

China Minsheng Bank (600016 CH)

Earnings growth trailing JSB peers

On 30 Aug, MSB reported 1H19 net profit of RMB 31.6bn, up 6.8% YoY and accounting for 60.4%/61.2% of CMBIS/consensus full-year estimates. 2Q19 revenue growth was strong at 15.1% YoY, as net interest and net fee income maintained relatively fast growth of 29.6% YoY and 8.1% YoY, respectively. Opex stayed flat, leading to a solid PPop growth of 20.0 YoY. However, impairment charges surged 37.6% YoY, denting bottom-line earnings growth to merely 7.9% YoY in 2Q19 (vs 5.7% YoY in 1Q19), which was faster than 5.2% YoY for Big-5, but slower than 11.2% YoY for listed JSBs. **We initiate coverage on MSB A-share with HOLD rating.**

- Results positive: 1) 2Q19 NIM widened 3bp QoQ to 1.87%** (unadjusted), mainly due to lower interbank funding cost amid liquidity loosening. MSB's interbank liability (incl. NCD) accounted for 30.7% of total liabilities. Meanwhile, loan yield (+12bp HoH) picked up more than deposit cost (+8bp HoH), as growth in credit card (+6.0% HoH) and property development loan (+18.7% HoH) surpassed overall loan growth (+4.2% HoH); **2) 1H19 CIR declined 3.3ppt YoY to 22.1%**, as falling general & admin expenses (-8.4% YoY) largely offset rising staff cost (+11.3% YoY). **3) Deposit growth was decent at 8.4% HoH**, vs loan growth of 4.2% HoH, therefore sending LDR down by 3.8ppt to 92.2%; **4) Total CAR rose 106bp HoH though CET1 slid 3bp HoH**, as the Bank issued RMB 40bn Tier-2 capital bonds and RMB 40bn perpetual bonds in 1H19.
- Results negative: 1) Asset quality indicators still lagged behind sector peers.** NPL balance was up 1.1% QoQ, and NPL ratio remained unchanged at 1.75%, the highest among banks under our coverage. Provision coverage climbed 4.5ppt QoQ to 142.3%, yet still well below sector average of 190.6%. The ratio of NPL to >90day overdue loan stood at 104.7%. Thus, MSB may face pressure if CBIRC implements stricter recognition standard (i.e. classifying >60day overdue loan to NPL); **2) Deposits mix weakened**, as the proportion of demand deposit fell 4.4ppt HoH to 36.5%.
- Initiate MSB-A with HOLD rating and RMB 6.6 TP.** MSB-A currently trades at 0.57x FY19E P/B, 15% below its past 5-year mean of 0.67x. Our TP of RMB 6.6 is based on GGM-derived target P/B of 0.67x and FY19E BPS of RMB 10.2.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income (RMB mn)	141,947	154,161	167,060	177,901	191,575
Net profit (RMB mn)	49,813	50,327	52,323	54,586	57,423
EPS (RMB)	1.35	1.24	1.18	1.23	1.30
EPS CHG (%)	3.0	(8.2)	(4.7)	4.4	5.3
P/E (x)	4.3	4.7	4.9	4.7	4.5
P/B (x)	0.57	0.62	0.57	0.52	0.48
Dividend yield (%)	3.6	5.9	6.2	6.4	6.8
ROE (%)	14.0	12.8	12.1	11.6	11.2
NPL ratio (%)	1.71	1.76	1.82	1.87	1.91
Provision coverage (%)	156	134	149	166	182

Source: Company data, CMBIS estimates

HOLD (Initiation)

Target Price	RMB 6.60
Up/Downside	+13.6%
Current Price	RMB 5.81

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	245,177
Avg 3 mths t/o (RMB mn)	383.20
52w High/Low (RMB)	6.92/5.58
Total Issued Shares (mn)	35,462 (A)
	8,320 (H)

Source: Bloomberg

Shareholding Structure

Anbang	16.79%
China Oceanwide	4.61%
New Hope Liuhe Investment	4.18%

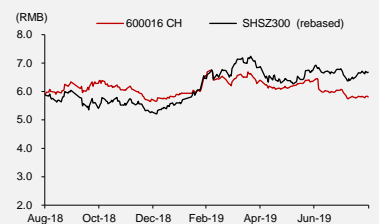
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-3.5%	-1.8%
3-mth	-4.9%	-8.1%
6-mth	-10.7%	-13.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

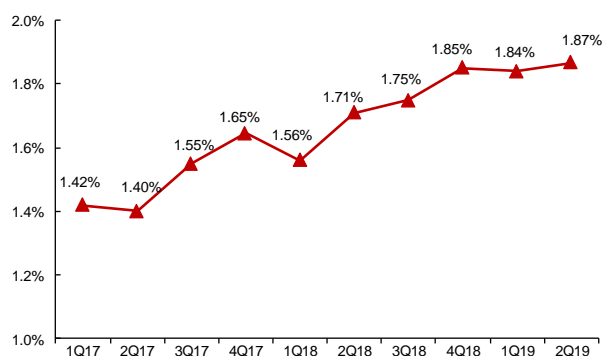
Figure 1: 1H19 results summary

(RMB mn)						
P&L	1H18	1H19	YoY	2Q18	2Q19	YoY
Net interest income	33,874	45,523	34.4%	18,133	23,501	29.6%
Net fee and commission income	24,327	27,282	12.1%	12,399	13,407	8.1%
Operating income	74,287	87,083	17.2%	37,539	43,224	15.1%
Operating expense	(18,870)	(19,224)	1.9%	(8,966)	(8,933)	-0.4%
PPoP	55,417	67,859	22.5%	28,573	34,291	20.0%
Impairment losses	(19,531)	(29,436)	50.7%	(10,960)	(15,081)	37.6%
Pre-tax profit	35,886	38,423	7.1%	17,613	19,210	9.1%
Income tax	(6,033)	(6,455)	7.0%	(3,076)	(3,207)	4.3%
Net profit	29,618	31,623	6.8%	14,676	15,831	7.9%

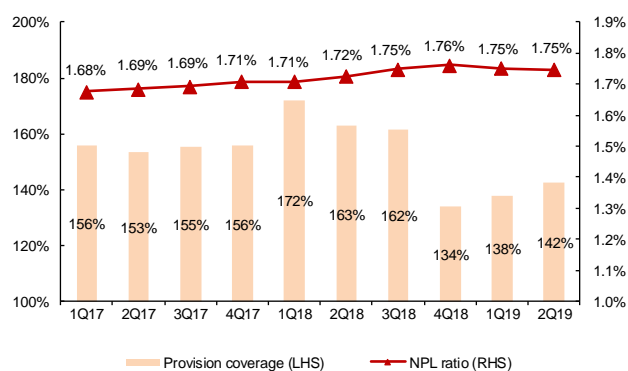
B/S	4Q18	2Q19	HoH	1Q19	2Q19	QoQ
Gross loans	3,056,746	3,183,961	4.2%	3,141,638	3,183,961	1.3%
Customers' deposits	3,183,997	3,452,100	8.4%	3,318,148	3,452,100	4.0%
Total assets	5,994,822	6,340,658	5.8%	6,196,748	6,340,658	2.3%
NPLs	53,866	55,649	3.3%	55,017	55,649	1.1%

Key ratios	1H18	1H19	YoY	1Q19	2Q19	QoQ
NIM	1.65%	1.85%	20bp	1.84%	1.87%	3bp
ROE	15.7%	15.1%	-0.6ppt	15.1%	14.8%	-0.3ppt
NPL ratio	1.72%	1.75%	2bp	1.75%	1.75%	0bp
Provision coverage	162.7%	142.3%	-20.5ppt	137.8%	142.3%	4.5ppt
LDR	96.7%	92.2%	-4.4ppt	94.7%	92.2%	-2.4ppt
CET-1 CAR	8.6%	8.9%	27bp	9.1%	8.9%	-16bp

Source: Company data, CMBIS

Figure 2: Quarterly NIM of MSB

Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of MSB

Source: Company data, CMBIS

Valuation

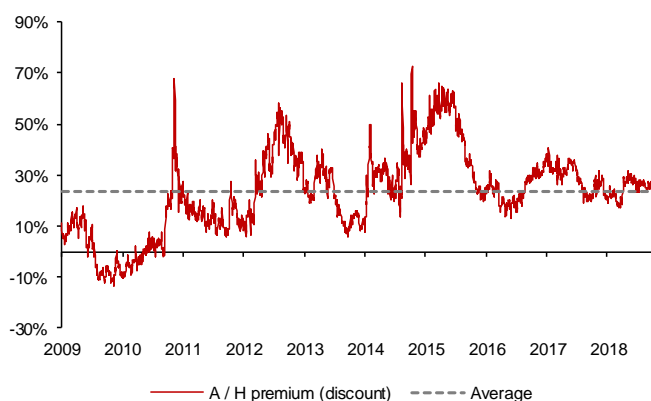
We use Gordon Growth Model to derive the TP for MSB-A. Our key assumptions include: 1) Cost of equity of 14.2%, 2) Sustainable ROE of 10.2%; 3) Long-term growth rate of 3.0%. Our TP of RMB 6.6 is based on a target P/B of 0.67x and FY19E BVPS of RMB 10.2.

Figure 4: Peers valuation for A-share China banks

Company	Ticker	Mkt. Cap (US\$ mn)	Avg 3M (US\$ mn)	Price (RMB)	P/B (x)		P/E (x)		Dvd yield (%)		ROE (%)	
					FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Nationwide SOE & joint-stock banks												
ICBC	601398 CH	258.0	122.2	5.39	0.77	0.71	6.2	5.9	4.9	5.2	12.9	12.4
CCB	601939 CH	187.7	71.6	6.90	0.82	0.75	6.5	6.2	4.7	4.9	13.2	12.7
ABC	601288 CH	163.7	107.2	3.40	0.67	0.62	5.6	5.3	5.4	5.7	12.4	12.0
BOC	601988 CH	135.9	42.3	3.53	0.63	0.59	5.7	5.4	5.4	5.6	11.4	11.0
BoCom	601328 CH	52.6	55.2	5.41	0.57	0.53	5.3	5.1	5.7	6.0	11.0	10.6
CMB	600036 CH	119.8	216.5	34.28	1.49	1.32	9.6	8.6	3.1	3.5	16.3	16.3
CITIC	601998 CH	34.4	15.0	5.59	0.62	0.57	5.9	5.7	4.3	4.6	10.7	10.4
CEB	601818 CH	26.2	37.7	3.76	0.62	0.58	5.6	5.2	4.8	5.2	11.3	11.2
PAB	000001 CH	34.0	172.1	14.16	0.98	0.88	8.9	7.8	1.1	1.3	11.6	11.8
SPDB	600000 CH	46.3	51.0	11.28	0.67	0.60	5.6	5.2	3.3	3.5	12.4	12.0
IND	601166 CH	49.9	178.6	17.17	0.72	0.65	5.5	5.1	4.3	4.8	13.6	13.3
HXB	600015 CH	15.6	13.6	7.24	0.51	0.45	5.2	4.9	3.1	3.4	10.0	9.3
Average					0.74	0.67	6.2	5.8	4.3	4.5	12.2	11.9
Regional city & rural commercial banks												
Bank of Beijing	601169 CH	15.5	30.5	5.25	0.58	0.54	5.3	4.8	5.2	5.9	11.0	10.9
Bank of Shanghai	601229 CH	17.9	32.2	9.02	0.76	0.67	6.2	5.2	4.8	5.5	12.8	13.3
Bank of Nanjing	601009 CH	9.3	45.1	7.80	0.84	0.74	5.3	4.6	5.1	5.9	16.0	16.1
Bank of Ningbo	002142 CH	17.8	56.0	22.84	1.55	1.33	9.1	7.7	2.1	2.4	17.1	17.5
Bank of Jiangsu	600919 CH	10.8	19.5	6.68	0.65	0.59	5.4	4.8	5.1	4.9	15.0	15.1
Bank of Guiyang	601997 CH	3.7	13.9	8.20	0.75	0.64	3.9	3.5	3.7	4.2	16.3	15.6
Bank of Hangzhou	600926 CH	5.7	15.7	7.98	0.78	0.71	6.9	5.8	3.6	4.2	10.8	11.3
Bank of Chengdu	601838 CH	4.1	14.9	8.19	0.84	0.73	5.3	4.5	5.0	5.8	16.5	17.1
JYRCB	002807 CH	1.3	3.9	4.30	0.81	0.76	9.8	9.0	2.2	2.3	7.9	8.0
WXRCB	600908 CH	1.3	4.1	5.21	0.84	0.77	8.0	7.1	2.5	2.7	11.2	11.4
CSRCB	601128 CH	2.8	18.8	7.37	1.20	1.07	10.3	8.7	2.8	3.3	12.8	13.1
WJRCB	603323 CH	1.3	8.8	5.10	0.82	0.77	9.4	8.3	2.9	3.3	8.9	8.9
ZJGRCB	002839 CH	1.3	8.4	5.32	0.94	0.87	10.4	9.2	-	-	9.3	-
Average					0.87	0.78	7.3	6.4	3.8	4.2	12.7	13.2

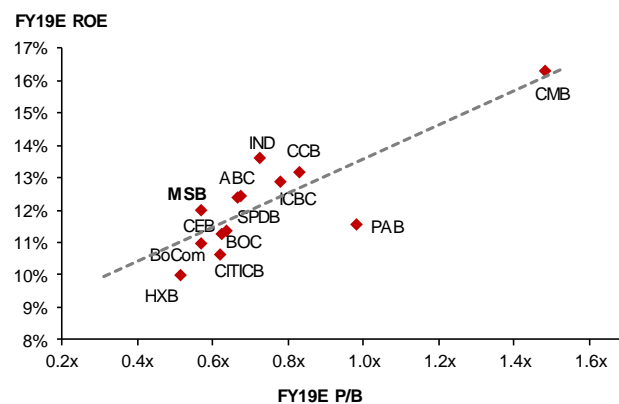
Source: Bloomberg, CMBIS

Figure 5: MSB's A/H valuation premium (discount)



Source: Bloomberg, CMBIS

Figure 6: P/B vs ROE for A-share China banks



Source: Bloomberg, CMBIS

Financial Summary

Income Statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Interest income	230,910	235,347	272,362	290,604	313,047
Interest expenses	(144,358)	(158,667)	(162,524)	(172,559)	(184,093)
Net interest income	86,552	76,680	109,838	118,046	128,954
Net fee income	47,742	48,131	50,538	53,064	55,718
Others	7,653	29,350	6,685	6,791	6,903
Operating income	141,947	154,161	167,060	177,901	191,575
Operating expenses	(47,245)	(49,056)	(53,505)	(57,803)	(62,840)
PPoP	94,702	105,105	113,555	120,098	128,736
Provision	(34,140)	(46,320)	(52,439)	(56,339)	(61,662)
Operating profit	60,562	58,785	61,116	63,760	67,073
Non-operating income	-	-	-	-	-
Pre-tax profit	60,562	58,785	61,116	63,760	67,073
Income tax expenses	(9,640)	(8,455)	(8,790)	(9,170)	(9,647)
Minority interests	(1,109)	(3)	(3)	(3)	(3)
Net profit	49,813	50,327	52,323	54,586	57,423

Key Ratio

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Op. income mix					
Net interest income	61%	50%	66%	66%	67%
Net fee income	34%	31%	30%	30%	29%
Others	5%	19%	4%	4%	4%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	-8.6%	-11.4%	43.2%	7.5%	9.2%
Net fee income	-8.6%	0.8%	5.0%	5.0%	5.0%
Operating income	-7.9%	8.6%	8.4%	6.5%	7.7%
PPoP	-6.8%	11.0%	8.0%	5.8%	7.2%
Net profit	4.1%	1.0%	4.0%	4.3%	5.2%
Gross loans	13.9%	9.0%	8.5%	8.5%	8.5%
Customer deposits	-3.8%	7.8%	7.5%	7.5%	7.5%
Efficiency					
Cost-to-income ratio	32.2%	30.6%	31.0%	31.5%	31.8%

Balance Sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Due from central banks	434,858	382,297	410,817	441,476	474,435
Interbank assets	271,274	337,869	293,120	317,151	343,585
Investments	2,135,897	1,970,017	2,127,618	2,270,522	2,423,492
Gross loans	2,804,307	3,056,746	3,316,569	3,598,478	3,904,348
Less: provision	74,519	72,208	89,517	111,295	135,548
Other assets	330,269	320,101	366,841	353,675	352,941
Total assets	5,902,086	5,994,822	6,425,450	6,870,006	7,363,252
Due to central banks	335,173	304,323	328,669	354,962	383,359
Interbank liabilities	1,917,714	1,752,996	1,838,179	1,955,367	2,097,294
Customer deposits	2,954,242	3,183,997	3,422,797	3,679,507	3,955,470
Debt securities issued	166,796	238,561	238,561	238,561	238,561
Other liabilities	138,349	83,944	89,025	94,508	100,427
Total liabilities	5,512,274	5,563,821	5,917,231	6,322,905	6,775,112
Shareholders' equity	378,970	420,074	497,292	536,174	577,214
Incl. Perpetual bonds	-	-	40,000	40,000	40,000
Incl. Preferred stocks	9,892	9,892	9,892	9,892	9,892
Minority interest	10,842	10,927	10,927	10,927	10,927
Total equity	389,812	431,001	508,219	547,101	588,141

Asset quality					
NPL ratio	1.71%	1.76%	1.82%	1.87%	1.91%
Provision coverage	156%	134%	149%	166%	182%
Provision/ total loans	2.66%	2.36%	2.70%	3.09%	3.47%
Credit costs	1.22%	1.49%	1.60%	1.59%	1.60%
Capital adequacy					
CET-1 CAR	8.6%	8.9%	9.9%	10.0%	10.1%
Tier-1 CAR	8.9%	9.2%	10.1%	10.2%	10.3%
Total CAR	11.9%	11.8%	11.3%	11.3%	11.3%
Profitability					
NIM	1.50%	1.73%	1.80%	1.81%	1.83%
ROE	14.0%	12.8%	12.1%	11.6%	11.2%
ROA	0.84%	0.84%	0.83%	0.81%	0.80%
RoRWA	1.21%	1.11%	1.07%	1.05%	1.03%
Per share					
EPS (RMB)	1.35	1.24	1.18	1.23	1.30
DPS (RMB)	0.21	0.35	0.36	0.37	0.39
BVPS (RMB)	10.12	9.37	10.22	11.11	12.04

Source: Company data, CMBIS estimates

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