



August 16, 2016
Equity Focus
Rating: BUY
TP: HK\$ 2.84

H-Share price (HK\$) 2.23
Est. share price return 27.35%
Est. dividend yield 6.66%
Est. total return 34.01%

Previous Rating & TP BUY; HK\$ 2.84
Previous Report Date Apr 21 2016

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Key Data

52Wk H/L(HK\$)	2.57/1.78
Issued shares (mn)	10,995.6
H-Shares (mn)	3,023.6
Unlisted shares (mn)	7,972.0
Market cap	
H-shares (HK\$ mn)	6,743
Unlisted shares (HK\$ mn)	17,777
3-mth avg daily turnover (HK\$ mn)	7.74
Major shareholder(s) (%):	
Harbin Economic Development	19.65

Source(s): Company, Bloomberg, ABCI Securities

1H16 Operating income breakdown (%)

Corporate banking	38.7
Personal banking	25.7
Treasury	34.8
Others	0.8

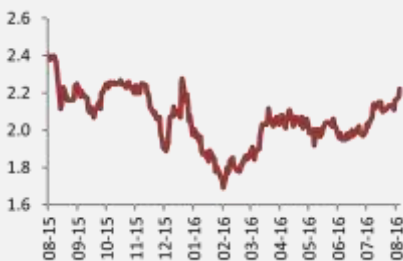
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	8.8	2.8
3-mth	15.7	0.1
6-mth	23.6	3.1

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

Harbin Bank Co., Ltd. (6138 HK)

Rapid earnings growth on balance sheet expansion; reiterate **BUY**

- HRB's 1H16 net profit grew 15.04% YoY; topline grew 24.4% YoY on a flat NIM, robust loan growth, and increasing use of online platform
- Continued improvement in cost efficiency was reflected by the 3.33ppt drop in CIR while LDR increased by 9.82ppt HoH in 1H16
- NPL ratio edged up 14bps HoH to 1.54%; significant improvement in NPL ratio was seen in manufacturing and loans to farmers
- The startup stage of Sino-Russian business will soon be completed and earnings contribution of the segment should increase gradually going forward
- The counter is currently trading at 0.54x 16E P/B. Reiterate **BUY** on solid fundamentals

Sustainable earnings growth in 1H16. HRB reported its 1H16 net profit at RMB 2,418mn, up 15.04% YoY, accounting for 50.4% of our full-year forecast. With a flat YoY NIM reported at 2.68% and a robust loan growth at 29.6% HoH, NII rose 21.6% YoY in 1H16. As a result, LDR increased by 9.82ppt HoH to 58.28%. Meanwhile, the increasing use of online banking platform has begun to monetize, driving net fee up by 33.5% YoY in 1H16. Continuing its trend of improving cost efficiency in 2015, CIR dropped 3.33ppt YoY to 24.85%.

Stable asset quality with betterment in specific segments. NPL ratio rose by 14bps HoH to 1.54% while provisioning ratio inched up 3bps HoH to 2.46%. Despite HRB's business focus in microcredits, NPL ratios of manufacturing edged down from 2.79% to 2.22% and loans to farmers fell from 4.4% to 3.95% HoH in 1H16, thanks to a cautious risk attitude and increased effort in NPL handling. Consistent with the new loan allocation, wholesale and services sector was the major contributor of new NPLs, with NPL ratio rising from 1.79% by end-2015 to 2.24% in 1H16. Geographically, new NPL mainly came from HRB's core business area - the HLJ region, whose NPL ratio rose 30bps HoH to 2.11% in 1H16.

Contribution from Sino-Russian business will increase. In 1H16, Sino-Russian-related income contributed to 1.75% of total operating income; the income size, however, rose by 33% YoY. Sino-Russian on- and off-balance sheet balances and Ruble exchange volume surged by 125% and 266% YoY in 1H16. We believe the startup stage of Sino-Russian business will soon be completed and earnings contribution from this segment is likely to increase.

Reiterate BUY on decent financials. The counter is currently trading at a depressed level of 0.54x 16E P/B. Given the Group's solid balance sheet growth and decent financial performance, we reiterate our **BUY** rating.

Risk factors: 1) Asset quality deterioration in HLJ; 2) Pricing competition from big banks entering the local regions; 3) Failure to optimize business mix and elevate LDR; 4) Cross-region business development risk; 5) Low shares average daily turnover.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	10,253	11,945	13,742	15,989	18,546
Chg (% YoY)	20.0	16.5	15.0	16.3	16.0
Net profit (RMB mn)	3,807	4,458	4,800	5,336	6,237
Chg (% YoY)	13.6	17.1	7.7	11.2	16.9
EPS (RMB)	0.35	0.41	0.44	0.49	0.57
Chg (% YoY)	13.6	17.1	7.7	11.2	16.9
BVPS (RMB)	2.74	3.08	3.44	3.89	4.41
Chg (% YoY)	13.5	12.2	11.9	13.0	13.3
P/E (x)	5.37	4.58	4.26	3.83	3.28
P/B (x)	0.68	0.60	0.54	0.48	0.42
ROAE (%)	15.46	14.23	13.39	13.24	13.68
ROAA (%)	1.15	1.14	0.97	0.89	0.87
DPS(RMB)	0.10	0.11	0.11	0.12	0.14
Yield (%)	5.54	5.76	6.11	6.66	7.63

Source(s): Bloomberg, ABCI estimates



Exhibit 1: HRB's interim results summary (RMB mn)

Income statement	1H15	1H16	YoY (%)
Net interest income	4,452	5,413	21.60
Net fee and commission income	946	1,263	33.53
Operating income	5,514	6,860	24.40
Operating expenses	(1,996)	(2,065)	3.44
Impairment losses	(757)	(1,691)	123.44
Profit before tax	2,785	3,163	13.60
Net profit	2,102	2,418	15.04
Key ratio (%)			
NIM	2.68	2.68	0.00
Net fee to operating income	17.15	18.41	1.26
CIR	28.18	24.85	(3.33)
ROAA	1.07	1.16	0.09
ROAE	14.00	14.36	0.36
Balance sheet			
	Dec-15	Jun-16	HoH (%)
Total assets	444,851	477,965	7.44
Loans	148,675	192,719	29.62
Deposits	306,818	330,673	7.78
Total equity	33,100	34,251	3.48
Key ratio (%)			
CT1 CAR	11.14	10.34	(0.80)
Total CAR	11.64	13.26	1.62
NPL ratio	1.40	1.54	0.14
Provisioning ratio	2.43	2.46	0.03
Provision coverage ratio	173.83	159.73	(14.10)
LDR	48.46	58.28	9.82

Source(s): Company, ABCI Securities



Consolidated income statement (2014A-2018E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Net interest income	8,398	9,633	10,914	12,571	14,431
Net fee and commission	1,600	1,959	2,351	2,775	3,246
Other operating income	255	353	477	643	869
Operating income	10,253	11,945	13,742	15,989	18,546
Operating expenses	(4,433)	(4,737)	(5,116)	(5,576)	(6,134)
Impairment losses	(709)	(1,338)	(2,340)	(3,430)	(4,253)
Investment in associates	17	49	56	65	74
Profit before tax	5,127	5,919	6,342	7,047	8,233
Income tax expenses	(1,287)	(1,409)	(1,522)	(1,691)	(1,976)
MI	(34)	(52)	(20)	(20)	(20)
Net profit	3,807	4,458	4,800	5,336	6,237
Growth (%)					
Net interest income	23.2	14.7	13.3	15.2	14.8
Net fee and commission	28.3	22.4	20.0	18.0	17.0
Other operating income	(46.8)	38.5	35.0	35.0	35.0
Operating income	20.0	16.5	15.0	16.3	16.0
Operating expenses	23.5	6.8	8.0	9.0	10.0
Impairment losses	40.1	88.7	74.9	46.6	24.0
Investment in associates	430.8	185.5	15.0	15.0	15.0
Profit before tax	15.2	15.4	7.2	11.1	16.8
Income tax expenses	19.3	9.5	8.0	11.1	16.8
MI	64.9	51.9	(61.5)	0.0	0.0
Net profit	13.6	17.1	7.7	11.2	16.9
Per share (RMB)					
EPS	0.35	0.41	0.44	0.49	0.57
BVPS	2.74	3.08	3.44	3.89	4.41
DPS	0.10	0.11	0.11	0.12	0.14
Key ratio (%)					
Net interest margin	2.71	2.68	2.52	2.42	2.38
Net interest spread	2.50	2.47	2.42	2.45	2.46
Cost to income ratio	35.04	31.75	37.23	34.88	33.07
Return on average assets	1.15	1.14	0.97	0.89	0.87
Return on average equity	15.46	14.23	13.39	13.24	13.68
Effective tax rate	25.09	24.00	24.00	24.00	24.00
Dividend payout	29.75	26.39	26.00	25.50	25.00

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2018E)

As of Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Cash and bank	53,871	54,566	55,657	56,771	57,906
Due from bank and FIs	65,475	81,063	95,654	110,959	127,603
Net loans	121,014	145,062	169,610	195,123	222,015
Investment securities	86,647	138,981	194,147	252,107	314,917
Total IEA	327,007	419,671	515,068	614,959	722,440
Other assets	16,634	25,180	31,475	39,344	49,180
Total assets	343,642	444,851	546,543	654,303	771,620
Customer deposits	233,794	306,818	389,658	475,383	565,706
Due to bank and FIs	69,143	73,076	81,845	90,848	99,933
Subordinated debt	4,498	23,270	29,087	36,359	45,449
Total IBL	307,435	403,164	500,591	602,591	711,088
Other liabilities	6,044	7,840	8,090	8,941	12,089
Total liabilities	313,479	411,003	508,681	611,532	723,177
Share capital	10,996	10,996	10,996	10,996	10,996
Retained earnings	5,487	8,183	11,735	15,711	20,388
Reserves	13,048	13,921	14,756	15,642	16,580
MI	632	748	375	423	480
Total equity	30,163	33,848	37,862	42,771	48,444
Growth (%)					
Cash and bank	4.5	1.3	2.0	2.0	2.0
Due from bank and FIs	(23.0)	23.8	18.0	16.0	15.0
Net loans	16.9	19.9	16.9	15.0	13.8
Investment securities	22.0	60.4	39.7	29.9	24.9
Total IEA	5.1	28.3	22.7	19.4	17.5
Total assets	6.7	29.5	22.9	19.7	17.9
Customer deposits	4.3	31.2	27.0	22.0	19.0
Due to bank and FIs	(1.9)	5.7	12.0	11.0	10.0
Subordinated debt	28.5	417.3	25.0	25.0	25.0
Total IBL	3.1	31.1	24.2	20.4	18.0
Total liabilities	3.7	31.1	23.8	20.2	18.3
Total equity	51.4	12.2	11.9	13.0	13.3
Key ratio (%)					
Loan to deposits	53.01	48.46	44.69	42.23	40.46
CT1 CAR	13.94	11.14	10.68	10.19	9.93
Total CAR	14.64	11.64	11.15	10.64	10.35
NPL ratio	1.13	1.40	1.66	1.84	1.99
NPL growth	55.51	48.63	38.88	27.79	23.29
Net bad debt charge ratio	0.62	0.98	1.45	1.83	1.98
Provision to total loans	2.35	2.43	2.60	2.81	2.99
Provision coverage	208.23	173.59	156.63	152.72	150.25

Source(s): Company, ABCI Securities estimates



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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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