



## GRCB (1551 HK)

### Sharp profit growth on lower provisions

- GRCB reported a sharp earnings growth at 21.84% YoY in 1H17, NII surged YoY by 22.41% on faster growth in loans (+12.47% HoH) than deposits (+4.4% HoH)
- Benign asset quality lowered provision expenses by 75.91% YoY; size of write-offs also reduced drastically from RMB 3,296mn in 2016 to RMB 432mn in 1H17
- CT1 rose to 10.22% with the bank's H-share listing, while CAR was down 39bps HoH to 11.77% on swift balance sheet growth and redemption of subordinated bond in June 2017
- The counter is currently trading at 0.97x 16 P/B

**Sharp earnings growth in 1H17.** Guangzhou Rural Commercial Bank (GRCB) reported its 1H17 net profit at RMB 2,622mn, up 21.84% YoY. The outstanding growth was driven by NII growth at 22.41% YoY and significant reduction in loan provisions (-75.91% YoY). NIM contracted by 20bps YoY to 1.73%, but NII growth was supported by GRCB's rapid loan growth at 12.47% HoH, compared to 4.04% HoH increase in deposits. Hence, LDR was up by 4.65ppt HoH to 62.68%. New loans allocation managed to stay balanced in 1H17 - manufacturing (9.33%), wholesale & retail (9.86%), real estate (12.34%), leasing & commercial services (11.05%), personal mortgage (14.52%) and personal business loans (9.88%) jointly took up 66.98% of total loans.

**Significant reduction in loan provisions.** Loan provisions dropped by 75.91% YoY in 1H17, hence contributing to GRCB's sharp earnings growth. Meanwhile, size of write-offs fell drastically from RMB 3,296mn in 2016 to RMB 432mn in 1H17. NPL ratio was down by 8bps HoH to 1.73%, of which wholesale & retail sector remained to be the key NPL contributor with an NPL ratio of 4.6% (Dec 2016: 3.89%), accounting for 45.5% of total NPLs. Provisioning ratio dropped 8bps HoH to 3.16% while provision coverage ratio increased 3.6ppt HoH to 182.18%.

**Sufficient CT1 after H-share listing.** Upon the completion of GRCB's H-share listing in June 2017, the Bank's CT1 rose 32bps HoH to 10.22%. Meanwhile, with the early redemption of its RMB 3.5bn subordinated bonds in June 2017 and the increase in risk-weighted assets (+13.4% HoH) brought about by the rapid loan growth, GRCB's total CAR reduced by 39bps HoH to 11.77% as of June 2017.

**Valuation.** The counter is trading at 0.97x 16 P/B.

**Risk factors:** 1) Asset quality deterioration in southern China; 2) Increased volatility in treasury asset price; 3) Failure to optimize balance sheet mix amid rapid changes in the industry environment; 4) Low average daily turnover of shares

#### Results and Valuation

FY ended Dec 31	2014A	2015A	2016A
Revenue (RMB mn)	13,859	16,213	15,240
Chg (% YoY)	na	17.0	(6.0)
Net profit (RMB mn)	5,375	5,001	5,026
Chg (% YoY)	na	(7.0)	0.5
EPS (RMB)	0.66	0.61	0.62
Chg (% YoY)	11.9	(7.6)	1.1
BVPS (RMB)	4.00	4.38	4.64
Chg (% YoY)	17.4	9.5	6.0
P/E (x)	6.81	7.37	7.29
P/B (x)	1.12	1.03	0.97
ROAE (%)	18.16	14.65	13.67
ROAA (%)	1.30	0.95	0.81
DPS (RMB)	0.25	0.28	0.20
Yield (%)	5.56	6.23	4.45

Source(s): Bloomberg, ABCI Securities

## Company Report

Aug 28, 2017

Rating: NR

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Share price (HK\$)	5.08
Previous Rating & TP	NR
Previous Report Date	na

Source(s): Bloomberg, ABCI Securities

#### Key Data

52Wk H/L (HK\$)	5.14/5.01
Issued shares (mn)	8,153.4
Market cap (HK\$ mn)	49,826.0
3-mth avg daily turnover (HK\$ mn)	6.19
Major shareholder(s) (%):	
Guangzhou Fin. Hldg.	3.86
Guangzhou Pearl River Ent.	3.57
Guangzhou Vanlead	3.38
Guangzhou Radio	3.28

#### Group

Source(s): Company, ABCI Securities

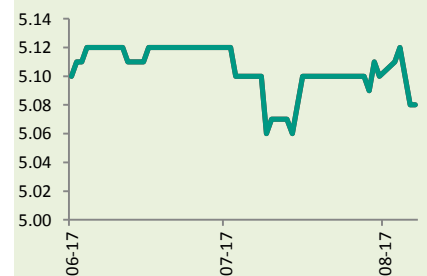
#### Share Performance

	Absolute	Relative*
1-mth	(0.39)	(3.64)
3-mth	na	na
6-mth	na	na

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

#### 1-Year share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: GRCB 1H17 result summary

(RMB mn)	1H16	1H17	YoY (%)
<b>Income statement</b>			
Net interest income	4,943	6,051	22.41
Net fee income	1,235	1,065	(13.79)
Operating income	6,914	6,242	(9.73)
Operating expenses	(2,488)	(2,339)	(5.98)
Impairment	(4,049)	(1,007)	(75.13)
Profit before tax	2,532	3,415	34.85
Net profits attributable to shareholders of the Company	2,152	2,622	21.84
EPS (Rmb)	0.26	0.32	23.08
<b>Balance sheet</b>			
	<b>2016</b>	<b>1H17</b>	<b>HoH (%)</b>
Total assets	660,951	680,049	2.89
Total loans	237,935	267,601	12.47
Total deposits	423,742	440,875	4.04
Shareholders' equity	35,845	42,379	18.23
<b>Key indicators (%)</b>			
	<b>1H16</b>	<b>1H17</b>	<b>YoY (ppt)</b>
NIM	1.93	1.73	(0.20)
Net fee to topline revenue	17.86	17.06	(0.80)
CIR	30.12	36.20	6.08
ROAA	0.71	0.79	0.08
ROAE	11.79	12.84	1.05
<b>Key indicators (ppt)</b>			
	<b>2016</b>	<b>1H17</b>	<b>HoH (ppt)</b>
Core T1 CAR	9.90	10.22	0.32
Total CAR	12.16	11.77	(0.39)
NPL ratio	1.81	1.73	(0.08)
Provisioning ratio	3.24	3.16	(0.08)
Provision coverage ratio	178.58	182.18	3.60
LDR	58.03	62.68	4.65

Source(s): Company, ABCI Securities



**Consolidated income statement (2014A-2016A)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>
Net interest income	12,006	11,596	10,671
Net fee and commission	1,742	2,890	2,976
Other operating income	111	1,727	1,593
<b>Operating income</b>	<b>13,859</b>	<b>16,213</b>	<b>15,240</b>
Operating expenses	(5,282)	(5,773)	(5,457)
Impairment losses	(1,522)	(4,011)	(3,260)
<b>Profit before tax</b>	<b>7,055</b>	<b>6,429</b>	<b>6,523</b>
Income tax expenses	(1,573)	(1,429)	(1,417)
Non-controlling interests	(107)	1	(80)
<b>Net profit</b>	<b>5,375</b>	<b>5,001</b>	<b>5,026</b>
<b>Growth (%)</b>			
Net interest income	na	(3.4)	(8.0)
Net fee and commission	na	65.9	3.0
Other operating income	na	1,455.9	(7.8)
<b>Operating income</b>	<b>na</b>	<b>17.0</b>	<b>(6.0)</b>
Operating expenses	na	9.3	(5.5)
Impairment losses	na	163.5	(18.7)
<b>Profit before tax</b>	<b>na</b>	<b>(8.9)</b>	<b>1.5</b>
Income tax expenses	na	(9.2)	(0.8)
Non-controlling interests	na	(100.9)	(8,100.0)
<b>Net profit</b>	<b>na</b>	<b>(3.4)</b>	<b>(8.0)</b>
<b>Per share</b>			
EPS	0.66	0.61	0.62
BVPS	4.00	4.38	4.64
DPS	0.25	0.28	0.20
<b>Key ratio (%)</b>			
Net interest margin	2.91	2.50	1.99
Net interest spread	2.67	2.31	1.99
Net fee to operating income	12.60	17.80	19.53
Cost to income ratio	30.96	28.37	32.23
Return on average assets	1.30	0.95	0.81
Return on average equity	18.16	14.65	13.67
Effective tax rate	22.30	22.23	21.72

Source(s): Company, ABCI Securities



Consolidated balance sheet (2014A-2016A)

As of Dec 31 (RMB mn)	2014A	2015A	2016A
Deposit with central bank	78,636	82,151	83,023
Deposit with FIs	32,226	49,482	18,381
Amount due from FIs	10,940	1,687	3,911
Net loans	180,720	216,780	237,935
Investment securities	157,159	223,681	306,016
-FVTPL	1,470	51,810	35,980
-Repo	60,961	34,177	79,963
-AFS	45,459	72,123	88,278
-HTM	8,551	18,434	25,782
-Receivables	40,718	47,137	76,012
<b>Total IEA</b>	<b>459,681</b>	<b>573,781</b>	<b>649,266</b>
Other assets	6,927	9,026	11,685
<b>Total assets</b>	<b>466,608</b>	<b>582,807</b>	<b>660,951</b>
Customer deposits	354,439	391,062	423,742
Due to central bank	600	1,006	537
Deposit with FIs	42,017	104,063	33,581
Amount due to FIs	7,000	1,000	1,798
Repo	8,643	11,406	48,598
Bonds	12,522	21,677	92,295
<b>Total IBL</b>	<b>425,221</b>	<b>530,214</b>	<b>600,551</b>
Other liabilities	8,800	16,897	22,560
<b>Total liabilities</b>	<b>434,021</b>	<b>547,111</b>	<b>623,111</b>
<b>Total equity</b>	<b>32,587</b>	<b>35,696</b>	<b>37,840</b>
<b>Growth (%)</b>			
Deposit with central bank	na	4.5	1.1
Deposit with FIs	na	53.5	(62.9)
Amount due from FIs	na	(84.6)	131.8
Net loans	na	20.0	9.8
Investment securities	na	42.3	36.8
-FVTPL	na	3,424.5	(30.6)
-Repo	na	(43.9)	134.0
-AFS	na	58.7	22.4
-HTM	na	115.6	39.9
-Receivables	na	15.8	61.3
<b>Total IEA</b>	<b>na</b>	<b>24.8</b>	<b>13.2</b>
Other assets	na	30.3	29.5
<b>Total assets</b>	<b>na</b>	<b>24.9</b>	<b>13.4</b>
Customer deposits	na	10.3	8.4
Due to central bank	na	67.7	(46.6)
Deposit with FIs	na	147.7	(67.7)
Amount due to FIs	na	(85.7)	79.8
Repo	na	32.0	326.1
Bonds	na	73.1	325.8
<b>Total IBL</b>	<b>na</b>	<b>24.7</b>	<b>13.3</b>
Other liabilities	na	92.0	33.5
<b>Total liabilities</b>	<b>na</b>	<b>26.1</b>	<b>13.9</b>
<b>Total equity</b>	<b>na</b>	<b>9.5</b>	<b>6.0</b>
<b>Key ratio (%)</b>			
Loan to deposits	52.47	57.19	58.03
CT1 CAR	11.16	10.28	9.90
Total CAR	14.45	12.76	12.16
NPL ratio	1.54	1.80	1.81
NPL growth	97.66	40.56	10.55
Provision to total loans	2.83	3.08	3.24
Provision coverage	183.37	170.79	179.01

Source(s): Company, ABCI Securities

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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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