

China Banking Sector

Corporate day takeaways – Retail banks in better position

Last week, we hosted investor conferences with four China banks, including CCB, BOC, PSBC, and CMB. Overall, management anticipated softening bottom-line growth in FY20 due to falling yields and profit-sacrifice guidance. On bright side, hard-hit areas amid COVID-19's outbreak, i.e. credit card and personal consumption loans, were recovering rapidly in 2Q20. We believe the worst period of retail asset quality deterioration is already behind us, and NPL pressure will mainly come from corporate side in 2H20. As such, we turned more positive on retail-focused banks. **Top picks are PAB, PSBC and CEB.**

- **Steady recovery in retail credit.** All four banks indicated accelerated retail lending along with gradual work resumption in 2Q20, after a temporary slowdown in 1Q20. PSBC and CMB planned to allocate majority of the full-year loan quota to retail segment, meaning even faster catch-up for personal credit in 2H20. Banks saw stable mortgage growth, but were cautious towards financing to property developers given ongoing real estate tightening.
- **Asset yield retreat to further squeeze margin.** All banks acknowledged still heavy NIM pressure, as asset yields are falling due to LPR reform and notably lower interest of MSE loans, while deposit cost stays relatively rigid. However, the pace of yield decline might become slower in 2H20. BOC saw relatively stable pricing for retail loans and expected this trend to persist in coming quarters.
- **Benign asset quality in 2Q20 but uncertainties remain.** CMB expected the formation of retail NPLs to peak in 2Q20, but corporate asset quality might start to worsen in 3Q20 and could last until 2021. The spread of COVID-19 in overseas countries will disrupt global supply chain, and it takes time for export orders to recover to pre-pandemic status. Our observation on banks' NPL statistics during 2013-2016 credit cycle also suggests that corporate asset quality movement is hysteretic to retail by around 6 months.
- **Expect subdued FY20E earnings growth.** A sector-wide moderation in net profit growth might be inevitable in FY20, although it has been largely priced in current valuation (0.61x/0.73x P/B for H/A-share China banks), in our view. That said, most banks are keeping at least 30% payout ratio, and they did not receive guidance to cut dividend. Potential acquisition of brokerage license would benefit banks' business prospects with stronger client-servicing capacity and improved customer stickiness.

Valuation Table

Name	Ticker	Price (Local ccy)	TP (Local ccy)	Rating	P/B (x) FY20E	P/E (x) FY20E	Yield FY20E	ROE FY20E
ICBC	1398 HK	4.86	7.50	BUY	0.58	4.8	6.3%	12.5%
CCB	939 HK	6.12	9.10	BUY	0.60	5.0	6.1%	12.6%
ABC	1288 HK	2.89	4.70	BUY	0.48	4.2	7.4%	11.9%
BOC	3988 HK	2.77	4.60	BUY	0.41	3.9	8.0%	11.0%
PSBC	1658 HK	4.53	6.70	BUY	0.65	5.3	5.8%	12.7%
CITICB	998 HK	3.56	5.60	BUY	0.33	3.1	8.3%	11.0%
CEB	6818 HK	3.08	4.90	BUY	0.42	3.7	8.4%	11.8%
BoCom	3328 HK	4.48	6.20	HOLD	0.40	3.8	8.1%	10.9%
MSB	1988 HK	4.98	6.30	HOLD	0.40	3.5	8.7%	11.9%
PAB	000001 CH	14.14	19.80	BUY	0.91	8.8	1.7%	10.8%

Source: Bloomberg, CMBIS estimates

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China Banking Sector

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Historical P/B of H-share China banks



Source: Bloomberg, CMBIS

Historical P/B of A-share China banks



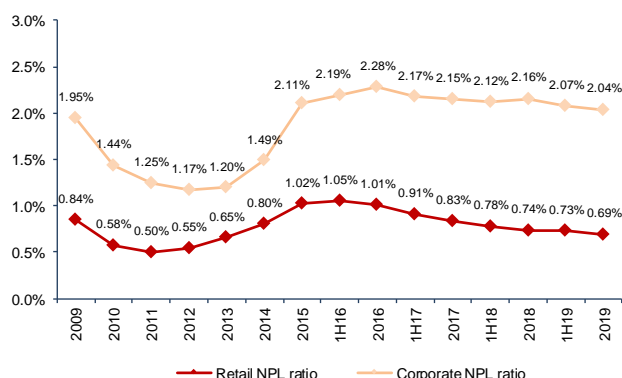
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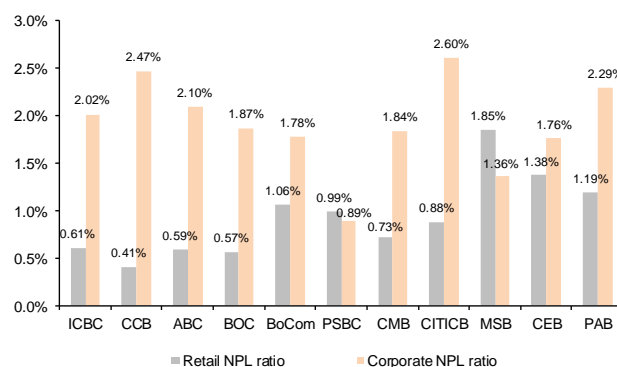
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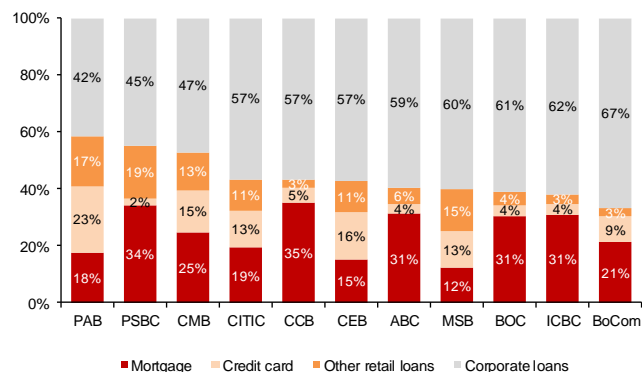
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Figure 1: China banks' retail and corporate NPL ratio

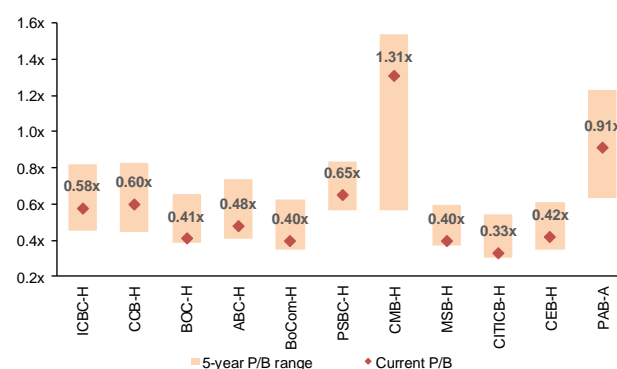
Source: Company data, CMBIS; Average data for 11 China banks, including ICBC, CCB, ABC, BOC, BoCom, PSBC, CMB, CITICB, MSB, CEB, PAB

Figure 2: Individual banks' retail and corporate NPL ratio (as of 2019)

Source: Company data, CMBIS

Figure 3: Individual banks' loan mix (as of 2019)

Source: Company data, CMBIS

Figure 4: Individual banks' P/B and 5-year range

Source: Bloomberg, CMBIS

Figure 5: Valuation summary

Company	Ticker	Mkt cap (bn)	Last Price	TP	Rating	P/B (x)		P/E (x)		Yield		ROE	
		(Local ccy)	(Local ccy)	(Local ccy)		2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
H-share													
ICBC	1398 HK	1,935	4.86	7.50	BUY	0.58	0.53	4.8	4.5	6.3%	6.7%	12.5%	12.1%
CCB	939 HK	1,538	6.12	9.10	BUY	0.60	0.55	5.0	4.7	6.1%	6.5%	12.6%	12.3%
ABC	1288 HK	1,250	2.89	4.70	BUY	0.48	0.44	4.2	4.0	7.4%	7.7%	11.9%	11.6%
BOC	3988 HK	1,029	2.77	4.60	BUY	0.41	0.38	3.9	3.7	8.0%	8.4%	11.0%	10.7%
PSBC	1658 HK	441	4.53	6.70	BUY	0.65	0.59	5.3	4.7	5.8%	6.6%	12.7%	13.2%
CITICB	998 HK	250	3.56	5.60	BUY	0.33	0.30	3.1	2.8	8.3%	9.2%	11.0%	11.2%
CEB	6818 HK	210	3.08	4.90	BUY	0.42	0.39	3.7	3.4	8.4%	9.2%	11.8%	11.9%
BoCom	3328 HK	370	4.48	6.20	HOLD	0.40	0.37	3.8	3.6	8.1%	8.6%	10.9%	10.6%
MSB	1988 HK	262	4.98	6.30	HOLD	0.40	0.37	3.5	3.3	8.7%	9.2%	11.9%	11.7%
CMB	3968 HK	999	37.75	-	NR	1.31	1.17	8.6	7.7	3.8%	4.3%	16.0%	16.3%
Average						0.61	0.56	4.9	4.6	6.6%	7.0%	12.5%	12.3%
A-share													
ICBC	601398 CH	1,745	5.06	7.80	BUY	0.67	0.61	5.6	5.3	5.5%	5.8%	12.5%	12.1%
CCB	601939 CH	1,387	6.29	9.50	BUY	0.69	0.63	5.7	5.3	5.4%	5.7%	12.6%	12.3%
ABC	601288 CH	1,127	3.28	5.20	BUY	0.60	0.56	5.3	5.0	5.8%	6.1%	11.9%	11.6%
BOC	601988 CH	928	3.41	5.00	BUY	0.56	0.52	5.3	5.1	5.8%	6.1%	11.0%	10.7%
PSBC	601658 CH	398	4.72	7.20	BUY	0.75	0.69	6.2	5.4	5.0%	5.7%	12.7%	13.2%
CITICB	601998 CH	226	5.22	7.30	BUY	0.53	0.49	5.0	4.6	5.1%	5.6%	11.0%	11.2%
CEB	601818 CH	189	3.87	5.50	BUY	0.59	0.54	5.2	4.7	6.0%	6.6%	11.8%	11.9%
PAB	000001 CH	274	14.14	19.80	BUY	0.91	0.83	8.8	7.7	1.7%	2.0%	10.8%	11.2%
BoCom	601328 CH	333	4.89	6.50	HOLD	0.49	0.45	4.6	4.4	6.7%	7.0%	10.9%	10.6%
MSB	600016 CH	236	5.60	7.00	HOLD	0.50	0.46	4.4	4.1	6.9%	7.4%	11.9%	11.7%
CMB	600036 CH	901	36.08	-	NR	1.40	1.23	9.0	7.9	3.6%	4.1%	16.1%	16.5%
Average						0.73	0.66	6.0	5.5	5.3%	5.6%	12.5%	12.3%

Source: Bloomberg, CMBIS estimates; CMB's valuation is based on Bloomberg consensus.

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