

China Banking Sector

Proactive provisioning to beef up FY20E earnings

16 A/H-listed China banks have announced preliminary FY19 results so far. Overall earnings and asset quality trends stayed healthy. Prudent impairment charge in 4Q19 offers potential to reduce credit cost and stabilize profit growth ahead. Considering improving policy and credit environment for big banks in 2020, **we add CCB (939 HK) to our sector top picks.**

- **Milder 4Q19 earnings pace on rising provision.** Average FY19 revenue growth for the six joint-stock banks remained solid at 17.3% YoY. Full-year net profit growth moderated to 10.3% YoY from 12.2% YoY in 9M19, suggesting heavy impairment charges in 4Q19. However, NPL ratio declined for most banks (-6bp YoY on average), except a 13bp YoY rise for SPDB (600000 CH). CMB (3968 HK) and CEB (6818 HK) reported ROE expansion of 0.27ppt and 0.22ppt YoY, respectively.
- **Credit cost may be the swing factor for FY20 earnings.** We forecast 20bp LPR cut in 2020, along with measures to lower banks' funding cost, such as cut in RRR and MLF rate. NIM would further narrow and weaken topline growth, although overall impact is manageable, in our view. As such, banks having stringent loan classification and above-peers provision coverage will be able to reduce credit cost to stabilize earnings.
- **Improving outlook for big banks.** We see less policy intervention for the sector this year, as evidenced by lower regulatory target for MSE lending (20% loan growth and 0.5ppt decline in financing cost for 2020, vs 30% loan growth and 1.0ppt decline in financing cost for 2019). The unchanged LPR quotation in Jan indicates more market-oriented mechanism with less window guidance. Meanwhile, corporate credit demand is set to recover on supportive policy for infrastructure and manufacturing sectors, benefiting SOE banks with strong corporate client base. Stable payout and higher dividend yield also increase the attractiveness of big banks.
- **Maintain Outperform.** A/H-share China banks are trading at 0.80x/0.68x FY20E P/B with 4.7%/5.8% dividend yield. We still prefer retailed-focused banks due to their superior growth potential and lower cyclicality to economic downturn. **PAB (000001 CH) and CEB remain as our sector top picks. We also like CCB** among big bank space, given higher mortgage exposure hence less susceptible to LPR cut.

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	5.69	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	000001 CH	16.28	21.20	BUY	1.15	10.7	0.9%	11.9%

Source: Bloomberg, CMBIS estimates

OUTPERFORM
(Maintain)

China Banking Sector

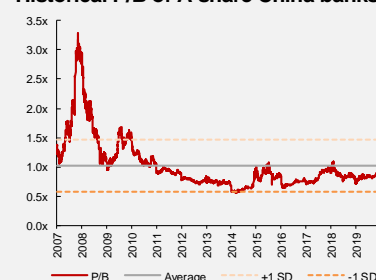
Terry Sun, CFA
 (852) 3900 0836
 terrysun@cmbi.com.hk

Historical P/B of H-share China banks



Source: Bloomberg, CMBIS

Historical P/B of A-share China banks



Source: Bloomberg, CMBIS

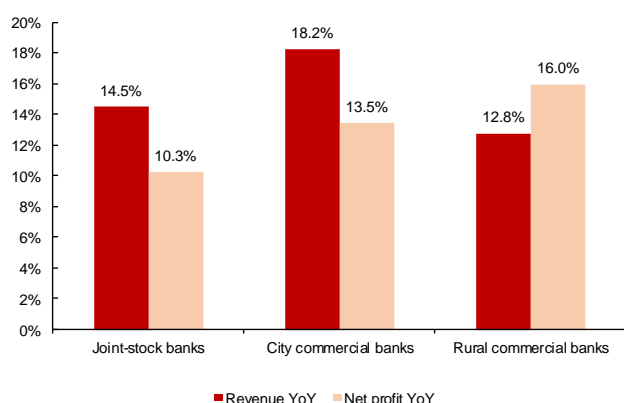
Related Reports

1. 3Q19 results wrap – JSBs lead earnings recovery – 31 Oct 2019
2. Looking for a promising 4Q19 – 16 Oct 2019
3. Downside pressure in TSF persists – 12 Sep 2019
4. 2Q19 results wrap – Lower credit cost offset falling margin – 2 Sep 2019
5. LPR reform within expectation; Earnings impact limited – 19 Aug 2019

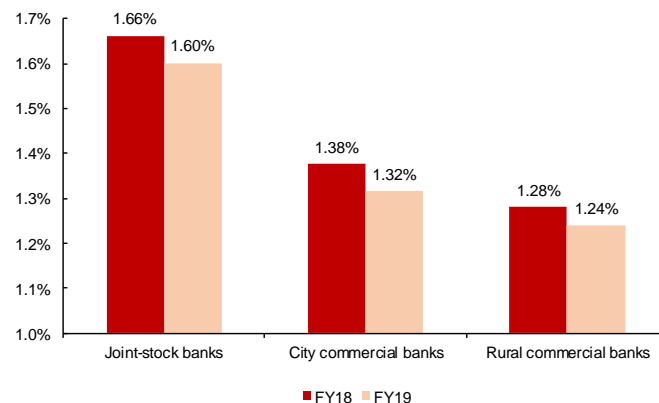
Figure 1: China banks' preliminary FY19 results

Company	Ticker	Revenue (RMB mn)	YoY	Net profit (RMB mn)	YoY	Assets (RMB mn)	YoY	NPL ratio	YoY	ROE	YoY
Nationwide joint-stock banks											
CMB	3968 HK / 600036 CH	269,750	8.5%	92,867	15.3%	7,417,124	10.0%	1.16%	-20bp	16.8%	+0.27ppt
CITICB	998 HK / 601998 CH	187,584	13.8%	48,015	7.9%	6,748,108	11.2%	1.65%	-12bp	11.1%	-0.32ppt
CEB	6818 HK / 601818 CH	132,812	20.5%	37,354	11.0%	4,733,429	8.6%	1.56%	-3bp	11.8%	+0.22ppt
PAB	000001 CH	137,958	18.2%	28,195	13.6%	3,939,070	15.2%	1.65%	-10bp	11.3%	-0.19ppt
INDB	601166 CH	181,319	14.6%	65,868	8.7%	7,143,697	6.4%	1.54%	-3bp	14.0%	-0.25ppt
SPDB	600000 CH	190,688	11.6%	58,911	5.4%	7,004,796	11.4%	2.05%	+13bp	12.3%	-0.84ppt
Average			14.5%		10.3%		10.5%		1.60%		-6bp
City commercial banks											
Bank of Changsha	601577 CH	17,017	22.1%	5,080	13.4%	601,998	14.3%	1.22%	-7bp	15.6%	-1.3ppt
Bank of Chengdu	601838 CH	12,731	9.8%	5,551	19.4%	558,075	13.4%	1.43%	-11bp	16.6%	+0.6ppt
Bank of Jiangsu	600919 CH	44,974	27.7%	14,619	11.9%	2,065,058	7.2%	1.38%	-1bp	12.7%	+0.22ppt
Bank of Shanghai	601229 CH	49,800	13.5%	20,298	12.6%	2,237,082	10.3%	1.16%	+2bp	12.9%	+0.27ppt
Bank of Suzhou	002966 CH	9,425	21.8%	2,473	10.3%	343,410	10.4%	1.53%	-15bp	9.9%	-0.23ppt
Bank of Xi'an	600928 CH	6,845	14.5%	2,675	13.3%	278,283	14.3%	1.18%	-2bp	11.9%	-0.67ppt
Average			18.2%		13.5%		11.7%		1.32%		-6bp
Rural commercial banks											
Changshu Rural Commercial Bank	601128 CH	6,453	10.8%	1,793	20.7%	184,495	10.7%	0.96%	-3bp	11.7%	-0.91ppt
Qingdao Rural Commercial Bank	002958 CH	8,732	17.0%	2,825	16.8%	341,667	16.2%	1.46%	-11bp	12.4%	-0.47ppt
Suzhou Rural Commercial Bank	603323 CH	3,518	11.7%	906	12.9%	125,646	7.6%	1.33%	+2bp	8.5%	-0.61ppt
Wuxi Rural Commercial Bank	600908 CH	3,563	11.6%	1,245	13.6%	161,879	4.9%	1.21%	-3bp	11.2%	+0.51ppt
Average			12.8%		16.0%		9.8%		1.24%		-4bp

Source: Company data, CMBIS

Figure 2: Average revenue & net profit growth

Source: Company data, CMBIS

Figure 3: Average NPL ratio change

Source: Company data, CMBIS

Figure 4: China banks' FY19 results calendar

Company	Ticker	Tentative results date	Announced prelim earnings
PAB	000001 CH	13-Feb-2020	Yes
CITICB	998 HK / 601998 CH	18-Mar-2020	Yes
CMB	3968 HK / 600036 CH	20-Mar-2020	Yes
CEB	6818 HK / 601818 CH	24-Mar-2020	Yes
PSBC	1658 HK / 601658 CH	25-Mar-2020	No
ABC	1288 HK / 601288 CH	26-Mar-2020	No
ICBC	1398 HK / 601398 CH	27-Mar-2020	No
CCB	939 HK / 601939 CH	27-Mar-2020	No
BOC	3988 HK / 601988 CH	27-Mar-2020	No
BoCom	3328 HK / 601328 CH	27-Mar-2020	No
MSB	1988 HK / 600016 CH	30-Mar-2020	No
HXB	600015 CH	16-Apr-2020	No
SPDB	600000 CH	27-Apr-2020	Yes
INDB	601166 CH	27-Apr-2020	Yes

Source: Company data, CMBIS

Figure 5: Valuation summary

Company	Ticker	Last Price	TP	Rating	P/B (x)		P/E (x)		Yield		ROE	
		(HK\$)	(HK\$)		2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
H-share												
ICBC	1398 HK	5.70	7.50	BUY	0.74	0.67	5.9	5.6	5.2%	5.4%	13.1%	12.6%
CCB	939 HK	6.51	9.10	BUY	0.70	0.64	5.5	5.2	5.5%	5.8%	13.3%	12.8%
ABC	1288 HK	3.26	4.70	BUY	0.59	0.54	4.9	4.6	6.3%	6.6%	12.6%	12.2%
BOC	3988 HK	3.25	4.60	BUY	0.52	0.48	4.7	4.5	6.6%	6.9%	11.5%	11.1%
CITICB	998 HK	4.50	5.90	BUY	0.45	0.41	4.1	3.7	6.5%	7.2%	11.4%	11.5%
CEB	6818 HK	3.62	4.90	BUY	0.54	0.49	4.7	4.3	5.5%	6.1%	12.0%	12.1%
BoCom	3328 HK	5.35	6.20	HOLD	0.52	0.48	4.8	4.5	6.5%	6.9%	11.3%	11.0%
MSB	1988 HK	5.89	6.30	HOLD	0.52	0.47	4.4	4.1	6.9%	7.4%	12.3%	12.0%
PSBC	1658 HK	5.16	-	NR	0.78	0.71	6.5	5.8	4.6%	5.1%	12.4%	12.5%
CMB	3968 HK	40.45	-	NR	1.55	1.38	10.0	8.8	3.0%	3.4%	17.0%	16.6%
Average					0.75	0.68	5.9	5.4	5.4%	5.8%	13.1%	12.7%
A-share												
ICBC	601398 CH	5.79	7.80	BUY	0.83	0.76	6.7	6.3	4.6%	4.8%	13.1%	12.6%
CCB	601939 CH	7.05	9.40	BUY	0.85	0.77	6.7	6.3	4.6%	4.8%	13.3%	12.8%
ABC	601288 CH	3.57	5.10	BUY	0.72	0.66	6.0	5.6	5.1%	5.4%	12.6%	12.2%
BOC	601988 CH	3.64	5.00	BUY	0.65	0.60	5.9	5.6	5.3%	5.5%	11.5%	11.1%
CITICB	601998 CH	5.92	7.30	BUY	0.66	0.61	6.1	5.5	4.4%	4.9%	11.4%	11.5%
CEB	601818 CH	4.17	5.60	BUY	0.69	0.63	6.1	5.5	4.3%	4.8%	12.0%	12.1%
PAB	000001 CH	16.09	21.20	BUY	1.14	1.02	10.8	8.9	0.9%	1.2%	11.7%	12.1%
BoCom	601328 CH	5.54	6.50	HOLD	0.60	0.55	5.5	5.2	5.6%	5.9%	11.3%	11.0%
MSB	600016 CH	6.26	7.00	HOLD	0.61	0.56	5.2	4.9	5.9%	6.2%	12.3%	12.0%
PSBC	601658 CH	5.71	-	NR	0.99	0.90	8.1	7.1	3.7%	4.2%	12.4%	12.5%
CMB	600036 CH	37.82	-	NR	1.64	1.45	10.5	9.2	2.9%	3.3%	17.0%	16.6%
Average					0.88	0.80	7.0	6.5	4.4%	4.7%	13.0%	12.7%

Source: Bloomberg, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.