

Guangzhou Rural Commercial Bank (GRCB, 1551 HK)

Potential improvement in 2018

- Decent earnings growth at 13.6% YoY in 2017, mainly driven by substantial decrease in provision expenses
- Management is confident to achieve mild improvement in NIM and “double reduction” in NPL (balance and NPL ratio) in 2018
- Aside from its H-share listing, organic growth was able to shore up capital position
- The counter is currently trading at 0.86x 17 P/B

Earnings growth supported by reduced provision expenses. GRCB reported its 2017 net profit at RMB 5,709mn, up 13.6% YoY, mainly driven by substantial decrease in provision expenses (-75.8% YoY). With NIM down by 28bps YoY to 1.7%, NII grew 9.6% YoY in 2017, supported by rapid loan growth at 20.1% YoY and total asset growth at 11.3%. Management expects a slight rebound of NIM in 2018 through continuous balance sheet growth and optimization. Deposits picked up noticeably in 2H17, with full-year amount expanding by 15.3% YoY (vs. 4.04% HoH in 1H17). New loans were mainly accounted by real estate sector in the corporate segment (the sector's loan mix rose from 10.08% in 2016 to 15.61% in 2017), and personal mortgage loan in the retail segment (personal mortgage loan mix rose from 13.84% in 2016 to 15.93% in 2017).

Significant improvement in asset quality. NPL ratio dropped 30bps YoY in 2017 to 1.51%, thanks to increased effort in NPL handling. Management indicates emphasis on asset quality control and targets to reduce both NPL balance and NPL ratio in 2018. By sector, wholesale & retail and personal business were still the major contributors of the Bank's NPL portfolio (aggregated to 50% of total NPLs), with NPL ratio marked at 3.39% (Dec 2016: 3.89%) and 4.73% (Dec 2016: 5.35%) as of Dec 2017. Solid risk buffer persisted, with a provisioning ratio at 2.83% and a provision coverage ratio at 186.75% as of Dec 2017.

Organic growth supported CT1. The Bank's CT1 surged 32bps HoH to 10.22% in June 2017 upon the completion of H-share IPO, while organic growth shored up CT1 by another 47bps in 2H17 to 10.69% as of Dec 2017. CAR increased 23bps HoH in 2H17 to 12.00% - a level we deem healthy.

Valuation. The counter is trading at 0.86x 17 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) Consecutive declining trend in topline revenue; 5) Potential earnings growth impact if provision expenses rebound; 6) Low average daily turnover of shares

Results and Valuation

FY ended Dec 31	2014A	2015A	2016A	2017A
Revenue (RMB mn)	13,859	16,213	15,240	13,479
Chg (% YoY)	na	17.0	(6.0)	(11.6)
Net profit (RMB mn)	5,375	5,001	5,026	5,709
Chg (% YoY)	na	(7.0)	0.5	13.6
EPS (RMB)	0.66	0.61	0.62	0.63
Chg (% YoY)	11.9	-7.6	1.1	2.2
BVPS (RMB)	3.76	4.14	4.40	5.10
Chg (% YoY)	16.8	10.1	6.3	15.9
P/E (x)	6.67	7.22	7.14	6.99
P/B (x)	1.17	1.06	1.00	0.86
ROAE (%)	18.16	14.65	13.89	13.65
ROAA (%)	1.30	0.95	0.82	0.84
DPS (RMB)	0.25	0.28	0.20	0.20
Yield (%)	5.68	6.36	4.54	4.54

Source(s): Bloomberg, ABCI Securities

Company Report

Mar 28, 2018

Rating: NR

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Share price (HK\$)	5.46
Previous Rating & TP	NR
Previous Report Date	July 28, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	7.30/4.69
Issued shares (mn)	9,808
H-shares	1,820
Domestic shares	7,988
Market cap (HK\$ mn)	53,553
H-shares	9,939
Domestic shares	43,614
3-mth avg daily turnover(HK\$ mn)	0.42
Major shareholder(s) (%):	
Guangzhou Fin. Hldg.	3.73
Guangzhou Pearl River Ent.	3.45
Guangzhou Vanlead	3.26
Guangzhou Radio Group	3.17

Source(s): Company, ABCI Securities

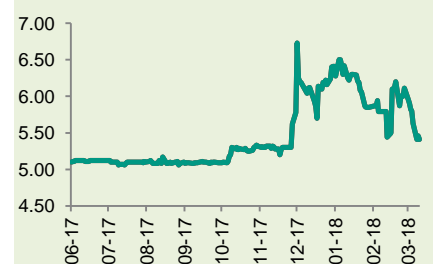
Share Performance

	Absolute	Relative*
1-mth	(5.70)	(4.24)
3-mth	(9.60)	(13.11)
6-mth	7.48	(3.96)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Post-IPO share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



Consolidated income statement (2014A-2017A)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017A
Net interest income	12,006	11,596	10,671	11,695
Net fee and commission	1,742	2,890	2,976	2,291
Other operating income	111	1,727	1,593	(507)
Operating income	13,859	16,213	15,240	13,479
Operating expenses	(5,282)	(5,773)	(5,457)	(5,164)
Impairment losses	(1,522)	(4,011)	(3,260)	(788)
Profit before tax	7,055	6,429	6,523	7,527
Income tax expenses	(1,573)	(1,429)	(1,417)	(1,636)
Non-controlling interests	(107)	1	(80)	(182)
Net profit	5,375	5,001	5,026	5,709
Growth (%)				
Net interest income	na	(3.4)	(8.0)	9.6
Net fee and commission	na	65.9	3.0	(23.0)
Other operating income	na	1,455.9	(7.8)	(131.8)
Operating income	na	17.0	(6.0)	(11.6)
Operating expenses	na	9.3	(5.5)	(5.4)
Impairment losses	na	163.5	(18.7)	(75.8)
Profit before tax	na	(8.9)	1.5	15.4
Income tax expenses	na	(9.2)	(0.8)	15.4
Non-controlling interests	na	(100.9)	(8,100.0)	127.8
Net profit	na	(7.0)	0.5	13.6
Per share (RMB)				
EPS	0.66	0.61	0.62	0.63
BVPS	3.76	4.14	4.40	5.10
DPS	0.25	0.28	0.20	0.20
Key ratio (%)				
Net interest margin	2.91	2.50	1.98	1.70
Net interest spread	2.67	2.31	1.99	1.65
Net fee to operating income	12.60	17.80	19.53	17.00
Cost to income ratio	30.96	28.37	32.77	37.11
Return on average assets	1.30	0.95	0.82	0.84
Return on average equity	18.16	14.65	13.89	13.65
Effective tax rate	22.30	22.23	21.72	0.22
Dividend payout	37.92	45.65	32.45	31.75

Source(s): Company, ABCI Securities



Consolidated balance sheet (2014A-2017A)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017A
Deposit with central bank	78,636	82,151	83,023	103,767
Deposit with FIs	32,226	49,482	18,381	14,443
Amount due from FIs	10,940	1,687	3,911	6,607
Net loans	180,720	216,780	237,935	285,702
Investment securities	157,159	223,681	306,016	311,362
-FVTPL	1,470	51,810	35,980	15,270
-Repo	60,961	34,177	79,963	76,393
-AFS	45,459	72,123	88,278	68,877
-HTM	8,551	18,434	25,782	59,903
-Receivables	40,718	47,137	76,012	90,919
Total IEA	459,681	573,781	649,266	721,881
Other assets	6,927	9,026	11,685	13,832
Total assets	466,608	582,807	660,951	735,714
Customer deposits	354,439	391,062	423,742	488,672
Due to central bank	600	1,006	537	1,131
Deposit with FIs	42,017	104,063	33,581	43,470
Amount due to FIs	7,000	1,000	1,798	3,572
Repo	8,643	11,406	48,598	23,829
Bonds	12,522	21,677	92,295	101,384
Total IBL	425,221	530,214	600,551	662,058
Other liabilities	8,800	16,897	22,560	25,178
Total liabilities	434,021	547,111	623,111	687,236
Total equity	32,587	35,696	37,840	48,478
Growth (%)				
Deposit with central bank	na	4.5	1.1	25.0
Deposit with FIs	na	53.5	(62.9)	(21.4)
Amount due from FIs	na	(84.6)	131.8	68.9
Net loans	na	20.0	9.8	20.1
Investment securities	na	42.3	36.8	1.7
-FVTPL	na	3,424.5	(30.6)	(57.6)
-Repo	na	(43.9)	134.0	(4.5)
-AFS	na	58.7	22.4	(22.0)
-HTM	na	115.6	39.9	132.3
-Receivables	na	15.8	61.3	19.6
Total IEA	na	24.8	13.2	11.2
Other assets	na	30.3	29.5	18.4
Total assets	na	24.9	13.4	11.3
Customer deposits	na	10.3	8.4	15.3
Due to central bank	na	67.7	(46.6)	110.5
Deposit with FIs	na	147.7	(67.7)	29.4
Amount due to FIs	na	(85.7)	79.8	98.7
Repo	na	32.0	326.1	(51.0)
Bonds	na	73.1	325.8	9.8
Total IBL	na	24.7	13.3	10.2
Other liabilities	na	92.0	33.5	11.6
Total liabilities	na	26.1	13.9	10.3
Total equity	na	9.5	6.0	28.1
Key ratio (%)				
Loan to deposits	52.47	57.19	58.03	60.17
CT1 CAR	11.16	10.28	9.90	10.69
Total CAR	14.45	12.76	12.16	12.00
NPL ratio	1.54	1.80	1.81	1.51
Provision to total loans	2.83	3.08	3.24	2.83
Provision coverage	183.37	170.79	179.01	186.75

Source(s): Company, 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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