

Bank of Shanghai (601229 CH)

1Q22 review: results in line, sufficient provision for headwind

Bank of Shanghai reported in-line 1Q22 results. Revenue increased 2.95% YoY to RMB 14.2bn (NII +8.6% YoY, fee & commission income +3.5% YoY). PPOP grew 2.0% YoY to RMB 11.5bn. Net profit grew 5.4% YoY to RMB 5.9bn. NPL ratio stabilized at 1.25% and NIM compressed 2 bps YoY to 1.71%. Provision indicators slightly improved. Maintain BUY on BoSH with unchanged target price of RMB8.68.

- On asset quality perspective, NPL balance grew 2.6% QoQ to RMB 15.6bn, similar with loan growth of 2.7% QoQ. NPL ratio stabilized at 1.25%, SML ratio improved 5 bps QoQ to 1.60%, because of growing loan balance and declining SML balance. Provision balance grew 3.4% QoQ to RMB 47.6bn, the increasing provision balance lift 3 bps and 2.47 ppt on allowance to total loan ratio and allowance to NPL ratio. Current 303.6% provision coverage and 3.79% allowance to total loan ratio is sufficient for headwind.
- Due to slowing net profit growth, annualized ROE and ROA dropped 42 bps YoY and 2 bps YoY to 12.44% and 0.87% respectively. Total asset grew 3.95% QoQ to RMB 2,757bn, driven by growing balance of loan and fixed income investment.
- On loan perspective, SME loan, green loan and manufacture loan are the key drivers. At the end of 1Q22, loan balance in manufacturing industry is RMB 64.3bn, up 11.64% QoQ. SME balance is RMB 80bn, up 10.9% QoQ. Green loan balance is RMB 47.6bn, up 57.79% QoQ. In terms of new issued loan in 1Q22, new issued SME loan is RMB 21.2bn, +58.19% YoY. New issued high technology loan is RMB 25.9bn, +20.85% YoY.
- About wealth management business, number of retail clients increased 1.26% QoQ to 19.7mn, and retail AUM grew 2.15% QoQ to RMB 921bn.
- **Stock catalyst:** key catalyst is investors' demand on safe havens. In addition, declining deposit cost will lead to a more resilient NIM in FY22. Lockdown in Shanghai may have negative impacts on banks' fundamental, but we think extremely low valuation has already reflected the risk.
- **Maintain OVERWEIGHT on banking sector and BUY on BoSH (601229 CH) with unchanged target price of RMB8.68.** Our TP implies 0.60x 2022E and 0.55x 2023E P/B. The stock is trading at 0.45x/0.41x FY22/23E P/B, almost equivalent to -2SD of 3-yr historical mean (0.60x P/B).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	50,746	56,229	60,481	67,278	77,844
Net profit (RMB mn)	20,885	22,042	24,708	27,854	31,330
EPS (RMB)	1.40	1.48	1.67	1.89	2.13
Consensus EPS (RMB)	1.40	1.48	1.70	1.90	2.10
P/B (x)	0.62	0.55	0.45	0.41	0.37
Dividend yield	5.38%	5.61%	7.22%	8.18%	9.24%
ROE	12.09%	11.82%	12.21%	12.60%	12.93%
NPL ratio	1.22%	1.25%	1.30%	1.25%	1.23%
Provision coverage	321%	301%	283%	286%	280%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB8.68
 (Previous TP RMB8.68)
Up/Downside +34%
Current Price RMB6.49

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	92,201
Avg 3 mths t/o (RMB mn)	223.87
52w High/Low (RMB)	8.68/6.30
Total Issued Shares (mn)	14,207

Source: Bloomberg

Shareholding Structure

Shanghai lianhe Investment	14.68%
SIPG	8.3%
Banco Santander	6.54%

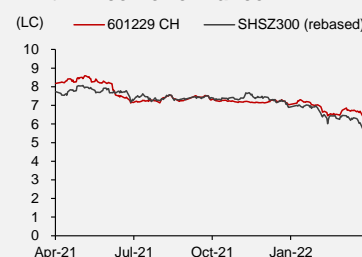
Source: Company report

Share Performance

	Absolute	Relative
1-mth	0.3%	3.3%
3-mth	-7.7%	4.9%
6-mth	-11.0%	8.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Recent Reports

1. China Banking – 4Q21 Quarterly Review ([link](#))
2. China Banking Sector – High provision banks will outperform ([link](#))
3. China Financials Weekly – Deposit rate cuts to support NIM ([link](#))

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net interest income	36,393	40,437	43,902	49,189	58,090
Net fee&commission income	5,608	9,044	9,217	9,982	10,818
Others	8,745	6,748	7,361	8,107	8,936
Operating income	50,746	56,229	60,481	67,278	77,844
Operating expense	-28,425	-32,671	-34,125	-37,563	-44,416
PPOP	40,596	43,524	47,085	52,897	62,522
Provision taken	-18,275	-19,966	-20,729	-23,182	-29,095
Operating profit	22,321	23,558	26,355	29,715	33,428
Non-operating income	89	-4	110	120	130
Pre-tax profit	22,410	23,554	26,465	29,835	33,558
Income tax expense	-1,495	-1,474	-1,720	-1,939	-2,181
Minority interests	30	38	37	42	47
Net profit	20,885	22,042	24,708	27,854	31,330

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income mix					
Net interest income	72%	72%	73%	73%	75%
Net fee income	11%	16%	15%	15%	14%
Others	17%	12%	12%	12%	11%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	14.6%	11.1%	8.6%	12.0%	18.1%
Net fee&commission	9.5%	61.3%	1.9%	8.3%	8.4%
Operating income	1.9%	10.8%	7.6%	11.2%	15.7%
PPOP	3.1%	7.2%	8.2%	12.3%	18.2%
Net profit	2.9%	5.5%	12.1%	12.7%	12.5%
Gross loans	12.8%	11.4%	13.0%	12.5%	13.0%
Customer deposits	9.3%	12.0%	12.1%	11.8%	12.3%

Balance Sheet

YE 31 Dec (RMB bn)	FY20A	FY21A	FY22E	FY23E	FY24E
Due from central banks	144	144	159	176	195
Interbank assets	203	212	233	255	279
Investments	1003	1052	1163	1296	1447
Gross loan	1102	1227	1387	1560	1763
Provision balance	43	46	51	56	61
Net loan	1062	1184	1339	1507	1705
Other assets	50	61	67	69	72
Total assets	2462	2653	2961	3303	3699
	0	0	0	0	0
Due to central banks	127	31	37	45	54
Interbank liabilities	510	527	593	651	715
Customer deposits	1316	1473	1651	1846	2074
Debt securities issued	190	274	275	276	277
Other liabilities	120	135	171	228	293
Total liabilities	2271	2447	2737	3059	3432
	0	0	0	0	0
Shareholders' equity	190	205	223	243	266
Minority interest	1	1	1	1	1
Total equity	191	206	224	244	266

Efficiency

CIR	18.93%	21.51%	21.07%	20.30%	18.60%
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Asset quality

NPL ratio	1.22%	1.25%	1.30%	1.25%	1.23%
Provision coverage	321%	301%	283%	286%	280%
Allowance to total loan	3.91%	3.75%	3.67%	3.58%	3.44%

Capital adequacy

CET-1 CAR	9.34%	8.96%	8.88%	8.70%	8.51%
Tier-1 CAR	11.59%	10.96%	10.66%	10.28%	9.91%
Total CAR	13.98%	13.18%	12.56%	11.97%	11.41%

Profitability

NIM	1.82%	1.74%	1.69%	1.70%	1.74%
ROE	12.09%	11.82%	12.21%	12.60%	12.93%
ROA	0.89%	0.86%	0.88%	0.89%	0.89%
RORWA	1.24%	1.17%	1.16%	1.17%	1.17%

Per share

EPS (RMB)	1.40	1.48	1.67	1.89	2.13
DPS (RMB)	0.40	0.40	0.47	0.53	0.60
BVPS (RMB)	12.00	13.01	14.28	15.69	17.28

Source: Company data, CMBIGM estimates

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