



# China Banks Sector

## Growth momentum on the rise

- System NIM inched up 1bps QoQ in 4Q19; big banks displayed higher defensiveness than JSBs and city commercial banks
- Big banks will bear more social responsibility by extending support to SMEs and private enterprises; continuous strengthening in balance sheet growth would help offset NIM pressure
- System NPL ratio was flat QoQ at 1.86%. By category, NPL of big banks and JSBs was up by 6bps and 1bps QoQ
- COVID-19 outbreak would weigh on China's economic growth, elevating the asset quality risk. Such impact will be reflected by data reveal in 3Q20
- **OVERWEIGHT** rating for both A/H-shr banks sector based on bargain valuation. We expect short-term share price volatility on COVID-19 development and US trade talks; **ABC (601288 CH, 1288 HK)** and **CCB (601939 CH, 939 HK)** are our top picks

**Mild NIM pressure on social responsibility.** According to the CBIRC statistics for 4Q19, system NIM was up 1bps QoQ to 2.2%, representing the third consecutive quarterly increase since 1Q19. By category, average NIM in big banks expanded by 1bps QoQ to 2.12%, while that of JSBs and city commercial banks narrowed by 1bps and 2bps QoQ to 2.12% and 2.09%. The government has been urging banks to support MSEs and private enterprises in 2019; with the outbreak COVID-19, we expect banks, especially the sizeable ones that are obliged to bear a higher degree of social responsibility, to step up their efforts to assist these entities. The increased proportion of loans granted to these smaller businesses would help the big banks relief some of the NIM pressure caused by the reducing social financing cost. Impacts such as continuous lowering of average lending rate and stronger credit support for MSEs and private enterprises would be reflected in coming months. NIM should therefore continue to face a mild downside pressure, but balance sheet growth would help offset some of the negative impacts. On the policy front, regulators would continue to ease market liquidity. In 4Q19, excess reserve ratio increased by 65bps QoQ to 2.61%.

**Balance sheet growth is accelerating.** Balance sheet growth accelerated in 2019, of which total assets and total liabilities of all FIs in China grew 8.1% and 7.6% YoY as of Dec 2019, compare to 6.4% and 6.0% in Dec 2018. Although we expect a soft growth in RMB loan for Jan 2020 due to seasonality, growth momentum would resume in coming months. To support the real economy, banks will increase balance sheet growth in 2020.

**Higher asset quality risk to be delayed reveal in 3Q20.** In 4Q19, system NPL ratio was flat QoQ at 1.86%; by category, average NPL ratios in big banks and JSBs were up 6bps and 1bps QoQ to 1.38% and 1.64%, while those of city commercial banks and rural commercial banks dropped 6bps and 10bps QoQ in 4Q19. China's economic growth has been slowing, and the coronavirus epidemic will only serve to aggravate the downturn, resulting in a higher asset quality risk. The decline in asset quality, however, would not be reflected instantaneously because overdue loans occurring in 1Q would only be considered as NPL in 2Q and be reflected in the financial reporting in 3Q. Nonetheless, we expect system NPL ratio to remain stable since regulators would allow banks to increase tolerance in problem loans on a temporary basis and encourage NPL handling. In addition, risk buffer remained strong in 4Q19, with average provisioning ratio and average provision coverage ratio marked at 3.46% and 186.08%, down by 3bps and 1.55ppt QoQ.

**OVERWEIGHT on A/H share banks sector on bargain valuation.** We reiterate our **OVERWEIGHT** rating for both A/H share banks, premised on undemanding valuation. CBIRC data in 4Q19 signaled stable fundamentals. Still, short-term share price volatility can be expected due to the epidemic and the second phase of trade negotiations with the US. Our top picks are **ABC (601288CH, 1288 HK)** and **CCB (601939 CH, 939 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

Feb 19, 2020

Rating (H): Overweight

Rating (A): Overweight

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### Key Data

Avg.20E P/E (x)	4.76/6.22
(H/A shr)	
Avg.20E P/B (x)	0.58/0.69
(H/A shr)	
Avg.20E Dividend Yield (%) (H/A shr)	5.15/5.51
Previous sector rating	Overweight/
(H/A shr)	Overweight
Date	Jan 13, 2020

Source(s): Bloomberg, ABCI Securities estimates

### Sector Performance – H shr

	Absolute	Relative*
1-mth	(4.54)	(1.45)
3-mth	(2.58)	(9.98)
6-mth	7.20	(6.13)

\*Relative to MXCN

Source(s): Bloomberg, ABCI Securities

### Sector Performance – A shr

	Absolute	Relative*
1-mth	(4.76)	(1.75)
3-mth	(3.90)	(7.45)
6-mth	(1.05)	(7.62)

\*Relative to CSI300

Source(s): Bloomberg, ABCI Securities



## Sector valuation summary – H shr (Data as of Feb 19, 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	5.56	7.84	41.01	0.72	0.66	5.70	5.28	5.39	5.78
CCB	939 HK	BUY	6.55	9.60	46.56	0.71	0.64	5.52	5.18	5.59	5.93
ABC	1288 HK	BUY	3.20	5.41	69.06	0.58	0.53	4.44	4.12	6.59	7.28
BOC	3988 HK	BUY	3.22	4.94	53.42	0.52	0.48	4.84	4.47	7.23	7.92
BoCom	3328 HK	BUY	5.21	7.48	43.57	0.50	0.47	4.74	4.52	6.60	6.81
CMB	3968 HK	BUY	38.95	46.60	19.64	1.46	1.30	9.62	8.71	3.30	3.62
MSB	1988 HK	BUY	5.51	7.15	29.76	0.49	0.45	4.17	3.94	7.45	7.85
CITICB	998 HK	BUY	4.21	5.96	41.57	0.43	0.39	4.08	3.80	7.64	8.17
CEB	6818 HK	BUY	3.33	4.26	27.93	0.50	0.46	4.62	4.29	6.66	6.99
HB	3698 HK	BUY	2.97	4.07	37.04	0.42	0.34	3.57	3.31	1.49	1.87
HRB	6138 HK	BUY	1.44	2.04	41.67	0.26	0.23	2.40	2.24	-	-
BCQ	1963 HK	BUY	4.28	5.67	32.48	0.33	0.29	3.42	3.33	3.89	3.89

\*CNY/HKD = 1.1091 throughout this report, unless otherwise stated

Note: No revision of forecasts and TPs since previous report published on 13 Jan 2020

Source(s): Bloomberg, ABCI Securities estimates

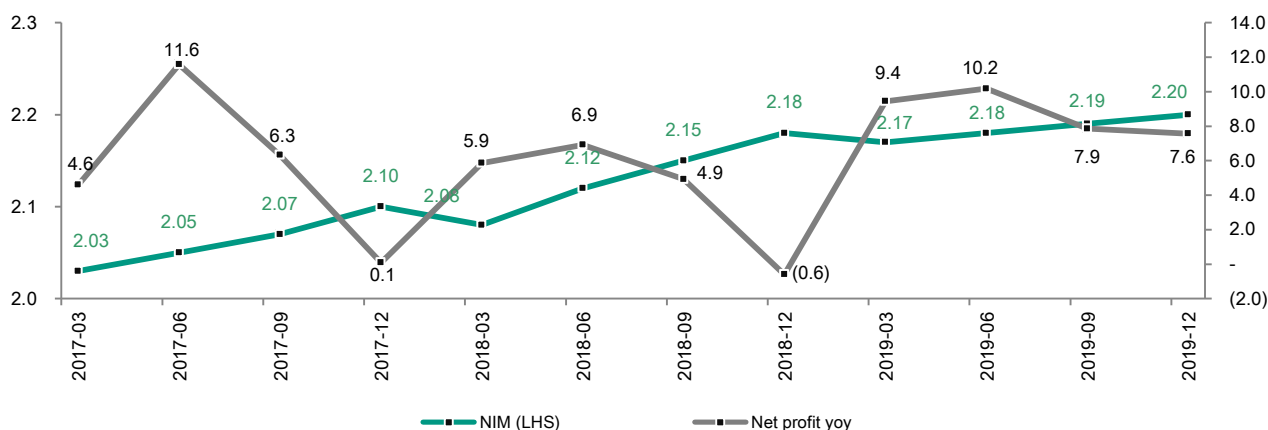
## Sector valuation summary – A shr (Data as of Feb 19, 2020)

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	5.48	8.65	57.85	0.79	0.72	6.23	5.77	4.93	5.29
CCB	601939CH	BUY	6.71	10.46	55.89	0.80	0.73	6.27	5.89	4.92	5.22
ABC	601288CH	BUY	3.48	5.52	58.62	0.70	0.64	5.35	4.97	5.46	6.03
BOC	601988CH	BUY	3.60	5.58	55.00	0.65	0.60	6.00	5.54	5.83	6.39
BoCom	601328CH	BUY	5.32	7.42	39.47	0.57	0.53	5.37	5.12	5.83	6.02
CMB	600036CH	BUY	35.53	46.05	29.61	1.47	1.32	9.73	8.82	3.26	3.57
MSB	600016CH	BUY	5.89	7.64	29.71	0.58	0.53	4.95	4.67	6.28	6.62
CITICB	601998CH	HOLD	5.61	6.05	7.84	0.63	0.58	6.03	5.61	5.17	5.53
CEB	601818CH	HOLD	3.90	4.26	9.23	0.65	0.60	6.00	5.57	5.13	5.38

Note: No revision of forecasts and TPs since previous report published on 13 Jan 2020

Source(s): Bloomberg, ABCI Securities estimates

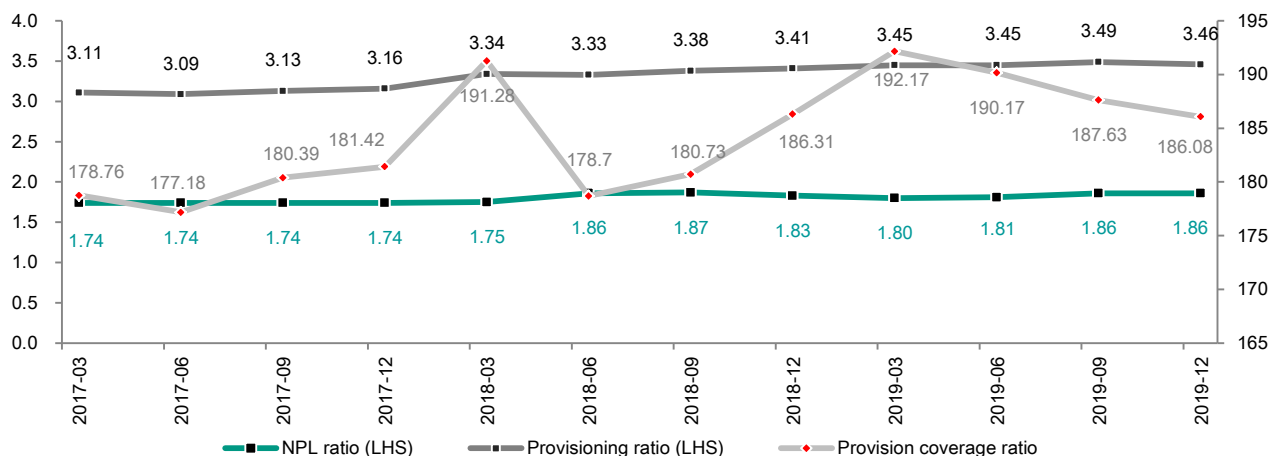
## Exhibit 1: System NIM vs. system quarterly net profit YoY (%)



Source(s): CBIRC, ABCI Securities

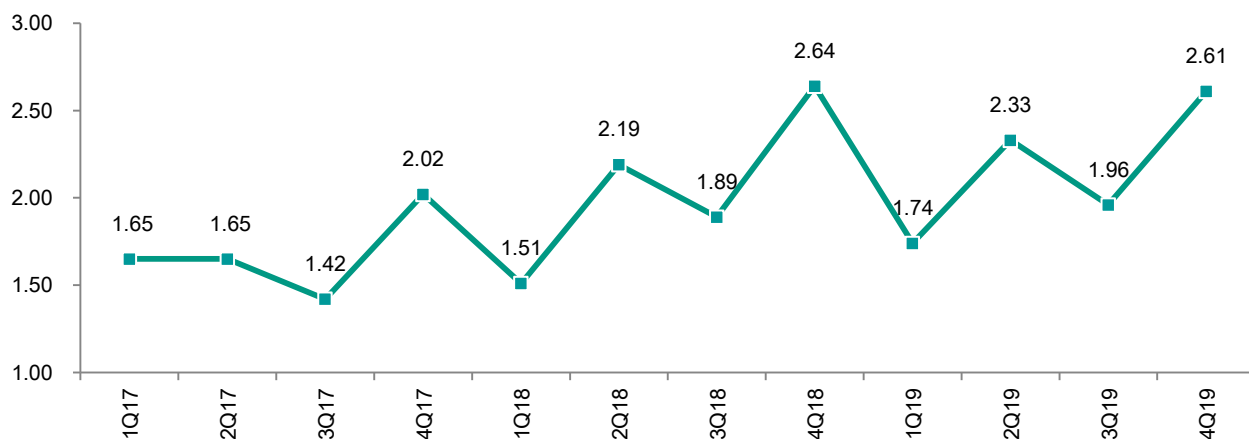


Exhibit 2: System asset quality indicator (%)



Source(s): CBIRC, ABCI Securities

Exhibit 3: Excess reserve ratio (%)



Source(s): CBIRC, ABCI Securities

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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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