

China Banking Sector

4Q21 Quarterly Review

In 4Q21, sector fundamental improved but city banks showed a weak trend on asset quality and provisioning. On sector perspective, we think sector asset quality and NIM will remain stable in FY22E. SOE banks will perform better on fundamental improvement. Maintain overweight on banking sector, and our top pick is PSBC (1658 HK) with a target price of HK\$7.70.

- In terms of NPL, sector NPL balance reached RMB 2.85tn at the end of 2021. NPL balance of city banks grew 20.3% YoY, while sector NPL change was only 5.4% YoY. In 4Q21, NPL ratio of SOEs and JSBs were both 1.37%, improved 6 bps and 3 bps QoQ respectively. Meanwhile, NPL ratio of city banks and rural commercial banks deteriorated 8 bps and 5 bps to 1.90% and 3.64% respectively. On year on year basis, NPL ratio of SOEs, JSBs, and rural commercial banks improved 15 bps, 13 bps and 24 bps, but city banks NPL ratio deteriorated 9 bps. At the end of 2021, special mention loan ratio was 2.31%, declined 2 bps QoQ and 26 bps YoY. Since SML ratio is a significant forward indicator on asset quality, in our view, asset quality will remain stable in 2022.
- On risk control perspective, SOEs holds more provision than other banks. To prepare for headwind, national banks maintain a higher provision coverage ratio than regional banks. At the end of 2021, provision coverage ratio of SOEs, JSBs, city banks and rural commercial banks were 239%, 206%, 189% and 129%, changed 24 pps, 9 pps, -1 pps and 7 pps YoY. In 4Q21, provision coverage of SOEs increased 6 pps QoQ while other banks lowered their provision coverage ratio.
- Slowing down property loan growth is dragged by weak development loan growth. At the end of FY21, outstanding balance of property loan was RMB 52.17tn, +7.9% YoY (+7.6% YoY in 3Q21 and 11.6% YoY in FY20). Balance of mortgage was RMB 38.32tn, +11.3% YoY (11.3% YoY in 3Q21 and 14.5% YoY in FY20). Development loan growth was mute, only increased 0.9% YoY (+6.1% YoY in FY20).
- **Valuation/Key risks.** Maintain OVERWEIGHT on banking sector and BUY on PSBC (1658 HK) as our top pick with a target price of HK\$7.70. Our TP implies 0.92x 2021E and 0.85x 2022E P/B. During last three years, PSBC (H) was trading at 0.72x FY22E P/B, while currently it is trading at 0.73x P/B, almost equivalent to historical mean (0.72x P/B).

Valuation Table

Name	Ticker	Mkt Cap	Rating	Closing price	TP (LC)	Upside	P/E	P/B	Yield
PSBC	1658 HK	622	BUY	6.55	7.70	18%	5.7	0.7	5.3%
CCB	939 HK	1,509	BUY	5.94	6.10	20%	4.0	0.4	7.6%
SPDB	600000 CH	253	HOLD	8.58	9.34	9%	4.4	0.4	6.2%
BOSH	601229 CH	103	BUY	7.16	9.04	26%	4.1	0.5	6.9%
CQRC	3618 HK	33	HOLD	2.97	2.80	-6%	2.6	0.2	11.4%
BOCS	601577 CH	34	HOLD	8.17	8.32	2%	4.1	0.6	6.1%

Source: CMBIS estimates based on 2022E earnings. Closing price @ 22 Feb, Mkt cap (LC bn)

OUTPERFORM
(Maintain)

China Banking Sector

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Stock coverage

Ticker	Rating	TP (LC)	Upside
1658 HK	BUY	7.7	18%
939 HK	BUY	7.1	20%
600000 CH	HOLD	9.34	9%
601229 CH	BUY	9.04	26%
3618 HK	HOLD	2.8	-6%
601577 CH	HOLD	8.32	2%
601658 SH	BUY	7.07	24%
601939 SH	BUY	7.5	21%
601077 SH	HOLD	3.6	-10%

Source: CMBIS estimates

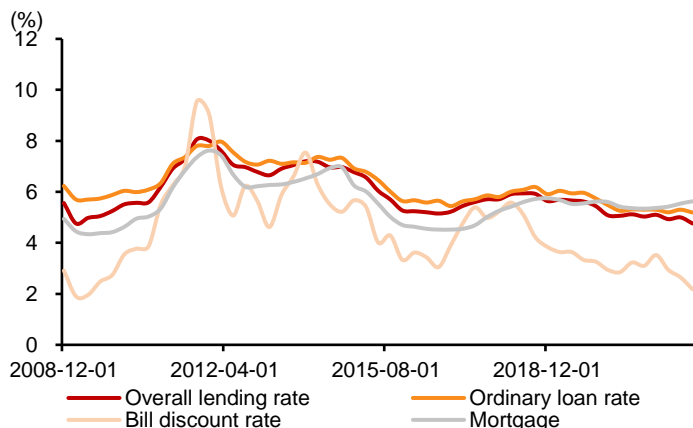
Recent Reports:

1. China Banking Sector – Implications of 5 bps cut on 1-yr LPR – 21 Dec 2021 ([link](#))
2. China Banking – Looking for the safe harbour – 9 Dec 2021 ([link](#))

- In terms of support real economy, SME loan grew 26.3% YoY to RMB 190.75tn and yield of SME loan remains low. Because of regulators' requirement and low interest rate, market lending rate continued to decline in 4Q21. At the end of 2021, overall market lending rate and ordinary loan rate were 4.76% and 5.19%, dropped 27 bps YoY and 11 bps YoY, respectively. Corporate loan yield remained at a low level of 4.57% while mortgage rate rebounded 29 bps YoY and 9 bps QoQ, respectively. To minimize the negatives impacts from declining lending rate, banks are lifting their Loan to Deposit ratio (LDR) to optimize their asset structure. Sector LDR increased 288 bps to 79.69% in 2021.
- On profitability perspective, weak performance in 2021. Non-interest income contributed 19.8% of revenue in 2021, down 120 bps YoY. Cost to income ratio was 32.08%, up 90 bps YoY. Sector profit achieved double-digit growth in 2021 because of low base in FY21 (big provision taken in FY21). Compared to the period before pandemic, sector ROA in dropped 8 bps from 0.87% in FY19 to 0.79% in FY21. ROA of SOEs, JSBs, city banks and rural commercial banks dropped 2 bps, 8 bps, 14 bps and 22 bps from 2019 to 2021. In terms of NIM, 4Q21 sector NIM was 2.08%, compressed 2 bps YoY but expanded 1 bps QoQ. In 4Q21, JSBs continued to suffer on NIM compression while other banks experienced an NIM expansion on quarterly basis.

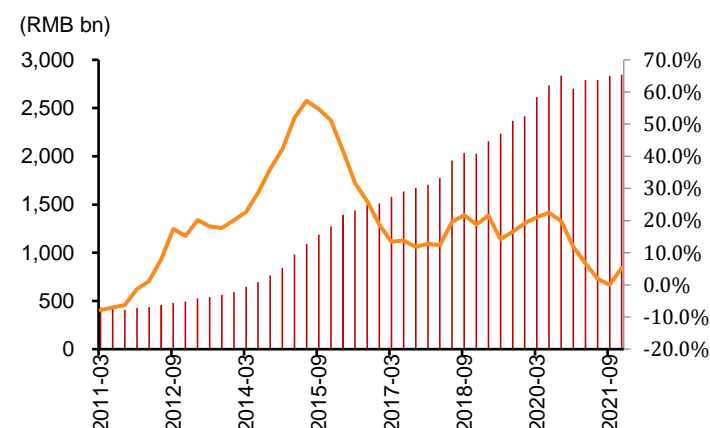
Focus Charts

Figure 1: Market lending rate



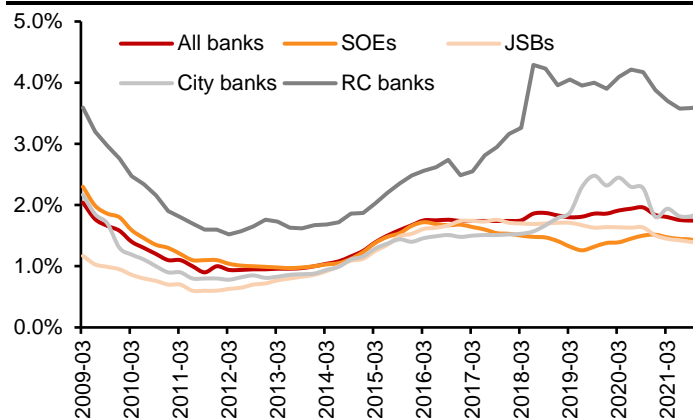
Source: Company data, CMBIS estimates

Figure 2: Sector NPL balance and growth



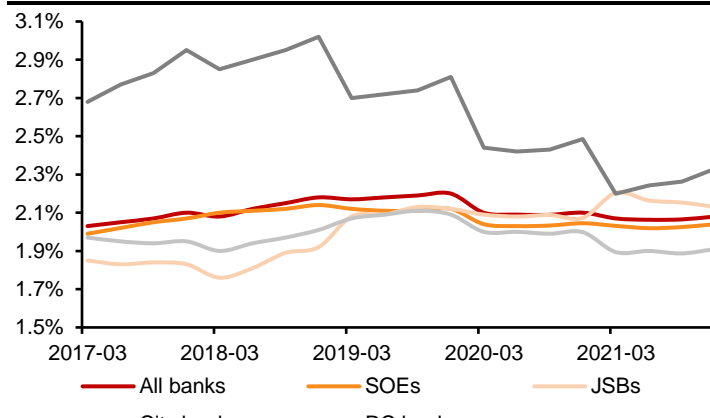
Source: Company data, CMBIS estimates

Figure 3: Sub-sector NPL ratio



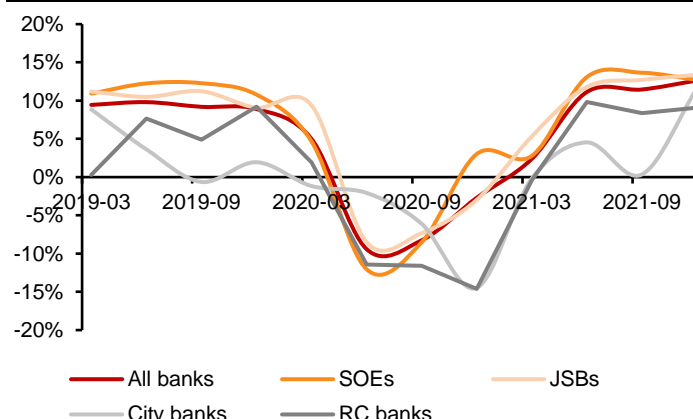
Source: Company data, CMBIS estimates

Figure 4: Sub-sector NIM



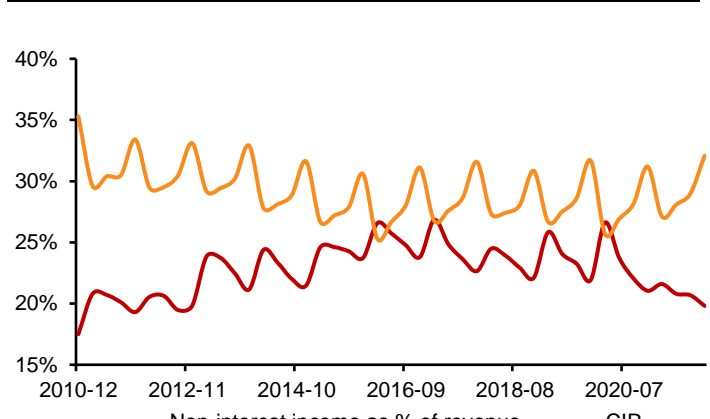
Source: Company data, CMBIS estimates

Figure 5: Sub-sector earnings growth



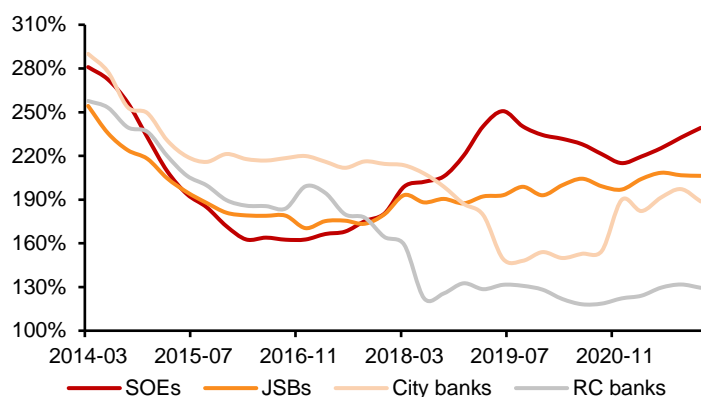
Source: Company data, CMBIS estimates

Figure 6: CIR and non-interest income as % of revenue



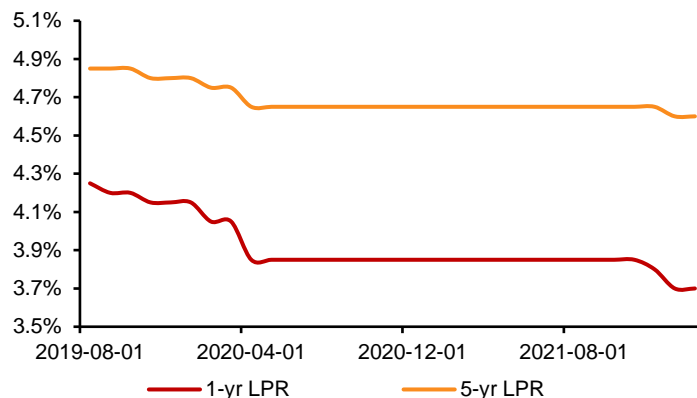
Source: Company data, CMBIS estimates

Figure 7: Sub sector provision coverage ratio changes



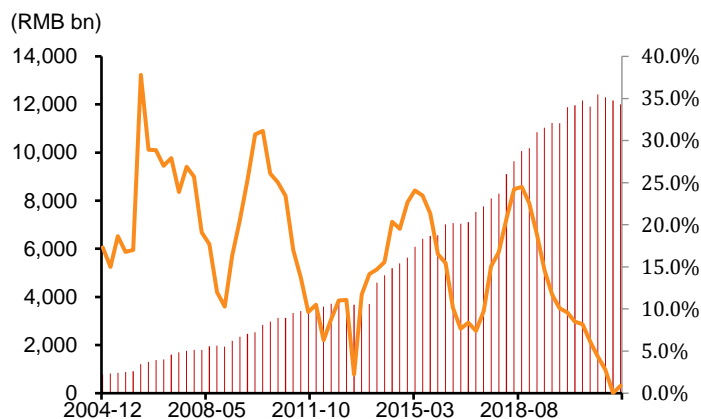
Source: Company data, CMBIS estimates

Figure 8: Loan Prime Rate (LPR) changes



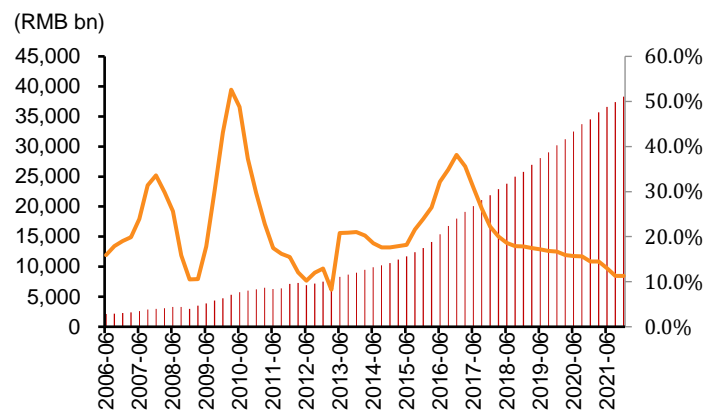
Source: Company data, CMBIS estimates

Figure 9: Development loan balance and growth



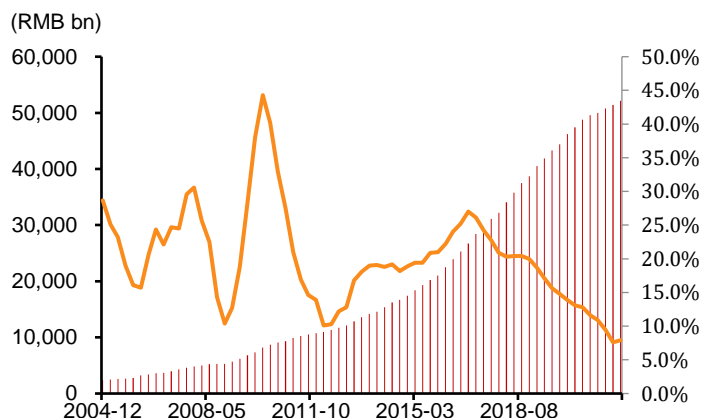
Source: Company data, CMBIS estimates

Figure 10: Mortgage balance and growth



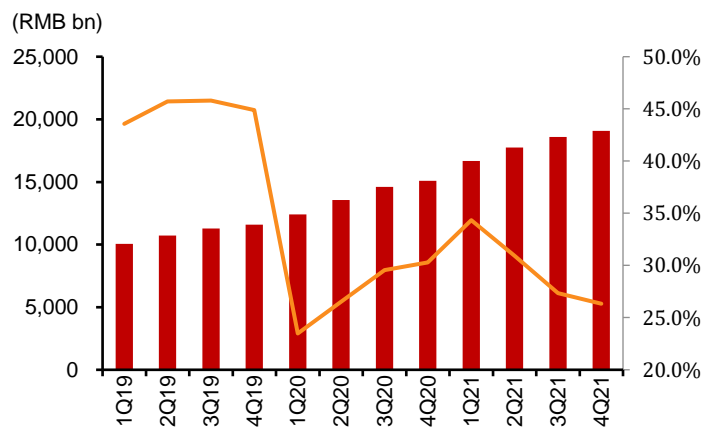
Source: Company data, CMBIS estimates

Figure 11: All property loan changes



Source: Company data, CMBIS estimates

Figure 12: Sector SME loan balance changes



Source: Company data, CMBIS estimates

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