

# China Banking Sector

## Assessing 2019-nCoV's impact (II) – Delay in compliance of Asset Management Rule?

Given mounting economic downside and authorities' policy reaction post nCoV outbreak, we see rising probability for further extension in transition period of the Asset Management Rule. If confirmed, it would greatly ease China banks' regulatory pressure and give a boost to earnings growth, thereby supporting a valuation recovery.

- Slower-than-expected WM business transformation.** Two key purposes of the Asset Management Rule are: 1) removing implicit guarantee on WMP's return through issuance of net-worth product, and 2) reducing liquidity risks through restriction on non-standard asset investment and maturity mismatch. From 2017 to 1H19, banking sector saw a muted growth in WMP balance, of which non-principal guaranteed products amounted to RMB 22.18tn as of 1H19 (vs RMB 22.04tn as of 2018 and RMB 22.17tn as of 2017). However, the proportion of net-worth products was merely 35.6% as of 1H19 (vs 27% as of 2018 and 15% as of 2017). We forecast the ratio to reach 70% at most by end-2020.
- Deadline for compliance is likely to be postponed again.** The transition period of Asset Management Rule was originally set for 19 months (till Jun 2019) in PBoC's consultation paper in Nov 2017. It was subsequently extended to end-2020 in finalized regulation in Apr 2018. Given still large asset scale and relatively long maturity, authorities recently suggested some flexibility in compliance, should certain banks fail to meet target before the deadline. However, considering increased macro downside pressure due to nCoV, we believe a sector-wide extension in transition period is very likely. Detailed plan might be announced soon, according to CBIRC official's reply to media inquiries during State Council's press conference on 7 Feb.
- Potential boost to banks' non-interest income.** After continued business reshape in past years, WM fee only accounted for 2-3% of 1H19 revenue for banks under our coverage. However, some banks began to observe a bottoming-out trend in recent quarters. The kick-off in operation of WM subsidiary will also underpin the recovery of fee income going forward. Our sensitivity analysis suggested: 1) 1.2%/1.7% FY20/21E earnings upside from 20%/10% growth in WM fee in the next two years, assuming transition period of the Asset Management Rule is extended by one year to end-2021; 2) 1.8%/3.1% FY20/21E earnings upside from 30%/20% growth in WM fee, should transition period is deferred to end-2022.
- Maintain Outperform.** A/H-share China banks currently trade at attractive FY20E P/B of 0.75x/0.65x. We believe marginal easing in the Asset Management Rule, as part of the countercyclical measures post nCoV, would notably reduce banks' difficulty in transforming existing business, therefore boosting market sentiment towards the sector. Reiterate BUY on **PAB (000001 CH)** for above-peers retail exposure. We also like **CEB (6818 HK)** given its first-mover advantage in WM subsidiary among joint-stock banks.

**OUTPERFORM**  
(Maintain)

### China Banking Sector

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



Source: Bloomberg, CMBIS

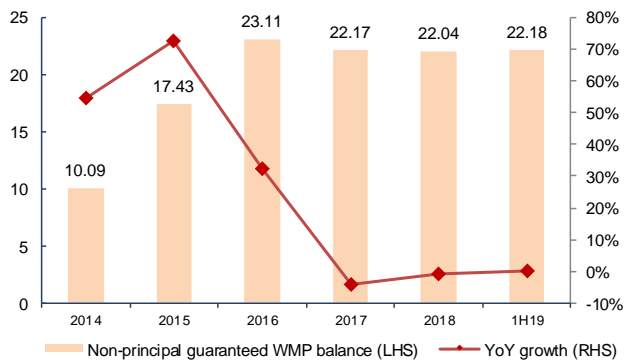
#### Historical P/B of A-share China banks



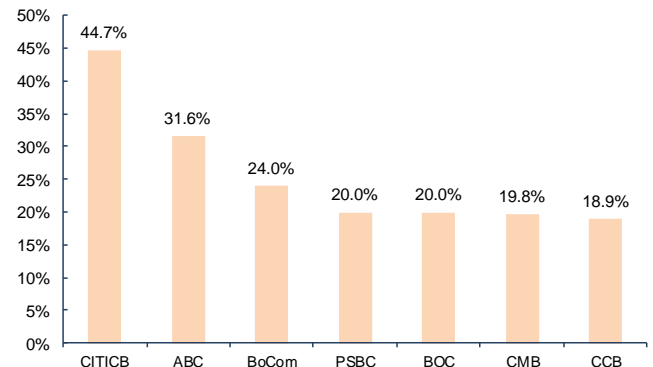
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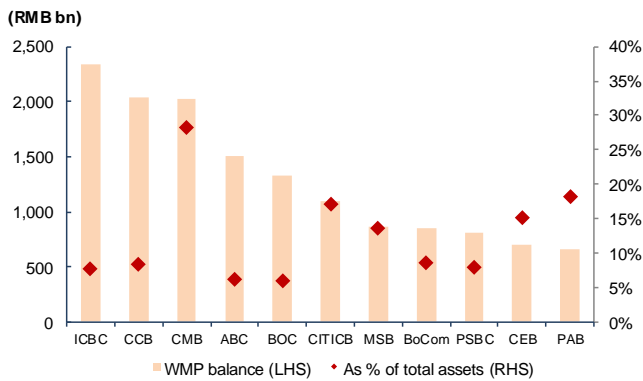
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**Figure 1: Banking sector's outstanding WMP**

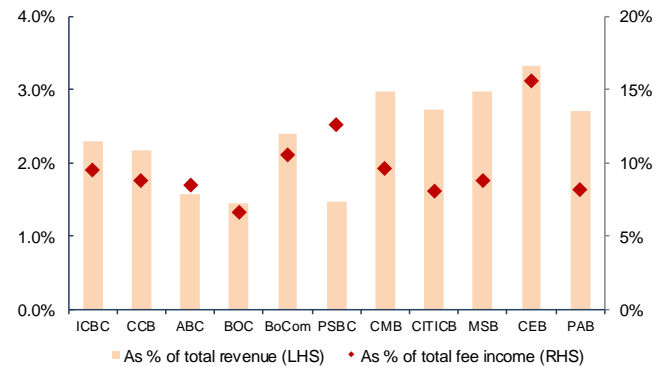
Source: China Wealth, CMBIS

**Figure 2: Individual banks' proportion of net-worth WMP**

Source: China Wealth, CMBIS

**Figure 3: Individual banks' WMP balance (1H19)**

Source: Company data, CMBIS

**Figure 4: Contribution of wealth management fee (1H19)**

Source: Company data, CMBIS

**Figure 5: Earnings sensitivity to changes in wealth management fee growth**

Company	1H19 WM fee as % of total revenue	20%/10% growth of WM fee in FY20/FY21		30%/20% growth of WM fee in FY20/FY21	
		FY20E	FY21E	FY20E	FY21E
ICBC	2.3%	0.9%	1.4%	1.4%	2.5%
CCB	2.2%	0.9%	1.3%	1.3%	2.4%
ABC	1.6%	0.7%	1.1%	1.1%	1.9%
BOC	1.4%	0.7%	1.0%	1.0%	1.7%
BoCom	2.4%	1.1%	1.7%	1.7%	2.9%
CITICB	2.7%	1.6%	2.3%	2.4%	4.0%
MSB	3.0%	1.5%	2.3%	2.3%	4.0%
CEB	3.3%	1.8%	2.6%	2.7%	4.5%
PAB	2.7%	1.7%	2.4%	2.6%	4.2%
Average	2.4%	1.2%	1.7%	1.8%	3.1%

Source: Company data, CMBIS

**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	5.42	7.50	BUY	0.70	0.64	5.6	5.3	5.4%	5.7%	13.1%	12.6%
CCB	939 HK	6.28	9.10	BUY	0.68	0.62	5.3	5.0	5.7%	6.0%	13.3%	12.8%
ABC	1288 HK	3.05	4.70	BUY	0.55	0.51	4.6	4.3	6.7%	7.1%	12.6%	12.2%
BOC	3988 HK	3.12	4.60	BUY	0.50	0.46	4.5	4.3	6.9%	7.2%	11.5%	11.1%
CITICB	998 HK	4.20	5.90	BUY	0.42	0.39	3.9	3.5	7.0%	7.7%	11.4%	11.6%
CEB	6818 HK	3.31	4.90	BUY	0.49	0.45	4.3	3.9	6.1%	6.7%	12.0%	12.1%
BoCom	3328 HK	5.05	6.20	HOLD	0.49	0.45	4.5	4.3	6.9%	7.3%	11.3%	11.0%
MSB	1988 HK	5.47	6.30	HOLD	0.48	0.44	4.1	3.8	7.5%	8.0%	12.3%	12.0%
PSBC	1658 HK	5.05	-	NR	0.78	0.71	6.4	5.8	4.6%	5.2%	12.3%	12.4%
CMB	3968 HK	38.40	-	NR	1.49	1.33	9.6	8.5	3.1%	3.5%	16.6%	16.5%
Average					0.71	0.65	5.6	5.2	5.7%	6.1%	13.0%	12.7%
A-share												
ICBC	601398 CH	5.42	7.80	BUY	0.78	0.71	6.3	5.9	4.9%	5.1%	13.1%	12.6%
CCB	601939 CH	6.62	9.40	BUY	0.79	0.72	6.3	5.9	4.9%	5.1%	13.3%	12.8%
ABC	601288 CH	3.39	5.10	BUY	0.68	0.63	5.7	5.4	5.4%	5.7%	12.6%	12.2%
BOC	601988 CH	3.50	5.00	BUY	0.63	0.58	5.7	5.4	5.5%	5.8%	11.5%	11.1%
CITICB	601998 CH	5.54	7.30	BUY	0.62	0.57	5.7	5.1	4.7%	5.2%	11.4%	11.6%
CEB	601818 CH	3.78	5.60	BUY	0.63	0.57	5.5	5.0	4.8%	5.3%	12.0%	12.1%
PAB	000001 CH	14.50	21.30	BUY	1.03	0.92	9.7	8.0	1.0%	1.3%	11.7%	12.1%
BoCom	601328 CH	5.23	6.50	HOLD	0.56	0.52	5.2	4.9	6.0%	6.3%	11.3%	11.0%
MSB	600016 CH	5.86	7.00	HOLD	0.57	0.52	4.9	4.6	6.3%	6.7%	12.3%	12.0%
PSBC	601658 CH	5.51	-	NR	0.96	0.87	7.7	6.8	3.8%	4.4%	12.9%	13.5%
CMB	600036 CH	35.10	-	NR	1.51	1.35	9.7	8.5	3.1%	3.5%	16.5%	16.6%
Average					0.82	0.75	6.6	6.0	4.7%	5.0%	13.0%	12.7%

Source: Bloomberg, CMBIS estimates

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