

Analyst: Vincent Leung

Main Board H-share Listing – Research

中信銀行股份有限公司

China CITIC Bank Corporation Limited [Stock Code: 0998]

Joint Global Coordinators, Joint Bookrunners, Joint Sponsors and Joint Lead Managers :
 CICC
CITIC Securities
Citigroup Global Markets
HSBC
Lehman Brothers

Sector : Banks

Business : Provision of corporate banking and personal banking services in China

<p> Total H share offer: <u>4,885,479,000</u> H shares (12.76% of the enlarged share capital) </p> <p> Public Offer: 244,274,000 H shares (5%) Placing: 4,641,205,000 H shares (95%) Greenshoe: 732,821,000 H shares </p> <hr/> <p> Price: HK\$5.06 – HK\$5.86 per H share H-share Market Cap: HK\$58,674 million – HK\$67,951 million Pro-forma FY2007E P/E: 33.6x – 38.9x Adjusted NTA per share: HK\$1.75 – HK\$1.90 Staffing: 12,575 (as of 31st December 2006) </p> <hr/> <p> HK Public Offer period: 16th April 2007 – 19th April 2007 noon </p> <p> Receiving banks: HSBC, Bank of China (HK), Bank of Communications HK, CITIC Ka Wah Bank, ICBC (Asia) </p> <p> Share registrar: Computershare Hong Kong Investor Services Limited </p> <p> Listing date: 27th April 2007 </p>	<p> <u>Business of China CITIC Bank (“CNCB”)</u> </p> <p> Established on 20th April 1987 as the largest subsidiary of CITIC Group and renamed from CITIC Industrial Bank to China CITIC Bank (CNCB) on 2nd August 2005, CNCB is one of the 17 national commercial banks and was the 7th largest commercial bank in the PRC in terms of total assets as of 31st December 2005. </p> <p> As of 31st December 2006, in addition to the head office and its branch outlet, CNCB had 446 outlets nationwide (including 25 tier-one branches, 16 tier-two branches and 405 sub-branches) as well as approximately 456 self-service banking centres and 1,645 automatic service machines. As of 31st December 2006, CNCB had issued approximately 10.2 million debit cards and approximately 2.28 million credit cards (including 1.01 million issued in 2006). </p> <p> From 2004-2006, the CAGR for CNCB's total assets, total loans, total deposits and net profit was 19.4%, 22.9%, 19.2% and 26.1%, respectively. Its non-performing loan ratio decreased from 6.28% as of 31st December 2004 to 2.50% as of 31st December 2006. </p> <p> According to the “China Top 100 Banks” list published by “The Chinese Banker” in 2006, CNCB's net profit growth rate in 2005 ranked 2nd and its total assets as of 31st December 2005 ranked 7th among all PRC banks. </p>
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Shareholding Structure after Listing (Assuming both the Global Offering of H shares and A-share offering are completed, both BBVA and CIFH exercise their anti-dilution right & top-up right and the over-allotment option is not exercised)

CITIC Group (A shares)	63.71%
^CITIC International Financial Holdings Limited ("CIFH"; stock code: 0183) (H shares)	15.17%
*Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") (H shares)	4.83%
The National Council for Social Security Fund of the PRC (H shares; excluding shares expected to be purchased as a Cornerstone Investor [#])	1.28%
Other H shareholders (including shares to be subscribed by Cornerstone Investors [#])	9.00%
Other A shareholders	6.01%
	100.00%

Remarks: (^) CITIC Group and BBVA are both substantial shareholders in CIFH, in which CITIC Group holds a 55.44% stake while BBVA holds a 14.58% stake.

([#]) Cornerstone Investors, including Mizuho Corporate Bank, Ltd, National Council for Social Security Fund, PICC Property and Casualty Company Limited (stock code: 2328), China Life Insurance (Group) Company and China Life Insurance Company Limited (stock code: 2628), have agreed or are expected to subscribe for an aggregate of approximately HK\$1,600 million worth of H shares as part of the International Offering. Assuming an issue price of HK\$5.46 each, being the midpoint of the indicative price range, shareholdings of the Cornerstone Investors in CNCB would be equivalent to 0.77% of the enlarged share capital (or 293,040,000 shares). H shares purchased by the Cornerstone Investors International Offering are subject to a lock-up period of 12 months from the listing date respectively.

Use of Proceeds

Net proceeds from the Global Offering of H shares are estimated to be HK\$23,564 million-HK\$27,321million (Assuming the over-allotment option is not exercised).

CNCB plans to use net proceeds from the share offering to strengthen its capital base to support ongoing business growth.

Financial Highlights

	FY2004	FY2005	FY2006
	RMB million	RMB million	RMB million
Net interest income	10,383	12,660	16,473
Non-interest income	763	995	1,454
Total operating income	11,146	13,655	17,927
Operating expenses	(5,451)	(7,104)	(9,259)
Operating profit before impairment losses	5695	6,551	8,668
Impairment losses on loans and advances	(1,589)	(1,055)	(1,535)
Profit before taxation	4,061	5,453	7,002
Taxation	(1,633)	(2,369)	(3,144)
Attributable profit	2,427	3,083	3,858
	31/12/2004	31/12/2005	30/06/2006
Total loans	306,879	370,260	463,167
Total deposits	435,020	530,573	618,412
Total assets	495,445	594,602	706,723

Breakdown of Operating Income by Business Segments

	FY2003		FY2004		FY2006	
	RMB million	%	RMB million	%	RMB million	%
Corporate banking	9,039	81.1%	11,009	80.6%	14,242	79.4%
Personal banking	1,167	10.5%	1,699	12.4%	2,386	13.3%
Treasury operations	1,018	9.1%	1,260	9.2%	1,767	9.9%
Others	(78)	(0.7%)	(313)	(2.3%)	(468)	(2.6%)
Total revenue	11,146	100.0%	13,655	100.0%	17,927	100.0%

**Selected Financial Ratios**

	FY2004	FY2005	FY2006
Net interest margin	2.42%	2.45%	2.62%
Cost-income ratio	48.91%	52.02%	51.65%
Return on average assets	0.54%	0.57%	0.59%
Return on average equity	30.04%	18.15%	14.05%
	31/12/2004	31/12/2005	30/06/2006
Loan-to-deposit ratio	70.54%	69.78%	74.90%
Capital adequacy ratio	6.05%	8.11%	9.41%
Non-performing loan ratio	6.28%	4.14%	2.50%
Allowance to NPL ratio	77.58%	79.88%	84.62%

Strengths/Opportunities

- ✓ 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.
- ✓ Geographically, CNCB has focused on the economically more developed eastern coastal regions of China and has established a strategically located branch network and efficient distribution channels.
- ✓ Strategic tie-up with BBVA should further enhance its international trade finance and treasury businesses, given the Spanish bank's strong presence in Latin America and technology knowledge in treasury operations.
- ✓ With an improving NPL ratio of 6.28% as of the end of 2004 to 2.50% as of the end of 2006, CNCB's asset quality is the strongest among the H-share banks.
- ✓ Even including the shares to be allocated to cornerstone investors that are subject to a 12-month lock-up period, public float for CNCB's H shares after listing (excluding BBVA) is low at 9% of CNCB's total share capital (or 10.5% following the exercise of the over-allotment option). The low public float may result in a scarcity premium for CNCB's shares immediately after its listing.
- ✓ We believe Bank of Communications (stock code: 3328) and China Merchants Bank (stock code: 3968) are the most direct comparables to CNCB on the back of their high-growth features and focused branch networks. Bank of Communications and China Merchants Bank are trading at FY2007E P/B ratios of 3.3x and 4.1x respectively. To be priced at some 2.57x-2.75x FY2007E P/B, CNCB's valuation is not too demanding and we believe the discount of CNCB's valuation to the two peers is justified given its shorter listing history as well as a smaller retail-banking franchise than China Merchants Bank.

Weaknesses/Threats

- × After 16th April 2007, most PRC commercial banks are required to maintain a reserve ratio of 10.5% of total outstanding RMB deposits. Given the already high loan-to-deposit ratio of 74.9% as of the end of 2006, further hiking of the reserve ratio may limit CNCB's ability to further expand its loan book.
- × CITIC Group is likely to increase the H-share public float to the minimum regulatory requirement accepted by the Hong Kong Stock Exchange of 15% of CNCB's total share capital on or prior to the date falling 15 months after the global offering. BBVA agrees that it will not acquire any of CNCB's shares which will result in its shareholding in CNCB to exceed 4.83% until CNCB has complied with the public float requirements. As such, selling of old shares by CITIC Group would create a share overhang over time.

Recommendation: Trading Buy



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