

China Banking Sector

Downside pressure in TSF persists

Aug's TSF data beat estimate on milder-than-expected off-balance sheet contraction. However, downside pressure remains due to weakening loan growth. We believe lowering LPR is necessary to spur credit demand, likely preceded by a MLF rate cut.

- **TSF beat, despite in-line new loans.** Aug's new loan was within market expectation at RMB 1.21tn, and loan growth fell 0.2ppt to 12.4% YoY. Loan structure improved MoM, as the proportion of corporate loans rose to 54% from 28% in July, while that of mortgage held up well at 38%. On the other hand, monthly TSF growth was up 1.9% YoY to RMB1.98tn, 23.2% above consensus estimate, and the growth in TSF balance remained stable at 10.7% YoY. The positive surprise was mainly because the decline in off-balance credit narrowed to a smaller magnitude of RMB 101bn, vs RMB 623bn/RMB 267bn in Jul 2019/Aug 2018. Meanwhile, direct financing was upbeat on the back of strong issuance in corporate and special purpose LG bond.
- **Credit growth may moderate towards year-end.** According to MoF, the special purpose LG bonds issued in Jan to Aug amounted to 93% of 2019's full-year quota, and it would complete issuance in Sep. State Council's proposal of allocating in advance next year's quota may help to cushion the falling TSF growth. However, subdued bank loan and off-balance sheet lending due to tightened property sector financing is likely to weigh on the overall credit supply in 4Q19.
- **MLF rate cut around the corner.** With RRR cut in effect starting from 16 Sep, lower LPR quotation on 20 Sep (the next pricing date) looks reasonable for reducing borrowing cost and spurring credit demand. Considering the widely expected Fed rate cut on 18 Sep, we expect the PBoC to roll over matured MLF partly or in full on 17 Sep, at the same time lower issuance rate by 10-15bps. Our analysis indicates that 15bps decline in MLF rate and LPR will reduce FY20E NIM and net profit for banks under our coverage by 4.9bps and 2.8%.
- **Maintain Outperform.** Valuation of H-share China banks remains attractive, as sector P/B of 0.67x was 25% below historical mean and 28% cheaper than that of A-share counterparts. **Our top picks are PAB (000001 CH) and CEB (6818 HK).**

Valuation Table

Name	Ticker	Price (Local ccy)	TP (Local ccy)	Rating	P/B (x) FY19E	P/E (x) FY19E	Yield FY19E	ROE FY19E
ICBC	1398 HK	4.98	7.60	BUY	0.63	5.1	6.0%	13.1%
CCB	939 HK	5.73	9.30	BUY	0.60	4.7	6.4%	13.4%
ABC	1288 HK	3.01	5.30	BUY	0.53	4.4	7.0%	12.7%
BOC	3988 HK	3.00	5.20	BUY	0.47	4.3	7.3%	11.5%
CITICB	998 HK	4.07	5.90	BUY	0.40	3.9	7.0%	10.9%
CEB	6818 HK	3.31	4.60	BUY	0.49	4.4	5.9%	11.5%
BoCom	3328 HK	5.30	6.40	HOLD	0.50	4.6	6.7%	11.3%
MSB	1988 HK	5.13	6.20	HOLD	0.44	3.8	7.9%	12.1%
PAB	000001 CH	15.12	17.00	BUY	1.05	9.5	1.1%	11.6%

Source: Bloomberg, CMBIS estimates

OUTPERFORM
(Maintain)

China Banking Sector

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PBoC monthly data summary

Key data (RMB bn)	Aug -19	Jul -19	Aug -18
New TSF	1,977	1,010	1,939
YoY (%)	1.9	-17.6	10.7
New loans	1,209	1,056	1,275
YoY (%)	-5.2	-27.4	16.8
M1 YoY (%)	3.4	3.1	3.9
M2 YoY (%)	8.2	8.1	8.2

Source: PBoC, CMBIS

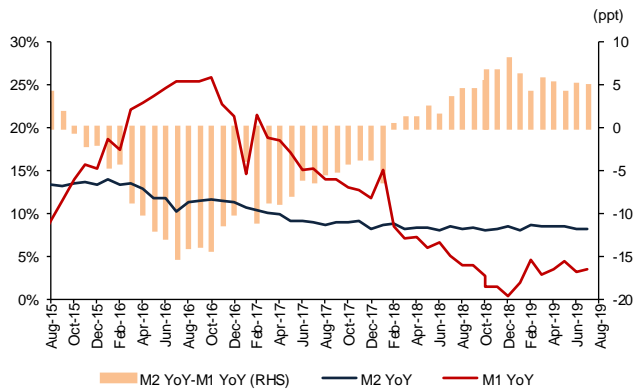
Historical P/B of H-share China banks



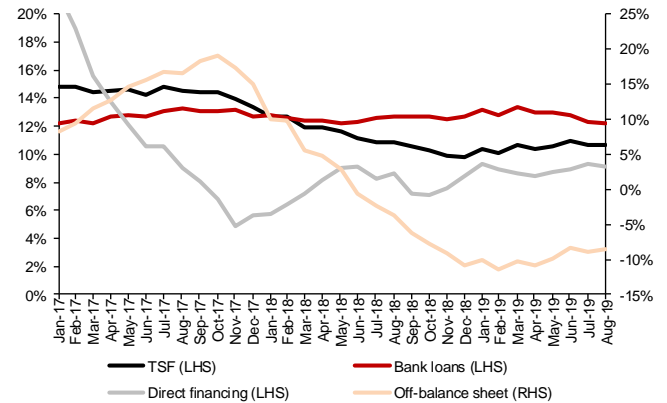
Source: Bloomberg, CMBIS

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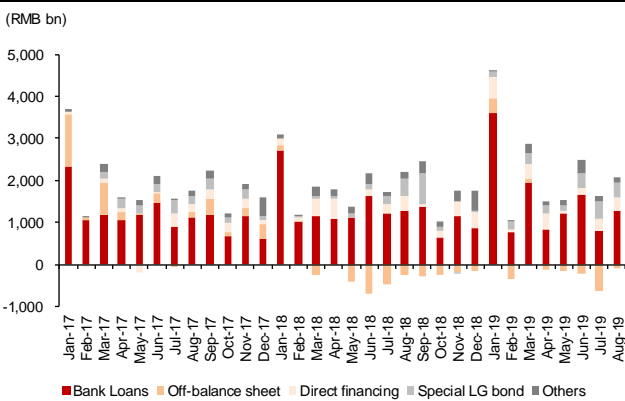
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Figure 1: M1 and M2 growth

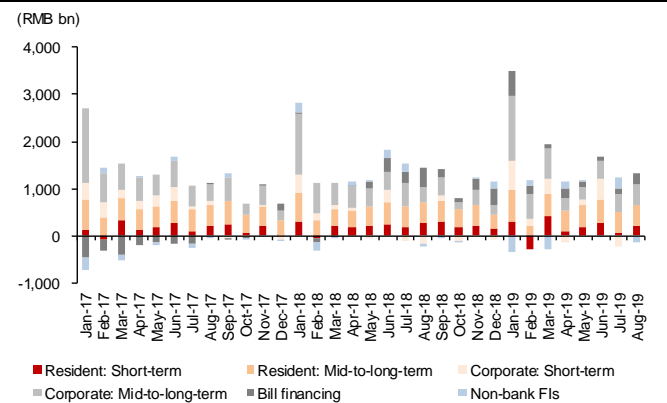
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Figure 2: YoY growth in TSF components

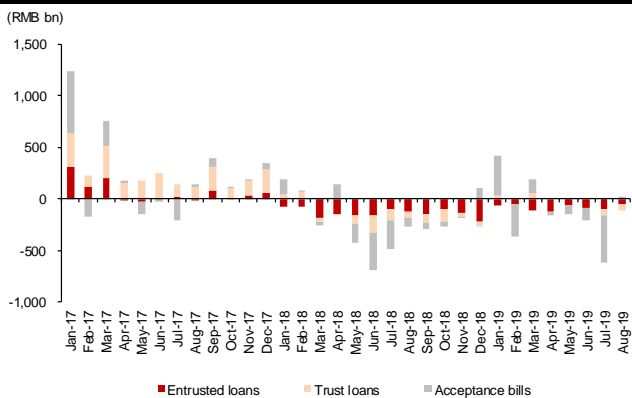
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Figure 3: New TSF breakdown

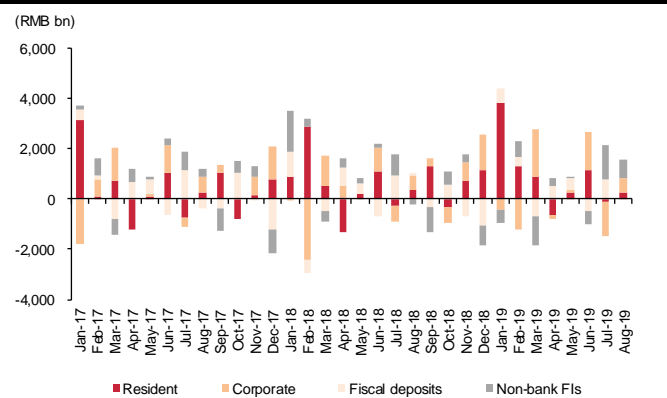
Source: PBoC, CMBIS

Figure 4: New loan breakdown

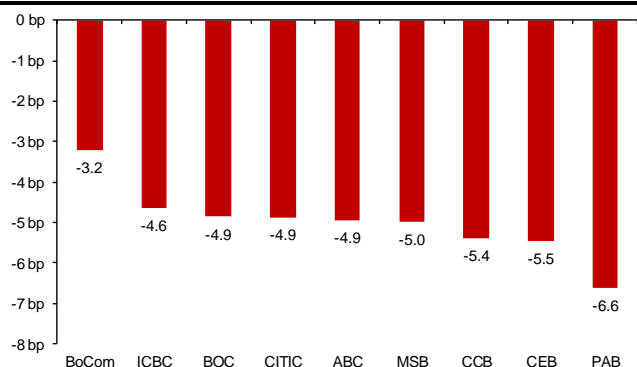
Source: PBoC, CMBIS

Figure 5: Off-balance sheet financing breakdown

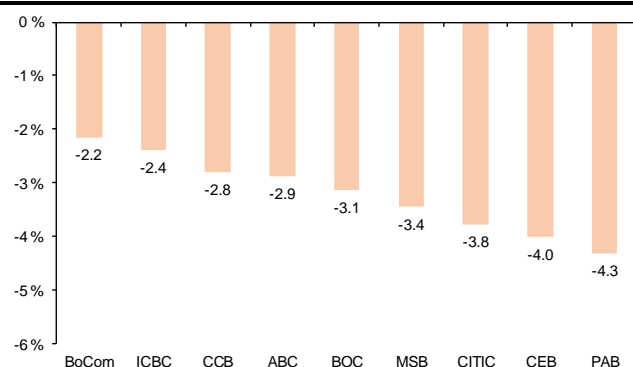
Source: PBoC, CMBIS

Figure 6: New deposit breakdown

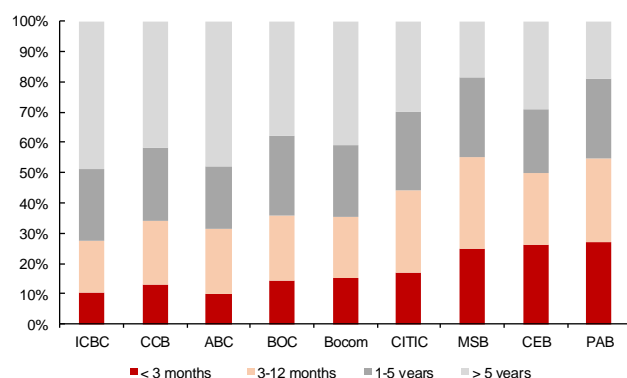
Source: PBoC, CMBIS

Figure 7: FY20E NIM impact from 15bps decline in LPR and interbank rate


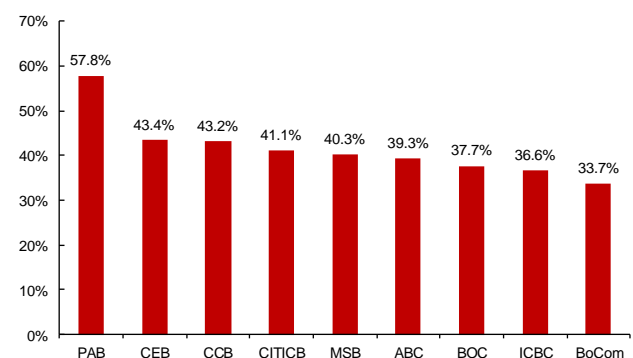
Source: Company data, CMBIS

Figure 8: FY20E net profit impact from 15bps decline in LPR and interbank rate


Source: Company data, CMBIS

Figure 9: Banks' loan maturity structure in 2018


Source: Company data, CMBIS

Figure 10: Banks' proportion of retail loans in 2018


Source: Company data, CMBIS

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