

China Construction Bank (939 HK)

FUNDAMENTAL VIEW ¹

As of 02 Dec 2024

- Our credit view on China Construction Bank (CCB; ratings: A1(neg)/A+(stb)/A(neg)) is based on a strong likelihood of state support in the event of distress, given its large size, systemic importance and majority government ownership.
- Its systemic importance is enhanced by the key role it plays in financing China's economic development and its close government links (and large government shareholding).
- The Big 4 banks are generally more prudently managed than the non-Merchants joint stock banks, but they are also subject to greater directed lending at low/no margins.

RISKS & CATALYSTS

As of 02 Dec 2024

- China's sovereign ratings (A1(neg)/A+(stb)/A+(neg)) underpin CCB's credit standing; any deterioration in the sovereign ratings will negatively affect CCB's ratings.
- CCB may be asked by the government to perform "national service" that overrides profitability considerations, e.g. supporting troubled property developers and the real economy by extending loans at lower rates. We would not regard such actions as credit-negative as they reflect close government links that also underpin the bank's credit standing.
- As a G-SIB, CCB has a substantial TLAC shortfall to meet by 1 January 2028, whereas meeting the 1 January 2025 requirement appears manageable on the back of its domestic TLAC issue plan, and the planned equity injection by the government.

CREDIT QUALITY SCORE (CQS) ²

As of 24 Dec 2024

CURRENT CQS

49

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR) ⁴ VS CQS



KEY METRICS

As of 02 Dec 2024

RMB BN	FY20	FY21	FY22	FY23	9M24
PPOP ROA	1.96%	1.87%	1.66%	1.44%	1.37%
Reported ROA	1.02%	1.04%	1.00%	0.91%	0.87%
Reported ROE	12.1%	12.6%	12.3%	11.6%	11.0%
Equity/Assets	8.4%	8.6%	8.3%	8.2%	8.1%
CET1 Ratio	13.6%	13.6%	13.7%	13.1%	14.1%
NPL Ratio	1.56%	1.42%	1.38%	1.37%	1.35%
Provisions/Average Loans	1.19%	0.95%	0.77%	0.61%	0.59%
Loan-Deposit Ratio	81%	84%	85%	86%	90%

BUSINESS DESCRIPTION

As of 02 Dec 2024

- CCB is one of the Big 4 Chinese banks and is classified as a G-SIB requiring an additional capital surcharge of 1.5%.
- CCB was originally formed in 1954 as a subsidiary of China's MOF to disburse funds intended for fixed asset investment. In the early 1980s, it started taking deposits and making loans outside of direct MOF control. In 1998, its NPLs were transferred to Cinda AMC in exchange for RMB 247 bn of Cinda bonds.
- The bank was re-capitalised again in 2003 with an injection of \$23 bn by the PBOC. It was listed in 2005 but the Chinese government remains its controlling shareholder with a 57.14% stake held through state-owned Central Huijin.
- The bank owns CCB Asia and CCB International in Hong Kong, as well as operations in a number of countries.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

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