



# China Zheshang Bank (2016 HK)

## Fast earnings growth with better balance sheet mix

- ZSB sustained its fast earnings growth at 44% YoY in 2016 despite a challenging industry environment
- Loan impairment growth slowed to 37.2% YoY with benign asset quality, however, risk buffer remained strong with provision coverage ratio high at 259.33% in 2016
- Balance sheet grew strongly by over 30% YoY while improving liability mix helped defend NIM
- The counter is currently trading at 0.84x 17E P/B

**Earnings in line with consensus.** China Zheshang Bank (ZSB) reported its 2016 net profit at RMB 10,153mn, up 44% YoY and in line with Bloomberg consensus. Non-interest income spiked up by 85.4% YoY, mainly driven by a 154.17% YoY increase in its wealth management-related fee income, accounting for 70.7% of ZSB's total gross fee income in 2016. Partially impacted by VAT reform, NIM narrowed by 24bps YoY to 2.07%. NII increased by 22.6% YoY as of 2016 on robust balance sheet growth, which expanded by over 30% YoY. On a net basis, ZSB's topline revenue grew 33.9% YoY.

**Reducing impairment loss on manageable asset quality.** Unlike 2015, the increasing pace of loan provisions slowed in 2016 to 37.2% YoY (2015: +63.7% YoY). We believe this indicated a more manageable asset quality outlook for ZSB. In particular, ZSB's NPL ratio inched up by 10bps YoY to 1.33%, versus a system NIM of 1.74% as of Dec 2016. Despite new NPLs mainly came from manufacturing sector due to its MSE business focus, NPL ratio of the sector improved from 4.03% in 2015 to 3.81% by end-2016. ZSB continues to build up its risk buffer - provisioning ratio and provision coverage ratio were high at 3.44% and 259.33% by end-2016.

**Robust balance sheet growth with improving liability mix.** Exposure in higher-cost interbank liabilities (2016 average funding cost: 3.18%) fell from 36.1% of total liabilities in 2015 to 30.6% in 2016, while proportion in lower-cost customer deposits increased from 52.5% (2016 average funding cost: 2.08%) in 2015 to 57.2% in 2016. ZSB's success in balance sheet management has effectively defended NIM and liability cost fell 62bps YoY to 2.59% in 2016.

**Valuation.** The counter is trading at 0.84x 17E P/B.

**Risk factors:** 1) Asset quality deterioration in eastern China; 2) Increased volatility in treasury asset price; 3) Failure to optimize balance sheet mix amid rapid changes in the industry environment; 4) Low average daily turnover of shares; 5) Potential earnings dilution from preference shares issuance and A-share listing.

### Results and Valuation

FY ended Dec 31	2012A	2013A	2014A	2015A	2016A
Revenue (RMB mn)	10,466	13,496	17,397	25,130	33,653
Chg (% YoY)	na	28.9	28.9	44.5	33.9
Net profit (RMB mn)	4,026	4,901	5,096	7,051	10,153
Chg (% YoY)	na	21.8	3.9	38.4	44.0
EPS (RMB)	0.40	0.45	0.44	0.54	0.59
Chg (% YoY)	na	12.5	(2.2)	22.7	9.3
BVPS (RMB)	2.27	2.42	2.88	3.42	3.76
Chg (% YoY)	na	6.5	19.2	18.8	9.9
P/E (x)	9.29	8.25	8.44	6.88	6.30
P/B (x)	1.64	1.53	1.29	1.09	0.99
ROAE (%)	18.55	19.40	16.72	17.03	17.34
ROAA (%)	1.16	1.11	0.88	0.83	0.85
DPS(RMB)	0.20	0.00	0.00	0.13	0.17
Yield (%)	5.38	-	-	3.50	4.58

Source(s): Bloomberg, ABCI Securities

## Company Report

Mar 14, 2017

Rating: NR

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Share price (HK\$)	4.16
Previous Rating & TP	NR
Previous Report Date	Aug 23, 2016

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	4.2/3.6
Issued shares (mn)	17,959.7
Market cap (HK\$ mn)	74,712.3
3-mth avg daily turnover(HK\$ mn)	0.52
Major shareholder(s) (%):	
Zhejiang Provincial	14.79
Fin. Hldg	
Traveller Automobile Group	7.50
Hengdian Group Hldg	6.92

Source(s): Company, ABCI Securities

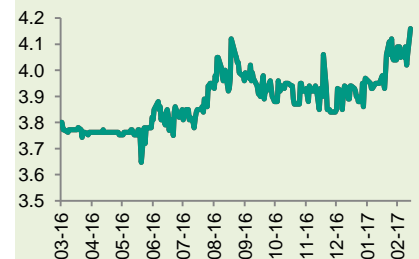
### Share Performance

	Absolute	Relative*
1-mth	5.32	4.19
3-mth	5.85	(0.29)
6-mth	6.12	3.72

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### 1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

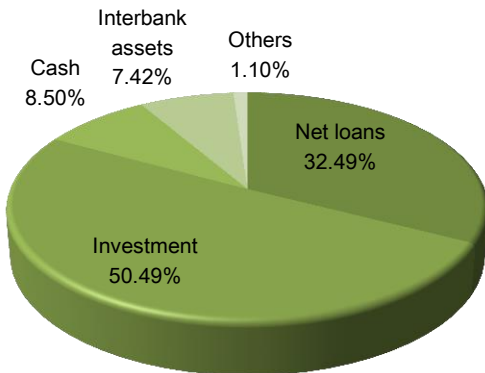


Exhibit 1: ZSB's key financial data

Financials (Rmbmn)	2012	2013	2014	2015	2016	2016 YoY (%)
Operating income	10,466	13,496	17,397	25,130	33,653	33.9
Operating expenses	4,045	5,271	6,028	8,257	9,984	20.9
Impairment	1,063	1,703	4,576	7,493	10,278	37.2
Profit before tax	5,359	6,521	6,792	9,380	13,392	42.8
Net profits attributable to shareholders of the Company	4,026	4,901	5,096	7,051	10,153	44.0
Total assets	393,839	488,117	669,957	1,031,650	1,354,855	31.3
Total loans	182,306	217,137	259,023	345,423	459,493	33.0
Total liabilities	371,130	460,308	636,807	981,993	1,287,379	31.1
Total deposits	266,888	319,795	363,280	516,026	736,244	42.7
Shareholders' equity	22,709	27,808	33,150	49,657	67,475	35.9
Share capital	10,007	11,507	11,507	14,510	17,960	23.8
<b>Per share (Rmb)</b>						
BVPS	2.27	2.42	2.88	3.42	3.76	9.9
EPS	0.40	0.45	0.44	0.54	0.59	9.3
DPS	0.20	-	-	0.13	0.17	30.8
<b>Key indicators (%)</b>						<b>YoY (ppt)</b>
ROAA	1.16	1.11	0.88	0.83	0.85	0.02
ROAE	18.55	19.40	16.72	17.03	17.34	0.31
NIM	2.91	2.63	2.62	2.31	2.07	(0.24)
NIS	2.68	2.41	2.38	2.12	1.89	(0.23)
Non-interest income to operating income	9.31	17.64	16.45	18.08	25.03	6.95
CIR	31.01	32.08	28.32	27.66	27.71	0.05
NPL ratio	0.46	0.64	0.88	1.23	1.33	0.10
Provision coverage ratio	421.90	329.28	292.96	240.83	259.33	18.50
Provisioning ratio	1.96	2.10	2.59	2.95	3.44	0.49
Core T1 CAR	na	9.17	8.62	9.35	9.28	(0.07)
Total CAR	na	11.53	10.60	11.04	11.79	0.75

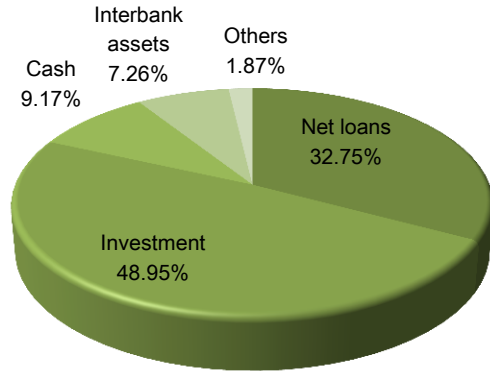
Source(s): Company, ABCI Securities

**Exhibit 1: ZSB's asset mix (Dec 2015)**



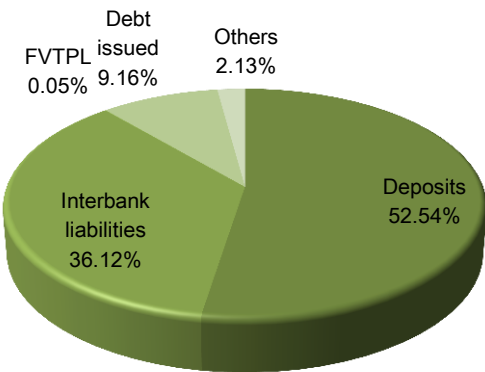
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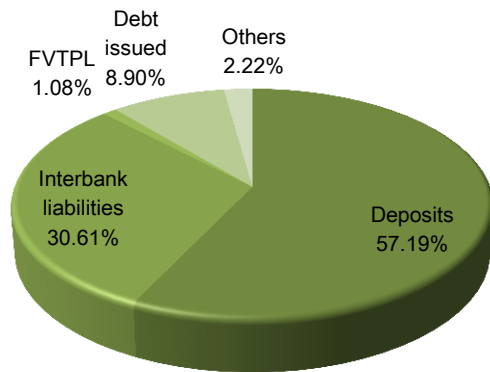
Source(s): Company, ABCI Securities

**Exhibit 1: ZSB's liability mix (Dec 2015)**



Source(s): Company, ABCI Securities

**Exhibit 1: ZSB's liability mix (Dec 2016)**



Source(s): Company, ABCI Securities



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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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