

# China Banking Sector

## Assessing COVID-19's impact (III) – Is benchmark deposit rate cut a policy option?

Despite not a market consensus now, we believe PBoC may consider cutting benchmark deposit rate to offer banks greater incentive to lower lending rate and support the real economy after COVID-19's outbreak. Our sensitivity analysis indicates 10bp cut in time deposit rate and 5bp cut in demand deposit rate could lift sector's FY20E NIM and earnings by 5.5bp and 2.0%, respectively.

- **Deposit cost is the key determinant for total liability cost.** Banks' lending rate depends on four major variables, including liability cost, operating expense, credit cost, and required margin. The latter three are largely attributable to individual banks' business nature, hence unlikely to change in short term. Liability cost, consisting of deposit, interbank, and debt funding cost, varies with central bank's monetary policy. As of 1H19, our covered banks' average interbank and debt funding costs retreated 33bp and 41bp YoY, but deposit cost climbed 20bp YoY, leading to 9bp YoY hike in total liability cost. The cost of deposit, which amounted to 77% of banks' total liabilities, appeared to be the swing factor for overall liability cost.
- **What could trigger a benchmark deposit rate cut?** Given potential economic downturn and government's intention to boost credit support, there is higher probability for PBoC to cut benchmark deposit rate, which should bring down loan rate in a more direct and effective way (vs MLF/reverse repo rate cut). Possible triggers include: 1) COVID-19's outbreak turns out to be longer than expected, and overhang in GDP growth lasts into 2Q20; 2) real lending rate stays resilient even after series of LPR cut; and 3) banks suffer from significant NIM contraction and NPL rebound in 1Q20.
- **Possible rate cut scenario and earnings sensitivity.** We set out two scenarios: 1) 10bp cut in time deposit rate, and 2) 10bp cut in time deposit rate and 5bp cut in time deposit rate and 5bp cut in demand deposit rate, should PBoC targets for more immediate effect. Based on our analysis, Scenario-1 will lift FY20E sector NIM by 3.9bp and earnings by 1.4%. Scenario-2 will magnify the impact to 5.5bp NIM expansion and 2.0% earnings upside. The big banks would fare better as their deposits accounted for greater proportion of total liabilities. PSBC (1658 HK) is a key beneficiary, while CITICB (998 HK) and MSB (1988 HK) will see least positive impact.

### 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	5.57	7.50	BUY	0.66	5.5	5.6%	12.6%
CCB	939 HK	6.54	9.10	BUY	0.64	5.2	5.8%	12.8%
ABC	1288 HK	3.17	4.70	BUY	0.52	4.5	6.8%	12.2%
BOC	3988 HK	3.23	4.60	BUY	0.48	4.5	6.9%	11.1%
CITICB	998 HK	4.25	5.90	BUY	0.39	3.5	7.6%	11.6%
CEB	6818 HK	3.36	4.90	BUY	0.46	3.9	6.6%	12.1%
BoCom	3328 HK	5.22	6.20	HOLD	0.47	4.4	7.0%	11.0%
MSB	1988 HK	5.57	6.30	HOLD	0.45	3.9	7.8%	12.0%
PAB	00001 CH	15.37	19.80	BUY	0.97	9.2	1.6%	10.9%

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

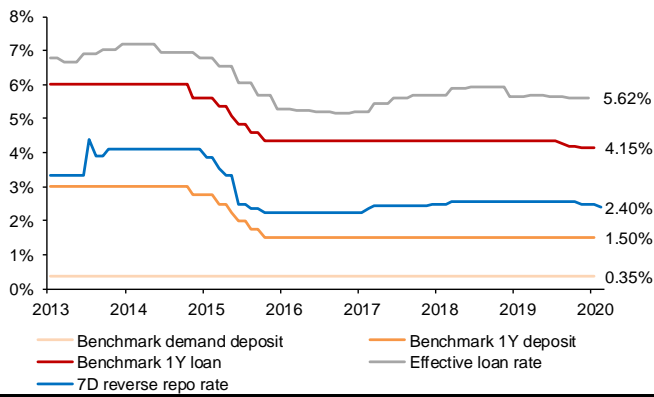
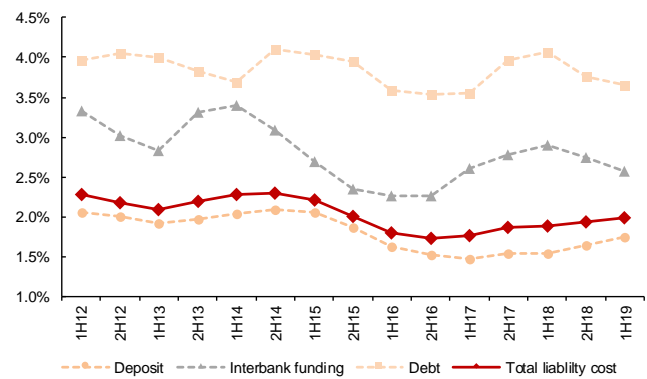
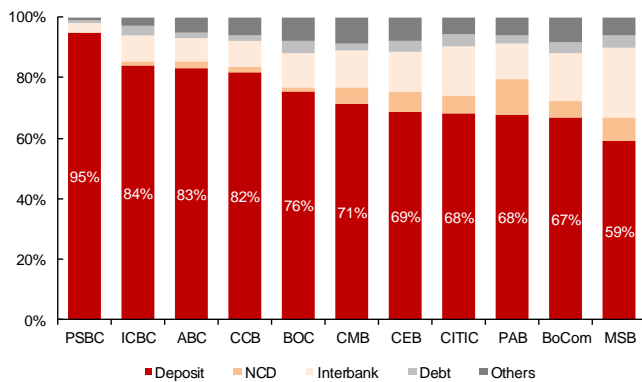
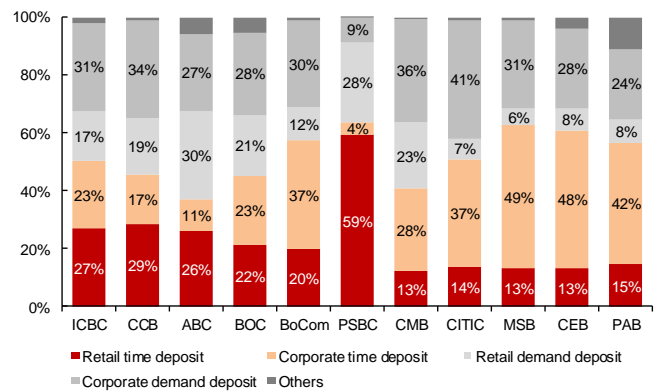
#### Historical P/B of A-share China banks



Source: Bloomberg, CMBIS

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**Figure 1: Benchmark loan and deposit rates****Figure 2: Funding cost for banks under our coverage****Figure 3: China banks' liability structure (1H19)****Figure 4: China banks' deposit structure (1H19)****Figure 5: Earnings sensitivity to changes in benchmark deposit rate**

Company	Scenario - 1 Time deposit rate - 10bp		Scenario - 2 Time deposit rate -10bp & Demand deposit rate -5bp	
	FY20E NIM chg (bp)	FY20E net profit chg (%)	FY20E NIM chg (bp)	FY20E net profit chg (%)
ICBC	3.9 bp	1.4%	5.8 bp	2.1%
CCB	3.4 bp	1.2%	5.7 bp	2.0%
ABC	3.4 bp	1.3%	5.7 bp	2.2%
BOC	3.6 bp	1.6%	5.3 bp	2.2%
BoCom	4.1 bp	1.8%	5.4 bp	2.4%
CITICB	3.6 bp	1.2%	5.2 bp	1.7%
MSB	4.0 bp	1.4%	5.2 bp	1.8%
CEB	4.0 bp	1.4%	5.3 bp	1.8%
PAB	5.1 bp	1.3%	6.0 bp	1.6%
<b>Big-5</b>	<b>3.7 bp</b>	<b>1.4%</b>	<b>5.6 bp</b>	<b>2.2%</b>
<b>JSB</b>	<b>4.2 bp</b>	<b>1.3%</b>	<b>5.4 bp</b>	<b>1.7%</b>
<b>Average</b>	<b>3.9 bp</b>	<b>1.4%</b>	<b>5.5 bp</b>	<b>2.0%</b>

Source: Company data, CMBIS estimates

**Figure 6: Valuation summary**

Company	Ticker	Last Price	TP	Rating	P/B (x)		P/E (x)		Yield		ROE	
		(Local ccy)	(Local ccy)		2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
H-share												
ICBC	1398 HK	5.57	7.50	BUY	0.72	0.66	5.8	5.5	5.3%	5.6%	13.1%	12.6%
CCB	939 HK	6.54	9.10	BUY	0.70	0.64	5.5	5.2	5.5%	5.8%	13.3%	12.8%
ABC	1288 HK	3.17	4.70	BUY	0.57	0.52	4.8	4.5	6.4%	6.8%	12.6%	12.2%
BOC	3988 HK	3.23	4.60	BUY	0.52	0.48	4.7	4.5	6.6%	6.9%	11.5%	11.1%
CITICB	998 HK	4.25	5.90	BUY	0.43	0.39	4.0	3.5	6.7%	7.6%	11.1%	11.6%
CEB	6818 HK	3.36	4.90	BUY	0.50	0.46	4.4	3.9	5.9%	6.6%	11.9%	12.1%
BoCom	3328 HK	5.22	6.20	HOLD	0.50	0.47	4.6	4.4	6.7%	7.0%	11.3%	11.0%
MSB	1988 HK	5.57	6.30	HOLD	0.49	0.45	4.1	3.9	7.3%	7.8%	12.3%	12.0%
PSBC	1658 HK	5.04	-	NR	0.77	0.70	6.4	5.8	4.6%	5.2%	12.3%	12.5%
CMB	3968 HK	39.50	-	NR	1.53	1.36	9.9	8.7	3.0%	3.5%	16.6%	16.5%
Average					0.73	0.67	5.8	5.3	5.6%	5.9%	13.0%	12.7%
A-share												
ICBC	601398 CH	5.49	7.80	BUY	0.79	0.72	6.3	6.0	4.8%	5.1%	13.1%	12.6%
CCB	601939 CH	6.74	9.40	BUY	0.81	0.74	6.4	6.0	4.8%	5.0%	13.3%	12.8%
ABC	601288 CH	3.47	5.10	BUY	0.70	0.64	5.8	5.5	5.3%	5.6%	12.6%	12.2%
BOC	601988 CH	3.60	5.00	BUY	0.64	0.59	5.8	5.6	5.3%	5.6%	11.5%	11.1%
CITICB	601998 CH	5.66	7.30	BUY	0.63	0.58	5.9	5.2	4.5%	5.1%	11.1%	11.6%
CEB	601818 CH	3.96	5.60	BUY	0.66	0.60	5.8	5.2	4.5%	5.0%	11.9%	12.1%
PAB	000001 CH	15.37	19.80	BUY	1.09	0.97	10.3	9.2	1.4%	1.6%	11.1%	10.9%
BoCom	601328 CH	5.34	6.50	HOLD	0.57	0.53	5.3	5.0	5.9%	6.2%	11.3%	11.0%
MSB	600016 CH	5.96	7.00	HOLD	0.58	0.53	4.9	4.6	6.1%	6.5%	12.3%	12.0%
PSBC	601658 CH	5.56	-	NR	0.97	0.88	7.8	6.8	3.8%	4.3%	12.9%	13.5%
CMB	600036 CH	36.17	-	NR	1.56	1.39	10.0	8.8	3.0%	3.4%	16.5%	16.6%
Average					0.84	0.77	6.7	6.2	4.6%	4.9%	13.0%	12.7%

Source: Bloomberg, CMBIS estimates

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