



# China Banks Sector – Industry data update

## Policy aid to suppress risks

- Feb 2020 new RMB loans was below consensus after a strong month in Jan 2020, reflecting the suspension of economic activities in Feb due to COVID-19 outbreak
- Regulators react decisively to contain risks; banks are allowed to tolerate delayed repayment and deposit competition would curb on self-disciplined pricing
- We do not expect much surprise in fundamentals in FY19 results. Investors' concern will mostly be on the sustainability of dividend payout among banks and fundamental trends in 1Q-2Q20
- **OVERWEIGHT** rating for both A/H-shr banks sector at trough valuation. We prefer H-shr banks over A-shr for the former's lower valuation and higher dividend yield. Long-term yield investor may accumulate shares of high-yield big banks ; short-term price speculation, however, should be avoided. Our sector top pick is **ABC (601288CH, 1288 HK)**

**Feb 2020 new RMB loans below consensus.** Feb 2020 new RMB loans was RMB 905.7bn after a strong month in Jan 2020 at RMB 3,340bn, which was 27.5% below consensus, reflecting the suspended economic activities in Feb due to the COVID-19 outbreak. Total RMB loan balance grew YoY by 12.1%, on par with Jan 2020. 2M20 new RMB loans aggregated to RMB 4.24tr, which accounted for 23.6% of our full-year forecast a RMB 18tr. Medium-to-long-term loans in Feb accounted for 50% of total new RMB loans; the contribution was lower than that in Jan due to the increased liquidity support to micro, small and medium enterprises. Retail loan balance MoM dropped by RMB413.3bn in Feb. Total social financing (TSF) amounted to RMB 855.4bn in Feb, down 11.5% YoY. Bank loans remained to be the core component accounting for 87.1% of TSF in Feb.

**Policy aid to contain risks.** According to the CBIRC, increased NPL ratio can be expected in coming quarters due to the epidemic. The rising pace, however, would be mild and temporary. On Mar 1, 2020, regulators issued an official notice allowing banks to tolerate delayed repayment of principals and interest until end-June 2020 for enterprises affected by the epidemic. We believe liquidity risk of MSEs in sectors such as transportation, wholesale and retail, entertainment, and hotel would be eased. Meanwhile, in view of the declining social financing cost, the CBIRC instructed banks to enhance their deposit rate management through measures including self-disciplined deposit pricing and interest calculation. We believe this would relieve NIM pressure through reduced deposit competition. Big banks would have an advantage over the smaller peers because of their comprehensive products and services offered and higher customer loyalty in general.

**Results season –what to expect.** Based on CBIRC statistics for 4Q19, we do not expect any major surprise on the fundamentals (i.e. NIM, asset quality, and earnings) in the 2019 annual results. Instead, we believe investors would focus on how sustainable the dividends are for the Chinese banks as well as the latest fundamental indicators in 1Q20-2Q20. Nonetheless, as mentioned in our previous report, any asset quality deterioration will most likely be revealed by 3Q20-4Q20 the earliest.

**OVERWEIGHT on A/H share banks sector on trough valuation.** We reiterate our **OVERWEIGHT** rating for both A/H share banks; we prefer H-share banks based on the lower valuation and higher dividend yield than the A-share banks. We recommend long-term yield investors to accumulate shares of high-yield big banks, and advise against short-term speculation due to the lack of positive fundamental catalyst in the short term and global uncertainties. Our sector top pick is **ABC (601288CH, 1288 HK)**.

**Risk Factors:** 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Increasing competition from non-bank financial institutions; 3) Sharp deterioration in asset quality in specific regions; 4) Sharp decline in loan demand; 5) Policy risk in new and fast-growing businesses; 6) Prolonged COVID-19 epidemic.

## Sector Report

Mar 12, 2020

Rating (H): Overweight

Rating (A): Overweight

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### Key Data

Avg.20E P/E (x)	4.22/5.66
(H/A shr)	
Avg.20E P/B (x)	0.50/0.68
(H/A shr)	
Avg.20E Dividend	5.78/5.66
Yield (%) (H/A shr)	
Previous sector rating	Overweight/
(H/A shr)	Overweight
Date	Feb 19, 2020

Source(s): Bloomberg, ABCI Securities estimates

### Sector Performance – H shr

	Absolute	Relative*
1-mth	(3.02)	3.18
3-mth	(3.98)	(4.17)
6-mth	(1.50)	(5.15)

\*Relative to MXCN

Source(s): Bloomberg, ABCI Securities

### Sector Performance – A shr

	Absolute	Relative*
1-mth	(1.07)	(2.15)
3-mth	(5.56)	(8.78)
6-mth	(5.44)	(6.76)

\*Relative to CSI300

Source(s): Bloomberg, ABCI Securities



Sector valuation summary – H shr (Data as of Mar 11, 2020)

Company	Ticker	Rating	Price (HK\$)	TP (HK\$)	Upside (%)	FY19E P/B(x)	FY20E P/B (x)	FY19E P/E (x)	FY20E P/E (x)	FY19E Yield(%)	FY20E Yield(%)
ICBC	1398 HK	BUY	5.37	7.84	46.00	0.69	0.63	5.46	5.06	5.62	6.04
CCB	939 HK	BUY	6.45	9.60	48.84	0.69	0.63	5.39	5.06	5.72	6.07
ABC	1288 HK	BUY	3.20	5.41	69.06	0.57	0.53	4.40	4.09	6.64	7.34
BoCom	3328 HK	BUY	4.96	7.48	50.81	0.48	0.44	4.48	4.27	6.99	7.21
CMB	3968 HK	BUY	36.75	46.60	26.80	1.36	1.22	9.01	8.16	3.53	3.86
MSB	1988 HK	BUY	5.45	7.15	31.19	0.48	0.44	4.10	3.87	7.59	8.00
CITICB	998 HK	BUY	3.96	5.96	50.51	0.40	0.37	3.81	3.54	8.19	8.75
CEB	6818 HK	BUY	3.02	4.26	41.06	0.45	0.41	4.16	3.86	7.40	7.77
HB	3698 HK	BUY	2.88	4.07	41.32	0.40	0.33	3.44	3.18	1.55	1.94
HRB	6138 HK	BUY	1.41	2.04	44.68	0.26	0.22	2.34	2.17	-	-
BCQ	1963 HK	BUY	4.16	5.67	36.30	0.31	0.28	3.29	3.21	4.03	4.03

\*CNY/HKD =1.1178 throughout this report, unless otherwise stated

Note: No revision of forecasts and TPs since previous report published on 19 Feb 2020

Source(s): Bloomberg, ABCI Securities estimates

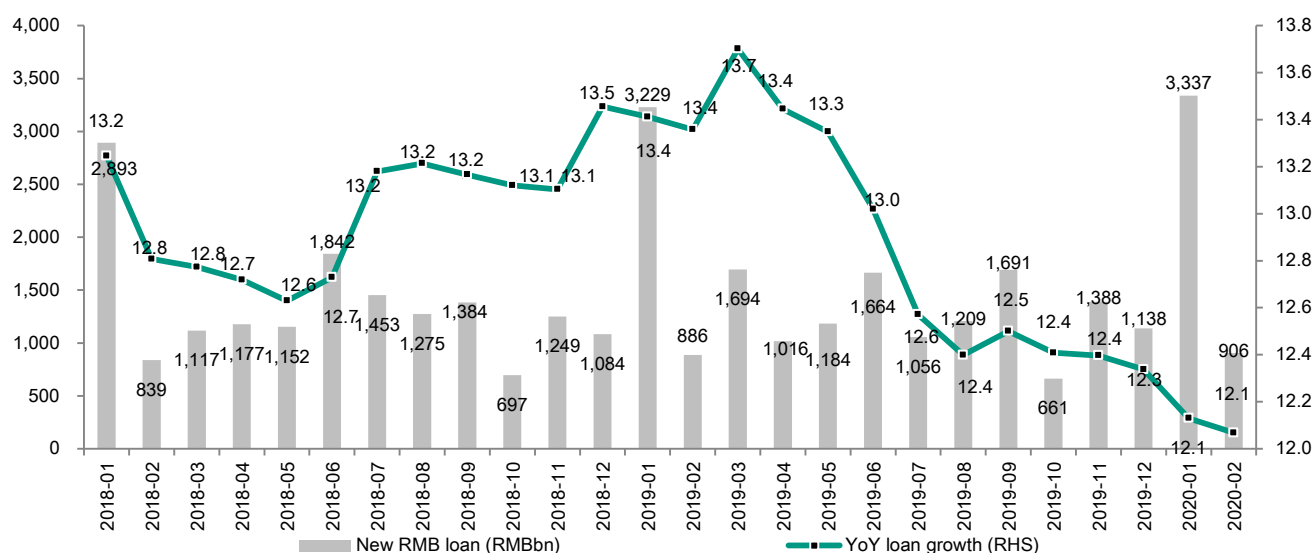
Sector valuation summary – A shr (Data as of Mar 11, 2020)

Company	Ticker	Rating	Price (RMB)	TP (RMB)	Upside (%)	FY19E P/B(x)	FY20E P/B (x)	FY19E P/E (x)	FY20E P/E (x)	FY19E Yield(%)	FY20E Yield(%)
ICBC	601398CH	BUY	5.32	8.65	62.59	0.77	0.70	6.05	5.60	5.08	5.45
CCB	601939CH	BUY	6.52	10.46	60.43	0.78	0.71	6.09	5.72	5.06	5.37
ABC	601288CH	BUY	3.43	5.52	60.93	0.69	0.63	5.28	4.90	5.54	6.12
BoCom	601328CH	BUY	5.28	7.42	40.53	0.57	0.52	5.33	5.08	5.87	6.06
CMB	600036CH	BUY	34.45	46.05	33.67	1.43	1.28	9.44	8.55	3.37	3.69
MSB	600016CH	BUY	5.81	7.64	31.50	0.57	0.52	4.88	4.61	6.37	6.71
CITICB	601998CH	Under review	5.46	6.05	10.81	0.61	0.57	5.87	5.46	5.31	5.68
CEB	601818CH	Under review	3.82	4.26	11.52	0.64	0.59	5.88	5.46	5.24	5.50

Note: No revision of forecasts and TPs since previous report published on 19 Feb 2020

Source(s): Bloomberg, ABCI Securities estimates

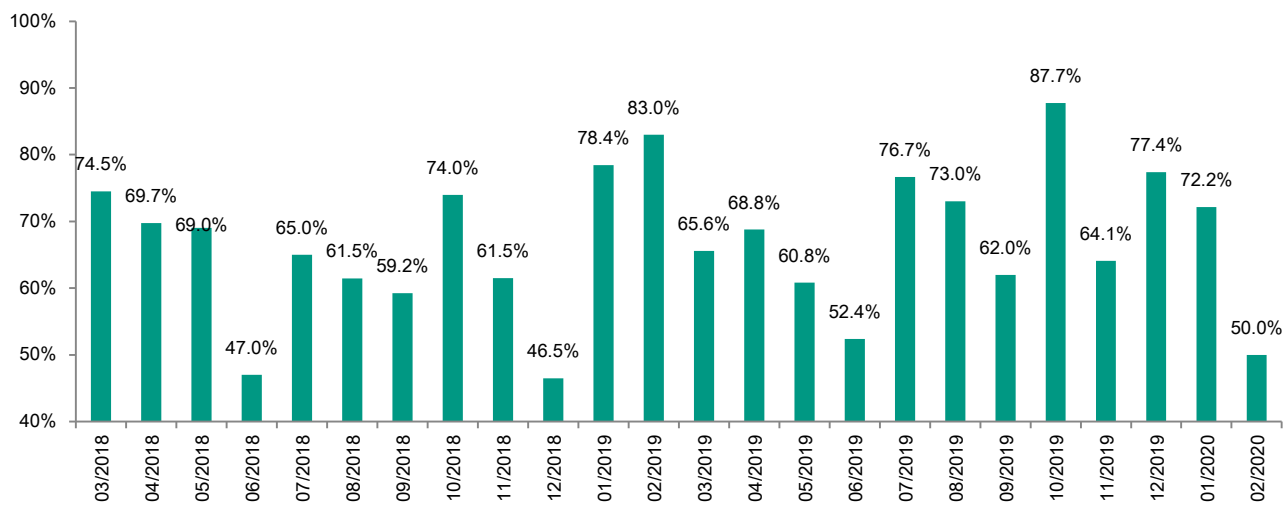
Exhibit 1: Monthly RMB loan (RMB bn) and total RMB loan balance YoY (%)



Source(s): PBOC, ABCI Securities



Exhibit 2: Medium-to-long-term loans to monthly total RMB loan (%)



Source(s): PBOC, ABCI Securities

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ABC INTERNATIONAL

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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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