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CMB International Securities | Equity Research | Sector Initiation

China Banking Sector

Looking for the safe harbor

OUTPERFORM
(Initiation)

China Banking Sector

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Asset quality should come under pressure due to economic downturn and increasing default rate on property-related investment. Banks' balance sheet may be affected but it is unlikely to see major systemic turbulence since banks have sufficient capital to protect themselves. Concern on asset quality is the key factor that caps sector valuation. Although NIM and loan growth are expected to remain weak in 2022, it should be largely priced in. As the sector is trading at a historical bottom (0.4x 22F/PB), we think some banks with strong balance sheet become attractive. Re-initiate coverage with OUTPERFORM and our top pick is Postal (1658 HK) with a target price of HK$7.20.

- **Weak economy and increasing default rate in property sector caps the sector valuation.** Increasing default rate on property sector may hurt banks' asset quality, but it will not cause a collapse in the system. Current macro data indicates weak economy, and a pessimistic outlook on the GDP growth in next year. However, as the sector is trading at 0.4x 22F/PB, we think the historical bottom valuation reflects all current negatives.
- **RRR cut will drive sector re-rating.** In our view, since PBOC's tone on property industry turns neutral, we think there is no policy risk ahead. As current core CPI is low, RRR cut will not cause a concern on inflation. In addition, we think the current historical low valuation has already reflected all the negatives unless a "default contagion" exists among property developers. In other words, we are at the policy bottom （政策底）, any positive policy about liquidity injection or easing the halter on property industry will lead to a sector re-rating. In our view, all changes on other fundamental factors such as NIM, loan growth, CAR, etc. are not the key drivers; valuation on banking in 2022 is determined by expectation on asset quality.
- **Valuation/Key risks**. On 6 Dec, Political Bureau of the Central Committee highlighted that "支持商品房市场更好满足购房者的合理住房需求，促进房地产业健康发展和良性循环". After the authority released signal to support rational demand in property industry, we think overhang on property industry is quite limited. In our view, without the concern on developers' default wave and supported by RRR cut, banks will re-rate in near term. Under our coverage, top pick is PSBC. CCB and BoSH can be good plays as well.
- Our top pick is PSBC (1658 HK), based on GGM. Target price is set at HK$7.20, implying 0.82x 2022F P/B, equivalent to +1SD of its 3-yr average. In addition, since PSBC has higher deposit to liability ratio than other banks, it is the key beneficiary under RRR cut in terms of fundamental change.

Valuation Table

Name	Ticker	Mkt Cap (LC bn)	Rating	Closing price (as of 7 Dec)	TP (LC)	Upside	P/E (FY22E)	P/B (FY22E)	Yield (FY22E)
PSBC	1658 HK	590	BUY	5.70	7.20	26%	4.9	0.63	6.0%
CCB	939 HK	1,351	BUY	5.33	6.33	19%	3.6	0.41	8.5%
SPDB	600000 CH	255	HOLD	8.68	9.34	8%	4.5	0.42	6.1%
BOSH	601299 CH	102	BUY	7.20	9.04	26%	4.2	0.51	6.9%
CQRCB	3618 HK	49	HOLD	2.73	2.80	3%	2.4	0.22	12.5%
BOCS	601577 CH	32	HOLD	7.86	8.32	6%	3.9	0.57	6.4%

Source: Company data, CMBIS estimates

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Investment Thesis

Overall asset quality is expected to remain stable

In 2022, due to weak economy and increasing default rate on property sector, we expect NPL balance will increase RMB 1,083bn more than 1H21, which will cause 2 bps increase on NPL ratio, from 1.76% in 1H21 to 1.78% at the end of 2022. Our assumption implies a projected overall NPL ratio of 1.77% in total loan (excluding property development loan) and 20 bps default rate increased on the property development loan (RMB 12.3tn in 1H21).

In 2022, we think rural commercial banks will have pressure on maintaining asset quality, while NPL ratio of SOEs, JSBs and city banks will remain stable. In terms of the cushion for headwind, we see an increasing provision coverage during last four quarters. Rural commercial banks are suffering from lacking provision, which will cap their long term expansion. Meanwhile, other types of banks maintain appropriate provision balance to cover the credit risk. Among all the SOEs, Postal has the most capacity to manage their NPL, all the three key asset quality indicators (NPL ratio, Allowance to NPL ratio and Allowance to loan ratio) are better than SOEs average at the end of 1H21. Among JSBs, three key asset quality indicators of CMB and CIB is better than JSBs average.

Since NPL criterion is a little bit subjective, we did an in-depth analysis on banks asset quality by using outstanding balance of more than 90 days overdue loan instead of NPL balance. Furthermore, we assume banks can fully collect its principle from collateralized default loan, so we only regard default loan without collateral as high risky assets. Among all the listed banks, we select nationwide banks (SOEs and JSBs) as the sample. Under the new criterion, based on our 5 key criterions on asset quality, PSBC and CMB beat their peers in SOE segment and JSB segment.

Figure 1: Asset quality insight (JSBs)

Bank	NPL ratio	Provision coverage	Allowance to loan	90D+Overdue without collateral/loan	Allowance/90D+Overdue without collateral
CMB	1.01%	439%	4.45%	0.51%	878%
CIB	1.15%	257%	2.95%	0.50%	591%
Citic	1.50%	189%	2.84%	0.46%	621%
CBHB	1.76%	161%	2.82%	0.88%	319%
PAB	1.08%	260%	2.80%	0.46%	610%
HXB	1.78%	157%	2.79%	1.00%	279%
CZB	1.50%	180%	2.71%	0.90%	302%
CMBC	1.80%	143%	2.57%	0.71%	361%
CEB	1.36%	184%	2.51%	0.64%	390%
SPDB	1.64%	151%	2.48%	0.79%	313%
Avg	1.46%	212%	2.89%	0.68%	466%

Source: Company data, CMBIS

Figure 2: Asset quality insight (SOEs)

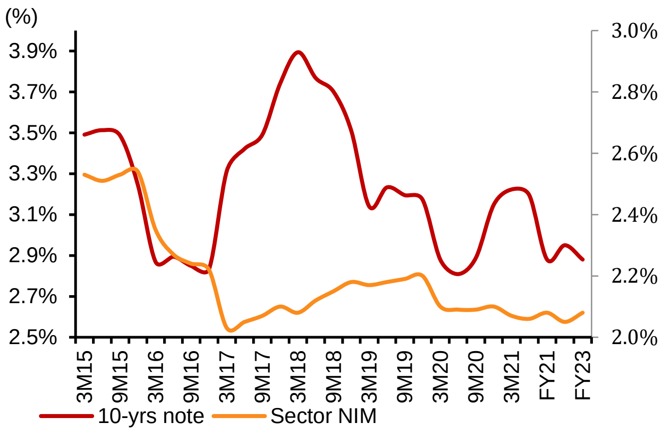
Bank	NPL ratio	Provision coverage	Allowance to loan	90D+Overdue without collateral/loan	Allowance/90D+Overdue without collateral
ABC	1.50%	275%	4.12%	0.25%	1661%
BoComm	1.60%	149%	2.39%	0.58%	413%
ICBC	1.54%	192%	2.96%	0.55%	538%
CCB	1.53%	222%	3.41%	0.48%	706%
PSBC	0.83%	421%	3.49%	0.22%	1552%
BOC	1.30%	184%	2.74%	-	-
Avg	1.38%	241%	3.19%	0.42%	974%

Source: Company data, CMBIS

Expecting weak NIM in 2022

Continuing NIM compression but much moderate than last two years (since COVID-19). Due to weak economic data and potential easing monetary policy, we think interest rate is still in a downside trend. Market consensus on yield of 10-yr note in 2022 is 2.95%, 20 bps lower than FY20 and 2bps higher than 10M21 respectively. Since NIM change is driven by interest rate and deposit cost, under the circumstance of declining market interest rate, banks will have to face a NIM compression in 2022. But the NIM compression will be much more moderate than 2020 and 2021, because national service such as reducing lending rate will not be as much as previous years. 2022E sector NIM is 2.05%, 5 bps and 1 bps compressed than FY20 and 1H21 respectively.

Figure 3: Industry NIM and risk-free interest rate



Source: CBIRC, CMBIS estimates

Sufficient capital to support balance sheet expansion

Expecting an accelerating loan growth in 2022. During last decade, with slowing down GDP growth, both deposit and loan experienced declining trend on growth rate, excluding the years of 2015 & 2020 when PBOC injected massive liquidity for economic recovery. In 2022, based on market consensus of 8.4% YoY growth on M2, 10 bps slower than 2021E, we assume no massive liquidity injection in next year, and 2022E loan and deposit growth is expected to be 12.4% YoY (11.9% YoY in 9M21) and 8.6% YoY (8.6% YoY in 9M21), respectively. The accelerating loan growth and muted deposit growth will lift LDR from 82.7% in 9M21 to 86.6% in 2022E.

Banks have sufficient capital to support their balance sheet expansion. In mid-Oct, PBOC released the list of D-SIBs. 19 Chinese banks are selected as the domestic systemically important banks which need to meet a higher required CAR than other banks. Although most large and mid-sized banks have to follow a higher CAR requirements, there is no capital supplement pressure in 2022. Banks have already prepared for the new standard. All the D-SIBs maintains at least 50 bps higher than the minimum CAR requirements under new standard. They do not have limitations on capital during near term.

However, under TLAC rules (big 4 banks are affected), all of these 4 banks need to raise TLAC-qualified capital in next few years. According to management of a top tier bank, they will seek advice from regulators and plan ahead on raising TLAC capital. As shown in the figure below, based on static scenario, big 4 need around additional RMB 2.2tn TLAC capital to meet the requirements before 2028; under dynamic scenario, assuming CAGR on net capital and RWA is 8% and 10% respectively, big 4 banks need RMB 6.3tn qualified capital to support its balance sheets. According to one of the big 4 banks, they are confident that PBOC will create and provide TLAC capital instruments to help them fulfil the goal of capital supplementary. There are no big worries on lacking capital in near term.

Figure 4: TLAC influence on big 4 banks (RMB bn)

Bank	Required TLAC supplementray (Static)-FY27E	Required TLAC supplementray (Dynamic)-FY27E
ICBC	544	1,596
CCB	495	1,522
ABC	587	1,664
BOC	566	1,551
Total	2,192	6,332

Source: Company data, CMBIS estimates

Learning from the history – Where we are?

Currently, A share market listed banks (SW banking index) is trading at 0.58x P/B, slightly higher than 5-yr historical average of 0.57x P/B. In Hong Kong stock market, Chinese banks (HK listed Chinese banks index) are trading at 0.44x P/B, 6.2% discounted as 5-yr historical average of 0.47x P/B. More detailed, we are seeing JSBs and city banks outperformed SOEs and rural commercial banks after COVID-19. From Jan 2020 to Oct 2021, in SH & SZ stock market, SOEs and rural commercial banks dropped 9.7% and 13.9% respectively. Meanwhile, JSBs and city banks rose 10% and 16.6%. Since 2014, there is not too much difference on sub-sectors' performance, however, during the pandemic, city banks and JSBs outperform SOEs and other regional ones. We think pandemic is key inducement for the valuation differentiation. Under pandemic, PBOC officially required banking sector to sacrifice RMB 1.5tn to support the real economy, SOEs are the core force to perform this "national service". In additional, since SOEs and rural commercial banks issued much more SME loans than other banks, the concern on default risk from SME borrowers also capped their valuation. During post-pandemic era, we think the gap on sub-sectors valuation may be narrowing since national service and SME loan default may not be the key concern.

As shown in Figure 5, 6 and 7, some Chinese banks are undervalued. In history, there are 3 historical valuation bottoms after 2009 (Chinese banks start to spin-off their NPL and go public). During 1H14 (before Chinese QE), 1H20 (COVID-19) and 2021(default wave in property sector). In 1H14, Chinese banks were traded at a discount on book value, which implied a NPL ratio of 3.27% (A) and 3.04% (H) while reported NPL ratio was around 1.04%. During 1H20, banks' valuation implied a NPL ratio of 7.77% (A) and 9.11% (H). Obviously, banks' current valuation which implies a NPL ratio of 8.74% (A) and 10.32% (H) is undervalued. Since current economic outlook and borrowers' default risk is better than 2014 and 2020, we believe all the risks have already been reflected in the valuation. Downside is quite limited, banks with solid balance sheet are waiting for catalyst on the re-rating.

Figure 5: Implied NPL ratio by discounted on book value in 1H14

1H14	Bank	Reported NPL ratio	Implied NPL ratio (A)	Implied NPL ratio (H)
1	ICBC	0.99%	2.50%	1.05%
2	CCB	1.04%	1.33%	1.08%
3	Citic	1.19%	3.35%	4.44%
4	BOC	1.02%	4.00%	3.66%
5	CMB	0.98%	2.27%	0.59%
6	BoComm	1.13%	5.24%	5.04%
7	SPDB	0.93%	4.17%	-
8	CMBC	0.93%	1.98%	3.74%
9	CIB	0.97%	4.05%	-
10	PAB	0.92%	1.73%	-
11	ABC	1.24%	4.11%	3.39%
12	CEB	1.11%	4.52%	4.41%
	Avg	1.04%	3.27%	3.04%

Source: Company data, CMBIS estimates

Figure 6: Implied NPL ratio by discounted on book value in 1H20

1H20	Bank	Reported NPL ratio	Implied NPL ratio (A)	Implied NPL ratio (H)
1	ICBC	1.50%	7.07%	9.32%
2	CZB	1.41%	5.65%	7.55%
3	CCB	1.49%	6.98%	8.77%
4	Citic	1.83%	8.73%	11.11%
5	BOC	1.42%	8.41%	10.76%
6	CMB	1.14%	-	1.90%
7	BoComm	1.68%	8.64%	10.19%
8	SPDB	1.92%	6.95%	-
9	CMBC	1.69%	8.36%	10.02%
10	CIB	1.47%	7.68%	-
11	PAB	1.65%	6.00%	-
12	ABC	1.43%	8.96%	11.09%
13	PSBC	0.89%	7.28%	8.74%
14	CEB	1.55%	8.66%	10.76%
15	HXB	1.88%	9.40%	-
	Avg	1.53%	7.77%	9.11%

Source: Company data, CMBIS estimates

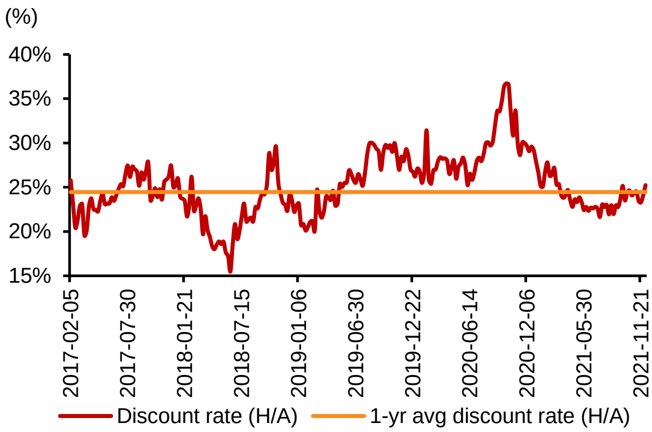
Figure 7: Implied NPL ratio by discounted on book value (Current)

1H21	Bank	Reported NPL ratio	Implied NPL ratio (A)	Implied NPL ratio (H)
1	ICBC	1.54%	8.77%	10.11%
2	CZB	1.50%	6.21%	6.82%
3	CCB	1.53%	9.37%	10.15%
4	Citic	1.50%	9.93%	11.18%
5	BOC	1.30%	9.35%	10.69%
6	CMB	1.01%	-	-
7	BoComm	1.60%	10.26%	10.67%
8	SPDB	1.64%	9.24%	-
9	CMBC	1.80%	11.05%	12.03%
10	CIB	1.15%	7.85%	-
11	PAB	1.08%	2.59%	-
12	ABC	1.50%	10.23%	11.67%
13	PSBC	0.83%	7.20%	8.51%
14	CEB	1.36%	10.21%	11.39%
15	HXB	1.78%	10.16%	-
	Avg	1.41%	8.74%	10.32%

Source: Company data, CMBIS estimates

For the stock price of mainland and Hong Kong dual listed banks, at the end of Nov 2021, the average discount rate of A-H dual listed SOEs and JSBs is 25.2% while 1-yr historical discount rate is 24.5%. Since current H shares is trading at a slightly higher discount rate than historical average, we think H shares is a little bit more attractive. At the same time, since H shares valuation is lower than its dividend yield is higher than A shares, we think buy H share can provide investors better upside and less downside risk.

Figure 8: H/A discount rate indicates H shares may be more attractive



Source: CMBIS

Key risk: Default rate on property development loan will be the determining factor on banks' asset quality in 2022

We think developers default will not cause a systemic risk in banking sector but banks asset quality may be hurt. We did scenario analysis for developers' default risk. As a conclusion of our analysis, there is no "Lehman Time" in China banking system, but banks may have to spend a few years to clean up their balance sheet if the worst scenario happens.

Under worst scenario, 10% developers default will cause a 59 bp increase on NPL ratio to 2.35% and provision coverage ratio will drop to 143% which is lower than regulators' recommendations of 150%. Under worst scenario, banks have to spend 7%-9% of their profits to clean up the balance sheet in next 5 years.

To gauge the potential capital erosion due to defaults of real estate developers, we conducted a scenario analysis based on the following assumptions:

Total property lending is RMB 13.6tn, including RMB 12.4tn loan and RMB 1.24tn other investment.

Recovery ratio: 30% recovery of principal on property loans and 0% recovery on bond investments.

Base case scenario: Based on current default cases, 8% of development loan went default.

Worst case scenario: We assume 10% of the developers' borrowings (including loan, bonds and other financial vehicles) default.

Figure 9: China banking industry: Potential loss on Evergrande case

(RMBbn)	Total loss	Provision taken in advance	Capital deducted
Base case (8% default rate**)**	**794**	**34**	**760**
Worst case (10% default rate)	992	42	950

Source: CMBIS

Little systemic risk but banks' asset quality should be affected

Obviously, with RMB 12.4tn outstanding loan which is lent to property developers in 1H21, increasing default rate will cause a deterioration banks asset quality.

Under the worst case scenario, assuming 10% of RMB 12.4tn loan to property developers will go default, banks will still bear a RMB 950bn loss on its property investment. It will lead to 59 bps increase on NPL ratio, from 1.76% to 2.35%. Accordingly, provision coverage will drop from 193.2% to 143%. The RMB 950bn loss is equivalent to 83.3% of banks net profit in 1H21 and 45.8% of estimated sector accumulated net profits in 2021.

Figure 10: Impacts on asset quality under different scenarios

RMB bn	1H21	Worst Case Scenario	Base Case Scenario
NPL balance	2,791	3,741	3,551
Provision coverage ratio	193.23%	143.04%	151.87%
NPL ratio	1.76%	2.35%	2.24%

Source: CMBIS

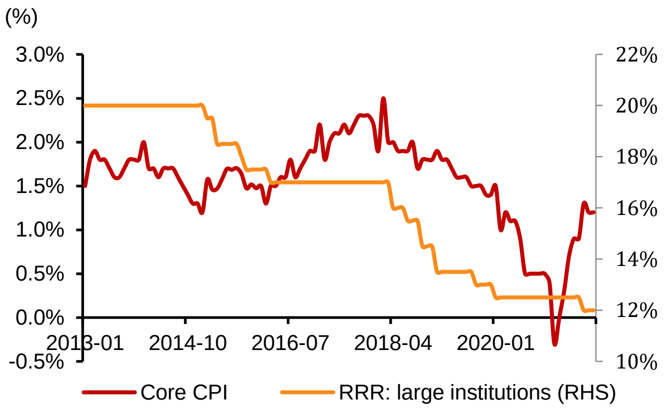
Sector re-rating driver: RRR cut

Current inflation rate can afford a liquidity injection. With the weak consumption and expected slowing down trade growth in 2022, easing monetary policy should be the most efficient way to stimulate economy. By analysing the CPI and RRR data from FY13 to 9M21, we concluded that PBOC usually does not cut RRR when core CPI is climbing because of concern on inflation. Since core CPI showed inflection point in August 2021 and it was stabilized at a low level of 1.2% at the end of 3Q21, which indicates that PBOC can use RRR cut to stimulate the economy without causing a serious inflation. Thus, we think there is no inflation ahead after 50 bps RRR cut.

On sector fundamental perspective, if PBOC cuts 50 bps on RRR, overall RRR will decline to 8.4%. As PBOC comments, it will release RMB 1.2tn long term fund. The additional liquidity will ease the tension on borrowers' cash flow, and then ease banks' pressure on maintaining a stable asset quality.

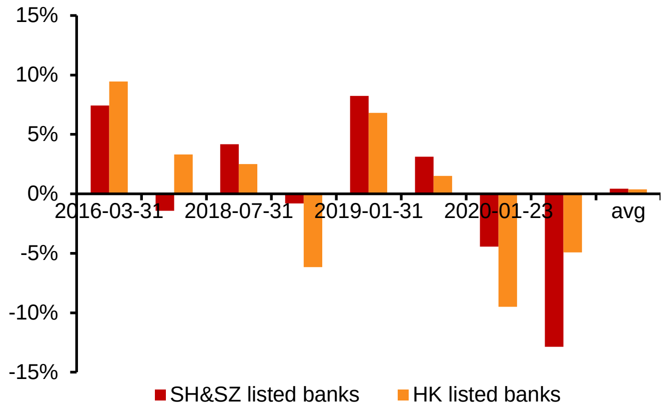
On sector performance perspective, when PBOC cuts RRR, banking sector has a high possibility to outperform the benchmark. Since 2016, PBOC has conducted 8 RRR cuts. In SH & SZ stock market, excluding RRR cut in Mar 2016 (bull market), Jan 2020 (Wuhan lockdown) and July 2021 (developers defaults), banking sector outperforms benchmark (SH & SZ 300 index) in 1 month after RRR cut. In HK stock market, excluding the RRR cut during Wuhan lockdown, banking sector (reflected by Chinese bank index) outperforms HSI 6 times out of 8 RRR cuts. In conclusion, during all the 8 RRR cuts, A share listed and HK listed domestic banks rose 0.4% and 0.37%, respectively, outperforming benchmark 0.8% and 1.3% respectively. If we exclude the negative impacts from Wuhan lockdown, A share listed and HK listed domestic banks will gain 1.1% and 1.8%, outperforming benchmark 1.3% and 1.9% respectively. In terms of fundamental change, key beneficiaries are deposit funded banks such as PSBC and big 4 banks.

Figure 11: Current Core CPI supports a RRR cut



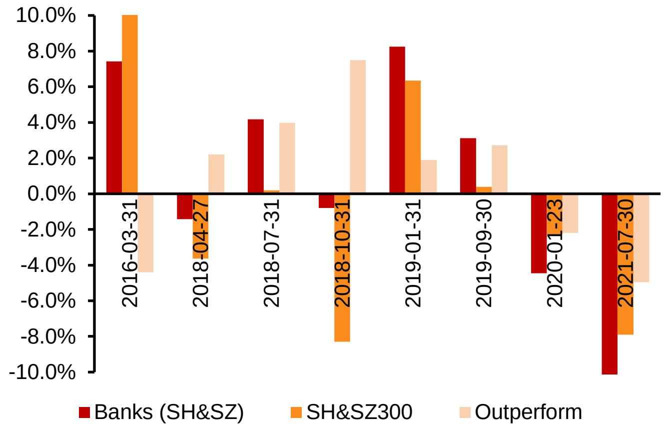
Source: WIND, CMBIS estimates

Figure 12: Banks listed in SH & SZ will outperform benchmark after RRR cut



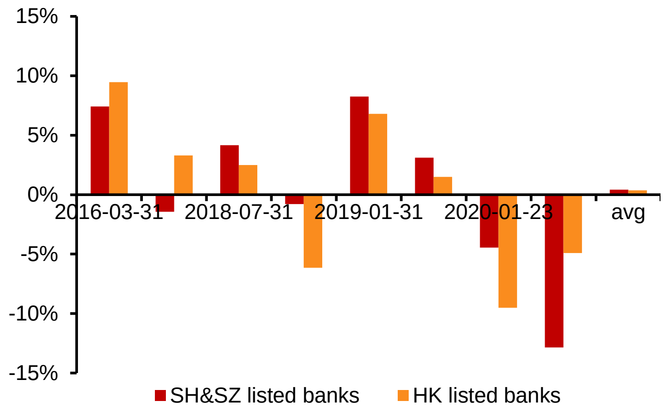
Source: WIND, CMBIS estimates

Figure 13: Banks listed in SH & SZ will outperform benchmark after RRR cut



Source: WIND, CMBIS estimates

Figure 14: Absolute return after RRR cut



Source: WIND, CMBIS estimates

Investment strategy: three different angles

Short-term strategy: Which bank will outperform?

Due to weak economy and uncertainty on property industry, we OVERWEIGHT the sector. Besides, potential RRR cut, we did not see a strong fundamental catalyst to drive sector re-rating. During last 5 years, both SOEs and JSBs (excluded CMB) experienced a devaluation because of slowing down growth and declining ROE. Currently, although the sector is trading below historical average, we have not seen the turning point yet. Thus, under current circumstance, we prefer banks with less link with property developers. In addition, more provision and better NPL indicators will help them outperform. NIM and loan growth will not differentiate banks' valuation in next year.

In addition, under the assumption on RRR cut, we think SOEs banks may have higher possibility to outperform. In 2022, PSBC (1658.HK) is our top pick. Among all the SOEs and JSBs, PSBC has the least exposure on property developers. Only round 2% of its loan is property loan, which is the lowest among all the state owned and stock joint banks. With less links to property developers and sufficient cushion on asset quality, negative impacts on PSBC is limited (Figure 13). In addition, with a NPL ratio of 0.83% and provision coverage of 421% as 1H21, Postal should have sufficient cushion for headwind.

Figure 15: Risk exposure on property development industry

Name	Ticker	1H21 NPL ratio	Provision coverage	Loan loss reserve to total loan	Property development loan as % of total loan
Postal	601658.SH/1658.HK	0.83%	421%	3.49%	2.11%
CCB	601939.SH/0939.HK	1.53%	222%	3.41%	4.72%
ICBC	601398.SH/1398.HK	1.54%	192%	2.96%	4.98%
ABC	601288.SH/1288.HK	1.50%	275%	4.12%	5.48%
BoComm	601328.SH/3328.HK	1.60%	149%	2.39%	6.02%
Citic	601998.SH/0998.HK	1.50%	189%	2.84%	6.30%
Hua Xia	600015.SH	1.78%	157%	2.79%	6.91%
CEB	601818.SH/6818.HK	1.36%	184%	2.51%	6.95%
SPDB	600000.SH	1.64%	151%	2.48%	7.28%
CMB	600036.SH/3968.HK	1.01%	439%	4.45%	7.51%
BOC	601988.SH/3988.HK	1.30%	184%	2.74%	7.89%
CIB	601166.SH	1.15%	257%	2.95%	8.67%
CBHB	9668.HK	1.76%	161%	2.82%	9.58%
PAB	000001.SZ	1.08%	260%	2.80%	10.14%
CZ Bank	601916.SH/2016.HK	1.50%	180%	2.71%	13.54%
CMBC	600016.SH/1988.HK	1.80%	143%	2.57%	10.34%

Source: Wind, Company data, CMBIS estimates

Long term horizon: looking for the next CMB

As shown in figure 44 and 45, among all the listed Chinese banks, only 7 banks can achieve 10% CAGR on stock price performance in a long term horizon. Most of listed banks are only good for range trade, but there are still some outperformers that deserve a long term buy under different asset allocation strategies.

By digging out their fundamentals, we figure out that outperformers usually have the following characteristics: good asset quality, high provision, better NIM, fast-than-peers growth. In short term (within 1 years horizon), we focus on valuation re-rating and trying to find turning point on fundamentals. In long term, in addition to asset quality and profitability, earnings growth plays as an important role on the stock price outperforming. In terms of those indicators mentioned above, PSBC and CMB are leading SOEs and JSBs, respectively. For city banks, such as Bank of Chengdu, Hangzhou Bank and Bank of Ningbo are also for investors on a long term investment horizon. In conclusion, to make a balance between short term re-rating and long term growth, PSBC will be the best choice.

Defensive play: buying banks for dividends

In our view, attractive pick for a defensive play should be high dividend yield, expected sustainable dividend payout supported by sufficient capital and stable earnings growth. Stay away banks which are lacking of provision and capital, because those banks will have to sacrifice their earnings or slow down balance sheet expansion to meet regulators' requirements. H shares of 4 banks (ICBC, CCB, ABC and BOC) should be attractive for dividend- driven investors. Current dividend yield of big 4 is around 6%-7% with a payout ratio of 30%. Furthermore, due to their historical low valuation, not too much downside ahead. In history, big 4 always maintain higher-than-peers payout ratio and deliver a stable dividend to investors. We think the payout ratio and EPS will not be volatile in next few years because of their stable earnings growth and there is no EPS-dilution financing plan ahead.

Actions

Our top pick is PSBC (1658 HK)/BUY/TP: HK$7.20. Our target price is derived from Gordon Growth Model, implying 0.89x 2021E P/B and 0.82x 2022E P/B, +1SD on 3-yrs average of 0.72x P/B. In short term, because of high provision and better asset quality, PSBC has more cushion for headwind. In addition, it has less exposure on property development industry than any other nationwide banks. In long term, strong network coverage with 40,000 branches will help them maintain a low cost on acquiring deposits, which will benefit its NIM and profitability. Moreover, since their strategy turns to expanding their retail banking business, we think the expanding retail business will lift its valuation in long term.

Figure 16: Sub-sector comparison table

	P/B	ROE	ROA	CIR	NPL ratio	Provision coverage	NIM	Allowance to loan
SOE-H	0.43	10.79%	0.89%	28.22%	1.38%	241%	2.01%	3.19%
SOE-A	0.56	10.79%	0.89%	28.22%	1.38%	241%	2.01%	3.19%
JSB-H	0.56	10.84%	0.85%	25.25%	1.49%	216%	2.17%	2.98%
JSB-A	0.69	10.67%	0.85%	24.87%	1.42%	218%	2.27%	2.90%
City banks-A	0.82	11.80%	0.89%	24.95%	1.25%	315%	2.02%	3.66%
Rural banks-A	0.80	10.01%	0.87%	30.78%	1.24%	345%	2.37%	4.09%
Regional banks-H	0.40	7.74%	0.60%	27.22%	1.89%	189%	2.01%	3.33%

Source: Wind, Company data, CMBIS estimates

Figure 17: Peer comparison (valuation)

Name	Ticker	Mkt Cap (LC bn)	RAT-ING	Price @30 Nov	TP (LC)	Upside (%)	P/E (x) FY21E	P/E (x) FY22E	P/B (x) FY21E	P/B (x) FY22E	Yield FY21E	Yield FY22E
PSBC H	1658 HK	502	BUY	5.29	7.2	36%	7.4	6.4	0.89	0.82	5.8%	6.5%
PSBC A	601658.SH	502	BUY	5.08	7.1	39%	8.7	7.5	1.04	0.96	4.9%	5.6%
CCB H	939 HK	1291	BUY	5.08	6.3	25%	4.6	4.2	0.53	0.49	8.2%	8.9%
CCB A	601939.SH	1291	BUY	5.76	7.0	22%	6.4	5.8	0.73	0.68	5.9%	6.4%
BOSH	601299 CH	102	BUY	7.15	9.0	26%	5.9	5.2	0.69	0.64	6.2%	6.9%
SPDB	600000 CH	251	HOLD	8.51	9.3	10%	5.5	4.8	0.49	0.45	5.5%	6.3%
BOCS	601577 CH	32	HOLD	7.82	8.3	6%	4.7	4.1	0.67	0.60	5.8%	6.4%
CQRCB H	3618 HK	30	HOLD	2.66	2.8	5%	2.6	2.5	0.25	0.23	11.9%	12.7%
CQRCB A	601077.SH	30	HOLD	3.82	3.6	-6%	4.6	4.4	0.44	0.40	6.8%	7.3%

Source: Wind, Company data, CMBIS estimates

Figure 18: Peer comparison (fundamental)

Name	Ticker	EPS (RMB) FY21E	EPS (RMB) FY22E	EPS CHG FY21E	EPS CHG FY22E	BVPS (RMB) FY21E	BVPS (RMB) FY22E	DPS (RMB) FY21E	DPS (RMB) FY22E	ROE FY21E	ROE FY22E	ROA FY21E	ROA FY22E
PSBC H	1658 HK	0.82	0.95	15%	16%	6.8	7.4	0.25	0.28	10.3%	10.4%	0.63%	0.66%
PSBC A	601658.SH	0.82	0.95	15%	16%	6.8	7.4	0.25	0.28	10.3%	10.4%	0.63%	0.66%
CCB H	939 HK	1.13	1.23	7%	8%	9.9	10.8	0.34	0.37	11.5%	11.5%	0.96%	0.95%
CCB A	601939.SH	1.13	1.23	7%	8%	9.9	10.8	0.34	0.37	11.5%	11.5%	0.96%	0.95%
CQRCB H	3618 HK	0.88	0.92	19%	5%	9.2	10.1	0.26	0.28	10.1%	9.6%	0.82%	0.76%
CQRCB A	601077.SH	0.88	0.92	19%	5%	9.2	10.1	0.26	0.28	10.1%	9.6%	0.82%	0.76%
SPDB	600000 CH	1.70	1.95	-9%	15%	19.1	20.6	0.47	0.53	8.5%	9.0%	0.69%	0.74%
BOSH	601299 CH	1.54	1.73	10%	12%	13.0	14.2	0.44	0.50	11.0%	11.5%	0.84%	0.84%
BOCS	601577 CH	1.79	2.01	22%	12%	12.5	13.9	0.45	0.50	13.2%	13.5%	0.81%	0.80%

Source: Wind, Company data, CMBIS estimates

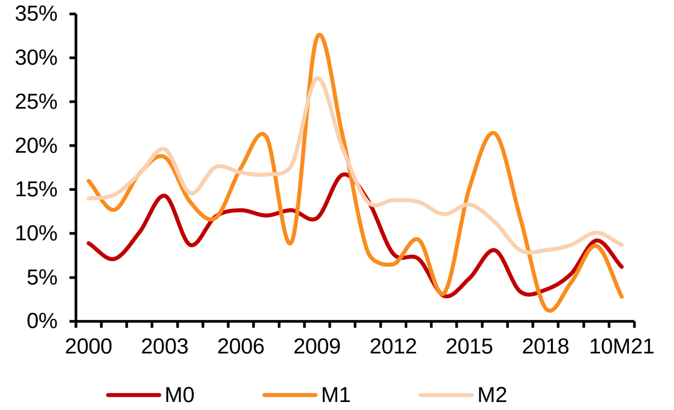
Figure 19: Peer comparison (fundamental)

Name	Ticker	NPL ratio FY21E	NPL ratio FY22E	Provision coverage FY21E	Provision coverage FY22E	NIM FY21E	NIM FY22E	NII CHG FY21E	NII CHG FY22E	Fee income CHG FY21E	Fee income CHG FY22E	Revenue CHG FY21E	Revenue CHG FY22E
PSBC H	1658 HK	0.82%	0.81%	460%	484%	2.36%	2.35%	8.1%	9.3%	8.5%	9.7%	10.3%	9.7%
PSBC A	601658.SH	0.82%	0.81%	460%	484%	2.36%	2.35%	8.1%	9.3%	8.5%	9.7%	10.3%	9.7%
CCB H	939 HK	1.53%	1.50%	219%	225%	2.16%	2.21%	8.3%	11.5%	3.0%	2.0%	7.5%	10.0%
CCB A	601939.SH	1.53%	1.50%	219%	225%	2.16%	2.21%	8.3%	11.5%	3.0%	2.0%	7.5%	10.0%
CQRCB H	3618 HK	1.26%	1.25%	315%	308%	2.19%	2.14%	10.6%	11.8%	-12.1%	4.4%	9.2%	10.9%
CQRCB A	601077.SH	1.26%	1.25%	315%	308%	2.19%	2.14%	10.6%	11.8%	-12.1%	4.4%	9.2%	10.9%
SPDB	600000 CH	1.62%	1.61%	165%	170%	1.71%	1.72%	-10.1%	7.8%	-20.9%	10.0%	-4.4%	11.2%
BOSH	601299 CH	1.19%	1.20%	320%	310%	1.70%	1.68%	3.8%	12.3%	17.3%	7.4%	8.4%	11.3%
BOCS	601577 CH	1.20%	1.18%	313%	331%	2.34%	2.45%	11.5%	21.0%	26.9%	4.5%	15.5%	16.5%

Source: Wind, Company data, CMBIS estimates

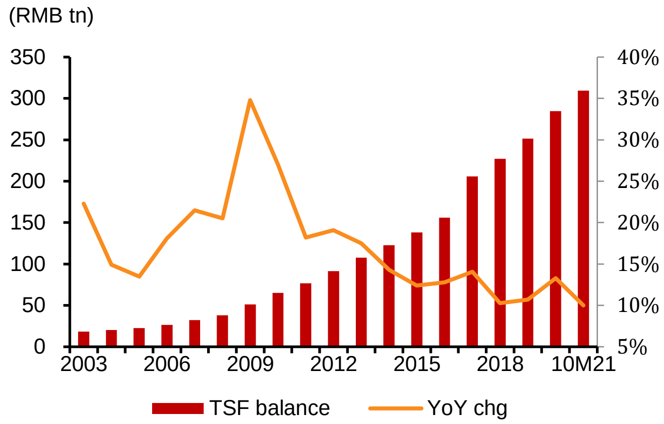
Focus Charts

Figure 20: Monetary supply YOY chg



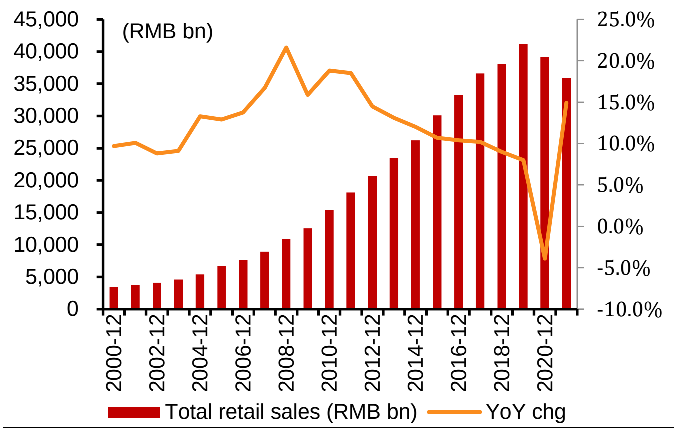
Source: WIND, CMBIS estimates

Figure 21: TSF chg



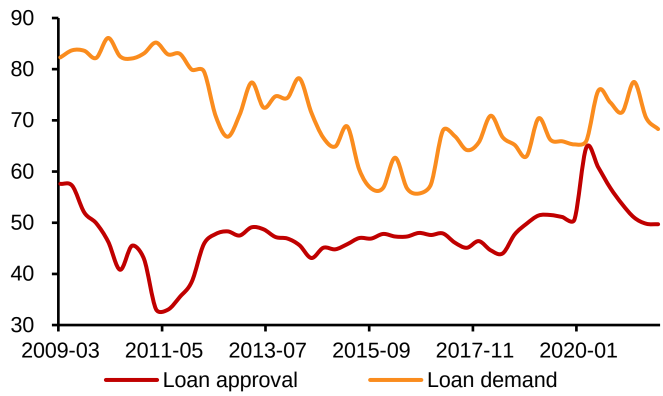
Source: WIND, CMBIS estimates

Figure 22: Total retail sales chg



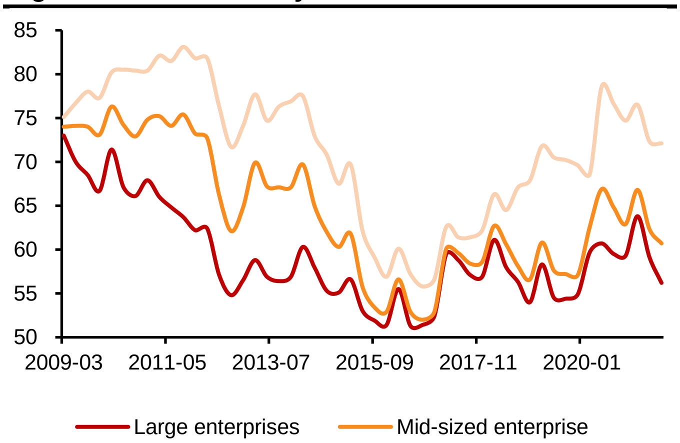
Source: WIND, CMBIS estimates

Figure 23: PBOC survey on loan demand&approval



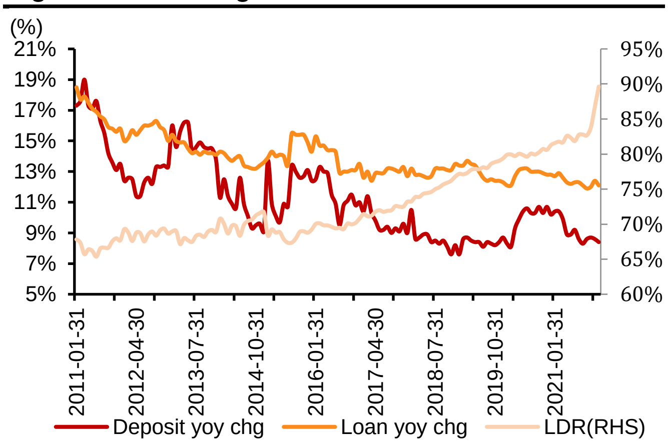
Source: PBOC

Figure 24: PBOC survey on Loan demand breakdown



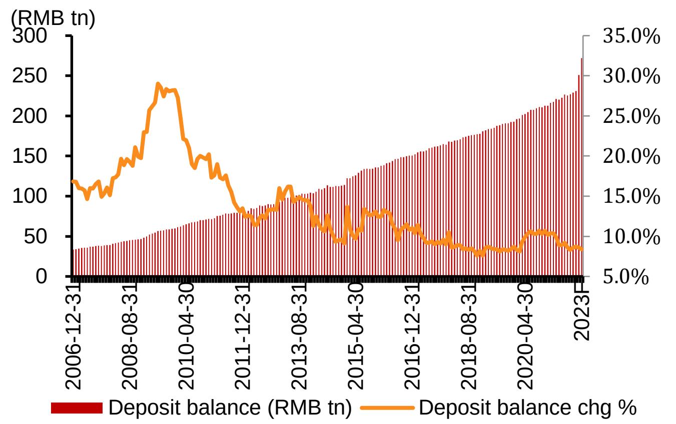
Source: PBOC

Figure 25: LDR chg



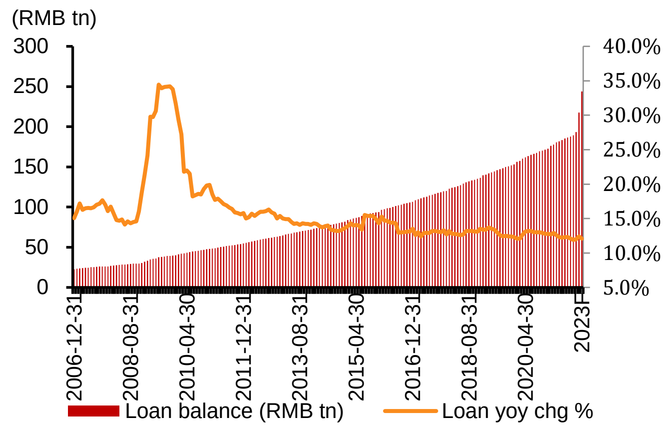
Source: WIND, CMBIS estimates

Figure 26: Deposit balance chg



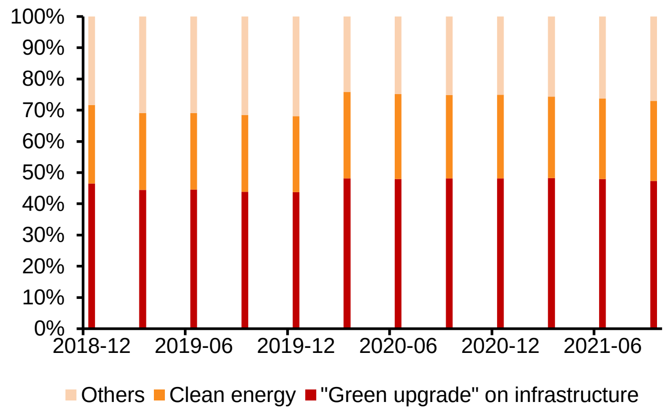
Source: WIND, CMBIS estimates

Figure 27: Loan balance chg



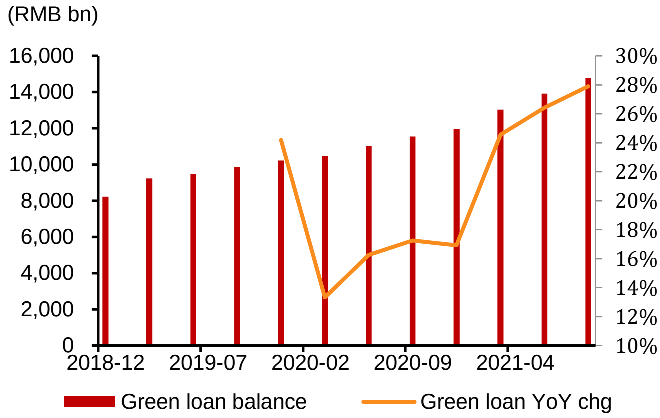
Source: WIND, CMBIS estimates

Figure 28: Green loan mix



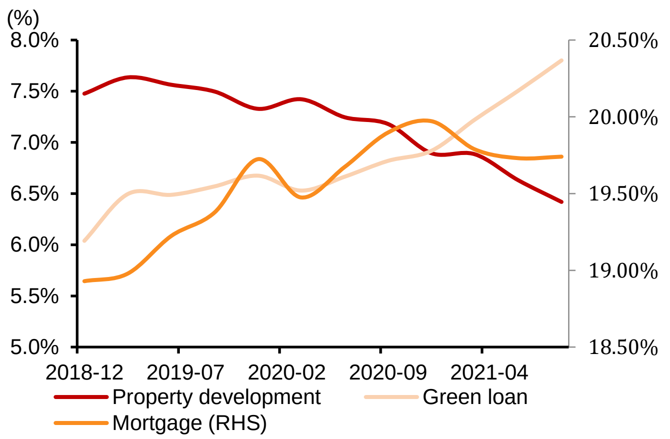
Source: WIND, CMBIS estimates

Figure 29: Green loan growth



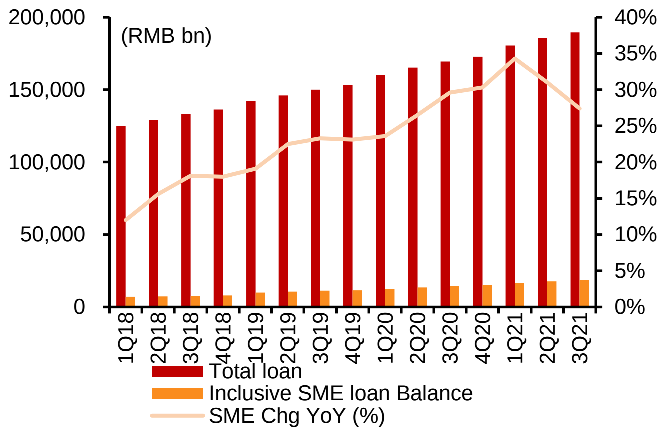
Source: WIND, CMBIS estimates

Figure 30: Loan mix (Property, mortgage, green loan)



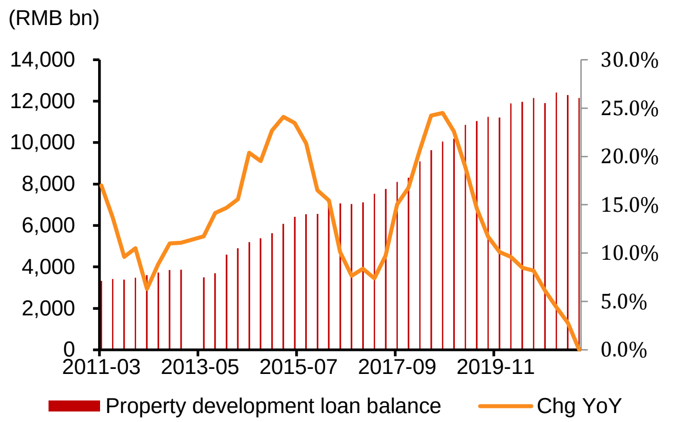
Source: WIND, CMBIS estimates

Figure 31: SME loan growth



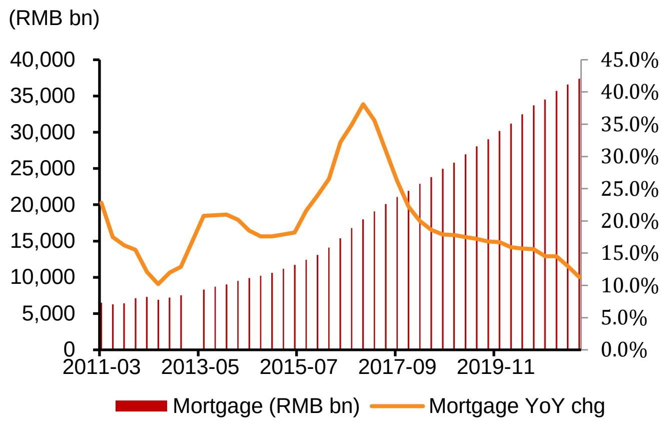
Source: WIND, CMBIS estimates

Figure 32: Property development loan chg



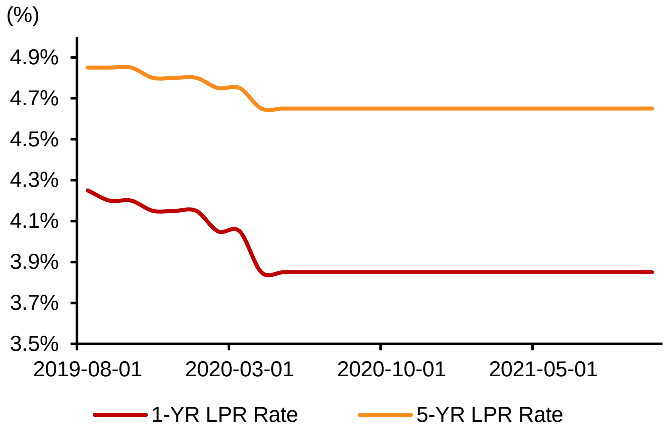
Source: WIND, CMBIS estimates

Figure 33: Mortgage chg



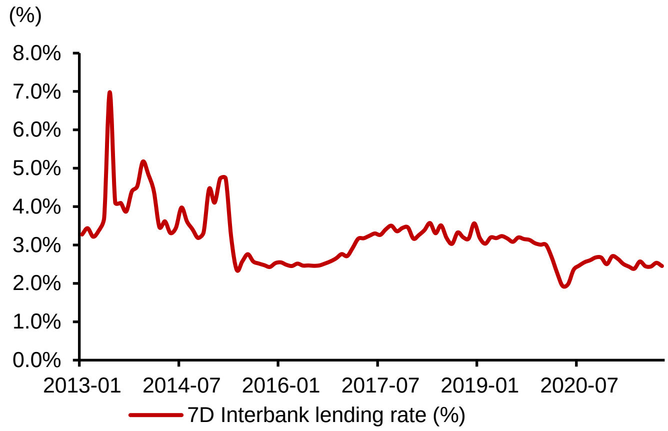
Source: WIND, CMBIS estimates

Figure 34: LPR rate chg



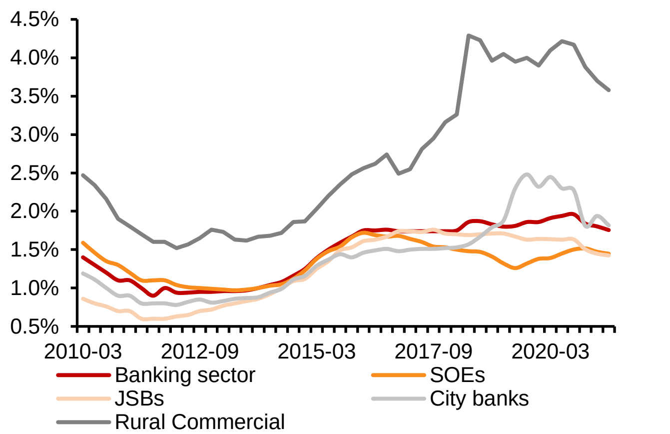
Source: WIND, CMBIS estimates

Figure 35: 7D interbank lending rate



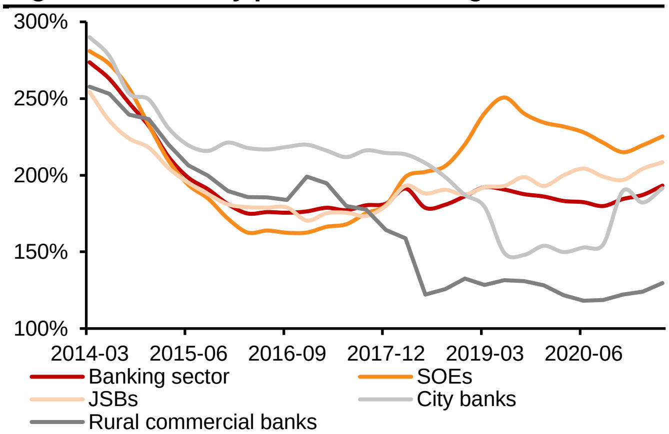
Source: National interbank funding center, CMBIS estimates

Figure 36: Industry NPL ratio



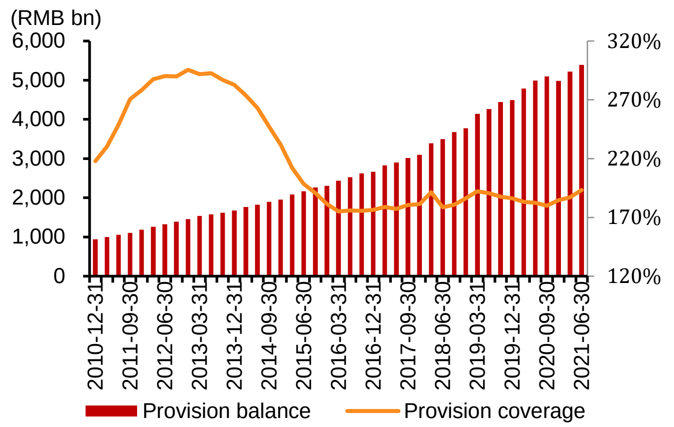
Source: CBIRC, CMBIS estimates

Figure 37: Industry provision coverage



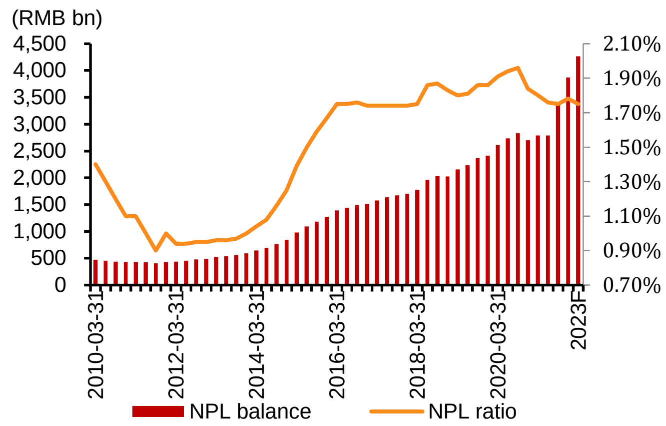
Source: CBIRC, CMBIS estimates

Figure 38: Provision balance chg



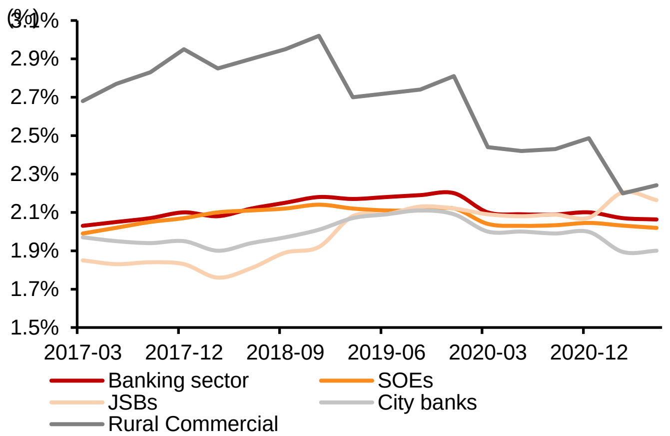
Source: WIND, CMBIS estimates

Figure 39: NPL balance chg



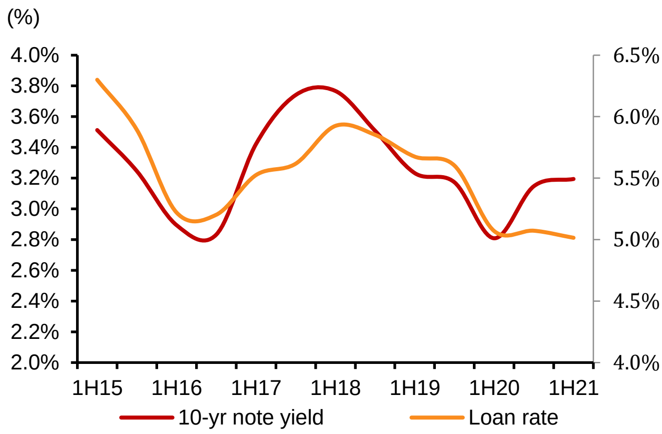
Source: WIND, CMBIS estimates

Figure 40: Industry NIM



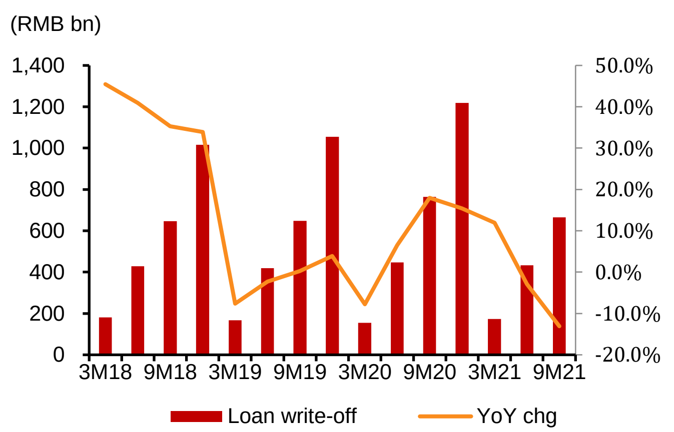
Source: CBIRC, CMBIS estimates

Figure 41: Marker lending rate and 10-yrs note rate



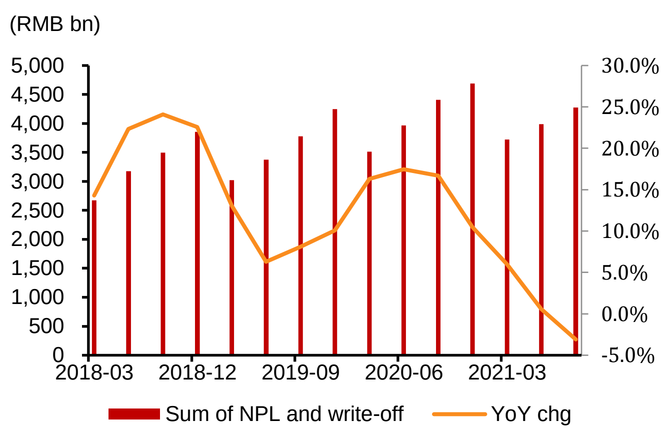
Source: WIND, CMBIS estimates

Figure 42: Sector write-off chg



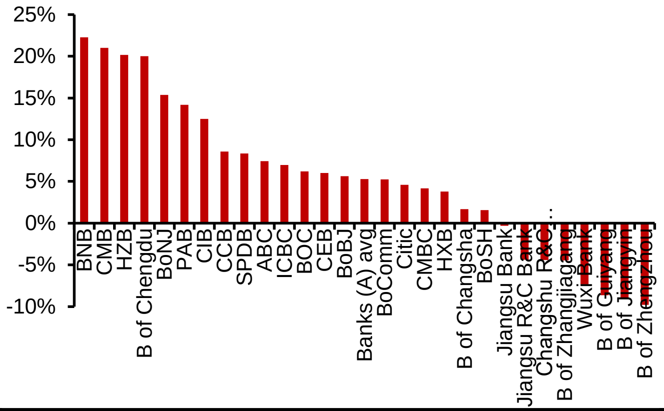
Source: WIND, CMBIS estimates

Figure 43: (NPL balance + write-off) in history



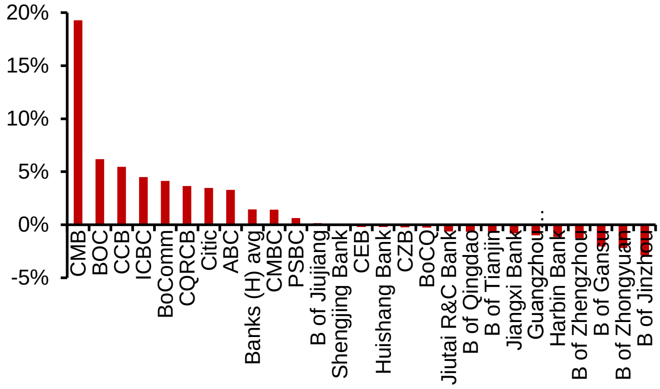
Source: WIND, CMBIS estimates

Figure 44: Stock price CAGR since 18 months after listing (SH & SZ)



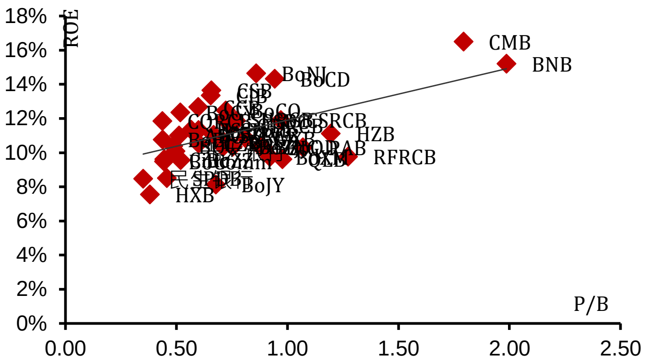
Source: WIND, CMBIS estimates

Figure 45: Stock price CAGR since 18 months after listing (HK)



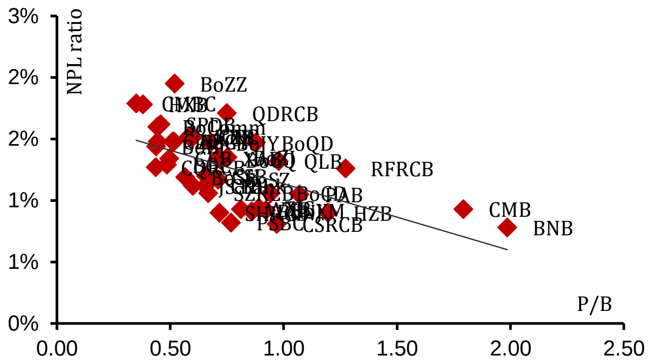
Source: WIND, CMBIS estimates

Figure 46: PB-ROE scatter (SH & SZ)



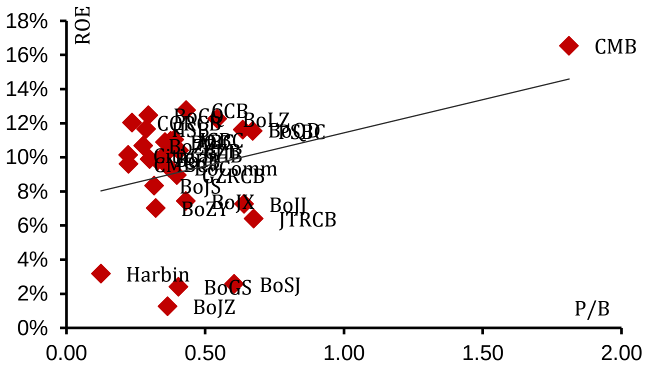
Source: WIND, CMBIS estimates

Figure 47: PB-NPL scatter (SH & SZ)



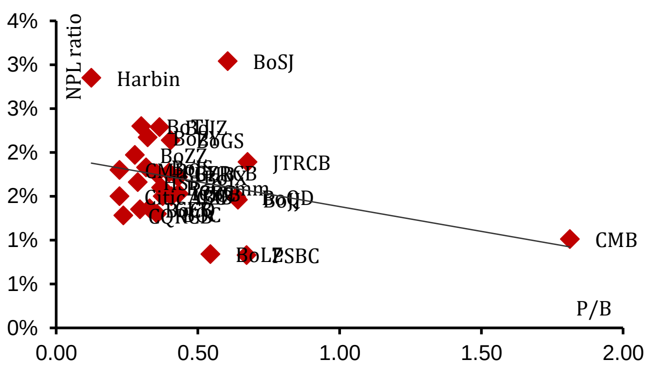
Source: WIND, CMBIS estimates

Figure 48: PB-ROE scatter (HK)



Source: WIND, CMBIS estimates

Figure 49: PB-NPL scatter (HK)



Source: WIND, CMBIS estimates

PSBC (1658 HK)

Sector leading asset quality

PSBC is one of the 6 state-owned banks in China. It has around 40,000 outlets all around the country. Among all of the branches, 20% of them are directly operated outlets and the rest of them are agency outlets. PSBC should pay agency fee to China Post and the agency outlets cannot operate lending business. Directly operated outlets are same with peer's branches. We like PSBC because it has clean balance sheet and stable earnings growth. In addition, its 40,000 outlets provide cheap deposit which helps PSBC maintain a high NIM. Initiate BUY on PSBC (1658 HK) with target price of HK$7.20.

- **Sector-leading asset quality, lowest NPL ratio and second highest provision coverage among all nationwide operated banks.** PSBC's asset quality is much better than all the peers. As of end-3Q21, PSBC's NPL ratio was 0.82%, while the industry average was 1.75% and the SOE average was 1.37%. Moreover, in 1H21 PSBC's proportion of special mention loans (SML) was 0.48%, while the SOE averaged 1.62%.The lower proportion of SML indicates healthier asset quality in the future. Furthermore, using the indicator "90+ days overdue ratio" (1H21) for comparison, we found that PSBC is still superior. Another advantage of PSBC is that it has less risk exposure on property industry than any other large and mid-sized banks. Only 2.11% of its loan is property loan while SOEs' and JSBs' average is 5.2% and 8.7% respectively.
- **Optimistic outlook on its long term growth.** Unlike the other 5 SOEs, we are confident that PSBC can maintain a 10% CAGR on net profit growth in next few years. New management from CM Bank will optimize PSBC's business strategy on retail banking business and we have already see fast growth on its wealth management business. As of the end of 3Q21, fee & commission income grew 32.6% YoY, contributing 7.07% to revenue, +119 bps YoY. Retail AUM is RMB 12.2tn, up around RMB 1tn in 9M21.
- **We initiate coverage on PSBC with a BUY.** Based on Gordon Growth Model, our target price on PSBC (H share) is HK$7.20, implying 0.86x 2021E and 0.79x 2022E P/B. During last 3 years, PSBC (H) is trading at 0.71x FY22E P/B, while currently it is trading at 0.62x P/B, below -1SD of historical mean (0.64x P/B). Thus, we think most negatives are priced in. Key risk for 2022 is the below expectation of economic recovery.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	276,809	286,202	315,680	346,442	378,590
Net profit	60,933	64,199	75,499	87,387	99,596
EPS (RMB)	0.72	0.71	0.82	0.95	1.08
EPS CHG	16%	-1%	15%	16%	14%
Consensus EPS (RMB)	0.72	0.71	0.83	0.93	1.06
P/B (x)	0.70	0.56	0.68	0.62	0.57
Dividend yield	5.3%	6.0%	5.2%	6.1%	6.9%
ROE	13.1%	11.8%	10.3%	10.7%	11.3%
NPL ratio	0.86%	0.88%	0.82%	0.81%	0.80%
Provision coverage	389%	408%	460%	484%	506%

Source: Company data, CMBIS estimates

BUY (Initiation)

Target Price	**HK$7.20**
(Previous TP	N/A)
Up/Downside	**+26%**
Current Price	**HK$5.70**

China Banking Sector

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Stock Data

Mkt Cap (HK$ mn)	581,370
Avg 3 mths t/o (HK$ mn)	290
52w High/Low (HK$)	5.90/3.95
Total Issued Shares (mn)	92,383

Source: WIND

Shareholding Structure

China Post	67.3%
China Life	2.7%
China Telecom	1.2%

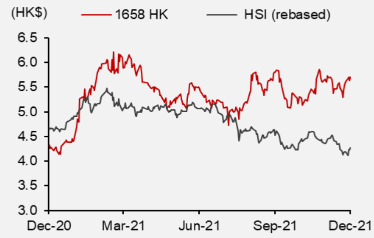
Source: WIND

Share Performance

	Absolute	Relative
1-mth	-0.5%	2.6%
3-mth	-3.1%	5.7%
6-mth	7.7%	24.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

PSBC is one of the 6 state-owned banks in China. The Bank is owned and managed by China Post. It has around 40,000 outlets all around the country. 70% of the outlets are located at villages and towns which help PSBC to acquire deposit at a lower cost. Among all of the branches, 20% of them are directly operated outlets and the rest of them are agency outlets. PSBC should pay agency fee to China Post and the agency outlets cannot operate lending business. Directly operated outlets are same with peer's branches. We like PSBC because it has clean balance sheet and stable earnings growth. In addition, its 40,000 outlets provide cheap deposit which helps PSBC maintain a high NIM. Initiate BUY on PSBC with a target price of HK$7.20.

Sector-leading asset quality, lowest NPL ratio and second highest provision coverage among all nationwide operated banks. PSBC's asset quality is much better than all the peers. As of end-3Q21, PSBC's NPL ratio was 0.82%, while the industry average was 1.75% and the SOE average was 1.37%. Moreover, in 1H21 PSBC's proportion of special mention loans (SML) was 0.48%, while the SOE averaged 1.62% .The lower proportion of SML indicates healthier asset quality in the future. Furthermore, using the indicator "90+ days overdue ratio" (1H21) for comparison, we found that PSBC is still superior. Another advantage of PSBC is that it has less risk exposure on property industry than any other large and mid-sized banks. Only 2.11% of its loan is property loan while SOEs' and JSBs' average is 5.2% and 8.7% respectively.

We initiate coverage on PSBC with a BUY. Based on Gordon Growth Model, our target price on PSBC (H share) is HK$7.20, implying 0.86x 2021E and 0.79x 2022E P/B. During last 3 years, PSBC (H) is trading at 0.71x FY22E P/B, while currently it is trading at 0.62 x P/B, below -1SD of historical mean (0.64x P/B). Thus, we think most negatives are priced in, and the stock is waiting for catalysts to drive re-rating. Key risk for 2022 is economic recovery below expectation.

Why PSBC is our top pick?

Best asset quality. As we mentioned above, PSBC has the best asset quality among all the SOEs and JSBs. In addtion, since it has little exposure on property industy, and as the Bank guided, most of its development loan borrowers are top SOE developers, thus uncertainty in property industry will not be a concern on its valuation and fundamental.

Optimistic outlook on its long term growth. Unlike the other 5 SOEs, we are confident that PSBC can maintain a 10% CAGR on net profit growth in next few years. Because there is no TLAC influence on capital reserve and best capital management bank under D-SIBs regulation. Unlike other banks, PSBC can expand its RWA balanace sheet without too much concern on capital reserve. In addition to a growing RWA, according to its managements, the Bank is planning to lift LDR 2-3% annually in next few years. The increasing LDR will optimize its efficiency on total assets and then result in a better return on interest bearing assets. New management from CM Bank will optimize PSBC's business strategy on retail banking business and we have already seen fast growth on its wealth management business. As of the end of 3Q21, fee & commison income grew 32.6% YoY, contirbuting 7.07% to revenue, +119 bps YoY. Retail AUM is RMB 12.2tn, up around RMB 1tn in 9M21.

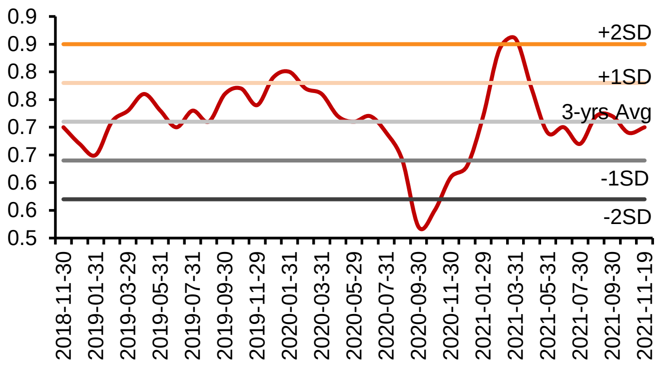
Valuation

Our Gordon Growth Model is based on cost of equity, our medium-term ROE and forecasted terminal growth rate. Our cost of equity is based on a risk-free rate similar to the 10-year China Treasury yield and a beta-adjusted equity risk premium. Target price derivation (H share)

(%)	
Risk-free rate	3.2
Expected Market Return	9.0
Beta (x)	0.6
Cost of equity	6.7
MT ROE	6.0
MT Payout (%)	50
Terminal Growth Rate	3.0
Valuation end-22E	-
Target price (HK$)	6.1
Implied 2021E P/B (x)	0.9
Implied 2022E P/B (x)	0.8
Implied 2021E PE (x)	7.4
Implied 2022E PE (x)	6.4

Source: CMBIS

Figure 50: P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	242,686	253,378	273,956	299,497	325,671
Net fee&commission income	14,623	16,495	17,904	19,640	21,615
Others	19,500	16,329	23,820	27,305	31,304
Operating income	276,809	286,202	315,680	346,441	378,589
Operating expense	214,421	218,445	236,294	254,513	273,780
PPOP	119,140	118,553	135,996	155,585	176,074
Provision taken	55,384	50,398	56,192	63,215	70,801
Operating profit	62,388	67,757	79,386	91,929	104,810
Non-operating income	1357	379	397	417	438
Pre-tax profit	637,45	68,136	79,783	92,346	105,248
Income tax expense	2,709	3,818	4,148	4,802	5,472
Minority interests	103	119	136	157	179
Net profit	60,933	64,199	75,499	87,387	99,596

Balance Sheet

YE 31 Dec (RMB bn)	FY19A	FY20A	FY21E	FY22E	FY23E
Due from central banks	1,111	1,170	1,292	1,422	1,565
Interbank assets	298	292	321	353	389
Investments	3,827	4,186	4,481	4,794	5,148
Gross loan	4,975	5,718	6,473	7,294	8,180
Provision balance	167	206	244	286	331
Net loan	4,808	5,512	6,229	7,008	7,848
Other assets	172	193	214	237	262
Total assets	10,217	11,353	12,537	13,814	15,213
Due to central banks	0	25	0	0	0
Interbank liabilities	73	117	93	102	114
Customer deposits	9,314	10,358	11,455	12,643	13,937
Debt securities issued	97	58	66	73	80
Other liabilities	188	122	133	152	175
Total liabilities	9,672	10,680	11,746	12,970	14,305
Shareholders' equity	544	672	789	843	906
Minority interest	1	1	1	2	2
Total equity	545	673	790	845	908

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income mix					
Net interest income	88%	89%	87%	86%	86%
Net fee income	5%	6%	6%	6%	6%
Others	7%	6%	8%	8%	8%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	2.6%	4.4%	8.1%	9.3%	8.7%
Net fee&commission	18.4%	12.8%	8.5%	9.7%	10.1%
Operating income	6.1%	3.4%	10.3%	9.7%	9.3%
PPOP	9.4%	-0.5%	14.7%	14.4%	13.2%
Net profit	16.5%	5.4%	17.6%	15.7%	14.0%
Gross loans	16.3%	14.9%	13.2%	12.7%	12.2%
Customer deposits	8.0%	11.2%	10.6%	10.4%	10.2%
Efficiency					
CIR	56.6%	57.9%	56.2%	54.4%	52.8%
Asset quality					
NPL ratio	0.86%	0.88%	0.82%	0.81%	0.80%
Provision coverage	389%	408%	460%	484%	506%
Allowance to total loan	3.35%	3.59%	3.77%	3.92%	4.05%
Capital adequacy					
CET-1 CAR	9.9%	9.6%	9.9%	9.5%	9.3%
Tier-1 CAR	10.9%	11.9%	12.4%	11.7%	11.2%
Total CAR	13.5%	13.9%	14.8%	14.1%	13.5%
Profitability					
NIM	2.5%	2.4%	2.4%	2.3%	2.3%
ROE	13.1%	11.8%	9.6%	10.4%	11.0%
ROA	0.6%	0.6%	0.6%	0.6%	0.7%
RORWA	1.2%	1.1%	1.2%	1.2%	1.2%
Per share					
EPS (RMB)	0.72	0.71	0.82	0.95	1.08
DPS (RMB)	0.21	0.21	0.25	0.28	0.32
BVPS (RMB)	5.75	6.25	6.83	7.42	8.10

Source: Company data, CMBIS estimates

PSBC (601658 CH)

Sector leading asset quality

BUY (Initiation)

Target Price	**RMB7.07**
(Previous TP	N/A)
Up/Downside	**+31%**
Current Price	**RMB5.37**

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	480,338
Avg 3 mths t/o (RMB mn)	732
52w High/Low (RMB)	6.46/4.59
Total Issued Shares (mn)	92,383

Source: WIND

Shareholding Structure

China Post	67.3%
China Life	2.7%
China Telecom	1.2%

Source: WIND

Share Performance

	Absolute	Relative
1-mth	-2.0%	-4.9%
3-mth	-2.2%	-2.7%
6-mth	-2.4%	2.2%

Source: Bloomberg

12-mth Price Performance

Source: Bloomberg

PSBC is one of 6 state-owned banks in China. It has around 40,000 outlets all around the country. Among all of the branches, 20% of them is directly operated outlets and the rest of them are agency outlets. PSBC should pay agency fee to China Post and the agency outlets cannot operate lending business. Directly operated outlets is same with peer's branches. We like PSBC because it has clean balance sheet and stable earnings growth. In addition, its 40,000 outlets provides cheap deposit which help PSBC maintain a high NIM. Initiate BUY on PSBC (601658 CH) with a target price of RMB 7.07.

- **Sector-leading asset quality, lowest NPL ratio and second highest provision coverage among all nationwide operated banks.** PSBC's asset quality is much better than all the peers. As of end-3Q21, PSBC's NPL ratio was 0.82%, while the industry average was 1.75% and the SOE average was 1.37%. Moreover, in 1H21 PSBC's proportion of special mention loans (SML) was 0.48%, while the SOE averaged 1.62% .The lower proportion of SML indicates healthier asset quality in the future. Furthermore, using the indicator "90+ days overdue ratio" (1H21) for comparison, we found that PSBC is still superior. As the end of 3Q21. Another advantage of PSBC is that has less risk exposure on property industry than any other large and mid-sized banks. Only 2.11% of its loan is property loan while SOEs' and JSBs' average is 5.2% and 8.7% respectively.
- **Optimistic outlook on its long term growth.** Unlike the other 5 SOEs, we are confident that PSBC can maintain a 10% CAGR on net profit growth in next few years. New management from CM Bank will optimize PSBC's business strategy on retail banking business and we have already see fast growth on its wealth management business. As the end of 3Q21, fee&commison income grew 32.6% YoY, contributes 7.07% to revenue, +119 bps YoY. Retail AUM is RMB 12.2 tn, up around RMB 1 tn in 9M21.
- **We initiate coverage on PSBC with a BUY.** Based on Gordon Growth Model, our target price on PSBC (601658 CH) is RMB 7.07, it implies 1.06x 2021E and 0.98x 2022E P/B. During last 3 years, PSBC (A) is trading at 0.79x P/B, currently, it is trading at 0.79 x FY22E P/B, at -1SD of historical mean (0.78x P/B). Thus, we think most negatives are priced in. Key risk for 2022 is the economy recovery below expectation.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	276,809	286,202	315,680	346,442	378,590
Net profit	60,933	64,199	75,499	87,387	99,596
EPS (RMB)	0.72	0.71	0.82	0.95	1.08
EPS CHG	16%	-1%	15%	16%	14%
Consensus EPS (RMB)	0.72	0.71	0.83	0.93	1.06
P/B (x)	0.94	0.73	1.04	0.96	0.87
Dividend yield	3.9%	4.6%	3.5%	4.0%	4.6%
ROE	13.1%	11.8%	10.3%	10.7%	11.3%
NPL ratio	0.86%	0.88%	0.82%	0.81%	0.80%
Provision coverage	389%	408%	460%	484%	506%

Source: Company data, CMBIS estimates

PSBC is one of 6 state-owned banks in China. The Bank is owned and managed by China Post. It has around 40,000 outlets all around the country. 70% of the outlets are located at villages and towns which help PSBC to acquire deposit at a lower cost. Among all of the branches, 20% of them is directly operated outlets and the rest of them are agency outlets. PSBC should pay agency fee to China Post and the agency outlets cannot operate lending business. Directly operated outlets is same with peer's branches. We like PSBC because it has clean balance sheet and stable earnings growth. In addition, its 40,000 outlets provides cheap deposit which help PSBC maintain a high NIM. Initiate BUY on PSBC with a target price of RMB 7.07.

Sector-leading asset quality, lowest NPL ratio and second highest provision coverage among all nationwide operated banks. PSBC's asset quality is much better than all the peers. As of end-3Q21, PSBC's NPL ratio was 0.82%, while the industry average was 1.75% and the SOE average was 1.37%. Moreover, in 1H21 PSBC's proportion of special mention loans (SML) was 0.48%, while the SOE averaged 1.62% .The lower proportion of SML indicates healthier asset quality in the future. Furthermore, using the indicator "90+ days overdue ratio" (1H21) for comparison, we found that PSBC is still superior. As the end of 3Q21. Another advantage of PSBC is that has less risk exposure on property industry than any other large and mid-sized banks. Only 2.11% of its loan is property loan while SOEs' and JSBs' average is 5.2% and 8.7% respectively.

We initiate coverage on PSBC with a BUY. Based on Gordon Growth Model, our target price on PSBC (A share) is RMB 7.07, it implies 1.06x 2021E and 0.98x 2022E P/B. During last 3 years, PSBC (A) is trading at 0.79x P/B, currently, it is trading at 0.79 x FY22E P/B, at -1SD of historical mean (0.78x P/B). Thus, we think most negatives are priced in, the stock is waiting for catalyst to drive the re-rating. Key risk for 2022 is the economy recovery below expectation.

Why PSBC is our top pick?

Best asset quality. As we mention above, PSBC has the best asset quality among all the SOEs and JSBs. In addtion, since it has little exposure on property industy, and as the Bank guided, most of its development loan borrowers is top SOE developers, thus uncertainty in property industry will not be a concern on its valuation and fundamental.

Optimistic outlook on its long term growth. Unlike the other 5 SOEs, we are confident that PSBC can maintain a 10% CAGR on net profit growth in next few years. Because there is no TLAC influence on capital reserve and best capital management bank under D-SIBs regulation. Unlike other banks, PSBC can expand its RWA balanace sheet without too much concern on capital reserve. In addition to a growing RWA, according to its managements, the Bank is planning to lift LDR 2-3% annually in next few years. The increasing LDR will optimized its efficiency on total assets and then result in a better return on interest bearing assets. New management from CM Bank will optimize PSBC's business strategy on retail banking business and we have already see fast growth on its wealth management business.

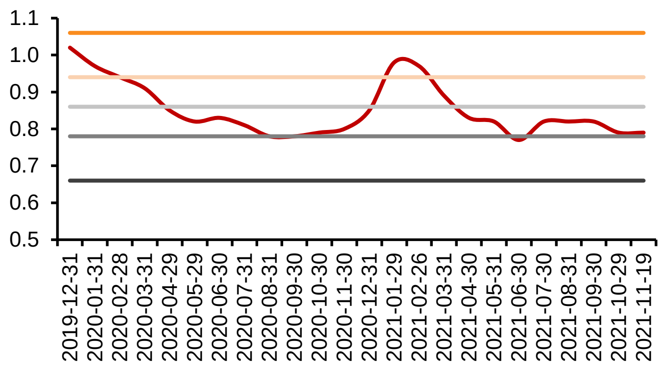
Valuation

Our Gordon Growth Model is based on cost of equity, our medium-term ROE and forecasted terminal growth rate. Our cost of equity is based on a risk-free rate similar to the 10-year China Treasury yield and a beta-adjusted equity risk premium.
Target price derivation (A share)

(%)	
Risk-free rate	3.2
Expected Market Return	9.0
Beta (x)	0.6
Cost of equity	6.7
MT ROE	6.0
MT Payout (%)	50
Terminal Growth Rate	3.0
Valuation end-22E	-
Target price (RMB)	7.1
Implied 2021E P/B (x)	1.0
Implied 2022E P/B (x)	1.0
Implied 2021E PE (x)	8.7
Implied 2022E PE (x)	7.5

Source: CMBIS

Figure 51: P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	242,686	253,378	273,956	299,497	325,671
Net fee&commission income	14,623	16,495	17,904	19,640	21,615
Others	19,500	16,329	23,820	27,305	31,304
Operating income	276,809	286,202	315,680	346,441	378,589
Operating expense	214,421	218,445	236,294	254,513	273,780
PPOP	119,140	118,553	135,996	155,585	176,074
Provision taken	55,384	50,398	56,192	63,215	70,801
Operating profit	62,388	67,757	79,386	91,929	104,810
Non-operating income	1357	379	397	417	438
Pre-tax profit	637,45	68,136	79,783	92,346	105,248
Income tax expense	2,709	3,818	4,148	4,802	5,472
Minority interests	103	119	136	157	179
Net profit	60,933	64,199	75,499	87,387	99,596

Balance Sheet

YE 31 Dec (RMB bn)	FY19A	FY20A	FY21E	FY22E	FY23E
Due from central banks	1,111	1,170	1,292	1,422	1,565
Interbank assets	298	292	321	353	389
Investments	3,827	4,186	4,481	4,794	5,148
Gross loan	4,975	5,718	6,473	7,294	8,180
Provision balance	167	206	244	286	331
Net loan	4,808	5,512	6,229	7,008	7,848
Other assets	172	193	214	237	262
Total assets	10,217	11,353	12,537	13,814	15,213
Due to central banks	0	25	0	0	0
Interbank liabilities	73	117	93	102	114
Customer deposits	9,314	10,358	11,455	12,643	13,937
Debt securities issued	97	58	66	73	80
Other liabilities	188	122	133	152	175
Total liabilities	9,672	10,680	11,746	12,970	14,305
Shareholders' equity	544	672	789	843	906
Minority interest	1	1	1	2	2
Total equity	545	673	790	845	908

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income mix					
Net interest income	88%	89%	87%	86%	86%
Net fee income	5%	6%	6%	6%	6%
Others	7%	6%	8%	8%	8%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	2.6%	4.4%	8.1%	9.3%	8.7%
Net fee&commission	18.4%	12.8%	8.5%	9.7%	10.1%
Operating income	6.1%	3.4%	10.3%	9.7%	9.3%
PPOP	9.4%	-0.5%	14.7%	14.4%	13.2%
Net profit	16.5%	5.4%	17.6%	15.7%	14.0%
Gross loans	16.3%	14.9%	13.2%	12.7%	12.2%
Customer deposits	8.0%	11.2%	10.6%	10.4%	10.2%
Efficiency					
CIR	56.6%	57.9%	56.2%	54.4%	52.8%
Asset quality					
NPL ratio	0.86%	0.88%	0.82%	0.81%	0.80%
Provision coverage	389%	408%	460%	484%	506%
Allowance to total loan	3.35%	3.59%	3.77%	3.92%	4.05%
Capital adequacy					
CET-1 CAR	9.9%	9.6%	9.9%	9.5%	9.3%
Tier-1 CAR	10.9%	11.9%	12.4%	11.7%	11.2%
Total CAR	13.5%	13.9%	14.8%	14.1%	13.5%
Profitability					
NIM	2.5%	2.4%	2.4%	2.3%	2.3%
ROE	13.1%	11.8%	9.6%	10.4%	11.0%
ROA	0.6%	0.6%	0.6%	0.6%	0.7%
RORWA	1.2%	1.1%	1.2%	1.2%	1.2%
Per share					
EPS (RMB)	0.72	0.71	0.82	0.95	1.08
DPS (RMB)	0.21	0.21	0.25	0.28	0.32
BVPS (RMB)	5.75	6.25	6.83	7.42	8.10

Source: Company data, CMBIS estimates

9 Dec 2021

CCB (939 HK)

Attractive dividend for long-term investors

CCB is one of China's leading banks in terms of deposits and net profit market share. The bank has lower NPL ratio and higher CAR than other big 4 banks. We like CCB because it has solid balance sheet and stable earnings growth. In addition, its 30% dividend payout should be sustainable. Initiate BUY on CCB (939 HK) with a target price of HK$6.33.

- **Large banks should become more attractive for investors, due to weak economy in 2022.** Because of their low valuation and stable dividend payout, the downside is quite limited. Based on our analysis, current valuation of CCB (H share) implies an expected NPL ratio of around 10%, the implied NPL ratio is higher than 2014 and 2020. Thus, we think negatives are priced in. Although we do not see a catalyst to drive re-rating in short term, the stock with limited downside and high dividend yield (8.4%/FY22E) is still attractive for long-term investors.
- **Stable asset quality, impacts from property industry is limited.** As of end-3Q21, CCB's NPL ratio was 1.51%, decline 2 bps QoQ. The improving NPL ratio indicates a healthier asset quality on the Group. In addition, according to CCB, they are confident to maintain a stable asset quality. Negative impacts from property developers' default.
- **Attractive dividend yield for long term investors.** In history, CCB maintains a stable payout ratio of 30%, which is higher than most of the JSBs and regional banks. Since CCB has sufficient core tier-1 capital and stable earnings growth, we think high payout is sustainable. Currently, dividend yield is around 8%, which is attractive for long term investors.
- **We initiate coverage on CCB with a BUY.** Based on Gordon Growth Model, our target price on CCB (H share) is HK$6.33, it implies 0.53x 2021E and 0.49x 2022E P/B. During last 3 years, CCB (H) was trading at 0.64x P/B, while currently it is trading at 0.45 x P/B, equivalent to -2SD of historical mean (0.45x P/B). Current valuation implies potential NPL ratio of 10%, which is higher than 2014 and 2020. Thus, we think most negatives are priced in. Key risk for 2022 is the below expectation of economic recovery.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	678,001	714,224	767,878	844,750	909,159
Net profit	266,733	271,050	283,187	307,135	316,166
EPS (RMB)	1.05	1.06	1.13	1.23	1.26
EPS CHG	4.7%	1.0%	6.9%	8.5%	2.9%
Consensus EPS (RMB)	1.05	1.06	1.17	1.26	1.36
P/B (x)	0.71	0.61	0.44	0.41	0.36
Dividend yield	5.3%	5.8%	7.7%	8.4%	8.7%
ROE	13.2%	12.1%	11.5%	11.5%	10.9%
NPL ratio	1.42%	1.56%	1.53%	1.50%	1.50%
Provision coverage	228%	214%	219%	225%	228%

Source: Company data, Bloomberg, CMBIS estimates

招銀国际 CMB INTERNATIONAL
招商银行全资附属机构 A Wholly Owned Subsidiary Of China Merchants Bank

BUY (Initiation)

Target Price	**HK$6.33**
(Previous TP	N/A)
Up/Downside	**+19%**
Current Price	**HK$5.33**

China Banking Sector

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Stock Data

Mkt Cap (HK$ mn)	1,350,115
Avg 3 mths t/o (HK$ mn)	1,332
52w High/Low (HK$)	6.25/5.07
Total Issued Shares (mn)	250,010

Source: WIND

Shareholding Structure

Central Huijing	57.0%

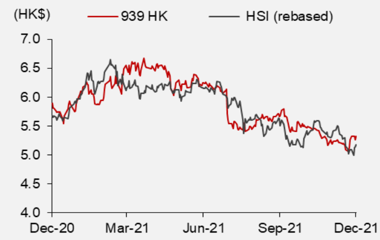
Source: WIND

Share Performance

	Absolute	Relative
1-mth	0.2%	3.3%
3-mth	-7.1%	1.8%
6-mth	-9.9%	6.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Valuation

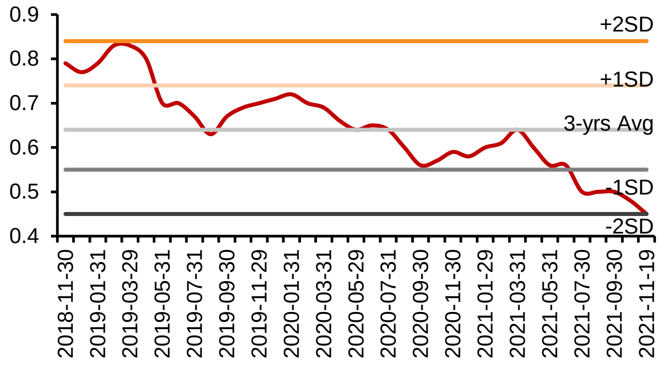
Our Gordon Growth Model is based on cost of equity, our medium-term ROE and forecasted terminal growth rate. Our cost of equity is based on a risk-free rate similar to the 10-year China Treasury yield and a beta-adjusted equity risk premium. Our beta is based on Bloomberg database.

Target price derivation

(%)	
Risk-free rate	3.0
Expected Market Return	9.0
Beta (x)	0.8
Cost of equity	7.8
MT ROE	6.0
MT Payout (%)	40
Terminal Growth Rate	3.6
Valuation end-22E	-
Target price (HK$)	6.3
Implied 2021E P/B (x)	0.5
Implied 2022E P/B (x)	0.5
Implied 2021E PE (x)	4.6
Implied 2022E PE (x)	4.2

Source: CMBIS

Figure 52: P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	537,066	575,909	623,752	695,653	754,783
Net fee&commission income	110,898	114,582	118,019	120,380	122,787
Others	30,037	23,733	26,106	28,717	31,589
Operating income	678,001	714,224	767,878	844,750	909,159
Operating expense	351,653	378,503	420,376	467,876	521,281
PPOP	489,597	530,107	565,197	627,173	675,669
Provision taken	163,000	193,491	216,710	249,216	286,599
Operating profit	326,348	335,721	347,502	376,874	387,879
Non-operating income	249	895	985	1,083	1,191
Pre-tax profit	326,597	336,616	348,487	377,957	389,070
Income tax expense	57,375	63,037	62,728	68,032	70,033
Minority interests	2,489	2,529	2,572	2,789	2,871
Net profit	266,733	271,050	283,187	307,135	316,166

Balance Sheet

YE 31 Dec (RMB bn)	FY19A	FY20A	FY21E	FY22E	FY23E
Due from central banks	2,621	2,816	3,098	3,371	3,647
Interbank assets	951	822	904	985	1,069
Investments	6,213	6,951	7,646	8,334	9,042
Gross loan	15,023	16,787	18,453	20,119	21,839
Provision balance	482	556	598	658	724
Net loan	14,541	16,231	17,855	19,461	21,116
Other assets	1,111	1,312	1,444	1,580	1,724
Total assets	25,436	28,132	30,945	33,731	36,598
Due to central banks	549	781	855	932	1,012
Interbank liabilities	2,624	2,686	2,941	3,206	3,478
Customer deposits	18,366	20,615	22,737	24,791	26,911
Debt securities issued	1,077	940	1,030	1,122	1,218
Other liabilities	585	721	789	860	933
Total liabilities	23,201	25,743	28,352	30,912	33,552
Shareholders' equity	2,216	2,365	2,567	2,789	3,013
Minority interest	19	25	27	30	33
Total equity	2,235	2,389	2,594	2,819	3,046

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income mix					
Net interest income	79%	81%	81%	82%	83%
Net fee income	16%	16%	15%	14%	14%
Others	4%	3%	3%	3%	3%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	5.0%	7.2%	8.3%	11.5%	8.5%
Net fee&commission	11.6%	3.3%	3.0%	2.0%	2.0%
Operating income	7.9%	5.3%	7.5%	10.0%	7.6%
PPOP	6.6%	8.3%	6.6%	11.0%	7.7%
Net profit	4.7%	1.6%	4.5%	8.5%	2.9%
Gross loans	8.8%	11.7%	9.9%	9.0%	8.5%
Customer deposits	7.4%	12.2%	10.3%	9.0%	8.6%
Efficiency					
CIR	26.5%	25.1%	25.0%	24.4%	24.3%
Asset quality					
NPL ratio	1.42%	1.56%	1.53%	1.50%	1.50%
Provision coverage	228%	214%	219%	225%	228%
Allowance to total loan	3.23%	3.33%	3.35%	3.38%	3.43%
Capital adequacy					
CET-1 CAR	13.9%	13.6%	13.7%	13.7%	13.7%
Tier-1 CAR	14.7%	14.2%	14.3%	14.2%	14.2%
Total CAR	17.5%	17.1%	17.2%	17.1%	17.1%
Profitability					
NIM	2.32%	2.19%	2.16%	2.21%	2.21%
ROE	13.2%	12.1%	11.0%	11.0%	10.5%
ROA	1.11%	1.02%	0.92%	0.91%	0.86%
RORWA	1.77%	1.63%	1.58%	1.57%	1.49%
Per share					
EPS (RMB)	1.05	1.06	1.13	1.23	1.26
DPS (RMB)	0.32	0.32	0.34	0.37	0.38
BVPS (RMB)	8.39	9.06	9.87	10.76	12.05

Source: Company data, CMBIS estimates

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CCB (601939 CH)

Attractive dividend for long-term investors

CCB is one of China's leading banks in terms of deposits and net profit market share. The bank has lower NPL ratio and higher CAR than other big 4 banks. We like CCB because it has solid balance sheet and stable earnings growth. In addition, its 30% dividend payout should be sustainable. Initiate BUY on CCB (601939 CH) with a target price of RMB 7.00.

- **Large banks should become more attractive for investors, due to weak economy in 2022.** Because of their low valuation and stable dividend payout, the downside is quite limited. Based on our analysis, current valuation of CCB implies an expected NPL ratio higher than 2014 and 2020. Thus, we think negatives are priced in. Although we do not see a catalyst to drive re-rating in short term, the stock with limited downside and high dividend yield (8.4%/FY22E) is still attractive for long-term investors.
- **Stable asset quality, impacts from property industry is limited.** As of end-3Q21, CCB's NPL ratio was 1.51%, decline 2 bps QoQ. The improving NPL ratio indicates a healthier asset quality on the Group. In addition, according to CCB, they are confident to maintain a stable asset quality. Negative impacts from property developers' default.
- **Attractive dividend yield for long term investors.** In history, CCB maintains a stable payout ratio of 30%, which is higher than most of the JSBs and regional banks. Since CCB has sufficient core tier-1 capital and stable earnings growth, we think high payout is sustainable. Currently, dividend yield is around 8%, which is attractive for long term investors.
- **We initiate coverage on CCB with a BUY.** Based on Gordon Growth Model, our Target price on CCB (A share) is RMB7.00, it implies 0.70x 2021E and 0.65x 2022E P/B. During last 3 years, CCB (A) is trading at 0.8x P/B, currently, it is trading at 0.60 xP/B, below -1 SD of historical mean (0.0.69x P/B). Current valuation implies potential NPL ratio is higher than 2014 and 2020. Thus, we think most negatives are priced in. Key risk for 2022 is the economy recovery below expectation.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	678,001	714,224	767,878	844,750	909,159
Net profit	266,733	271,050	283,187	307,135	316,166
EPS (RMB)	1.05	1.06	1.13	1.23	1.26
EPS CHG	4.7%	1.0%	6.9%	8.5%	2.9%
Consensus EPS (RMB)	1.05	1.06	1.17	1.26	1.36
P/B (x)	0.78	0.66	0.71	0.65	0.51
Dividend yield	4.8%	5.3%	4.9%	5.3%	5.4%
ROE	13.2%	12.1%	11.5%	11.5%	10.9%
NPL ratio	1.42%	1.56%	1.53%	1.50%	1.50%
Provision coverage	228%	214%	219%	225%	228%

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	**RMB7.0**
(Previous TP	N/A)
Up/Downside	**+19%**
Current Price	**RMB5.9**

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	1,100,046
Avg 3 mths t/o (RMB mn)	451
52w High/Low (RMB)	7.63/5.64
Total Issued Shares (mn)	250,010

Source: WIND

Shareholding Structure

Central Huijing	57.0%

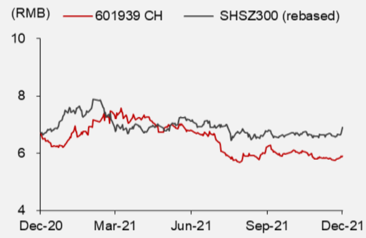
Source: WIND

Share Performance

	Absolute	Relative
1-mth	1.0%	-2.0%
3-mth	-5.6%	-6.1%
6-mth	-13.8%	-13.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Valuation

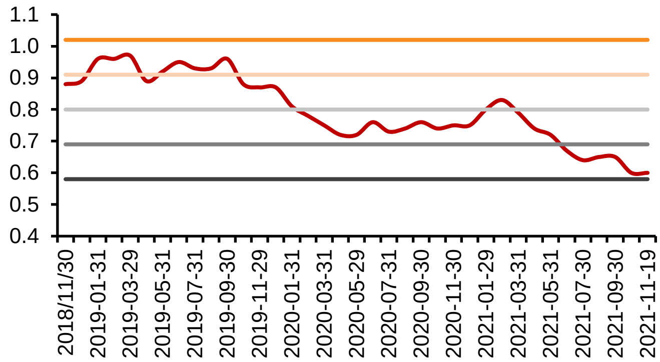
Our Gordon Growth Model is based on cost of equity, our medium-term ROE and forecasted terminal growth rate. Our cost of equity is based on a risk-free rate similar to the 10-year China Treasury yield and a beta-adjusted equity risk premium. Our beta is based on Bloomberg database.

Target price derivation

(%)	
Risk-free rate	3.0
Expected Market Return	9.0
Beta (x)	0.8
Cost of equity	7.8
MT ROE	6.0
MT Payout (%)	40
Terminal Growth Rate	3.6
Valuation end-22E	-
Target price (RMB)	7.0
Implied 2021E P/B (x)	0.7
Implied 2022E P/B (x)	0.7
Implied 2021E PE (x)	6.4
Implied 2022E PE (x)	5.8

Source: CMBIS

Figure 53: P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	537,066	575,909	623,752	695,653	754,783
Net fee&commission income	110,898	114,582	118,019	120,380	122,787
Others	30,037	23,733	26,106	28,717	31,589
Operating income	678,001	714,224	767,878	844,750	909,159
Operating expense	351,653	378,503	420,376	467,876	521,281
PPOP	489,597	530,107	565,197	627,173	675,669
Provision taken	163,000	193,491	216,710	249,216	286,599
Operating profit	326,348	335,721	347,502	376,874	387,879
Non-operating income	249	895	985	1,083	1,191
Pre-tax profit	326,597	336,616	348,487	377,957	389,070
Income tax expense	57,375	63,037	62,728	68,032	70,033
Minority interests	2,489	2,529	2,572	2,789	2,871
Net profit	266,733	271,050	283,187	307,135	316,166

Balance Sheet

YE 31 Dec (RMB bn)	FY19A	FY20A	FY21E	FY22E	FY23E
Due from central banks	2,621	2,816	3,098	3,371	3,647
Interbank assets	951	822	904	985	1,069
Investments	6,213	6,951	7,646	8,334	9,042
Gross loan	15,023	16,787	18,453	20,119	21,839
Provision balance	482	556	598	658	724
Net loan	14,541	16,231	17,855	19,461	21,116
Other assets	1,111	1,312	1,444	1,580	1,724
Total assets	25,436	28,132	30,945	33,731	36,598
Due to central banks	549	781	855	932	1,012
Interbank liabilities	2,624	2,686	2,941	3,206	3,478
Customer deposits	18,366	20,615	22,737	24,791	26,911
Debt securities issued	1,077	940	1,030	1,122	1,218
Other liabilities	585	721	789	860	933
Total liabilities	23,201	25,743	28,352	30,912	33,552
Shareholders' equity	2,216	2,365	2,567	2,789	3,013
Minority interest	19	25	27	30	33
Total equity	2,235	2,389	2,594	2,819	3,046

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income mix					
Net interest income	79%	81%	81%	82%	83%
Net fee income	16%	16%	15%	14%	14%
Others	4%	3%	3%	3%	3%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	5.0%	7.2%	8.3%	11.5%	8.5%
Net fee&commission	11.6%	3.3%	3.0%	2.0%	2.0%
Operating income	7.9%	5.3%	7.5%	10.0%	7.6%
PPOP	6.6%	8.3%	6.6%	11.0%	7.7%
Net profit	4.7%	1.6%	4.5%	8.5%	2.9%
Gross loans	8.8%	11.7%	9.9%	9.0%	8.5%
Customer deposits	7.4%	12.2%	10.3%	9.0%	8.6%
Efficiency					
CIR	26.5%	25.1%	25.0%	24.4%	24.3%
Asset quality					
NPL ratio	1.42%	1.56%	1.53%	1.50%	1.50%
Provision coverage	228%	214%	219%	225%	228%
Allowance to total loan	3.23%	3.33%	3.35%	3.38%	3.43%
Capital adequacy					
CET-1 CAR	13.9%	13.6%	13.7%	13.7%	13.7%
Tier-1 CAR	14.7%	14.2%	14.3%	14.2%	14.2%
Total CAR	17.5%	17.1%	17.2%	17.1%	17.1%
Profitability					
NIM	2.32%	2.19%	2.16%	2.21%	2.21%
ROE	13.2%	12.1%	11.0%	11.0%	10.5%
ROA	1.11%	1.02%	0.92%	0.91%	0.86%
RORWA	1.77%	1.63%	1.58%	1.57%	1.49%
Per share					
EPS (RMB)	1.05	1.06	1.13	1.23	1.26
DPS (RMB)	0.32	0.32	0.34	0.37	0.38
BVPS (RMB)	8.39	9.06	9.87	10.76	12.05

Source: Company data, CMBIS estimates

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Bank of Shanghai (601299 CH)

One of the largest regional banks in China

Bank of Shanghai is one of the most influential local banks in Shanghai metropolitan area. It is a city bank owned by Shanghai local government. As a local government owned bank, it has been assigned as the Shanghai retirement fund account manager, which is a big advantage for it to maintain a big market share on Shanghai banking market. Initiate BUY on Bank of Shanghai with a target price of RMB9.04.

- **As the Shanghai retirement fund account manager, BoSH is planning to optimize this advantage to expanding retail business by establishing bank wealth management subsidiary (银行理财子公司).** At the end of 3Q21, number of retail banking clients was 6.78mn, +11.6% compared with 2020. The growing client base drives an increase on WMP balance. At the end of 3Q21, its outstanding WMP balance was RMB 433bn, +13.3% than 2020. More than 90% of its WMP is NAV type products, while sector average is only 70%.
- **Improved SML ratio indicates a better asset quality in the future.** As of end-3Q21, BoSH's NPL ratio was 1.19%, while the industry average was 1.75% and city banks' average was 1.82%. Moreover, in 3Q21, BoSH's proportion of special mention loans (SML) was 1.7%, 16 bps lower than 1H21. The lower proportion of SML indicates healthier asset quality in the future.
- **Good improvement on asset-liability structure, fast growth on loan and deposit.** As of the end of 3Q21, total asset, loan and deposit balance is RMB 2,652bn, RMB 1,212.5 n and RMB 1,456bn, grew 7.7%, 10.4% and 12.3% respectively. Loan to asset ratio is 45.72%, +112 bps than 2020. Deposit to liability ratio is 59.43%, +222 bps than 2020. The improving asset-liability structure help BoSH reduce the NIM compression.
- **We initiate coverage on BoSH with a BUY.** Based on Gordon Growth Model, our target price is RMB9.04, implying 0.70x 2021E and 0.64x 2022E P/B. During last 3 years, SPDB was trading at 0.79x P/B, while currently it is trading at 0.57x P/B, below -1SD of historical mean. We think most negatives are priced in. The stock is waiting for economic recovery to drive re-rating. Key risk for 2022 is the below expectation of economic recovery.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	49,800	50,746	55,004	61,216	68,803
Net profit	20,297	20,885	21,836	24,512	28,112
EPS (RMB)	1.36	1.40	1.54	1.73	1.98
EPS CHG	13%	3%	10%	12%	15%
Consensus EPS (RMB)	1.36	1.4	1.63	1.82	2.05
P/B (x)	0.78	0.62	0.55	0.51	0.47
Dividend yield	4.6%	5.4%	6.1%	6.9%	7.9%
ROE	12.8%	12.0%	11.1%	11.5%	12.2%
NPL ratio	1.16%	1.22%	1.19%	1.20%	1.18%
Provision coverage	337%	321%	320%	310%	307%

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	**HK$9.04**
(Previous TP	N/A)
Up/Downside	**+26%**
Current Price	**HK$7.20**

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	102,000
Avg 3 mths t/o (RMB mn)	126
52w High/Low (RMB)	8.36/7.12
Total Issued Shares (mn)	14,206

Source: WIND

Shareholding Structure

Shanghai Lianhe	14.7%
Shanghai International Port	8.3%
Santander	6.5%

Source: WIND

Share Performance

	Absolute	Relative
1-mth	-0.3%	-3.3%
3-mth	-4.1%	-4.6%
6-mth	-11.3%	-6.8%

Source: Bloomberg

12-mth Price Performance

Source: Bloomberg

Valuation

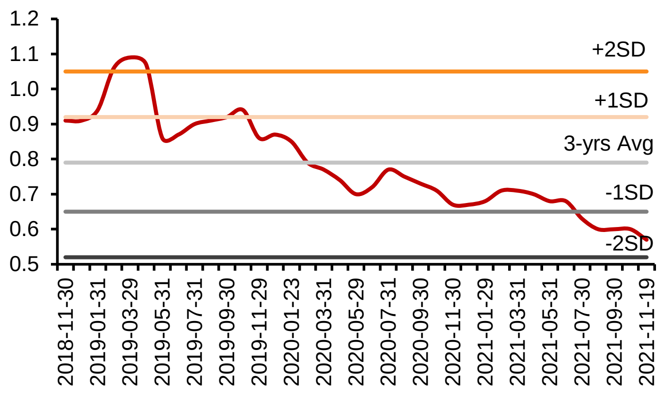
Our Gordon Growth Model is based on cost of equity, our medium-term ROE and forecasted terminal growth rate. Our cost of equity is based on a risk-free rate similar to the 10-year China Treasury yield and a beta-adjusted equity risk premium. Our beta is based on Bloomberg database.

Target price derivation

(%)	
Risk-free rate	3.2
Expected Market Return	9.0
Beta (x)	0.6
Cost of equity	6.7
MT ROE	6
MT Payout (%)	20
Terminal Growth Rate	4.8
Valuation end-22E	-
Target price (RMB)	9.0
Implied 2021E P/B (x)	0.7
Implied 2022E P/B (x)	0.6
Implied 2021E PE (x)	5.9
Implied 2022E PE (x)	5.2

Source: CMBIS

Figure 54: P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	31,765	36,393	37,774	42,423	48,299
Net fee&commission income	5,123	5,608	6,579	7,065	7,594
Others	12,912	8,745	10,651	11,728	12,911
Operating income	49,800	50,746	55,004	61,216	68,803
Operating expense	27,570	28,425	31,333	34,643	38,321
PPOP	39,380	40,596	44,366	50,012	56,994
Provision taken	17,150	18,275	20,696	23,439	26,512
Operating profit	22,230	22,321	23,670	26,573	30,483
Non-operating income	147	89	100	110	120
Pre-tax profit	22,377	22,410	23,770	26,683	30,603
Income tax expense	2,044	1,495	1,902	2,135	2,448
Minority interests	36	30	33	37	42
Net profit	20,297	20,885	21,836	24,512	28,112

Balance Sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Due from central banks	138,541	144,480	160,788	179,427	201,504
Interbank assets	184,657	202,505	221,742	242,872	266,083
Investments	936,639	1,003,261	1,099,259	1,226,891	1,375,821
Gross loan	972,504	1,098,124	1,269,450	1,452,156	1,653,927
Provision balance	37,938	43,066	48,295	53,934	59,955
Net loan	941,219	1,062,058	1,221,154	1,398,222	1,593,973
Other assets	36,025	49,840	54,826	60,555	67,162
Total assets	2,237,081	2,462,144	2,757,770	3,107,967	3,504,543
Due to central banks	93,181	126,839	152,207	182,648	219,178
Interbank liabilities	468,782	510,306	561,932	628,672	687,398
Customer deposits	1,203,550	1,315,724	1,468,404	1,643,111	1,852,100
Debt securities issued	190,712	189,639	208,603	229,463	252,410
Other liabilities	96,062	120,446	151,697	191,452	240,551
Total liabilities	2,059,855	2,271,205	2,552,323	2,886,239	3,264,153
Shareholders' equity	176,708	190,398	204,895	221,165	239,816
Minority interest	518	541	552	563	574
Total equity	177,226	190,939	205,447	221,728	240,390

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income mix					
Net interest income	64%	72%	69%	69%	70%
Net fee income	10%	11%	12%	12%	11%
Others	26%	17%	19%	19%	19%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	1.3%	14.6%	3.8%	12.3%	13.8%
Net fee&commission	9.8%	9.5%	17.3%	7.4%	7.5%
Operating income	13.5%	1.9%	8.4%	11.3%	12.4%
PPOP	14.6%	3.1%	9.3%	12.7%	14.0%
Net profit	12.6%	2.9%	4.6%	12.3%	14.7%
Gross loans	15.0%	12.9%	15.6%	14.4%	13.9%
Customer deposits	15.5%	9.3%	11.6%	11.9%	12.7%
Efficiency					
CIR	20.0%	18.9%	18.3%	17.3%	16.2%
Asset quality					
NPL ratio	1.16%	1.22%	1.19%	1.20%	1.18%
Provision coverage	337%	321%	320%	310%	307%
Allowance to total loan	3.90%	3.92%	3.80%	3.71%	3.62%
Capital adequacy					
CET-1 CAR	9.7%	9.3%	9.0%	8.7%	8.4%
Tier-1 CAR	10.9%	10.5%	10.0%	9.6%	9.2%
Total CAR	13.8%	12.9%	12.1%	11.4%	10.9%
Profitability					
NIM	1.78%	1.82%	1.70%	1.68%	1.69%
ROE	12.8%	12.0%	10.7%	11.1%	11.7%
ROA	0.95%	0.89%	0.79%	0.79%	0.80%
RORWA	1.34%	1.24%	1.08%	1.08%	1.10%
Per share					
EPS (RMB)	1.36	1.40	1.54	1.73	1.98
DPS (RMB)	0.40	0.40	0.44	0.50	0.57
BVPS (RMB)	11.03	12.00	13.02	14.16	15.48

Source: Company data, CMBIS estimates

9 Dec 2021

SPDB (600000 CH)

One of top 10 largest banks in China

In terms of core capital balance, SPD Bank is one of top 10 largest banks in China. It is a joint stock bank, which is headquartered in Shanghai, owned by Shanghai local government. SPD Bank operates its business all over the country and it focuses on Yangtze River Delta Area, which is one of the most developed areas in China. Its current low valuation reflects all the negatives. Initiate HOLD on SPD Bank with a target price of RMB9.34.

- **As a Shanghai based large bank, SPD Bank has strong influence on YRD area.** At the end of 3Q21, its outstanding loan balance and deposit balance in YRD area is RMB 1.46 tn and RMB 1.79 tn. Both of loan and deposit balance is ranked No.1 among JSBs in YRD area.
- **Although the asset quality is still a concern, we see a slightly improvement in this year.** As of end-3Q21, its NPL ratio was 1.60%, while the industry average was1.75% and the JSBs' average was 1.40%. SPDB's proportion of special mention loans (SML) was 2.14% in 3Q21, better than 2.26% in 1H21. The lower proportion of SML indicates healthier asset quality in the future.
- **Underperformed NIM due to declining lending rate.** According to managements' comments, its worse-than-peers NIM compression is in line with managements' expectation. Under a risk management perspective, SPD bank shifts some investment from high-risk borrowers to larger enterprise, which causes more decline on lending rate. We think the adjustment on lending policy is positive, short-term NIM squeezes but it will lead to a better asset quality in long term.
- **We initiate coverage on SPDB with a HOLD.** Based on Gordon Growth Model, our target price is RMB9.34, implying 0.49x 2021E and 0.45x 2022E P/B. During last 3 years, SPDB was trading at 0.64x P/B, while currently it is trading at 0.46 x P/B, slightly above -2SD of historical mean (0.44x P/B). Current valuation implies potential NPL ratio of 9.2%, which is higher than 2020 and 2014. Thus, we think most negatives are priced in. The stock is waiting for economic recovery to drive re-rating. Key risk for 2022 is the below expectation of economic recovery.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	190,688	196,384	187,807	208,797	236,897
Net profit	58,911	58,325	55,500	62,796	77,606
EPS (RMB)	1.95	1.88	1.70	1.95	2.46
EPS CHG	5.4%	-3.4%	-9.5%	14.6%	25.8%
Consensus EPS (RMB)	1.95	1.88	1.97	2.10	2.29
P/B (x)	0.67	0.51	0.45	0.42	0.38
Dividend yield	5.4%	5.2%	5.4%	6.2%	7.6%
ROE	12.0%	10.7%	8.5%	9.0%	10.5%
NPL ratio	2.03%	1.73%	1.62%	1.61%	1.60%
Provision coverage	135%	153%	165%	170%	179%

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Initiation)

Target Price	**RMB9.34**
(Previous TP	N/A)
Up/Downside	**+8%**
Current Price	**RMB8.68**

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	254,483
Avg 3 mths t/o (RMB mn)	288
52w High/Low (RMB)	10.59/8.48
Total Issued Shares (mn)	29,352

Source: WIND

Shareholding Structure

Shanghai International	21.6%
China Mobile	18.2%

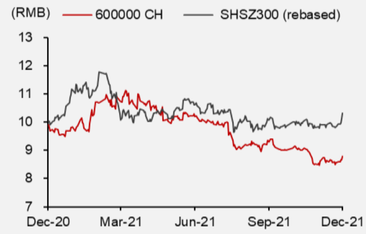
Source: WIND

Share Performance

	Absolute	Relative
1-mth	2.1%	-0.9%
3-mth	-7.2%	-7.7%
6-mth	-11.7%	-7.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Valuation

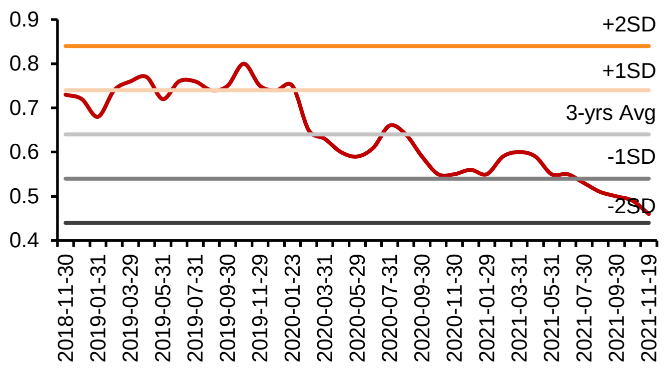
Our Gordon Growth Model is based on cost of equity, our medium-term ROE and forecasted terminal growth rate. Our cost of equity is based on a risk-free rate similar to the 10-year China Treasury yield and a beta-adjusted equity risk premium. Our beta is based on Bloomberg database.

Target price derivation

(%)	
Risk-free rate	3.0
Expected Market Return	9.0
Beta (x)	0.74
Cost of equity	7.44
MT ROE	6.0
MT Payout (%)	20
Terminal Growth Rate	4.8
Valuation end-22E	-
Target price (RMB)	9.3
Implied 2021E P/B (x)	0.5
Implied 2022E P/B (x)	0.4
Implied 2021E PE (x)	5.5
Implied 2022E PE (x)	4.8

Source: CMBIS

Figure 55: P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	144,52	138,58	124,61	134,35	148,44
Net fee&commission income	24,774	33,946	26,864	29,550	32,505
Others	21,391	23,857	36,324	44,889	55,943
Operating income	190,68	196,38	187,80	208,79	236,89
Operating expense	120,82	129,64	123,31	135,83	146,74
PPOP	144,57	146,28	136,81	156,20	182,55
Provision taken	74,708	79,547	72,325	83,244	92,401
Operating profit	69,864	66,736	64,488	72,958	90,153
Non-operating income	-47	-54	-50	-50	-50
Pre-tax profit	69,817	66,682	64,438	72,908	90,103
Income tax expense	10,311	7,689	8,377	9,478	11,713
Minority interests	595	668	561	634	784
Net profit	58,911	58,325	55,500	62,796	77,606

Balance Sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Due from central banks	471,741	483,732	636,055	728,605	832,751
Interbank assets	276,362	385,927	405,223	425,485	446,759
Investments	2,125,13	2,402,66	2,055,29	1,829,42	1,681,93
Gross loan	4,025,90	4,533,97	4,990,20	5,564,08	6,176,13
Provision balance	110,491	119,867	133,683	152,557	177,181
Net loan	3,930,75	4,430,22	4,873,25	5,433,67	6,031,37
Other assets	171,067	202,700	222,193	229,777	237,700
Total assets	7,005,92	7,950,21	8,239,23	8,696,54	9,282,58
Due to central banks	233,423	274,346	288,063	302,466	317,590
Interbank liabilities	1,163,36	1,365,57	1,012,53	1,030,93	1,049,69
Customer deposits	3,661,84	4,122,40	4,663,74	5,249,13	5,882,03
Debt securities issued	1,003,50	1,140,65	1,209,33	1,027,66	924,661
Other liabilities	358,813	384,677	364,843	341,564	307,814
Total liabilities	6,444,87	7,304,40	7,556,90	7,971,95	8,503,95
Shareholders' equity	553,861	638,197	674,342	715,959	769,468
Minority interest	7,190	7,620	7,989	8,632	9,158
Total equity	561,051	645,817	682,331	724,591	778,625

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income mix					
Net interest income	76%	71%	66%	64%	63%
Net fee income	13%	17%	14%	14%	14%
Others	11%	12%	19%	21%	24%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	15.2%	-4.1%	-10.1%	7.8%	10.5%
Net fee&commission	3.7%	37.0%	-20.9%	10.0%	10.0%
Operating income	11.6%	3.0%	-4.4%	11.2%	13.5%
PPOP	15.0%	1.2%	-6.5%	14.2%	16.9%
Net profit	5.4%	-1.0%	-4.8%	13.1%	23.6%
Gross loans	12.2%	12.6%	10.1%	11.5%	11.0%
Customer deposits	12.6%	12.6%	13.1%	12.6%	12.1%
Efficiency					
CIR	22.6%	23.8%	25.4%	23.5%	21.3%
Asset quality					
NPL ratio	2.03%	1.73%	1.62%	1.61%	1.60%
Provision coverage	135%	153%	165%	170%	179%
Allowance to total loan	2.74%	2.64%	2.68%	2.74%	2.87%
Capital adequacy					
CET-1 CAR	10.3%	9.5%	10.2%	10.3%	10.4%
Tier-1 CAR	11.5%	11.5%	12.3%	12.3%	12.4%
Total CAR	13.9%	14.6%	15.9%	16.5%	17.1%
Profitability					
NIM	2.34%	2.02%	1.71%	1.72%	1.77%
ROE	12.0%	10.7%	8.2%	8.8%	10.1%
ROA	0.90%	0.79%	0.67%	0.72%	0.84%
RORWA	1.25%	1.07%	0.99%	1.06%	1.23%
Per share					
EPS (RMB)	1.95	1.88	1.70	1.95	2.46
DPS (RMB)	0.60	0.48	0.47	0.53	0.66
BVPS (RMB)	16.83	18.00	19.13	20.55	22.38

Source: Company data, CMBIS estimates

Bank of Changsha (601577 CH)

Regional bank in Chang-Zhu-Tan Area

Changsha is one of the fast growth city banks in China. In terms of core tier-1 capital, it is one of top 20 among city banks. Changsha local government is the largest shareholder of the Bank. The Bank operates its business in Hunan and Guangdong, both of these 2 areas achieved a better GDP growth than the whole country. Initiate HOLD on Bank of Changsha with a target price of RMB8.32.

- **A beneficiary of fast growing GDP in Hunan area.** The local government supports the Bank, by assigning the Bank as one of the Hunan social security fund and retirement fund account managers. In addition, the local government participated in Bank of Changsha's private placement in 2020, the raised capital can lift RMB 70bn on RWA limit. All these actions show that the Bank maintains a strong bond with local government; it will help them maintain strong competiveness on its core business area (Changsha-Zhuzhou-Xiangtan Area). According to local government's guideline, until 2025, CAGR on GDP in Changsha-Zhuzhou-Xiangtan Area is targeted at 8%, compared with the expected CAGR on China GDP of 5-7%. We think Bank of Changsha can take the advantage of better GDP growth to outperform the banking sector.
- **Good asset quality with high provision.** As of 3Q21, the Bank's NPL ratio was 1.20%, while the industry average was 1.75% and the city banks' average was 1.82%. Moreover, as of 3Q21, the Bank's proportion of special mention loans (SML) was 2.36%, down 20 bps compared with 1H21. The lower proportion of SML indicates healthier asset quality in the future.
- We initiate coverage on BoCS with a HOLD. Based on Gordon Growth Model, our target price is RMB8.32, implying 0.67x 2021E and 0.60x 2022E P/B. During last 3 years, BoCS was trading at 0.89x P/B, while currently it is trading at 0.66x P/B, slightly above -2SD of historical mean (0.63x P/B). Key risk for 2022 is the below expectation of economic recovery in Hunan area.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	17,015	18,022	20,808	24,246	26,964
Net profit	5,080	5,338	6,120	6,872	7,724
EPS (RMB)	1.48	1.47	1.79	2.01	2.26
EPS CHG (%)	13%	-1%	22%	12%	12%
Consensus EPS (RMB)	1.48	1.47	1.53	1.75	2.01
P/B (x)	0.83	0.82	0.63	0.57	0.51
Dividend yield (%)	3.8%	3.5%	5.7%	6.4%	7.2%
ROE (%)	15.6%	13.7%	13.2%	13.5%	13.8%
NPL ratio (%)	1.22%	1.21%	1.20%	1.18%	1.18%
Provision coverage (%)	280%	293%	313%	331%	340%

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Initiation)

Target Price	**RMB8.32**
(Previous TP	N/A)
Up/Downside	**+6%**
Current Price	**RMB7.86**

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	31,569
Avg 3 mths t/o (RMB mn)	135
52w High/Low (RMB)	10.87/7.73
Total Issued Shares (mn)	4021

Source: WIND

Shareholding Structure

Changsha local govt	16.8%
Hunan Telecom Industry corp	5.6%
Youyi	5.7%

Source: WIND

Share Performance

	Absolute	Relative
1-mth	1.0%	-2.0%
3-mth	-10.4%	-10.9%
6-mth	-15.8%	-11.3%

Source: Bloomberg

12-mth Price Performance

Source: Bloomberg

Valuation

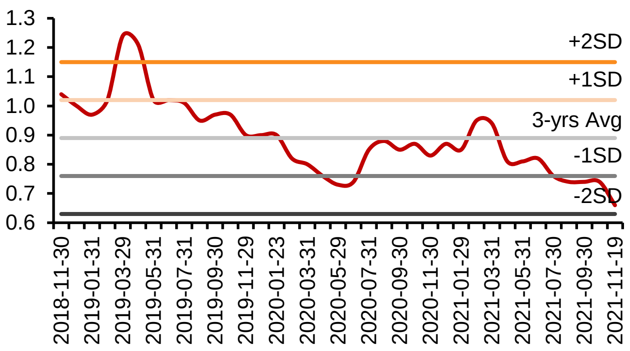
Our Gordon Growth Model is based on cost of equity, our medium-term ROE and forecasted terminal growth rate. Our cost of equity is based on a risk-free rate similar to the 10-year China Treasury yield and a beta-adjusted equity risk premium. Our beta is based on Bloomberg database.

Target price derivation

(%)	
Risk-free rate	3.0
Expected Market Return	9.0
Beta (x)	0.7
Cost of equity	7.2
MT ROE	6.0
MT Payout (%)	30
Terminal Growth Rate	4.2
Valuation end-22E	-
Target price (RMB)	8.3
Implied 2021E P/B (x)	0.7
Implied 2022E P/B (x)	0.6
Implied 2021E PE (x)	4.7
Implied 2022E PE (x)	4.1

Source: CMBIS

Figure 56: P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	13,199	14,962	16,686	20,191	22,922
Net fee&commission income	850	797	1,010	1,056	1,250
Others	2,966	2,264	3,112	2,999	2,792
Operating income	17,015	18,022	20,808	24,246	26,964
Operating expense	10,531	11,227	13,028	15,513	17,153
PPOP	11,617	12,455	15,078	18,321	20,842
Provision taken	5,167	5,690	7,328	9,618	11,061
Operating profit	6,484	6,795	7,780	8,733	9,811
Non-operating income	-34	-30	-30	-30	-30
Pre-tax profit	6,450	6,765	7,750	8,703	9,781
Income tax expense	1,192	1,204	1,395	1,566	1,761
Minority interests	178	223	235	264	297
Net profit	5,080	5,338	6,120	6,872	7,724

Balance Sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Due from central banks	46,038	53,574	57,453	64,175	71,556
Interbank assets	8,247	8,442	8,611	8,783	8,959
Investments	288,748	329,195	373,431	422,052	474,866
Gross loan	261,086	315,946	363,338	419,655	482,604
Provision balance	8,896	11,155	13,640	16,373	19,380
Net loan	252,190	304,789	350,621	404,967	465,712
Other assets	6,774	8,235	8,858	10,533	12,627
Total assets	601,997	704,234	798,974	910,510	1,033,72
	46,038	53,574	57,453	64,175	71,556
Due to central banks	1,811	21,488	25,786	30,943	35,584
Interbank liabilities	22,641	34,949	50,009	74,620	102,428
Customer deposits	392,016	463,645	491,662	552,178	618,723
Debt securities issued	124,744	130,801	145,694	158,784	173,108
Other liabilities	18,952	7,629	35,771	39,088	42,734
Total liabilities	560,164	658,512	748,921	855,612	972,577
	1,811	21,488	25,786	30,943	35,584
Shareholders' equity	40,633	44,333	48,606	53,442	58,918
Minority interest	1,200	1,389	1,447	1,456	2,226
Total equity	41,833	45,722	50,052	54,898	61,144

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income mix					
Net interest income	78%	83%	80%	83%	85%
Net fee income	5%	4%	5%	4%	5%
Others	17%	13%	15%	12%	10%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	6.3%	13.4%	11.5%	21.0%	13.5%
Net fee&commission	12.2%	-6.3%	26.9%	4.5%	18.4%
Operating income	22.1%	5.9%	15.5%	16.5%	11.2%
PPOP	29.2%	7.2%	21.1%	21.5%	13.8%
Net profit	13.4%	5.1%	14.6%	12.3%	12.4%
Gross loans	27.9%	21.0%	15.0%	15.5%	15.0%
Customer deposits	14.9%	18.3%	6.0%	12.3%	12.1%
Efficiency					
CIR	30.7%	29.7%	26.5%	23.4%	21.7%
Asset quality					
NPL ratio	1.22%	1.21%	1.20%	1.18%	1.18%
Provision coverage	280%	293%	313%	331%	340%
Allowance to total loan	3.41%	3.53%	3.75%	3.90%	4.02%
Capital adequacy					
CET-1 CAR	9.2%	8.6%	8.4%	8.2%	8.1%
Tier-1 CAR	10.8%	10.0%	9.6%	9.3%	9.0%
Total CAR	13.3%	13.6%	13.5%	13.3%	13.3%
Profitability					
NIM	2.60%	2.58%	2.34%	2.45%	2.45%
ROE	15.6%	13.7%	12.6%	12.9%	13.1%
ROA	0.93%	0.85%	0.77%	0.75%	0.75%
RORWA	1.34%	1.19%	1.21%	1.19%	1.18%
Per share					
EPS (RMB)	1.48	1.47	1.79	2.01	2.26
DPS (RMB)	0.32	0.32	0.45	0.50	0.56
BVPS (RMB)	10.12	11.21	12.45	13.87	15.47

Source: CMBIS estimates

9 Dec 2021

CMB International Securities | Equity Research | Company Update

CQRC (601077 CH)

Largest rural commercial bank in China

CQRCB is the largest rural and commercial bank in China. The bank has better asset quality and risk management ability than its peers. In addition, after dual-listing in SHSE and HKEX, it has raised sufficient capital to support its future growth. Major risks are priced in, waiting for catalyst to drive re-rating. HOLD CQRCB (601077 CH) with a target price of RMB 3.60.

- **The Bank dominates Chongqing banking market.** It is headquartered in Chongqing, business network covers "Chengdu-Chongqing Metropolitan Area". As the end of 1H21, the total assets, deposits and loans grew 7.4% HoH, 4.4% HoH and 10.6% HoH to RMB 1,224 bn, RMB 757 bn and RMB 562 bn, respectively. The banks hold the largest market share in Chongqing in terms of loan and deposit balance.
- **Comparing with other rural commercial banks, CQRCB's asset quality is better.** As of end-3Q21, its NPL ratio was 1.27%, while the industry average was 1.75% and the rural commercial banks' average was 3.59%. Long-term beneficiary of "common prosperity". Moreover, as central government mentioned, common prosperity (共同富裕) is a key guideline for China's long term development scheme, regional financial institution will be benefited along with the growing wealth of residents from low tier cities.
- **We initiate coverage on CQRCB with a HOLD.** Based on Gordon Growth Model, our target price on target price on CQRCB (A share) is RMB3.60, it implies 0.39x 2021E and 0.36x 2022E P/B. After listed, CQRCB (A) is trading at 0.61x P/B, currently, it is trading at 0.44x P/B, below than -1SD of historical mean (0.46x P/B). We think most negatives are priced in. Key risk for 2022 is the economy recovery on "Chengdu-Chongqing Metropolitan Area" below expectation.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	26,629	28,186	30,773	34,127	37,940
Net profit	9,759	8,401	10,007	10,489	10,917
EPS (RMB)	0.95	0.74	0.88	0.92	0.96
EPS CHG	8%	-22%	19%	5%	4%
Consensus EPS (RMB)	0.95	0.74	0.83	0.91	1.01
P/B (x)	0.78	0.52	0.39	0.35	0.33
Dividend yield	3.8%	5.2%	7.3%	7.7%	8.0%
ROE	11.7%	9.1%	10.1%	9.6%	9.1%
NPL ratio	1.25%	1.31%	1.26%	1.25%	1.25%
Provision coverage	380%	315%	315%	308%	303%

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Initiation)

Target Price	**RMB3.60**
(Previous TP	N/A)
Up/Downside	**-7%**
Current Price	**RMB3.86**

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	39,961
Avg 3 mths t/o (RMB mn)	139
52w High/Low (RMB)	4.70/3.74
Total Issued Shares (mn)	11,357

Source: WIND

Shareholding Structure

Yufu Capital	8.7%
CQ Chengjian	7.2%
CQ Development	5.2%

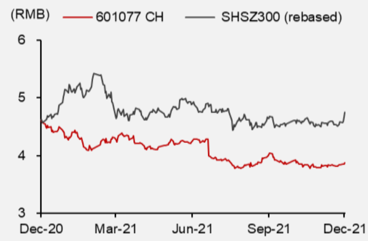
Source: WIND

Share Performance

	Absolute	Relative
1-mth	-0.4%	2.7%
3-mth	-9.6%	-0.7%
6-mth	-14.9%	1.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Valuation

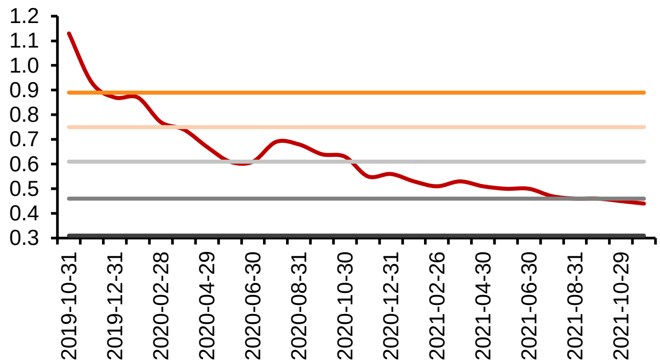
Our Gordon Growth Model is based on cost of equity, our medium-term ROE and forecasted terminal growth rate. Our cost of equity is based on a risk-free rate similar to the 10-year China Treasury yield and a beta-adjusted equity risk premium. Our beta is based on Bloomberg database.

Target price derivation

(%)	
Risk-free rate	3.0
Expected Market Return	9.0
Beta (x)	0.9
Cost of equity	8.4
MT ROE	5
MT Payout (%)	20
Terminal Growth Rate	4
Valuation end-22E	-
Target price (RMB)	3.6
Implied 2021E P/B (x)	0.4
Implied 2022E P/B (x)	0.4
Implied 2021E PE (x)	4.6
Implied 2022E PE (x)	4.4

Source: CMBIS

Figure 57: P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	23,373	24,248	26,815	29,971	33,574
Net fee&commission income	2,239	2,902	2,550	2,661	2,778
Others	1,017	1,036	1,408	1,495	1,588
Operating income	26,629	28,186	30,773	34,127	37,940
Operating expense	14,409	18,119	18,544	21,309	24,599
PPOP	18,793	20,275	22,632	25,760	29,337
Provision taken	6,573	10,208	10,403	12,942	15,997
Operating profit	12,220	10,067	12,229	12,818	13,341
Non-operating income	12	-4	0	0	0
Pre-tax profit	12,232	10,063	12,229	12,818	13,341
Income tax expense	2,245	1,498	2,018	2,115	2,201
Minority interests	228	119	204	214	223
Net profit	9,759	8,401	10,007	10,489	10,917

Balance Sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Due from central banks	74,066	62,064	67,761	76,595	86,386
Interbank assets	146,000	137,386	147,588	158,866	171,371
Investments	377,443	431,313	484,226	548,176	627,588
Gross loan	437,084	507,885	595,813	702,214	824,567
Provision balance	20,743	20,922	23,632	27,040	31,237
Net loan	416,340	486,963	572,182	675,174	793,330
Other assets	15,941	18,200	20,871	22,316	23,919
Total assets	1,029,79	1,135,92	1,292,62	1,481,12	1,702,59
Due to central banks	31,218	62,314	68,545	75,400	82,940
Interbank liabilities	35,569	62,138	81,192	98,542	120,745
Customer deposits	673,401	724,999	794,697	900,232	1,017,08
Debt securities issued	171,330	173,178	213,564	257,689	313,505
Other liabilities	28,909	18,665	28,710	32,637	40,439
Total liabilities	940,427	1,041,29	1,186,70	1,364,49	1,574,71
Shareholders' equity	87,773	93,229	104,330	114,819	125,736
Minority interest	1,590	1,403	1,589	1,716	1,884
Total equity	89,363	94,632	105,919	116,535	127,620

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income mix					
Net interest income	88%	86%	87%	88%	88%
Net fee income	8%	10%	8%	8%	7%
Others	4%	4%	5%	4%	4%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	16.4%	3.7%	10.6%	11.8%	12.0%
Net fee&commission	12.4%	29.6%	-12.1%	4.4%	4.4%
Operating income	6.8%	5.8%	9.2%	10.9%	11.2%
PPOP	7.8%	7.9%	11.6%	13.8%	13.9%
Net profit	7.8%	-13.9%	19.1%	4.8%	4.1%
Gross loans	14.4%	16.2%	17.3%	17.9%	17.4%
Customer deposits	6.8%	7.7%	9.6%	13.3%	13.0%
Efficiency					
CIR	28.5%	27.1%	25.5%	23.6%	21.7%
Asset quality					
NPL ratio	1.25%	1.31%	1.26%	1.25%	1.25%
Provision coverage	380%	315%	315%	308%	303%
Allowance to total loan	4.75%	4.12%	3.97%	3.85%	3.79%
Capital adequacy					
CET-1 CAR	12.4%	12.0%	11.8%	11.1%	10.6%
Tier-1 CAR	12.4%	12.0%	11.8%	11.1%	10.6%
Total CAR	14.9%	14.3%	13.9%	13.1%	12.4%
Profitability					
NIM	2.33%	2.25%	2.19%	2.14%	2.09%
ROE	11.7%	9.1%	9.6%	9.1%	8.7%
ROA	1.01%	0.78%	0.77%	0.71%	0.64%
RORWA	1.40%	1.09%	1.14%	1.05%	0.95%
Per share					
EPS (RMB)	0.95	0.74	0.88	0.92	0.96
DPS (RMB)	0.23	0.22	0.26	0.28	0.29
BVPS (RMB)	7.73	8.21	9.19	10.11	11.07

Source: Company data, CMBIS estimates

CQRC (3618 HK)

Largest rural commercial bank in China

HOLD (Initiation)

Target Price	**HK$2.80**
(Previous TP	N/A)
Up/Downside	**+3%**
Current Price	**HK$2.73**

China Banking Sector

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CQRCB is the largest rural and commercial bank in China. The bank has better asset quality and risk management ability than its peers. In addition, after dual-listing in SHSE and HKEX, it has raised sufficient capital to support its future growth. Major risks are priced in, waiting for catalyst to drive re-rating. HOLD CQRCB (3618 HK) with a target price of HK$2.80.

- **The Bank dominates Chongqing banking market.** It is headquartered in Chongqing, business network covers "Chengdu-Chongqing Metropolitan Area". As of the end of 1H21, the total assets, deposits and loans grew 7.4% HoH, 4.4% HoH and 10.6% HoH to RMB 1,224bn, RMB 757bn and RMB 562bn, respectively. The banks hold the largest market share in Chongqing in terms of loan and deposit balance.
- **Comparing with other rural commercial banks, CQRCB's asset quality is better.** As of end-3Q21, its NPL ratio was 1.27%, while the industry average was 1.75% and the rural commercial banks' average was 3.59%. Long-term beneficiary of "common prosperity". Moreover, as central government mentioned, common prosperity (共同富裕) is a key guideline for China's long term development scheme, regional financial institution will be benefited along with the growing wealth of residents from low tier cities.
- **We initiate coverage on CQRCB with a HOLD.** Based on Gordon Growth Model, our target price on CQRCB (H share) is HK$2.80, implying 0.25x 2021E and 0.23x 2022E P/B. During last 3 years, CQRCB (H) was trading at 0.42x P/B, while currently it is trading at 0.25x P/B, below -1SD of historical mean (0.32x P/B). We think most negatives are priced in. Key risk for 2022 is the below expectation of economic recovery in "Chengdu-Chongqing Metropolitan Area".

Stock Data

Mkt Cap (HK$ mn)	48,483
Avg 3 mths t/o (HK$ mn)	38
52w High/Low (HK$)	3.40/2.63
Total Issued Shares (mn)	11,357

Source: WIND

Shareholding Structure

Yufu Capital	8.7%
CQ Chengjian	7.2%
CQ Development	5.2%

Source: WIND

Share Performance

	Absolute	Relative
1-mth	-0.4%	2.7%
3-mth	-9.6%	-0.7%
6-mth	-14.9%	1.7%

Source: Bloomberg

12-mth Price Performance

Source: Bloomberg

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	26,629	28,186	30,773	34,127	37,940
Net profit	9,759	8,401	10,007	10,489	10,917
EPS (RMB)	0.95	0.74	0.88	0.92	0.96
EPS CHG	8%	-22%	19%	5%	4%
Consensus EPS (RMB)	0.95	0.74	0.83	0.91	1.01
P/B (x)	0.40	0.39	0.24	0.22	0.20
Dividend yield	7.3%	6.9%	11.8%	12.3%	12.8%
ROE	11.7%	9.1%	10.1%	9.6%	9.1%
NPL ratio	1.25%	1.31%	1.26%	1.25%	1.25%
Provision coverage	380%	315%	315%	308%	303%

Source: Company data, Bloomberg, CMBIS estimates

Valuation

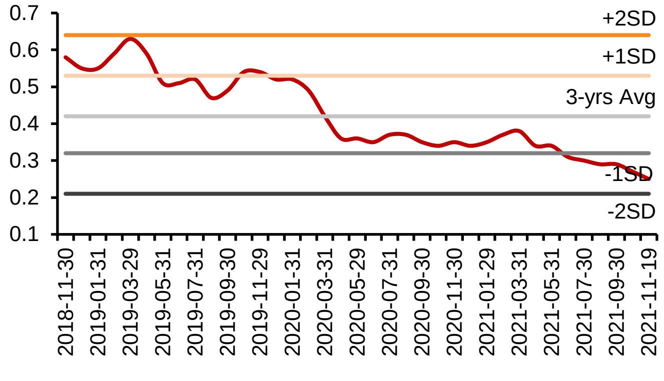
Our Gordon Growth Model is based on cost of equity, our medium-term ROE and forecasted terminal growth rate. Our cost of equity is based on a risk-free rate similar to the 10-year China Treasury yield and a beta-adjusted equity risk premium. Our beta is based on Bloomberg database.

Target price derivation

(%)	
Risk-free rate	3.0
Expected Market Return	9.0
Beta (x)	0.9
Cost of equity	8.4
MT ROE	5
MT Payout (%)	20
Terminal Growth Rate	4
Valuation end-22E	-
Target price (HK$)	2.7
Implied 2021E P/B (x)	0.2
Implied 2022E P/B (x)	0.2
Implied 2021E PE (x)	2.6
Implied 2022E PE (x)	2.5

Source: CMBIS

Figure 58: P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	23,373	24,248	26,815	29,971	33,574
Net fee&commission income	2,239	2,902	2,550	2,661	2,778
Others	1,017	1,036	1,408	1,495	1,588
Operating income	26,629	28,186	30,773	34,127	37,940
Operating expense	14,409	18,119	18,544	21,309	24,599
PPOP	18,793	20,275	22,632	25,760	29,337
Provision taken	6,573	10,208	10,403	12,942	15,997
Operating profit	12,220	10,067	12,229	12,818	13,341
Non-operating income	12	-4	0	0	0
Pre-tax profit	12,232	10,063	12,229	12,818	13,341
Income tax expense	2,245	1,498	2,018	2,115	2,201
Minority interests	228	119	204	214	223
Net profit	9,759	8,401	10,007	10,489	10,917

Balance Sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Due from central banks	74,066	62,064	67,761	76,595	86,386
Interbank assets	146,000	137,386	147,588	158,866	171,371
Investments	377,443	431,313	484,226	548,176	627,588
Gross loan	437,084	507,885	595,813	702,214	824,567
Provision balance	20,743	20,922	23,632	27,040	31,237
Net loan	416,340	486,963	572,182	675,174	793,330
Other assets	15,941	18,200	20,871	22,316	23,919
Total assets	1,029,79	1,135,92	1,292,62	1,481,12	1,702,59
Due to central banks	31,218	62,314	68,545	75,400	82,940
Interbank liabilities	35,569	62,138	81,192	98,542	120,745
Customer deposits	673,401	724,999	794,697	900,232	1,017,08
Debt securities issued	171,330	173,178	213,564	257,689	313,505
Other liabilities	28,909	18,665	28,710	32,637	40,439
Total liabilities	940,427	1,041,29	1,186,70	1,364,49	1,574,71
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Minority interest	1,590	1,403	1,589	1,716	1,884
Total equity	89,363	94,632	105,919	116,535	127,620

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income mix					
Net interest income	88%	86%	87%	88%	88%
Net fee income	8%	10%	8%	8%	7%
Others	4%	4%	5%	4%	4%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	16.4%	3.7%	10.6%	11.8%	12.0%
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Source: Company data, CMBIS estimates

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