

## MSB (1988 HK / 600016 CH)

### Halfway through a transition; downgrade to HOLD

- MSB has established a five-year development plan with the vision to be the best bank serving the non-state-owned enterprises (NSOEs)
- Expect fundamentals to recover earliest in 2023E; NIM pressure to persist due to business focus on medium, small, and micro enterprises
- Risk buffer to elevate in 2022E-24E with steady increases in provision expenses
- Lower rating to **HOLD** until we see more signs of fundamental recovery. Our GGM-based H/A-shr TPs imply 0.23x/0.30x 22E P/B

**A bank with a plan.** According to MSB's five-year development plan (2021-25), the bank is transitioning with the vision to become the best bank serving the NSOEs. Specifically, three major tasks are identified: i) serving the real economy; ii) preventing and controlling financial risks; iii) deepening financial reform. The bank will continue to enhance its business strength in the Greater Bay Area, Yangtze River Delta, Beijing-Tianjin-Hebei, and Chengdu-Chongqing areas together with its traditional franchises and smart bank development. The structure adjustment and optimization may add pressure on operation in the short term; in return, sustainable development and steady growth can be expected in the long run.

**Fundamental turnaround to start in 2023.** In the five-year plan, 2021-23 is the foundation-building period during which the bank will strengthen its weak links and resolve the legacy issues, with gradual fundamental improvement to be seen in 2024-25. We expect a fundamental turnaround to occur in late 2023. We estimate topline and net profit CAGRs to be 2.3% and 4.1% in 2021-24E. As directed by the national policy, financing costs of medium, small, and micro enterprises will continue to reduce. Due to the bank's business strength in this segment, we forecast NIM to narrow by 8bps-11bps YoY each in 2022E-24E.

**Elevating risk buffer a must.** Provisioning ratio and provision coverage ratio were 2.6% and 145.3% as of Dec 2021. In our view, MSB will need to build up its risk buffers further with a steady and large provisions in coming years. We estimate provision expenses to increase at a CAGR of 0.9% in 2021-24E, hence its provisioning ratio and provision coverage ratio would reach 2.83% and 150.53% by end-2024E. NPL ratio would be up by 2bps-4bps each in 2022E-24E on rising NPL expectation from the real estate sector.

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#### Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	181,807	165,554	164,812	170,300	177,370
Chg (% YoY)	2.3	(8.9)	(0.4)	3.3	4.2
Net profit* (RMB mn)	34,309	34,381	34,775	35,954	38,749
Chg (% YoY)	(36.3)	0.2	1.1	3.4	7.8
EPS (RMB)	0.71	0.71	0.70	0.73	0.79
Chg (% YoY)	(41.8)	0.3	(1.2)	3.8	8.8
BVPS (RMB)	10.50	11.06	11.53	12.02	12.46
Chg (% YoY)	2.4	5.4	4.2	4.2	3.7
P/E (x) – H-shr	3.46	3.45	3.49	3.36	3.09
P/B (x) – H-shr	0.23	0.22	0.21	0.20	0.20
P/E (x) – A-shr	5.34	5.33	5.40	5.20	4.78
P/B (x) – A-shr	0.36	0.34	0.33	0.31	0.30
ROAA (%)	0.51	0.50	0.49	0.48	0.48
ROAE (%)	6.81	6.59	6.25	6.24	6.49
DPS (RMB)	0.213	0.213	0.238	0.246	0.266
Yield (%) H-shr	8.70	8.70	9.74	10.07	10.85
Yield (%) A-shr	5.63	5.63	6.30	6.52	7.02

Note: Company; HKD/CNY=1.23

\*Net profit = Net profit attributable to equity holders of the Company

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

### Apr 20, 2022

Rating (H): HOLD  
Rating (A): HOLD  
TP (H): HK\$ 3.29  
TP (A): RMB 3.43

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Price (H/A shr)	HK\$ 3.01/ RMB 3.78
Est. share price return (H/A shr)	9.30%/ -9.26%
Est. dividend yield (H/A shr)	9.74%/6.30%
Est. total return (H/A shr)	19.04%/ -2.96%
Last Rating & TP (H/A shr)	BUY, HK\$4.28/ BUY, RMB4.24
Previous Report Date	2 Dec, 2021

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	4.54/2.56
52Wk H/L (RMB) (A shr)	4.96/3.52
Total issued shares (mn)	43,782.4
Issued H shr (mn)	8,320.3
Issued A shr (mn)	35,462.1
Market cap (HK\$ mn)	189,899.2
H-shr market cap (HK\$ mn)	25,044.1
A-shr market cap (HK\$ mn)	164,855.1
3-mth avg daily turnover (HK\$ mn) (H shr)	84.77
3-mth avg daily turnover (RMB mn) (A shr)	306.79

#### Major shareholder(s) (%):

Dajia Life Insurance	17.84
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Source(s): Bloomberg, ABCI Securities

**Downgrade to HOLD.** We lower 2022E-23E net profit by 9.92% and 14.64% as a result of the lower NIM projections and higher CIR on increased Fintech investment. We revise down our assumptions for sustainable ROAE and raise the equity risk premium (ERP) in our Gordon Growth Model. As a result, our H/A-shr TPs fell 23.1%/19.1% to HK\$ 3.29/RMB 3.43, which imply 0.23x/0.30x FY22E P/B. As MSB's five-year development plan may create larger volatility on earnings and dividend payout, we judgmentally excluded dividend yield in our rating consideration and downgrade MSB-A/H to **HOLD** until more signs of a recovery in fundamentals are seen.

**Risk Factors:** 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Potential asset quality deterioration in specific sectors or geographical areas; 3) Delayed recovery in fundamentals caused by possible derailment in the five-year development plan; 4) High volatility of earnings growth increase DPS uncertainty; 5) Resurging or prolonged COVID-19 pandemic.

#### Exhibit 1: Changes in 2022E and 2023E forecasts

(RMB mn)	2022E (old)	2022E (new)	change (%)	(RMB mn)	2023E (old)	2023E (new)	change (%)
Net interest income	141,609	122,409	(13.56)	Net interest income	146,699	124,443	(15.17)
Net fee and commission	25,396	28,669	12.89	Net fee and commission	25,903	30,389	17.32
Operating income	189,301	164,812	(12.94)	Operating income	196,735	170,300	(13.44)
Operating expenses	(54,022)	(51,705)	(4.29)	Operating expenses	(56,120)	(53,120)	(5.35)
Impairment losses	(88,734)	(75,931)	(14.43)	Impairment losses	(89,818)	(78,677)	(12.40)
Profit before tax	46,546	37,176	(20.13)	Profit before tax	50,797	38,504	(24.20)
Net profit attributable to equity holders	38,604	34,775	(9.92)	Net profit attributable to equity holders	42,122	35,954	(14.64)
<b>Key indicators (%)</b>			<b>change (ppt)</b>	<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	2.00	1.80	(0.20)	Net interest margin	1.96	1.71	(0.25)
Net interest spread	1.85	1.65	(0.20)	Net interest spread	1.80	1.52	(0.28)
CIR	25.31	29.50	4.19	CIR	25.32	28.00	2.68
ROAA	0.52	0.49	(0.03)	ROAA	0.54	0.48	(0.06)
ROAE	6.85	6.25	(0.60)	ROAE	7.28	6.24	(1.04)
Dividend payout	29.00	30.00	1.00	Dividend payout	30.00	30.00	-
CT1 CAR	8.81	9.17	0.36	CT1 CAR	9.08	9.05	(0.03)
Total CAR	13.21	13.61	0.40	Total CAR	13.85	13.52	(0.33)
NPL ratio	1.81	1.81	-	NPL ratio	1.85	1.84	(0.01)
Provision to total loans	2.64	2.67	0.03	Provision to total loans	2.69	2.75	0.06
Provision coverage ratio	145.86	147.51	1.65	Provision coverage ratio	145.41	149.46	4.05

Source(s): Company, ABCI Securities estimates

#### Exhibit 2: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	4.28	3.29	4.24	3.43	
Sustainable ROE (%)	6.97	6.64	6.97	6.64	Assume MSB's ROAE to steadily improve after the five-year development plan
COE (%)	11.44	12.05	10.37	10.51	
Target 22E P/B (x)	0.32	0.23	0.39	0.30	
Rfr (%)	2.88	2.81	2.88	2.81	With reference to China 10Y government bond
Beta	0.80	0.84	0.70	0.70	With reference to Bloomberg
ERP (%)	10.70	11.00	10.70	11.00	Higher on low risk buffer
LT gr (%)	5.00	5.00	5.00	5.00	

Source(s): Company, ABCI Securities estimates

## Financial statements

### Consolidated income statement

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Net interest income	135,224	125,775	122,409	124,443	127,530
Non-interest income	46,583	39,779	42,403	45,856	49,840
Of which: Fees and commissions	27,664	27,566	28,669	30,389	32,516
<b>Operating income</b>	<b>181,807</b>	<b>165,554</b>	<b>164,812</b>	<b>170,300</b>	<b>177,370</b>
Operating expenses	(50,485)	(51,181)	(51,705)	(53,119)	(54,954)
<b>Pre-provision operating profit</b>	<b>131,322</b>	<b>114,373</b>	<b>113,107</b>	<b>117,180</b>	<b>122,416</b>
Impairment loans losses	(94,616)	(78,773)	(75,931)	(78,677)	(80,872)
<b>Profit before tax</b>	<b>36,706</b>	<b>35,600</b>	<b>37,176</b>	<b>38,504</b>	<b>41,544</b>
Tax	(1,604)	(747)	(1,859)	(1,925)	(2,077)
Minority interests	(793)	(472)	(543)	(624)	(718)
<b>Net profit attributable to equity holders</b>	<b>34,309</b>	<b>34,381</b>	<b>34,775</b>	<b>35,954</b>	<b>38,749</b>
Preference share dividend	(3,337)	(3,328)	(4,106)	(4,106)	(4,106)
<b>Net profit attributable to ordinary shareholders</b>	<b>30,972</b>	<b>31,053</b>	<b>30,669</b>	<b>31,848</b>	<b>34,643</b>
<b>Growth (%)</b>					
Net interest income	10.8	(7.0)	(2.7)	1.7	2.5
Non-interest income	(16.4)	(14.6)	6.6	8.1	8.7
Of which: Fees and commissions	(1.9)	(0.4)	4.0	6.0	7.0
<b>Operating income</b>	<b>2.3</b>	<b>(8.9)</b>	<b>(0.4)</b>	<b>3.3</b>	<b>4.2</b>
Operating expenses	13.9	1.4	1.0	2.7	3.5
<b>Pre-provision operating profit</b>	<b>2.8</b>	<b>(12.9)</b>	<b>(1.1)</b>	<b>3.6</b>	<b>4.5</b>
Impairment loans losses	50.2	(16.7)	(3.6)	3.6	2.8
<b>Profit before tax</b>	<b>(43.3)</b>	<b>(3.0)</b>	<b>4.4</b>	<b>3.6</b>	<b>7.9</b>
Tax	(83.7)	(53.4)	148.8	3.6	7.9
Minority interests	(28.2)	(40.5)	15.0	15.0	15.0
<b>Net profit attributable to equity holders</b>	<b>(36.3)</b>	<b>0.2</b>	<b>1.1</b>	<b>3.4</b>	<b>7.8</b>
Preference share dividend	498.0	(0.3)	23.4	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	<b>(41.8)</b>	<b>0.3</b>	<b>(1.2)</b>	<b>3.8</b>	<b>8.8</b>
<b>Per share (RMB)</b>					
EPS	0.71	0.71	0.70	0.73	0.79
BVPS	10.50	11.06	11.53	12.02	12.46
DPS	0.213	0.213	0.238	0.246	0.266
<b>Key ratio (%)</b>					
Net interest margin	2.14	1.91	1.80	1.71	1.63
Net interest spread	2.12	1.81	1.65	1.52	1.41
Cost to income ratio	26.64	29.74	29.50	28.00	27.98
Return on average assets	0.51	0.50	0.49	0.48	0.48
Return on average equity	6.81	6.59	6.25	6.24	6.49
Effective tax rate	4.37	2.10	5.00	5.00	5.00
Dividend payout	30.11	30.03	30.00	30.00	30.00

Note: Individual items may not sum to total due to rounding difference

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Cash & balances with central bank	401,525	361,302	348,892	367,527	387,474
Due from FIs and repo	295,456	252,676	275,025	337,262	406,866
Investment securities	2,120,650	2,034,433	2,095,466	2,179,285	2,266,456
Net loans and advances	3,782,297	3,967,679	4,164,286	4,470,426	4,833,963
<b>Total interest earning assets</b>	<b>6,599,928</b>	<b>6,616,090</b>	<b>6,883,669</b>	<b>7,354,500</b>	<b>7,894,759</b>
Property and equipment	51,129	53,466	56,674	60,358	64,583
Other non-interest earning assets	299,176	283,230	320,005	359,948	405,239
<b>Total assets</b>	<b>6,950,233</b>	<b>6,952,786</b>	<b>7,260,348</b>	<b>7,774,805</b>	<b>8,364,581</b>
Customer deposits	3,768,151	3,825,693	3,897,840	4,077,720	4,294,777
Due to FIs and repo	1,558,409	1,725,091	1,914,851	2,135,059	2,369,915
Subordinated debt	957,880	711,024	746,575	821,233	944,418
<b>Total interest bearing liabilities</b>	<b>6,284,440</b>	<b>6,261,808</b>	<b>6,559,267</b>	<b>7,034,012</b>	<b>7,609,110</b>
Current taxes	18,589	8,811	7,930	7,296	6,785
Other liabilities	105,956	95,628	85,453	103,782	98,836
<b>Total liabilities</b>	<b>6,408,985</b>	<b>6,366,247</b>	<b>6,652,650</b>	<b>7,145,089</b>	<b>7,714,731</b>
Share capital	113,642	133,746	133,746	133,746	133,746
Reserves	415,895	440,534	461,080	482,455	501,913
Minorities	11,711	12,259	12,872	13,516	14,191
<b>Shareholder's equity</b>	<b>541,248</b>	<b>586,539</b>	<b>607,698</b>	<b>629,716</b>	<b>649,850</b>
<b>Growth (%)</b>					
Cash & balances with central bank	8.2	(10.0)	(3.4)	5.3	5.4
Due from FIs and repo	(19.6)	(14.5)	8.8	22.6	20.6
Investment securities	(2.9)	(4.1)	3.0	4.0	4.0
Net loans and advances	10.3	4.9	5.0	7.4	8.1
<b>Total interest earning assets</b>	<b>3.9</b>	<b>0.2</b>	<b>4.0</b>	<b>6.8</b>	<b>7.3</b>
Property and equipment	(0.5)	4.6	6.0	6.5	7.0
Other non-interest earning assets	8.0	(5.3)	13.0	12.5	12.6
<b>Total assets</b>	<b>4.0</b>	<b>0.0</b>	<b>4.4</b>	<b>7.1</b>	<b>7.6</b>
Customer deposits	3.6	1.5	1.9	4.6	5.3
Due to FIs and repo	4.3	10.7	11.0	11.5	11.0
Subordinated debt	17.2	(25.8)	5.0	10.0	15.0
<b>Total interest bearing liabilities</b>	<b>5.6</b>	<b>(0.4)</b>	<b>4.8</b>	<b>7.2</b>	<b>8.2</b>
Current taxes	4.6	(52.6)	(10.0)	(8.0)	(7.0)
Other liabilities	(42.7)	(9.7)	(10.6)	21.4	(4.8)
<b>Total liabilities</b>	<b>4.2</b>	<b>(0.7)</b>	<b>4.5</b>	<b>7.4</b>	<b>8.0</b>
Share capital	0.0	17.7	0.0	0.0	0.0
Reserves	2.6	5.9	4.7	4.6	4.0
Minorities	(2.3)	4.7	5.0	5.0	5.0
<b>Shareholder's equity</b>	<b>2.0</b>	<b>8.4</b>	<b>3.6</b>	<b>3.6</b>	<b>3.2</b>
<b>Key ratio (%)</b>					
CT1 CAR	8.51	9.04	9.17	9.05	8.96
Total CAR	13.04	13.64	13.61	13.52	13.63
NPL ratio	1.82	1.79	1.81	1.84	1.88
Provision to total loans	2.53	2.60	2.67	2.75	2.83
Provision coverage ratio	139.38	145.30	147.51	149.46	150.53

Note: Individual items may not sum to total due to rounding difference

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

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### Definition of equity rating

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

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 2009 (HSI total return index 2009-21 averaged at 9.2%)

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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