



September 1, 2016  
 Equity Focus  
 Rating: Not rated

H-Share price (HK\$) 7.24

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**Key Data**

52Wk H/L(HK\$)	7.5/6.9
Issued shares (mn)	6,070.6
H-Shares (mn)	1,764.6
Unlisted shares (mn)	4,306.0
Market cap	
H-shares (HK\$ mn)	12,776
Unlisted shares (HK\$ mn)	31,175
3-mth avg daily turnover (HK\$ mn)	0.68
Major shareholder(s) (%):	
Tianjin Port Free Trade Zone Inv.	16.01
ANZ	12.03
Tianjin Pharmaceutical Holding	8.12

Source(s): Company, Bloomberg, ABCI Securities

**1H16 Operating income breakdown (%)**

Corporate banking	57.1
Retail banking	16.3
Treasury	26.1
Others	0.5

Source(s): Company, ABCI Securities

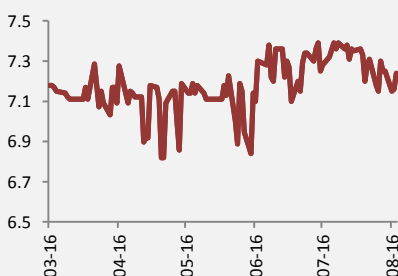
**Share performance (%)**

	Absolute	Relative*
1-mth	(1.1)	(4.7)
3-mth	1.4	(7.9)
6-mth	na	na

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg

**Bank of Tianjin (1578 HK)**

Continuous improvement under business restructuring

- BTJ's 1H16 net profit grew 13.4% YoY, NII rose by 19.3% YoY on solid loan growth and expanded NIM while net fee increased by 84.2% YoY partly on low base
- Asset allocation continues to modify with challenging business environment, of which proportion in investment increased through lower interbank and repo balances
- Asset quality stayed benign with a 7bps HoH increase in NPL ratio; in particular, we believe NPL ratio of manufacturing sector reduced on write-offs. Strong risk buffer is maintained with high provision and provision coverage ratios
- The counter is currently trading at 0.91x June-16 P/B

**Room for fee income growth.** BTJ's 1H16 net profit was RMB 2,593mn, up 13.4% YoY. With NIM expanding by 8bps YoY to 2.06% in 1H16 and a 8.2% HoH loans growth as of June 2016, NII rose by 19.3% YoY. Meanwhile, despite settlement and clearing fees dropped YoY by 39.9%, net fee income surged 84.2% YoY on a sharp rise of 236.7% YoY in wealth management services fee and a 39.4% YoY increase in acceptance and guarantee commitment fee. Net fee income to operating income therefore increased by 3.75ppt YoY to 10.79%- a level still low when compared to peers. Hence, we believe huge room for growth still exists for BTJ.

**Continuous balance sheet restructuring.** Proactive balance sheet management continued in 1H16. With the 8.24% and 33.5% HoH increase in net loans and investment balances, investment in the asset mix went up by 8.5ppt HoH to 44.5% in 1H16. We believe those were BTJ's strategic moves to offset the sharper decline in average loan yield (1H16: YoY -76bps to 5.33%) than that of average investment yield (1H16: YoY -39bps to 5.25%). Meanwhile, the proportion of interbank and repo assets in the asset mix further reduced from 20.2% of total in Dec 2015 to 11.8% in Jun 2016.

**Decent asset quality with strong buffer.** As of June 2016, NPL ratio inched up by 7bps HoH to 1.41%, of which wholesale & retail sector remained as the major NPL contributor whose NPL ratio rose by 72bps HoH to 4.3%, accounting for 66.3% of total NPL. NPL ratio of manufacturing sector improved by 34bps HoH to 1.14% in 1H16, which we believe to be a result of BTJ's consistent effort in writing off its NPL portfolio. Provisioning ratio and provision coverage maintained at high levels of 2.83% (+10bps HoH) and 201.33% (-1.51ppt HoH) in 1H16.

**Valuation.** The counter is currently trading at 0.91x June-2016 P/B.

**Risk factors:** 1) Asset quality deterioration in Tianjin and eastern China; 2) Price volatility in treasury asset; 3) Effect on business mix optimization amid rapid changes in the industry environment. 4) Low average daily turnover of shares.

**Results and Valuation**

FY ended Dec 31	2012A	2013A	2014A	2015A
Revenue (RMB mn)	6,590	8,204	9,941	11,922
Chg (% YoY)	na	24.5	21.2	19.9
Net profit (RMB mn)	2,630	3,418	4,417	4,916
Chg (% YoY)	na	29.9	29.2	11.3
EPS (RMB)	0.64	0.83	0.88	0.96
Chg (% YoY)	na	29.7	6.0	9.0
BVPS (RMB)	4.06	4.72	5.64	6.49
Chg (% YoY)	na	16.0	19.5	15.1
P/E (x)	9.43	7.27	6.86	6.29
P/B (x)	1.48	1.28	1.07	0.93
ROAE (%)	27.63	25.63	23.63	22.49
ROAA (%)	0.98	0.97	1.00	0.94
DPS(RMB)	0.13	0.15	0.14	0.18
Yield (%)	2.15	2.49	2.27	2.98

Source(s): Bloomberg, ABCI Securities



**Exhibit 1: BTJ's interim results summary (RMB mn)**

Income statement	1H15	1H16	YoY (%)
Net interest income	4,850	5,785	19.28
Net fee and commission income	383	705	84.19
Operating income	5,433	6,529	20.18
Operating expenses	(1,758)	(1,945)	10.60
Impairment losses	(735)	(1,265)	72.08
Profit before tax	2,939	3,320	12.93
Net profit	2,285	2,593	13.44
EPS (RMB/share)	0.45	0.46	2.22

**Key ratio (%)**

NIM (annualized)	1.98	2.06	0.08
Net fee to operating income	7.04	10.79	3.75
CIR	22.90	22.89	(0.01)
ROAA (annualized)	0.92	0.88	(0.04)
ROAE (annualized)	15.45	14.12	(1.33)

**Balance sheet**

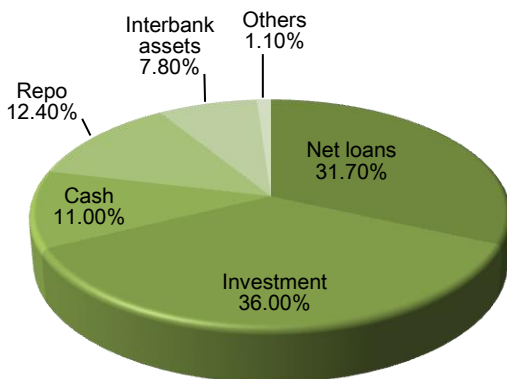
	Dec-15	Jun-16	HoH (%)
Total assets	565,668	610,436	7.91
Loans	179,571	194,369	8.24
Deposits	334,691	368,613	10.14
Total equity	33,024	40,106	21.45
BVPS (RMB/share)	6.44	6.61	2.55

**Key ratio (%)**

CT1 CAR	9.33	9.58	0.25
Total CAR	12.23	12.17	(0.06)
NPL ratio	1.34	1.41	0.07
Provisioning ratio	2.73	2.83	0.10
Provision coverage ratio	202.84	201.33	(1.51)

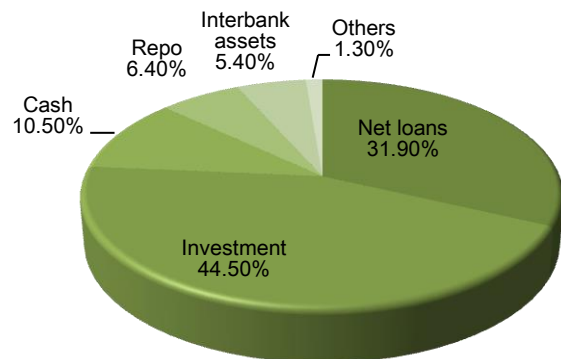
Source(s): Company, ABCI Securities

**Exhibit 2: BTJ's assets mix (Dec 2015)**



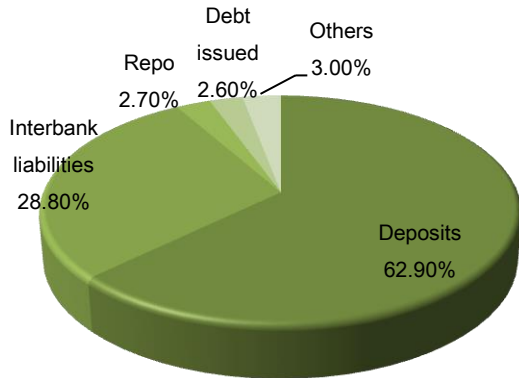
Source(s): Company, ABCI Securities

**Exhibit 3: BTJ's assets mix (Jun 2016)**

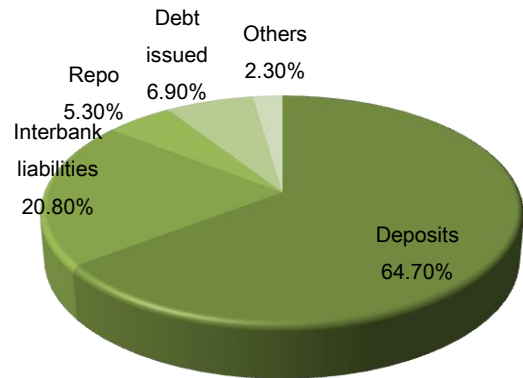


Source(s): Company, ABCI Securities

**Exhibit 4: BTJ's liability mix (Dec 2015)**



**Exhibit 5: BTJ's liability mix (June 2016)**



Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities



**Consolidated income statement (2012A-2015A)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>
<b>Net interest income</b>	<b>6,154</b>	<b>7,831</b>	<b>9,149</b>	<b>10,671</b>
Net fee and commission	333	417	524	996
Other operating income	104	(44)	267	247
<b>Operating income</b>	<b>6,590</b>	<b>8,204</b>	<b>9,941</b>	<b>11,913</b>
Operating expenses	(2,385)	(2,906)	(3,261)	(3,817)
Impairment losses	(907)	(913)	(975)	(1,749)
<b>Profit before tax</b>	<b>3,299</b>	<b>4,385</b>	<b>5,704</b>	<b>6,347</b>
Income tax expenses	(662)	(950)	(1,275)	(1,415)
<b>Net profit</b>	<b>2,630</b>	<b>3,418</b>	<b>4,417</b>	<b>4,916</b>
<b>Growth (%)</b>				
<b>Net interest income</b>	<b>na</b>	<b>27.3</b>	<b>16.8</b>	<b>16.6</b>
Net fee and commission	na	25.5	25.6	90.0
Other operating income	na	(142.4)	(708.0)	(7.8)
<b>Operating income</b>	<b>na</b>	<b>24.5</b>	<b>21.2</b>	<b>19.8</b>
Operating expenses	na	21.9	12.2	17.0
Impairment losses	na	0.7	6.8	79.3
<b>Profit before tax</b>	<b>na</b>	<b>32.9</b>	<b>30.1</b>	<b>11.3</b>
Income tax expenses	na	43.6	34.2	10.9
<b>Net profit</b>	<b>na</b>	<b>29.9</b>	<b>29.2</b>	<b>11.3</b>
<b>Per share</b>				
EPS	0.64	0.83	0.88	0.96
BVPS	4.06	4.72	5.64	6.49
DPS	0.13	0.15	0.14	0.18
<b>Key ratio (%)</b>				
Net interest margin	2.50	2.12	2.06	2.08
Net interest spread	2.29	1.88	1.73	1.74
Cost to income ratio	27.63	25.63	23.63	22.50
Return on average assets	0.98	0.97	1.00	0.94
Return on average equity	16.97	18.97	18.32	15.88
Effective tax rate	20.1	21.70	22.40	22.29

Source(s): Prospectus, ABCI Securities



Consolidated balance sheet (2012A-2015A)

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015A
Deposit with central bank	47,558	56,774	62,689	62,107
Deposit with FIs	37,025	16,453	31,685	30,818
Amount due from FIs	2,392	3,804	9,575	13,421
<b>Net loans</b>	<b>118,767</b>	<b>144,139</b>	<b>166,461</b>	<b>179,571</b>
<b>Investment securities</b>	<b>93,057</b>	<b>179,948</b>	<b>203,452</b>	<b>273,787</b>
-Held for trading	5,449	4,764	7,512	5,952
-Repo	9,582	71,893	80,051	70,328
-AFS	11,415	13,541	13,576	17,864
-HTM	22,607	21,361	26,234	31,684
-Receivables	44,004	68,389	76,079	147,959
<b>Total IEA</b>	<b>298,799</b>	<b>401,118</b>	<b>473,861</b>	<b>559,705</b>
Other assets	3,547	4,569	4,998	5,963
<b>Total assets</b>	<b>302,346</b>	<b>405,687</b>	<b>478,859</b>	<b>565,668</b>
Customer deposits	201,416	247,208	289,467	334,691
Deposit with FIs	47,044	110,364	122,472	148,733
Amount due to FIs	11,071	5,477	10,905	4,284
Borrowing from central bank	160	350	406	237
Bonds	4,266	4,291	2,699	13,904
<b>Total IBL</b>	<b>263,957</b>	<b>367,690</b>	<b>425,949</b>	<b>501,848</b>
Other liabilities	21,629	18,548	24,020	30,572
<b>Total liabilities</b>	<b>285,586</b>	<b>386,238</b>	<b>449,969</b>	<b>532,420</b>
<b>Total equity</b>	<b>16,760</b>	<b>19,449</b>	<b>28,890</b>	<b>33,248</b>
<b>Growth (%)</b>				
Deposit with central bank	na	19.4	10.4	(0.9)
Deposit with FIs	na	(55.6)	92.6	(2.7)
Amount due from FIs	na	59.0	151.7	40.2
<b>Net loans</b>	<b>na</b>	<b>21.4</b>	<b>15.5</b>	<b>7.9</b>
<b>Investment securities</b>	<b>na</b>	<b>93.4</b>	<b>13.1</b>	<b>34.6</b>
-Held for trading	na	(12.6)	57.7	(20.8)
-Repo	na	650.3	11.3	(12.1)
-AFS	na	18.6	0.3	31.6
-HTM	na	(5.5)	22.8	20.8
-Receivables	na	55.4	11.2	94.5
<b>Total IEA</b>	<b>na</b>	<b>34.2</b>	<b>18.1</b>	<b>18.1</b>
<b>Total assets</b>	<b>na</b>	<b>34.2</b>	<b>18.0</b>	<b>18.1</b>
Customer deposits	na	22.7	17.1	15.6
Deposit with FIs	na	134.6	11.0	21.4
Amount due to FIs	na	(50.5)	99.1	(60.7)
Borrowing from central bank	na	118.8	16.0	(41.5)
Bonds	na	0.6	(37.1)	415.2
<b>Total IBL</b>	<b>na</b>	<b>39.3</b>	<b>15.8</b>	<b>17.8</b>
Other liabilities	na	(14.2)	29.5	27.3
<b>Total liabilities</b>	<b>na</b>	<b>35.2</b>	<b>16.5</b>	<b>18.3</b>
<b>Total equity</b>	<b>na</b>	<b>16.0</b>	<b>48.5</b>	<b>15.1</b>
<b>Key ratio (%)</b>				
CT1 CAR	10.13	8.30	10.64	9.33
Total CAR	12.72	11.05	12.61	12.23
NPL ratio	0.72	1.03	1.09	1.34
NPL growth	na	71.50	22.90	32.78
Provision to total loans	3.28	2.76	2.61	2.73
Provision coverage	453.4	269.08	238.15	202.84

Source(s): Prospectus, ABCI Securities



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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return – 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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