

Harbin Bank Co., Ltd. (HRB, 6138 HK)

A-share listing procedure to resume in 2H18; maintain BUY

- 2017 NP grew 7.6% YoY although topline revenue remained weak on NIM squeeze
- NPL ratio increased 17bps YoY to 1.7%; management expects the figure to be stable on increased NPL handling effort
- A-share listing was postponed but the Group is in no urgency to funding. Dividend distribution resumed with a payout ratio at 10.24%
- The counter is currently trading at 0.41x 18E P/B. Reiterate **BUY** on undemanding valuation

Topline declined on NIM pressure. 2017 net profit was reported at RMB 5,249mn, up 7.6% YoY, slightly below our forecast by 3.17% on weaker topline growth. NII was down by 2.3% YoY since robust loan growth (+17.74% YoY) was offset by reduced NIM at 2.15% (-50bps YoY). In particular, average liability cost (+45bps YoY) surged faster than average asset yield (+7bps YoY). Interbank liability cost and issued debt cost rose 103bps and 73bps YoY. Net fee income inched up 2.14% YoY, with growth seen in bank card fees and non-principal protected wealth management agency fee income despite tighter regulations over non-interest income sources.

Management expects asset quality to stabilize. Although risk buffer remained high in the Bank with a provision ratio of 2.84% and provision coverage ratio of 167.24%, NPL ratio increased 17bps YoY to 1.7% (vs. the system average of 1.74%) as of Dec 2017. Meanwhile, special-mention loan ratio and overdue ratio were also 20bps and 30bps higher YoY at 2.8% and 3.9%. Geographically, 39.7% of the Group's NPL came from Heilongjiang (HLJ) region, where the regional NPL ratio rose 17bps YoY to 2.83%. By category new NPL mainly came from loans to small enterprise owners and personal consumption loans in the retail banking segment; by industry, new NPL was mainly from the manufacturing sector. Nevertheless, management is confident in maintaining a stable asset quality with increased NPL handling.

A-share listing postponed but dividend resumed. HRB's planned A-share listing has been postponed due to a change in existing shareholding structure. We believe the listing procedure would resume in 2H18. In our view, the Bank is in no urgency to raise fund given CT1 and CAR were reported at 9.72% and 12.25% by end-2017. Separately, the Group resumed dividend distribution in 2017 although the payout ratio was low at 10.24%.

Maintain BUY on undemanding valuation. The counter is trading at an undemanding valuation of 0.41x 18E P/B. Reiterate **BUY**.

Risk factors: 1) Asset quality deterioration in HLJ; 2) Pricing competition from big banks entering the local regions; 3) Cross-region business development risk; 4) Potential dilution from A-share listing; 5) Low average daily turnover of shares .

Results and Valuation

FY ended Dec 31	2015A	2016A	2017A	2018E	2019E
Revenue (RMB mn)	11,945	14,172	14,134	17,236	19,870
Chg (% YoY)	16.5	18.6	(0.3)	22.0	15.3
Net profit (RMB mn)	4,458	4,877	5,249	6,070	6,900
Chg (% YoY)	17.1	9.4	7.6	15.6	13.7
EPS (RMB)	0.41	0.44	0.48	0.55	0.63
Chg (% YoY)	17.1	9.4	8.2	15.0	13.7
BVPS (RMB)	3.08	3.32	3.75	4.41	5.04
Chg (% YoY)	12.2	7.9	13.0	17.7	14.2
P/E (x)	4.46	4.07	3.76	3.27	2.88
P/B (x)	0.59	0.54	0.48	0.41	0.36
ROAE (%)	14.23	14.01	13.50	13.35	13.28
ROAA (%)	1.14	1.01	0.96	0.89	0.87
DPS(RMB)	0.11	0.00	0.05	0.14	0.16
Yield (%)	5.92	-	2.77	7.64	8.68

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 3, 2018

Rating: BUY

TP:HK\$ 3.30

Analyst : Johannes Au

Tel: (852) 2147 8802

johannesau@abci.com.hk

Share price (HK\$)	2.24
Est. share price return	47.3%
Est. dividend yield	7.6%
Est. total return	54.9%
Previous Rating & TP	BUY;HK\$3.30
Previous Report Date	Feb 26,2018

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	2.80/2.12
Issued shares (mn)	10,996
H-share(mn)	3,024
Domestic shares (mn)	7,972
Market cap (HK\$ mn)	24,630
H-share(mn)	6,773
Domestic shares (mn)	17,857
3-mth avg daily turnover(HK\$ mn)	8.36
Major shareholder(s) (%):	
Harbin Economic Development	19.65

Source(s): Company, ABCI Securities

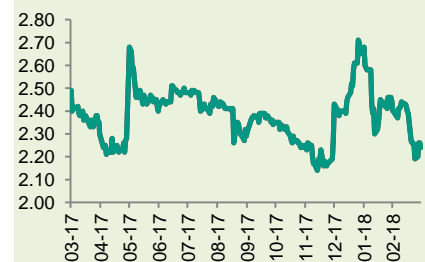
Share Performance (%)

	Absolute	Relative*
1-mth	(6.28)	(4.75)
3-mth	(5.88)	(4.42)
6-mth	(5.08)	(11.14)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: HRB's 2017 actual results vs. ABCI estimates

(Rmb mn)	2017A	2017E	AvE (%)
Net interest income	11,308	12,383	(8.68)
Net fee and commission	2,445	2,800	(12.68)
Operating income	14,134	15,429	(8.39)
Operating expenses	(4,344)	(4,794)	(9.39)
Impairment losses	(2,662)	(3,673)	(27.53)
Profit before tax	7,128	7,067	0.86
Income tax expenses	(1,819)	(1,625)	11.94
Net profit	5,249	5,421	(3.17)
Key indicators (%)			AvE (ppt)
Net interest margin	2.15	2.30	(0.15)
Net interest spread	1.95	2.13	(0.18)
Cost to income ratio	29.71	31.07	(1.36)
Return on average assets	0.96	0.93	0.03
Return on average equity	13.50	13.60	(0.10)
Dividend payout	10.42	25.00	(14.58)
CT1 CAR	9.72	10.29	(0.57)
Total CAR	12.25	10.74	1.51
NPL ratio	1.70	1.70	-
Provision to total loans	2.84	2.80	0.04
Provision coverage	167.24	164.71	2.53

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2015A-2019E)

FY Ended Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E
Net interest income	9,633	11,573	11,308	13,636	15,550
Net fee and commission	1,959	2,393	2,445	3,304	3,965
Other operating income	353	205	382	296	355
Operating income	11,945	14,172	14,134	17,236	19,870
Operating expenses	(4,737)	(4,522)	(4,344)	(5,129)	(5,539)
Impairment losses	(1,338)	(3,295)	(2,662)	(4,318)	(5,481)
Investment in associates	49	91	0	120	138
Profit before tax	5,919	6,446	7,128	7,909	8,987
Income tax expenses	(1,409)	(1,483)	(1,819)	(1,819)	(2,067)
Minority interests	(52)	(86)	(60)	(20)	(20)
Net profit attributable to equity holders	4,458	4,877	5,249	6,070	6,900
Preference share dividend	0	0	0	0	0
Net profit attributable to ordinary shareholders	4,458	4,877	5,249	6,070	6,900
Growth (%)					
Net interest income	14.7	20.1	(2.3)	20.6	14.0
Net fee and commission	22.4	22.1	2.1	35.2	20.0
Other operating income	38.5	(41.8)	85.8	(22.5)	20.0
Operating income	16.5	18.6	(0.3)	22.0	15.3
Operating expenses	6.8	(4.5)	(4.0)	18.1	8.0
Impairment losses	88.7	146.2	(19.2)	62.2	26.9
Investment in associates	185.5	84.9	(100.0)	na	15.0
Profit before tax	15.4	8.9	10.6	11.0	13.6
Income tax expenses	9.5	5.2	22.6	(0.0)	13.6
Minority interests	51.9	64.7	(30.2)	(66.5)	0.0
Net profit attributable to equity holders	17.1	9.4	7.6	15.6	13.7
Preference share dividend	na	na	na	na	na
Net profit attributable to ordinary shareholders	17.1	9.4	7.6	15.6	13.7
Per share (RMB)					
EPS	0.41	0.44	0.48	0.55	0.63
BVPS	3.08	3.32	3.75	4.41	5.04
DPS	0.11	0.00	0.05	0.14	0.16
Key ratio (%)					
Net interest margin	2.68	2.65	2.15	2.17	2.13
Net interest spread	2.47	2.47	1.95	2.08	2.06
Cost to income ratio	31.75	28.60	29.71	29.76	27.88
Return on average assets	1.14	1.01	0.96	0.89	0.87
Return on average equity	14.23	14.01	13.50	13.35	13.28
Effective tax rate	23.81	23.01	25.52	23.00	23.00
Dividend payout	26.39	-	10.42	25.00	25.00

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2015A-2019E)

As of Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E
Cash and equivalent	54,566	67,010	69,533	78,161	84,414
Interbank asset	81,063	48,539	25,402	72,808	87,370
Net loans and advances	145,062	196,488	230,647	255,486	290,525
Investment securities	138,981	192,157	204,517	280,127	332,973
Total interest earning assets	419,671	504,195	530,098	686,582	795,281
Other assets	25,180	34,822	34,157	50,143	60,172
Total assets	444,851	539,016	564,255	736,725	855,453
Customer deposits	306,818	343,151	378,258	430,449	482,102
Interbank liabilities	73,076	107,097	36,941	187,955	238,703
Subordinated debt	23,270	41,883	91,334	59,307	69,389
Total interest bearing liabilities	403,164	492,131	506,534	677,710	790,194
Other liabilities	7,840	9,550	15,313	10,493	9,836
Total liabilities	411,003	501,681	521,846	688,203	800,030
Share capital	10,996	10,996	10,996	10,996	10,996
Retained earnings	8,183	10,014	13,452	18,633	23,808
Reserves	13,921	15,498	16,813	18,413	20,070
Minority interests	748	827	1,148	480	549
Total equity	33,848	37,335	42,409	48,522	55,422
Growth (%)					
Cash and equivalent	1.3	22.8	3.8	12.4	8.0
Interbank asset	23.8	(40.1)	(47.7)	186.6	20.0
Net loans and advances	19.9	35.5	17.4	10.8	13.7
Investment securities	60.4	38.3	6.4	37.0	18.9
Total interest earning assets	28.3	20.1	5.1	29.5	15.8
Total assets	29.5	21.2	4.7	30.6	16.1
Customer deposits	31.2	11.8	10.2	13.8	12.0
Interbank liabilities	5.7	46.6	(65.5)	408.8	27.0
Subordinated debt	417.3	80.0	118.1	(35.1)	17.0
Total interest bearing liabilities	31.1	22.1	2.9	33.8	16.6
Total liabilities	31.1	22.1	4.0	31.9	16.2
Total equity	12.2	10.3	13.6	14.4	14.2
Key ratio (%)					
CT1 CAR	11.14	9.34	9.72	10.10	9.92
Total CAR	11.64	11.97	12.25	10.53	10.33
NPL ratio	1.40	1.53	1.70	1.77	1.83
Provision to total loans	2.43	2.55	2.84	2.85	2.90
Provision coverage ratio	173.59	166.61	167.24	161.02	158.47

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Johannes Au, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2018 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183