

China Bohai Bank Co., Ltd. (9668 HK)

Significance of retail business to grow

- China Bohai Bank (BHB) optimizes its business by increasing contribution from retail banking segment; larger investment in fintech is expected
- Being the youngest JSB in China, a fast balance sheet growth would help defend against NIM pressure
- Signs of stabilizing asset quality in 2H20; we project NPL ratio to mildly improve over FY21E-23E
- Maintain **BUY** on growth potential; our GGM-based TP implies 0.74x 21E P/B

Increasing contributions from retail. While BHB's core strength lies in its corporate banking segment, deliberate effort has been made to balance business mix by increasing contribution from the retail segment; specifically, top line and profit before tax from retail segment increased from 19.3% and 6.9% in FY19 to 26.5% and 23.3% in FY20. We expect their contributions to reach 30%-35% by FY22E. Since BHB's outlets are mainly located in northern and northeastern China, e-channels would be crucial in boosting its retail business further. We project operating expenses to grow at 4.8% CAGR over FY20-23E on higher fintech investment; CIR will stay at 22.21%-25.39% in FY21E-23E.

Promising profitability on growing size. BHB, the youngest JSB in China, is at a rapid growth stage - total assets and total liabilities surged 24.76% and 24.75% YoY in FY20, much faster than system average of 11.5% and 11.7%, according to CBIRC. We expect its total assets and total liabilities to expand at 17% and 17.1% CAGRs over FY20-23E, which exceeds its peers; nevertheless, declining asset yield and keen deposit competition will narrow NIM by 6bps-14bps each in FY21E-23E to 2.08% by FY23E. We lower our FY21E/22E NII forecasts by 11.9%/14.58%. A robust balance sheet growth would offset the NIM pressure partially; hence, NII would grow at 15.8% CAGR over FY20-23E.

Asset quality to mildly improve. NPL ratio was down by 1bps HoH to 1.77% in 2H20, thanks to the declining NPL ratio in manufacturing sector (from 9.11% in 1H20 to 4.89% in 2H20) and wholesale & retail sector (from 4.45% 1H20 to 3.82% in 2H20). Credit card NPL ratio rose from 5.56% in June 2020 to 6.26% Dec 2020. With the synchronized effort in NPL handling sector-wide, we expect BHB's NPL ratio to decline by 2bps-3bps YoY each in FY21E-23E to 1.69% in end-23E; provisioning ratio and provision coverage ratio would be 3.02% and 178.7%. With the lower NII and provision expenses in our base case assumptions, our FY21E/22E net profits were revised down by 5.17% and 2.73%. We project ROAE to stay in the range of 9.94%-10.17% in FY21E-23E.

Results and Valuation

FY ended Dec 31	2019A	2020A	2021E	2022E	2023E
Revenue (RMB mn)	28,378	32,492	37,974	42,848	47,632
Chg (% YoY)	22.3	14.5	16.9	12.8	11.2
Net profit* (RMB mn)	8,193	8,445	9,380	10,895	12,838
Chg (% YoY)	15.7	3.1	11.1	16.2	17.8
EPS (RMB)	0.57	0.47	0.53	0.61	0.72
Chg (% YoY)	16.3	(17.5)	12.4	16.2	17.8
BVPS (RMB)	4.34	4.69	5.58	6.61	7.81
Chg (% YoY)	12.2	8.1	19.0	18.5	18.1
P/E (x)	4.90	5.94	5.29	4.55	3.86
P/B (x)	0.64	0.60	0.50	0.42	0.36
ROAA (%)	0.76	0.60	0.62	0.61	0.62
ROAE (%)	13.71	10.68	9.94	10.00	10.17
DPS(RMB)	0.00	0.09	0.10	0.11	0.13
Yield (%)	-	3.04	3.40	3.95	4.66

Note: Company; HKD/CNY=1.1927

*Net profit =Net profit attributable to shareholders of the Company

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 16, 2021

Rating: BUY

TP: HK\$ 4.90

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Price	HK\$ 3.33
Est. shr price return	47.15%
Est. dividend yield	3.40%
Est. total return	50.55%
Last Rating & TP	BUY, HK\$5.69
Previous Report Date	Oct 15, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$)	5.82/2.90
Total issued shares (mn)	17,762.0
H shr (mn)	6,200.6
Domestic shr (mn)	11,561.4
Market cap (HK\$ mn)	58,792.2
H shr (mn)	20,523.8
Domestic shr (mn)	38,268.4
3-mths avg daily turnover (HK\$ mn)	10.12
Major shareholder(s) (%):	
TEDA Investment	20.34
Standard Chartered Bank	16.26

Source(s): Company, Bloomberg, ABCI Securities

Maintain BUY on growth potential. By revising down our sustainable ROAE assumption by 48bps to 8.24% and rolling over GGM TP calculation to mid-22E BVPS, we lower our TP by 13.9% to HK\$ 4.90, which implies 0.74x 21E P/B. Considering a FY20-23E net profit CAGR of 15.0%, we maintain **BUY** on the bank's growth potential, which we believe is currently unrecognized by the market for BHB's smaller operation size than JSB peers, low ADT, and possible capital needs for rapid growth.

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 pandemic.

Exhibit 1: BHB's 2020 actual results vs. ABCI estimates

(RMB mn)	2020E	2020A	AvE (%)
Net interest income	32,326	28,477	(11.91)
Net fee and commission	1,056	1,113	5.40
Operating income	35,896	32,492	(9.48)
Operating expenses	(9,654)	(9,183)	(4.88)
Impairment losses	(15,205)	(13,224)	(13.03)
Profit before tax	11,038	10,085	(8.63)
Income tax expenses	(2,208)	(1,641)	(25.68)
Net profit	8,830	8,445	(4.36)
Key indicators (%)			AvE (ppt)
Net interest margin	2.48	2.35	(0.13)
Net interest spread	2.02	2.18	0.16
Cost to income ratio	26.89	26.52	(0.37)
Return on average assets	0.71	0.60	(0.11)
Return on average equity	9.52	10.68	1.16
Dividend payout	25.00	18.09	(6.91)
CT1 CAR	9.40	8.88	(0.52)
Total CAR	12.73	12.08	(0.65)
NPL ratio	1.85	1.77	(0.08)
Provision to total loans	3.50	2.81	(0.69)
Provision coverage	189.19	158.80	(30.39)

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in 2021E and 2022E forecasts

(RMB mn)	2021E (old)	2021E (new)	change (%)	(RMB mn)	2022E (old)	2022E (new)	change (%)
Net interest income	39,026	34,383	(11.90)	Net interest income	46,166	39,433	(14.58)
Net fee and commission	908	979	7.82	Net fee and commission	790	881	11.52
Operating income	42,574	37,974	(10.80)	Operating income	49,860	42,848	(14.06)
Operating expenses	(10,523)	(9,642)	(8.37)	Operating expenses	(11,365)	(10,124)	(10.92)
Impairment losses	(19,687)	(17,099)	(13.15)	Impairment losses	(24,494)	(19,676)	(19.67)
Profit before tax	12,364	11,233	(9.15)	Profit before tax	14,001	13,048	(6.81)
Income tax expenses	(2,473)	(1,853)	(25.07)	Income tax expenses	(2,800)	(2,153)	(23.11)
Net profit attributable to equity holders	9,891	9,380	(5.17)	Net profit attributable to equity holders	11,201	10,895	(2.73)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	2.54	2.21	(0.33)	Net interest margin	2.58	2.15	(0.43)
Net interest spread	2.14	1.89	(0.25)	Net interest spread	2.22	1.81	(0.41)
CIR	24.72	25.39	0.67	CIR	22.79	23.63	0.84
ROAA	0.67	0.62	(0.05)	ROAA	0.64	0.61	(0.03)
ROAE	9.10	9.94	0.84	ROAE	9.27	10.00	0.73
Dividend payout	25.00	18.00	(7.00)	Dividend payout	25.00	18.00	(7.00)
CT1 CAR	8.90	8.61	(0.29)	CT1 CAR	8.53	8.47	(0.06)
Total CAR	11.88	11.45	(0.43)	Total CAR	11.22	11.03	(0.19)
NPL ratio	1.91	1.75	(0.16)	NPL ratio	1.97	1.72	(0.25)
Provision to total loans	3.59	2.90	(0.69)	Provision to total loans	3.67	2.98	(0.69)
Provision coverage ratio	187.96	165.71	(22.25)	Provision coverage ratio	186.29	173.26	(13.03)

Source(s): Company, ABCI Securities estimates

Exhibit 3: Changes in GGM assumptions

	H-shr		Reason
	old	new	
TP (HKD)	5.69	4.90	Roll over to mid-2022E BVPS
Sustainable ROE (%)	8.72	8.24	Lowered on larger-than-expected NIM pressure
COE (%)	8.90	9.08	
Target 21E P/B (x)	0.92	0.74	
Rfr (%)	3.16	3.23	With reference to China 10Y government bond
Beta	0.82	0.86	With reference to Bloomberg
ERP (%)	7.00	6.80	Lowered on recovering economy in China
LT gr (%)	6.50	6.50	

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Net interest income	23,021	28,477	34,383	39,433	44,237
Net fee and commission	4,115	2,902	2,612	2,534	2,585
Other operating income	1,242	1,113	979	881	811
Operating income	28,378	32,492	37,974	42,848	47,632
Operating expenses	(8,857)	(9,183)	(9,642)	(10,124)	(10,580)
Impairment losses	(9,567)	(13,224)	(17,099)	(19,676)	(21,677)
Profit before tax	9,902	10,085	11,233	13,048	15,375
Income tax expenses	(1,709)	(1,641)	(1,853)	(2,153)	(2,537)
Net profit attributable to shareholders	8,193	8,445	9,380	10,895	12,838
Growth (%)					
Net interest income	51.2	23.7	20.7	14.7	12.2
Net fee and commission	(35.3)	(29.5)	(10.0)	(3.0)	2.0
Other operating income	(23.5)	(15.0)	(12.0)	(10.0)	(8.0)
Operating income	22.3	14.5	16.9	12.8	11.2
Operating expenses	2.1	3.7	5.0	5.0	4.5
Impairment losses	47.0	38.2	29.3	15.1	10.2
Profit before tax	23.3	1.9	11.4	16.2	17.8
Income tax expenses	80.4	(4.0)	13.0	16.2	17.8
Net profit attributable to shareholders	15.7	3.1	11.1	16.2	17.8
Per share (RMB)					
EPS	0.57	0.47	0.53	0.61	0.72
BVPS	4.34	4.69	5.58	6.61	7.81
DPS	0.00	0.09	0.10	0.11	0.13
Key ratio (%)					
Net interest margin	2.22	2.35	2.21	2.15	2.08
Net interest spread	2.04	2.18	1.89	1.81	1.74
Net fee to operating income	14.50	8.93	6.88	5.91	5.43
Cost to income ratio	29.50	26.52	25.39	23.63	22.21
ROAA	0.76	0.60	0.62	0.61	0.62
ROAE	13.71	10.68	9.94	10.00	10.17
Effective tax rate	17.3	16.3	16.5	16.5	16.5
Dividend payout	-	18.09	18.00	18.00	18.00

Notes: Individual items may not sum to total due to rounding difference and may not equal to financial statements due to reclassification

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)	2019A	2020A	2021E	2022E	2023E
Cash and bank	93,014	96,548	99,445	101,931	103,970
Repo	1,850	0	0	0	0
Deposit with FIs	14,052	27,805	37,537	48,798	61,486
Placement with FIs	4,411	6,064	7,580	9,247	11,097
Net loans	687,279	867,120	1,031,432	1,215,281	1,413,071
Investment securities	300,307	375,927	451,112	527,801	606,971
Total IEA	1,100,912	1,373,464	1,627,105	1,903,059	2,196,595
Other assets	16,018	20,059	24,070	28,885	34,661
Total assets	1,116,930	1,393,523	1,651,176	1,931,943	2,231,256
Customer deposits	647,765	758,236	887,136	1,020,206	1,163,035
Deposit with FIs	78,547	130,273	165,447	205,154	246,185
Debt issued	196,604	225,154	258,927	295,177	330,598
Repo	23,069	52,406	70,748	89,850	111,414
Borrowing from central bank	46,906	71,592	91,638	114,548	140,894
Placement from FIs	21,500	31,921	39,901	48,679	58,415
Total IBL	1,014,391	1,269,582	1,513,798	1,773,615	2,050,542
Other liabilities	19,901	20,695	18,301	20,957	22,051
Total liabilities	1,034,291	1,290,277	1,532,099	1,794,572	2,072,593
Total equity	82,639	103,246	119,077	137,372	158,664
Growth (%)					
Cash and bank	(24.5)	3.8	3.0	2.5	2.0
Repo	(82.5)	(100.0)	na	na	na
Deposit with FIs	(45.8)	97.9	35.0	30.0	26.0
Placement with FIs	114.2	37.5	25.0	22.0	20.0
Net loans	25.9	26.2	18.9	17.8	16.3
Investment securities	(2.9)	25.2	20.0	17.0	15.0
Total IEA	8.2	24.8	18.5	17.0	15.4
Other assets	(7.0)	25.2	20.0	20.0	20.0
Total assets	8.0	24.8	18.5	17.0	15.5
Customer deposits	6.8	17.1	17.0	15.0	14.0
Deposit with FIs	12.9	65.9	27.0	24.0	20.0
Debt issued	(10.1)	14.5	15.0	14.0	12.0
Repo	3.2	127.2	35.0	27.0	24.0
Borrowing from central bank	64.0	52.6	28.0	25.0	23.0
Placement from FIs	10.1	48.5	25.0	22.0	20.0
Total IBL	5.1	25.2	19.2	17.2	15.6
Other liabilities	51.6	4.0	(11.6)	14.5	5.2
Total liabilities	5.7	24.7	18.7	17.1	15.5
Total equity	47.9	24.9	15.3	15.4	15.5
Key ratio (%)					
CT1 CAR	8.06	8.88	8.61	8.47	8.48
Total CAR	13.07	12.08	11.45	11.03	10.82
NPL ratio	1.78	1.77	1.75	1.72	1.69
Provision to total loans	3.34	2.81	2.90	2.98	3.02
Provision coverage	187.73	158.80	165.71	173.26	178.70

Notes: Individual items may not sum to total due to rounding difference and may not equal to financial statements due to reclassification

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%)

Notes: 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 (For reference: HSI total return index 2008-20 CAGR 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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