

China Minsheng Bank (1988 HK)

Solid credit growth; Asset quality and capital underperformed

MSB's net profit declined 25.4%/10.0% YoY in 2Q/1H20, largely due to soaring impairment charges of 60.9% YoY in 2Q20. Topline growth (revenue +9.9% YoY; PPoP +8.8% YoY) was still decent, albeit a sequential moderation. Same as most nationwide bank peers, MSB also accelerated NPL recognition and boosted risk reserves during the industry downturn. We like the banks' robust credit expansion and fast recovery of retail loans, but relatively thin provision buffer and below-average capital adequacy ratio are major overhangs.

- Results positives: 1) Healthy loan and deposit growth of 2.7%/3.8% QoQ.** It was encouraging to see a pick-up in retail loan growth of 5.2% in 2Q20, vs 1.8% in 1Q20. Mortgage and personal business loans were key drivers, and credit cards also saw a positive growth of 2.6% in 1H20. **2) Net interest income grew strongly by 20.1% YoY,** on solid expansion of interest-earnings assets and YoY margin widening. **3) Effective tax rate dropped 3.8ppt YoY,** given rising investments to tax-free government bonds.
- Results negatives: 1) 2Q20 NIM narrowed 3bp QoQ to 1.92%** based on our estimate. This was due to 13bp HoH loan yield contraction and 5bp HoH increase in deposit cost, more than offsetting the 40bp drop of interbank funding cost in 1H20. **2) Asset quality under pressure.** NPL ratio surged 14bp QoQ to 1.69%, and provision coverage slid 3.6ppt QoQ to 152%, one of the lowest in the sector. However, the bank tightened NPL recognition standards, as NPLs covered 125% of >90-day overdue loans as of 2Q20, up from 114% as of 4Q19. **3) 2Q20 cost-income ratio increased 0.7ppt YoY;** **4) Investment return declined 12.9% YoY,** on bond trading and exchange losses. **5) Capital position weakened.** CET1/total CAR dropped 72bp/38bp QoQ to 8.24%/12.72% on sluggish earnings and cash dividend payout. RWA density rose 2.7ppt QoQ to 78.7%.
- Maintain HOLD and lower TP to HK\$5.50.** We cut FY20/21 earnings forecasts by 15-17%, to reflect lower NIM/fee income and higher credit cost assumptions. Our revised TP of HK\$5.50 is based on 0.45x (from 0.52x) target P/B and FY20 BVPS of RMB10.96.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	154,161	177,745	190,656	203,326	221,409
Net profit (RMB mn)	50,327	53,819	46,938	50,798	57,111
EPS (RMB)	1.24	1.22	1.06	1.15	1.29
EPS CHG (%)	(8.2)	(1.9)	(12.9)	8.3	12.6
Consensus EPS (RMB)	NA	NA	1.23	1.30	1.38
P/E (x)	3.5	3.5	4.1	3.7	3.3
P/B (x)	0.46	0.42	0.39	0.36	0.34
Dividend yield (%)	8.0	8.6	7.5	8.1	9.1
ROE (%)	12.8	12.4	10.0	10.1	10.5
NPL ratio (%)	1.76	1.56	1.77	1.75	1.69
Provision coverage (%)	134	156	159	176	194

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$ 5.50
(Previous TP	HK\$ 6.30)
Up/Downside	+14.8%
Current Price	HK\$ 4.79

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	263,576
Avg 3 mths t/o (HK\$ mn)	147
52w High/Low (HK\$)	6.06/4.79
Total Issued Shares (mn)	8,320 (H)
	35,462 (A)

Source: Bloomberg

Shareholding Structure

Dajia Life Insurance	16.79%
China Oceanwide	4.61%
Tongfang Guoxin Investment	4.26%

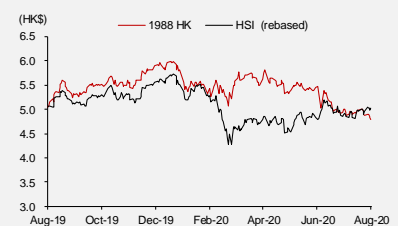
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-2.2%	-4.9%
3-mth	-9.6%	-16.7%
6-mth	-11.2%	-6.0%
12-mth	-4.9%	-3.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

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 Sep 2019

Figure 1: 2Q20 results summary

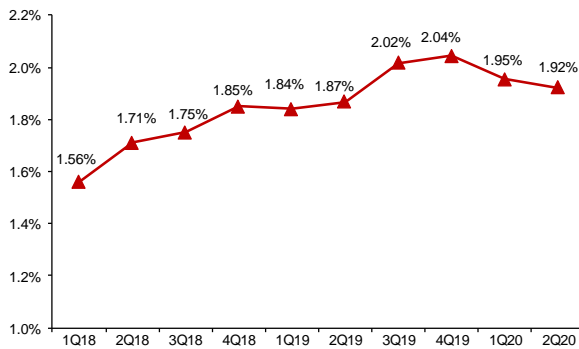
(RMB mn)							
P&L	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
Net interest income	23,501	25,778	26,642	26,924	28,232	4.9%	20.1%
Non-interest income	19,723	19,094	19,148	22,409	20,543	-8.3%	-1.7%
Operating income	43,224	44,872	45,790	49,333	48,775	-1.1%	9.9%
Operating expense	(8,933)	(14,264)	(16,528)	(10,469)	(11,427)	9.2%	13.5%
PPoP	34,291	30,608	29,262	38,864	37,348	-3.9%	8.8%
Impairment losses	(15,081)	(13,823)	(19,732)	(18,753)	(24,264)	29.4%	60.9%
Pre-tax profit	19,210	16,785	9,530	20,111	13,084	-34.9%	-32.0%
Income tax	(3,207)	(2,597)	(762)	(3,214)	(1,089)	-66.1%	-66.0%
Net profit	15,831	13,906	8,290	16,650	11,803	-29.1%	-25.4%

B/S	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
Gross loans	3,183,961	3,311,028	3,487,601	3,698,733	3,798,459	2.7%	19.3%
Total deposits	3,452,100	3,440,152	3,637,034	3,791,624	3,936,314	3.8%	14.0%
Total assets	6,340,658	6,273,743	6,681,841	6,961,952	7,142,641	2.6%	12.6%
NPLs	55,649	55,309	54,434	57,488	64,256	11.8%	15.5%

Key ratio	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
NIM	1.87%	2.02%	2.04%	1.95%	1.92%	-3bp	5bp
ROE	14.8%	12.8%	7.4%	14.5%	10.2%	-4.3ppt	-4.6ppt
NPL ratio	1.75%	1.67%	1.56%	1.55%	1.69%	14bp	-6bp
Provision coverage	142.3%	145.7%	155.5%	155.9%	152.2%	-3.6ppt	10.0ppt
LDR	92.2%	96.2%	95.9%	97.6%	96.5%	-1.1ppt	4.3ppt
CET-1 CAR	8.9%	9.3%	8.9%	9.0%	8.2%	-72bp	-66bp

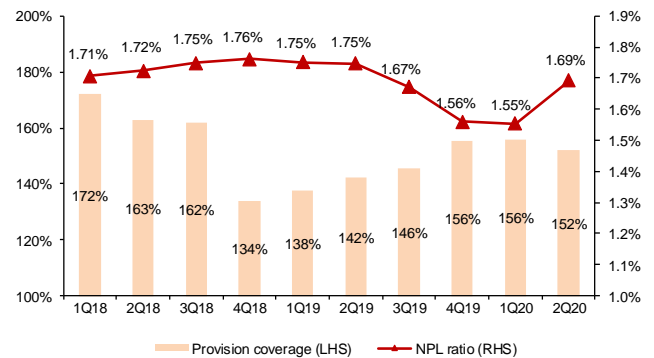
Source: Company data, CMBIS

Figure 2: Quarterly NIM of MSB



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of MSB



Source: Company data, CMBIS

Figure 4: Adjustments in earnings forecast

	NIM			Fee income growth			Credit cost			Net profit (RMB mn)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
FY20E	1.91%	1.87%	-4bp	8.0%	4.0%	-4ppt	1.92%	2.07%	+18bp	56,297	46,938	-16.6%
FY21E	1.87%	1.84%	-3bp	8.0%	6.0%	-2ppt	1.85%	1.95%	+10bp	59,757	50,798	-15.0%

Source: CMBIS estimates

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	230,910	235,347	279,934	305,503	335,774
Interest expenses	(144,358)	(158,667)	(172,547)	(189,367)	(206,842)
Net interest income	86,552	76,680	107,387	116,136	128,932
Net fee income	47,742	48,131	54,387	57,650	62,262
Others	7,653	29,350	28,882	29,540	30,215
Operating income	141,947	154,161	190,656	203,326	221,409
Operating expenses	(47,245)	(49,056)	(54,315)	(58,727)	(64,257)
PPoP	94,702	105,105	136,341	144,599	157,153
Provision	(34,140)	(46,320)	(79,714)	(83,422)	(88,534)
Operating profit	60,562	58,785	56,627	61,177	68,619
Non-operating income	-	-	-	-	-
Pre-tax profit	60,562	58,785	56,627	61,177	68,619
Income tax expenses	(9,640)	(8,455)	(8,584)	(9,274)	(10,402)
Minority interests	(1,109)	(3)	(1,105)	(1,105)	(1,105)
Net profit	49,813	50,327	46,938	50,798	57,111

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix					
Net interest income	61%	50%	56%	57%	58%
Net fee income	34%	31%	29%	28%	28%
Others	5%	19%	15%	15%	14%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	-8.6%	-11.4%	9.6%	8.1%	11.0%
Net fee income	-8.6%	0.8%	4.0%	6.0%	8.0%
Operating income	-7.9%	8.6%	7.3%	6.6%	8.9%
PPoP	-6.8%	11.0%	6.7%	6.1%	8.7%
Net profit	4.1%	1.0%	-12.8%	8.2%	12.4%
Gross loans	13.9%	9.0%	12.0%	10.0%	10.0%
Customer deposits	-3.8%	7.8%	11.5%	9.0%	9.0%
Efficiency					
Cost-to-income ratio	32.2%	30.6%	27.4%	27.8%	27.9%

Balance Sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Due from central banks	434,858	382,297	407,077	443,577	483,362
Interbank assets	271,274	337,869	393,272	420,801	450,257
Investments	2,135,897	1,970,017	2,365,660	2,562,840	2,777,270
Gross loans	2,804,307	3,056,746	3,906,113	4,296,724	4,726,397
Less: provision	74,519	72,208	109,807	132,798	154,930
Other assets	330,269	320,101	391,409	420,469	450,365
Total assets	5,902,086	5,994,822	7,353,725	8,011,613	8,732,722
Due to central banks	335,173	304,323	214,750	231,930	250,485
Interbank liabilities	1,917,714	1,752,996	2,155,051	2,360,386	2,586,254
Customer deposits	2,954,242	3,183,997	4,055,293	4,420,269	4,818,094
Debt securities issued	166,796	238,561	257,532	283,285	311,614
Other liabilities	138,349	83,944	109,531	117,505	126,217
Total liabilities	5,512,274	5,563,821	6,792,158	7,413,376	8,092,662
Shareholders' equity	378,970	420,074	549,584	586,254	628,075
Incl. Perpetual bonds	-	-	39,993	39,993	39,993
Incl. Preferred stocks	9,892	9,892	29,867	29,867	29,867
Minority interest	10,842	10,927	11,984	11,984	11,984
Total equity	389,812	431,001	561,568	598,238	640,059

Asset quality					
NPL ratio	1.71%	1.76%	1.77%	1.75%	1.69%
Provision coverage	156%	134%	159%	176%	194%
Provision/ total loans	2.66%	2.36%	2.81%	3.09%	3.28%
Credit costs	1.22%	1.49%	2.07%	1.95%	1.88%
Capital adequacy					
CET-1 CAR	8.6%	8.9%	9.3%	9.1%	9.0%
Tier-1 CAR	8.9%	9.2%	9.8%	9.6%	9.4%
Total CAR	11.9%	11.8%	10.8%	10.5%	10.3%
Profitability					
NIM	1.50%	1.73%	1.87%	1.84%	1.87%
ROE	14.0%	12.8%	10.0%	10.1%	10.5%
ROA	0.84%	0.84%	0.66%	0.65%	0.68%
RoRWA	1.21%	1.11%	0.86%	0.84%	0.87%
Per share					
EPS (RMB)	1.35	1.24	1.06	1.15	1.29
DPS (RMB)	0.21	0.35	0.32	0.35	0.39
BVPS (RMB)	10.12	9.37	10.96	11.79	12.75

Source: Company data, CMBIS estimates

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