2002	2003	2004	2004	2005
Profitability					
Return on average assets	0.42%	0.70%	1.31%	1.33%	1.39%
Return on average equity	N/A	12.04%	25.62%	24.40%	28.60%
Net interest margin	2.84%	2.85%	2.82%	2.82%	2.85%
Cost-to-income ratio	50.12%	51.46%	46.87%	48.44%	38.93%
Capital adequacy					
Core capital adequacy ratio	5.88%	5.78%	8.57%	7.54%	8.11%
Capital adequacy ratio	6.91%	6.51%	11.29%	8.17%	10.71%
Total equity to total assets	N/A	5.26%	5.00%	5.60%	4.76%
Asset quality					
Non-performing loan (NPL) ratio	16.97%	4.27%	3.92%	4.19%	3.91%
Allowance to NPLs	68.49%	63.76%	61.64%	61.92%	63.52%
Allowance to total loans	11.62%	2.72%	2.42%	2.60%	2.48%

Strengths/Opportunities

- ✓ CCB is the third largest commercial bank in China in terms of asset value. It is the second largest lender of infrastructure loans, the largest lender of residential mortgage loans and the second largest issuer of bank cards, with a domestic market share of approximately 27.7%, 23.1% and 18.7% respectively. In addition, it is the only commercial bank in China approved to provide project cost evaluation services.
- ✓ As part of its restructuring, CCB disposed of non-performing loans of RMB128.9 billion at 50% of the principal amount to China Cinda Asset Management and wrote off RMB56.9 billion non-performing loans. Such disposal and write-off arrangements contributed to a decline in CCB's NPL ratio from 16.97% in FY2002 to 3.92% in FY2004, which was significantly below the average for the "Big Four" commercial banks and the national commercial banks of 10.12% and 4.66% respectively.
- ✓ CCB has a nationwide coverage of 14,250 branch outlets as of 30th June 2005. About half of which are located in the more affluent areas of the Yangtze River Delta, Pearl River Delta and Bohai Rim. Its geographical advantage gives it an edge in competing for mid-to-high income retail customers.
- ✓ CCB has formed a strategic relationship with Bank of America, under which Bank of America has acquired a significant equity interest in CCB. We believe CCB will benefit from Bank of America's experience and expertise in personal banking, credit cards, global treasury business as well as risk management and corporate governance.
- ✓ Priced at 10.4x to 13.1x 2005E P/E and 1.7x to 2.1x 2005E P/B, valuations of CCB are lower than its Hong Kong-listed peer Bank of Communications (*stock code*: 3328) of 18.1x 2005E P/E and 2.0x 2005E P/B.

Weaknesses/Threats

- × Although CCB's NPL ratio is lower than its domestic peers, there are still concerns over its ability to maintain the quality of its loan portfolio. In the 6 months to June 2005, CCB recorded a 4.0% surge in corporate non-performing loans to RMB84.5 billion from the end of December 2004, which CCB attributed to the impact of government's macroeconomic policies.
- × We expect competition from foreign banks to increase in the future, particularly in areas that target for multinational corporations and high-net-worth customers, as regulatory restrictions on their geographical presence, customer base and operating licenses in China are scheduled to be removed by early 2007.

Recommendation: Subscribe