

# China Minsheng Bank (1988 HK)

## Earnings growth trailing JSB peers

On 30 Aug, MSB reported 1H19 net profit of RMB 31.6bn, up 6.8% YoY and accounting for 60.4%/61.2% of CMBIS/consensus full-year estimates. 2Q19 revenue growth was strong at 15.1% YoY, as net interest and net fee income maintained relatively fast growth of 29.6% YoY and 8.1% YoY, respectively. Opex stayed flat, leading to a solid PPOp growth of 20.0 YoY. However, impairment charges surged 37.6% YoY, denting bottom-line earnings growth to merely 7.9% YoY in 2Q19 (vs 5.7% YoY in 1Q19), which was faster than 5.2% YoY for Big-5, but slower than 11.2% YoY for listed JSBs.

- **Results positive: 1) 2Q19 NIM widened 3bp QoQ to 1.87%** (unadjusted), mainly due to lower interbank funding cost amid liquidity loosening. MSB's interbank liability (incl. NCD) accounted for 30.7% of total liabilities. Meanwhile, loan yield (+12bp HoH) picked up more than deposit cost (+8bp HoH), as growth in credit card (+6.0% HoH) and property development loan (+18.7% HoH) surpassed overall loan growth (+4.2% HoH); **2) 1H19 CIR declined 3.3ppt YoY to 22.1%**, as falling general & admin expenses (-8.4% YoY) largely offset rising staff cost (+11.3% YoY). **3) Deposit growth was decent at 8.4% HoH**, vs loan growth of 4.2% HoH, therefore sending LDR down by 3.8ppt to 92.2%; **4) Total CAR rose 106bp HoH though CET1 slid 3bp HoH**, as the Bank issued RMB 40bn Tier-2 capital bonds and RMB 40bn perpetual bonds in 1H19.
- **Results negative: 1) Asset quality indicators still lagged behind sector peers.** NPL balance was up 1.1% QoQ, and NPL ratio remained unchanged at 1.75%, the highest among banks under our coverage. Provision coverage climbed 4.5ppt QoQ to 142.3%, yet still well below sector average of 190.6%. The ratio of NPL to >90day overdue loan stood at 104.7%. Thus, MSB may face pressure if CBIRC implements stricter recognition standard (i.e. classifying >60day overdue loan to NPL); **2) Deposits mix weakened**, as the proportion of demand deposit fell 4.4ppt HoH to 36.5%.
- **Maintain HOLD and lower TP to HK\$5.9.** MSB currently trades at 0.45x FY19E P/B, 22% below its past 5-year mean of 0.58x. We maintain earnings forecast unchanged, but trim our TP to HK\$5.9 from HK\$6.2, given a higher COE assumption of 16.8% and adjusted HK\$/RMB exchange rate of 0.897.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income (RMB mn)	141,947	154,161	167,060	177,901	191,575
Net profit (RMB mn)	49,813	50,327	52,323	54,586	57,423
EPS (RMB)	1.35	1.24	1.18	1.23	1.30
EPS CHG (%)	3.0	(8.2)	(4.7)	4.4	5.3
P/E (x)	3.4	3.7	3.9	3.8	3.6
P/B (x)	0.46	0.49	0.45	0.42	0.38
Dividend yield (%)	4.5	7.5	7.7	8.1	8.5
ROE (%)	14.0	12.8	12.1	11.6	11.2
NPL ratio (%)	1.71	1.76	1.82	1.87	1.91
Provision coverage (%)	156	134	149	166	182

Source: Company data, CMBIS estimates

## HOLD (Maintain)

Target Price	HK\$ 5.90
(Previous TP)	HK\$ 6.20)
Up/Downside	+14.3%
Current Price	HK\$ 5.16

### China Banking Sector

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### Stock Data

Mkt Cap (HK\$ mn)	268,937
Avg 3 mths t/o (HK\$ mn)	93.65
52w High/Low (HK\$)	6.36/4.98
Total Issued Shares (mn)	<b>8,320 (H)</b>
	35,462 (A)

Source: Bloomberg

### Shareholding Structure

Anbang	16.79%
China Oceanwide	4.61%
New Hope Liuhe Investment	4.18%

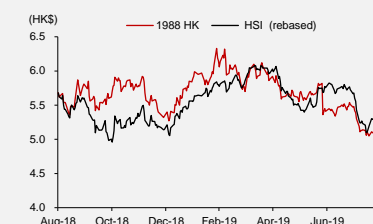
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-7.3%	1.4%
3-mth	-8.6%	-3.2%
6-mth	-16.3%	-6.8%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: KPMG**

**Figure 1: 1H19 results summary**

(RMB mn)						
P&L	1H18	1H19	YoY	2Q18	2Q19	YoY
Net interest income	33,874	45,523	34.4%	18,133	23,501	29.6%
Net fee and commission income	24,327	27,282	12.1%	12,399	13,407	8.1%
Operating income	74,287	87,083	17.2%	37,539	43,224	15.1%
Operating expense	(18,870)	(19,224)	1.9%	(8,966)	(8,933)	-0.4%
PPoP	55,417	67,859	22.5%	28,573	34,291	20.0%
Impairment losses	(19,531)	(29,436)	50.7%	(10,960)	(15,081)	37.6%
Pre-tax profit	35,886	38,423	7.1%	17,613	19,210	9.1%
Income tax	(6,033)	(6,455)	7.0%	(3,076)	(3,207)	4.3%
Net profit	29,618	31,623	6.8%	14,676	15,831	7.9%

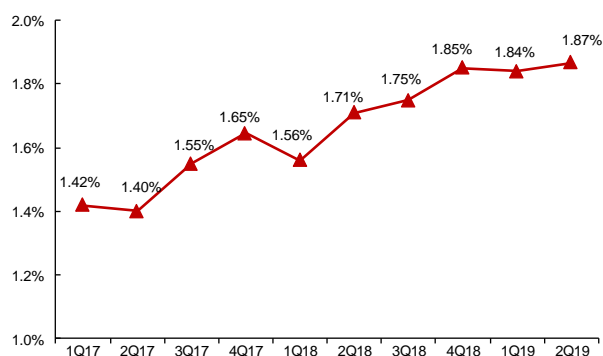
  

B/S	4Q18	2Q19	HoH	1Q19	2Q19	QoQ
Gross loans	3,056,746	3,183,961	4.2%	3,141,638	3,183,961	1.3%
Customers' deposits	3,183,997	3,452,100	8.4%	3,318,148	3,452,100	4.0%
Total assets	5,994,822	6,340,658	5.8%	6,196,748	6,340,658	2.3%
NPLs	53,866	55,649	3.3%	55,017	55,649	1.1%

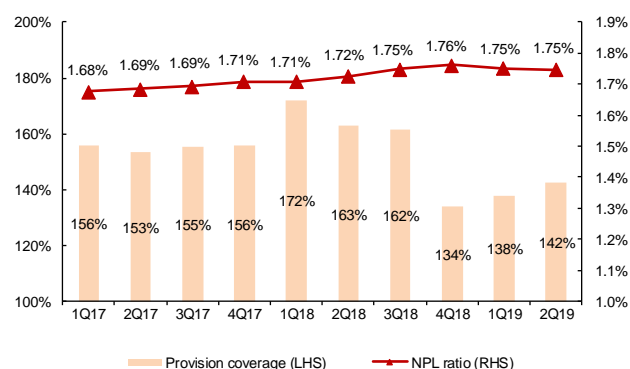
  

Key ratios	1H18	1H19	YoY	1Q19	2Q19	QoQ
NIM	1.65%	1.85%	20bp	1.84%	1.87%	3bp
ROE	15.7%	15.1%	-0.6ppt	15.1%	14.8%	-0.3ppt
NPL ratio	1.72%	1.75%	2bp	1.75%	1.75%	0bp
Provision coverage	162.7%	142.3%	-20.5ppt	137.8%	142.3%	4.5ppt
LDR	96.7%	92.2%	-4.4ppt	94.7%	92.2%	-2.4ppt
CET-1 CAR	8.6%	8.9%	27bp	9.1%	8.9%	-16bp

Source: Company data, CMBIS

**Figure 2: Quarterly NIM of MSB**

Source: Company data, CMBIS

**Figure 3: NPL ratio and provision coverage of MSB**

Source: Company data, CMBIS

## Financial Summary

### Income Statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Interest income	230,910	235,347	272,362	290,604	313,047
Interest expenses	(144,358)	(158,667)	(162,524)	(172,559)	(184,093)
Net interest income	86,552	76,680	109,838	118,046	128,954
Net fee income	47,742	48,131	50,538	53,064	55,718
Others	7,653	29,350	6,685	6,791	6,903
<b>Operating income</b>	<b>141,947</b>	<b>154,161</b>	<b>167,060</b>	<b>177,901</b>	<b>191,575</b>
Operating expenses	(47,245)	(49,056)	(53,505)	(57,803)	(62,840)
<b>PPoP</b>	<b>94,702</b>	<b>105,105</b>	<b>113,555</b>	<b>120,098</b>	<b>128,736</b>
Provision	(34,140)	(46,320)	(52,439)	(56,339)	(61,662)
Operating profit	60,562	58,785	61,116	63,760	67,073
Non-operating income	-	-	-	-	-
Pre-tax profit	60,562	58,785	61,116	63,760	67,073
Income tax expenses	(9,640)	(8,455)	(8,790)	(9,170)	(9,647)
Minority interests	(1,109)	(3)	(3)	(3)	(3)
<b>Net profit</b>	<b>49,813</b>	<b>50,327</b>	<b>52,323</b>	<b>54,586</b>	<b>57,423</b>

### Key Ratio

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Op. income mix</b>					
Net interest income	61%	50%	66%	66%	67%
Net fee income	34%	31%	30%	30%	29%
Others	5%	19%	4%	4%	4%
Total	100%	100%	100%	100%	100%
<b>Growth, YoY</b>					
Net interest income	-8.6%	-11.4%	43.2%	7.5%	9.2%
Net fee income	-8.6%	0.8%	5.0%	5.0%	5.0%
Operating income	-7.9%	8.6%	8.4%	6.5%	7.7%
PPoP	-6.8%	11.0%	8.0%	5.8%	7.2%
Net profit	4.1%	1.0%	4.0%	4.3%	5.2%
Gross loans	13.9%	9.0%	8.5%	8.5%	8.5%
Customer deposits	-3.8%	7.8%	7.5%	7.5%	7.5%

### Efficiency

Cost-to-income ratio	32.2%	30.6%	31.0%	31.5%	31.8%
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### Balance Sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Due from central banks	434,858	382,297	410,817	441,476	474,435
Interbank assets	271,274	337,869	293,120	317,151	343,585
Investments	2,135,897	1,970,017	2,127,618	2,270,522	2,423,492
<b>Gross loans</b>	<b>2,804,307</b>	<b>3,056,746</b>	<b>3,316,569</b>	<b>3,598,478</b>	<b>3,904,348</b>
Less: provision	74,519	72,208	89,517	111,295	135,548
Other assets	330,269	320,101	366,841	353,675	352,941
<b>Total assets</b>	<b>5,902,086</b>	<b>5,994,822</b>	<b>6,425,450</b>	<b>6,870,006</b>	<b>7,363,252</b>
Due to central banks	335,173	304,323	328,669	354,962	383,359
Interbank liabilities	1,917,714	1,752,996	1,838,179	1,955,367	2,097,294
<b>Customer deposits</b>	<b>2,954,242</b>	<b>3,183,997</b>	<b>3,422,797</b>	<b>3,679,507</b>	<b>3,955,470</b>
Debt securities issued	166,796	238,561	238,561	238,561	238,561
Other liabilities	138,349	83,944	89,025	94,508	100,427
<b>Total liabilities</b>	<b>5,512,274</b>	<b>5,563,821</b>	<b>5,917,231</b>	<b>6,322,905</b>	<b>6,775,112</b>
<b>Shareholders' equity</b>	<b>378,970</b>	<b>420,074</b>	<b>497,292</b>	<b>536,174</b>	<b>577,214</b>
Incl. Perpetual bonds	-	-	40,000	40,000	40,000
Incl. Preferred stocks	9,892	9,892	9,892	9,892	9,892
Minority interest	10,842	10,927	10,927	10,927	10,927
<b>Total equity</b>	<b>389,812</b>	<b>431,001</b>	<b>508,219</b>	<b>547,101</b>	<b>588,141</b>

### Asset quality

NPL ratio	1.71%	1.76%	1.82%	1.87%	1.91%
Provision coverage	156%	134%	149%	166%	182%
Provision/ total loans	2.66%	2.36%	2.70%	3.09%	3.47%
Credit costs	1.22%	1.49%	1.60%	1.59%	1.60%

### Capital adequacy

CET-1 CAR	8.6%	8.9%	9.9%	10.0%	10.1%
Tier-1 CAR	8.9%	9.2%	10.1%	10.2%	10.3%
Total CAR	11.9%	11.8%	11.3%	11.3%	11.3%

### Profitability

NIM	1.50%	1.73%	1.80%	1.81%	1.83%
ROE	14.0%	12.8%	12.1%	11.6%	11.2%
ROA	0.84%	0.84%	0.83%	0.81%	0.80%
RoRWA	1.21%	1.11%	1.07%	1.05%	1.03%

### Per share

EPS (RMB)	1.35	1.24	1.18	1.23	1.30
DPS (RMB)	0.21	0.35	0.36	0.37	0.39
BVPS (RMB)	10.12	9.37	10.22	11.11	12.04

Source: Company data, CMBIS estimates

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