

China Banking Sector

Credit data missed expectation in Oct

Both new TSF and bank loans fell short of estimates in Oct, mainly on YoY decline in special purpose bond, short-term personal loans, and bill financing. That said, we see continued improvement in loan mix and expect further policy easing to support credit growth. **Maintain Outperform with CEB and CITICB as top picks.**

- Oct's new TSF and bank loans declined** by 16.1% and 5.1% YoY to RMB 619bn and RMB 661bn respectively, both below consensus forecast. The YoY growth in TSF and loan balance each slid 0.1ppt MoM to 10.7% and 12.4% accordingly. Apart from the National Day's seasonal impact, it was also due to banks' front-loading of new loans therefore slower lending pace in 4Q. In particular, there were three factors holding back Oct's credit growth, including: 1) RMB 107bn YoY decrease in special purpose LG bond issuance; 2) RMB 128bn YoY drop in new short-term personal loans; and 3) RMB 85bn YoY retreat in bill financing.
- Loan structure is improving.** Despite lower-than-expected total new loans, it is encouraging to see YoY increase in mid-to-long term corporate loan growth for three consecutive months (+25%/+44%/+55% in Aug/Sep/Oct), suggesting possible recovery in corporate credit demand.
- Expect more policy easing to stabilize growth.** As the State Council has decided to allocate in advance next years' special purpose LG bond quota, and the NDRC has called for a speed-up in project registration, we believe kicking off issuance in 4Q19 is highly likely. Meanwhile, the latest MLF rate cut signaled further LPR cut on the way to lower financing cost for the real economy, but authorities would take necessary steps to reduce banks' funding cost as well. PBOC's targeted RRR cut and CBIRC's scrutiny on structured deposits would also help to ease NIM pressure for banks.
- Maintain Outperform.** A/H-share China banks are trading at undemanding 0.86x/0.73x FY19E P/B with 4.3%/5.5% dividend yield. We continue to prefer mid-sized JSBs with higher proportion of retail loans and wholesale funding. **Our sector top picks are CEB (6818 HK) and CITICB (998 HK)**, as their double-digit earnings growth will result in a bottoming-up ROE, which could narrow existing valuation discount to peers.

Valuation Table

Name	Ticker	Price (Local ccy)	TP (Local ccy)	Rating	P/B (x) FY19E	P/E (x) FY19E	Yield FY19E	ROE FY19E
ICBC	1398 HK	5.69	7.50	BUY	0.74	5.9	5.2%	13.1%
CCB	939 HK	6.27	9.10	BUY	0.67	5.3	5.8%	13.4%
ABC	1288 HK	3.23	4.70	BUY	0.58	4.8	6.3%	12.6%
BOC	3988 HK	3.23	4.60	BUY	0.52	4.7	6.6%	11.5%
CITICB	998 HK	4.62	5.90	BUY	0.46	4.4	6.1%	10.9%
CEB	6818 HK	3.65	4.90	BUY	0.55	5.0	5.3%	11.5%
BoCom	3328 HK	5.34	6.20	HOLD	0.51	4.8	6.5%	11.3%
MSB	1988 HK	5.51	6.30	HOLD	0.48	4.2	7.3%	12.1%
PAB	00001 CH	16.28	21.20	BUY	1.15	10.7	0.9%	11.9%

Source: Bloomberg, CMBIS estimates

OUTPERFORM
(Maintain)

China Banking Sector

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PBoC monthly data summary

Key data (RMB bn)	Oct -19	Sep -19	Oct -18
New TSF	619	2,273	737
YoY (%)	-16.1	6.5	-39.6
New loans	661	1,691	697
YoY (%)	-5.1	22.2	5.1
M1 YoY (%)	3.3	3.4	2.7
M2 YoY (%)	8.4	8.4	8.0

Source: PBoC, CMBIS

Historical P/B of H-share China banks

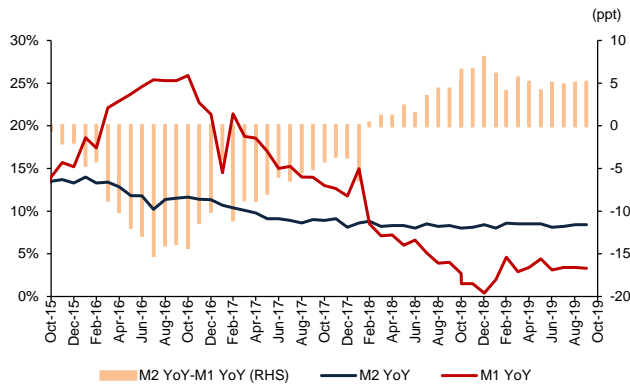


Source: Bloomberg, CMBIS

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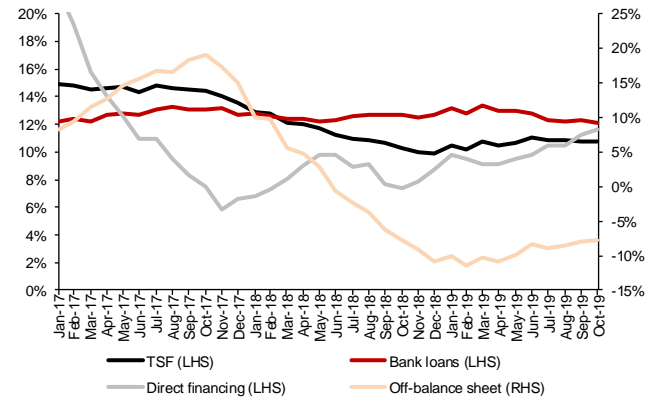
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Figure 1: M1 and M2 growth



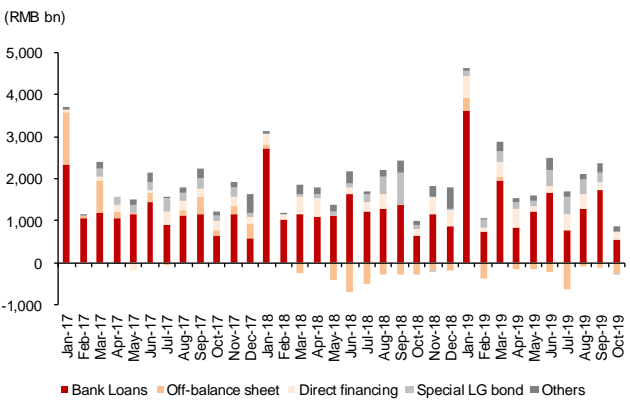
Source: PBoC, CMBIS

Figure 2: YoY growth in TSF components



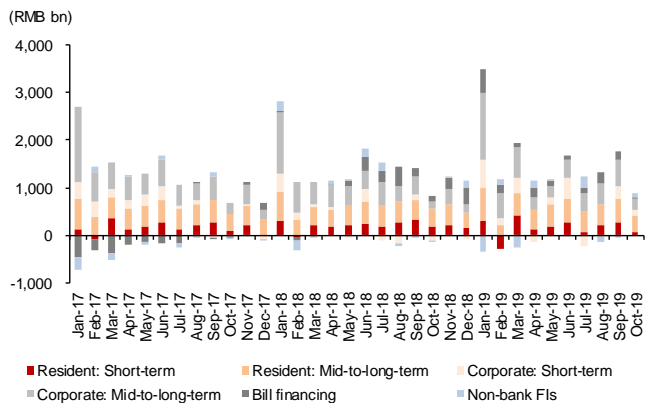
Source: PBoC, CMBIS. Note: Data restated.

Figure 3: New TSF breakdown



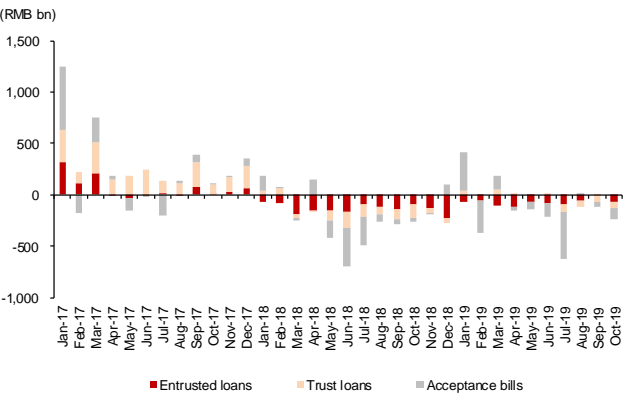
Source: PBoC, CMBIS. Note: Data restated.

Figure 4: New loan breakdown



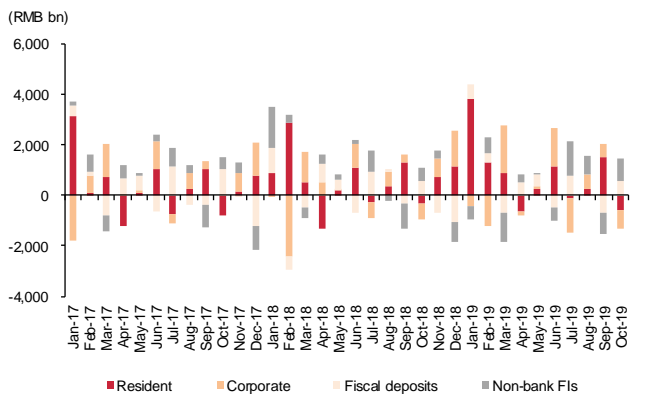
Source: PBoC, CMBIS

Figure 5: Off-balance sheet financing breakdown



Source: PBoC, CMBIS

Figure 6: New deposit breakdown



Source: PBoC, CMBIS

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