

# China Banking Sector

## Looking for a promising 4Q19

We see several potential catalysts that could drive a catch-up rally for China banks in 4Q19, including overall stable 3Q19 results, possible advance issuance of special purpose LG bond, less provision charges thus faster earnings growth for selective banks due to MoF's requirement, and rollover of valuation basis to FY20.

- Sep's credit growth beat expectation.** Both TSF and bank loans came in above consensus estimate at RMB 2.27tn and RMB 1.69tn, up 6.5% YoY and 22.2% YoY respectively. The strong loan growth was mainly driven by notable rebound in mid- to long- term corporate loans (RMB 563bn, +46.0% YoY), therefore pointing to improving credit demand as banks' lending rate came down with LPR. Considering the rebound in Sep's PMI, credit support to manufacturing sector might be enhanced. Meanwhile, off-balance sheet financing continued to shrink, but at smaller magnitude of RMB 112bn, vs RMB 289bn in Sep 2018. The bad loan write-offs also surged at quarter-end. However, the issuance of special purpose LG bonds declined 70.3% YoY to RMB 220bn due to quota limit. As a result, growth in TSF balance held up well at 10.8% YoY. Authorities will likely permit the advance issuance of special purpose LG bond in 4Q19 to cushion the downside pressure in TSF growth.
- 3Q19 preview – stable earnings growth.** We expect the sector's 3Q19 net profit growth to remain largely stable at 7.5% YoY (vs 7.3% YoY in 2Q19). Revenue growth may decelerate on narrowing margin, but credit cost is likely to decline given already stringent NPL recognition and MoF's requirement to release excess provision. Moreover, we believe NIM contraction in 3Q19 will be slower than 2Q19, as banks should see less funding cost pressure given the RRR cut effect and falling growth in structured deposits under regulatory scrutiny. PAB (000001 CH), CEB (6818 HK), and PSBC (1658 HK) may achieve faster-than-peers earnings growth, while that of Big-5 should stay at mid-single digit.
- Maintain Outperform.** A/H-share China banks are trading at undemanding 0.87/0.72 FY19E P/B with 4.2%/5.6% dividend yields. The switch of valuation basis from FY19 to FY20 could offer a near-term boost to share price. **Our sector top pick is CEB.**

### 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	5.44	6.90	BUY	0.70	5.6	5.4%	13.1%
CCB	939 HK	6.26	8.50	BUY	0.67	5.3	5.8%	13.4%
ABC	1288 HK	3.18	4.50	BUY	0.57	4.7	6.5%	12.7%
BOC	3988 HK	3.15	4.30	BUY	0.50	4.6	6.8%	11.5%
CITICB	998 HK	4.37	5.40	BUY	0.44	4.2	6.4%	10.9%
CEB	6818 HK	3.64	4.60	BUY	0.55	5.0	5.3%	11.5%
BoCom	3328 HK	5.26	5.90	HOLD	0.51	4.7	6.6%	11.3%
MSB	1988 HK	5.52	5.90	HOLD	0.48	4.2	7.2%	12.1%
PAB	000001 CH	17.18	17.00	BUY	1.21	10.9	0.9%	11.6%

Source: Bloomberg, CMBIS estimates

**OUTPERFORM**  
(Maintain)

### China Banking Sector

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### PBoC monthly data summary

Key data (RMB bn)	Sep -19	Aug -19	Sep -18
New TSF	2,273	2,018	2,169
YoY (%)	6.5	3.3	-5.0
New loans	1,691	1,209	1,384
YoY (%)	22.2	-5.2	8.8
M1 YoY (%)	3.4	3.4	4.0
M2 YoY (%)	8.4	8.2	8.3

Source: PBoC, CMBIS

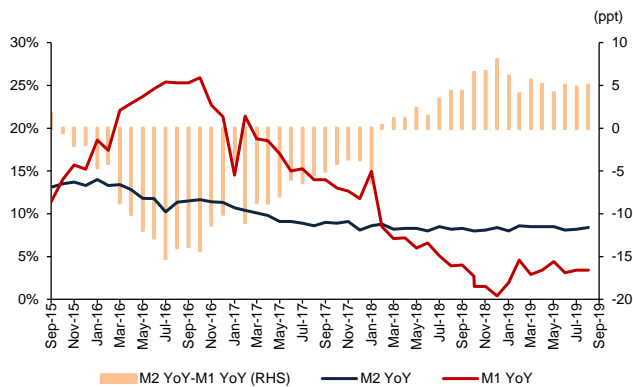
### Historical P/B of H-share China banks



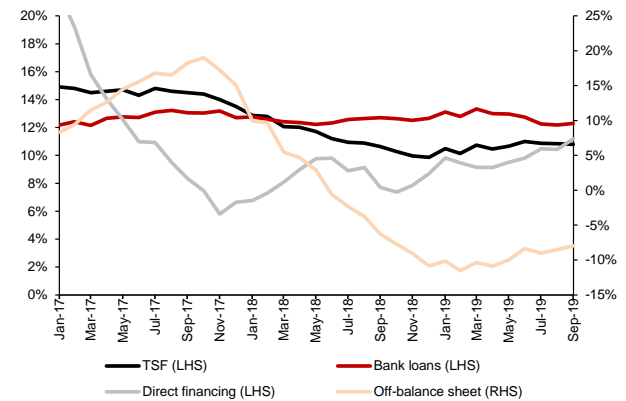
Source: Bloomberg, CMBIS

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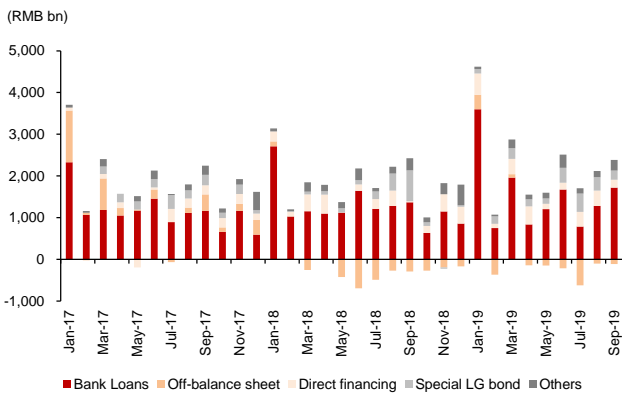
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**Figure 1: M1 and M2 growth**

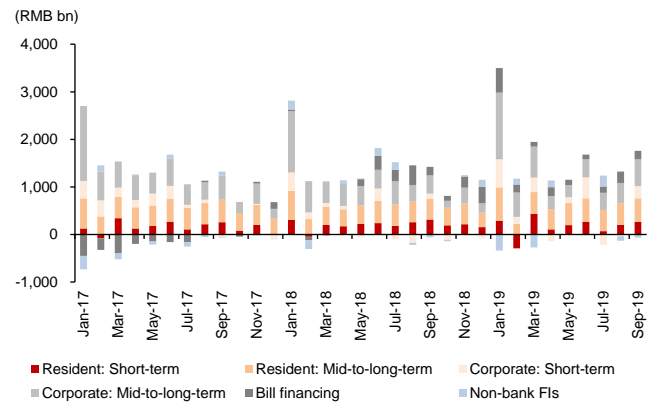
Source: PBoC, CMBIS

**Figure 2: YoY growth in TSF components**

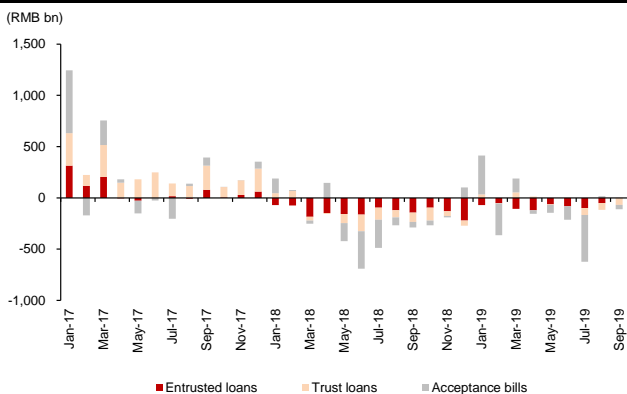
Source: PBoC, CMBIS. Note: Data restated.

**Figure 3: New TSF breakdown**

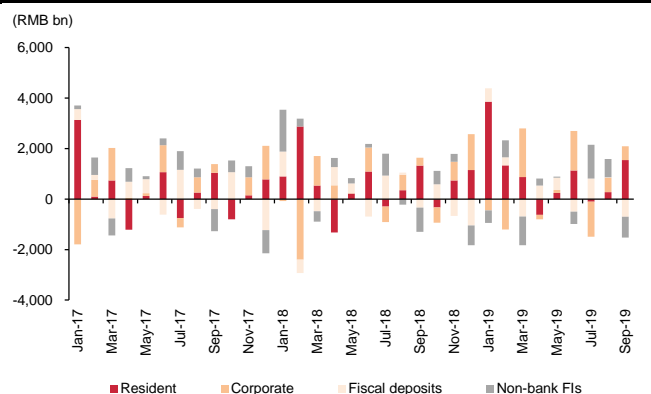
Source: PBoC, CMBIS. Note: Data restated.

**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

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