



# China Zheshang Bank (2016 HK)

## Fast balance sheet growth induces higher capital needs

- ZSB's 1H17 earnings growth sustained at 18.56% YoY, mainly supported by decent fee income growth and robust loan growth
- Asset quality stayed benign. The Bank continues to maintain one of the sector high risk buffers among peers
- Fast balance sheet growth, however, weakened CAR position with the rapid increase in risk-weighted assets. The Bank may expedite its A-share listing to strengthen CT1 position
- The counter is currently trading at 0.83x17E P/B

**Decent earnings growth in 1H17.** China Zheshang Bank (ZSB) reported its 1H17 net profit at RMB 5,613mn, up 18.56% YoY. Although ZSB's NIM dropped 35bps YoY to 1.75%, faster growth in loans (HoH: +15.52%) than deposits (HoH: +9.08%) drove NII up by 3.53% YoY. New loans were mostly attributable to manufacturing sector on corporate front, and residential mortgage and personal business loans on the retail front. Meanwhile, net fee income jumped 58.72% YoY, mainly supported by a 73.13% YoY increase in asset management service fee income that accounted for 74.7% of ZSB's total gross fee income in 1H17. Overall, ZSB's topline revenue rose 12.43% YoY.

**Solid risk buffer with stable asset quality.** NPL ratio was up 6bps HoH to 1.39%. By sector, new NPL mainly came from manufacturing (NPL ratio: 3.34%), real estate (NPL ratio: 1.81%) and transportation (NPL ratio: 1.74%). Provision expenses were similar to 1H16 (+1.52% YoY), hence ZSB's risk buffer remained robust, with provisioning ratio increasing by 1bps HoH to 3.45% and provision coverage declining by 10.16ppt to 249.17% as of June 2017. ZSB has maintained one of the highest risk buffers in the China banks sector.

**Robust balance sheet growth weakens CAR.** ZSB is skillful in its balance sheet management. Enabled by the robust loan growth, asset allocation in loans rose 2.51ppt HoH to 35.26%; meanwhile, reliance of interbank liabilities declined by 4.36ppt HoH to 26.25% of total liabilities as of June 2017. The proportion of time deposit in total deposits also fell from 63.8% in Dec 2016 to 60.54% in June 2017. Nonetheless, rapid balance sheet growth led to the increase in risk-weighted assets (+15.4% HoH), hence dragging down CT1 by 1.01ppt HoH to 8.27%. With the completion of preference share issuance, ZSB's CAR increased by 59bps HoH to 12.38%. To strengthen CT1 position, we believe the Bank will be incentivized to expedite its A-share listing.

**Valuation.** The counter is trading at 0.83x 17E P/B.

**Risk factors:** 1) Asset quality deterioration in eastern China; 2) Failure to optimize balance sheet mix amid rapid changes in the industry environment; 3) Low average daily turnover of shares; 4) Potential earnings dilution resulted from 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	8.26	8.45	6.88	6.30
P/B (x)	1.64	1.54	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	4.57

Source(s): Bloomberg, ABCI Securities

## Company Report

Aug 25, 2017

Rating: NR

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Share price (HK\$)	4.20
Previous Rating & TP	NR
Previous Report Date	Mar 14, 2017

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	4.52/3.60
Issued shares (mn)	17,959.7
Market cap (HK\$ mn)	75,430.7
3-mth avg daily turnover(HK\$ mn)	0.38
Major shareholder(s) (%):	
Zhejiang Provincial	14.79
Fin. Hldg	
Traveller Automobile	7.50
Group	
Hengdian Group Hldg	6.92

Source(s): Company, ABCI Securities

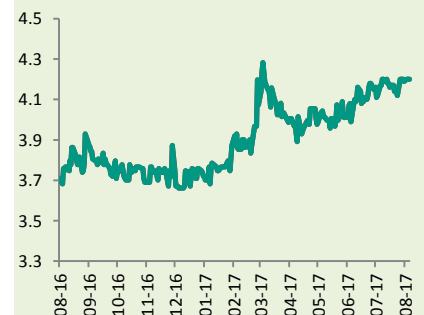
### Share Performance

	Absolute	Relative*
1-mth	0.72	(1.72)
3-mth	4.61	(2.54)
6-mth	8.72	(4.72)

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

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



Source(s): Bloomberg, ABCI Securities



Exhibit 1: ZSB 1H17 results summary

(Rmbmn)	1H16	1H17	YoY (%)
<b>Income statement</b>			
Net interest income	11,962	12,385	3.53
Net fee income	3,207	5,090	58.72
Operating income	15,964	17,949	12.43
Operating expenses	(4,589)	(5,431)	18.35
Impairment	(5,129)	(5,207)	1.52
Profit before tax	6,246	7,310	17.04
Net profits attributable to shareholders of the Company	4,735	5,613	18.56
EPS (Rmb)	0.29	0.31	6.90
<b>Balance sheet</b>	<b>2016</b>	<b>1H17</b>	<b>HoH (%)</b>
Total assets	1,354,855	1,453,290	7.27
Total loans	459,493	530,807	15.52
Total deposits	736,244	803,068	9.08
Shareholders' equity	67,475	84,355	25.02
BVPS (Rmb)	3.51	3.86	9.97
<b>Key indicators (%)</b>	<b>1H16</b>	<b>1H17</b>	<b>YoY (ppt)</b>
NIM	2.10	1.75	(0.35)
Net fee to topline revenue	20.09	28.36	8.27
CIR	25.29	29.64	4.35
ROAA	0.86	0.80	(0.06)
ROAE	16.88	16.54	(0.34)
	<b>2016</b>	<b>1H17</b>	<b>HoH (ppt)</b>
Core T1 CAR	9.28	8.27	(1.01)
Total CAR	11.79	12.38	0.59
NPL ratio	1.33	1.39	0.06
Provisioning ratio	3.44	3.45	0.01
Provision coverage ratio	259.33	249.17	(10.16)

Source(s): Company, ABCI Securities



Exhibit 2: ZSB's historical financial summary

(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



## Disclosures

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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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