

Minsheng Bank (1988 HK / 600016 CH)

Evidence of recovery needed

- Expect fundamentals to gradually turn around in FY23E; more evidence needed for rating upgrade
- NIM would reduce milder after the major drop in FY22; slow balance sheet growth remains a barrier
- Risk buffer needs to strengthen further given Minsheng Bank's (MSB) core customer base; earnings could be slashed as a result
- Maintain **HOLD** until signs of fundamental recovery is evident. Our GGM-based H/A-shr TPs imply 0.18x/0.25x 23E P/B

Fundamental turnaround in FY23. In MSB's five-year plan, 2021-23 is set as the foundation-building period when the bank will strengthen its weak links and manage its legacy NPL. Gradual fundamental improvement is expected to occur in 2024-25. We believe the bank's major NPL restructuring were mostly completed in FY22, as proven by the NPL ratio coming down from 1.82% in FY20 to 1.68% in FY22. Therefore, we assume in our base case scenario that a mild fundamental turnaround will ensue in FY23. After a challenging year in FY22, we project topline growth to turn positive in FY23 and attain a 1.7% CAGR in FY22-25E; net profit would expand at 2.8% CAGR over the same period.

NIM to turn stable after the major drop in FY22. NIM was down 31bps YoY to 1.60% and NII fell 14.6% YoY, mainly due to the 43bps/22bps YoY decline in average lending /investment yields and 11bps YoY surge in average deposit cost. We believe NIM will turn stable through liability cost control and asset component optimization with increased allocation to loans and investments in FY23E. However, business focus on medium, small, and micro enterprises may continue to suppress its average lending cost given the country's policy direction to support the real economy. Therefore, we project NIM to further narrow by 6bps-8bps YoY each in FY23E-25E to reach 1.39% by FY25E. In addition, based on its FY21-22 record, we expect a slow balance sheet growth. Total asset and total liability CAGRs are projected at 5.5% and 5.7% over FY22-25E, which in turn would limit its NII CAGR to 1.6% over FY22-25E.

(Continue next page)

Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	165,554	139,219	141,870	144,600	146,327
Chg (% YoY)	(8.9)	(15.9)	1.9	1.9	1.2
Net profit* (RMB mn)	34,381	35,269	35,783	37,191	38,367
Chg (% YoY)	0.2	2.6	1.5	3.9	3.2
EPS (RMB)	0.71	0.71	0.72	0.75	0.78
Chg (% YoY)	0.3	0.4	1.0	4.5	3.6
BVPS (RMB)	11.06	11.53	12.01	12.50	13.01
Chg (% YoY)	5.4	4.3	4.1	4.1	4.1
P/E (x) – H-shr	3.30	3.29	3.25	3.12	3.01
P/B (x) – H-shr	0.21	0.20	0.19	0.19	0.18
P/E (x) – A-shr	4.86	4.85	4.80	4.59	4.44
P/B (x) – A-shr	0.31	0.30	0.29	0.28	0.27
ROAA (%)	0.50	0.50	0.48	0.47	0.46
ROAE (%)	6.59	6.31	6.16	6.19	6.17
DPS(RMB)	0.213	0.214	0.245	0.255	0.263
Yield (%) H-shr	9.11	9.15	10.48	10.89	11.24
Yield (%) A-shr	6.17	6.20	7.11	7.39	7.62

Note: HKD/CNY=1.15

*Net profit = Net profit attributable to equity holders of the Company

Source(s): Company, Bloomberg, ABCI Securities estimates

Company Report

Apr 4, 2023

Rating (H): HOLD

Rating (A): HOLD

TP (H): HK\$ 2.52

TP (A): RMB 3.02

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Price (H/A shr)	HK\$ 2.69/ RMB 3.45
Est. share price return (H/A shr)	-6.32%/ -12.46%
Est. dividend yield (H/A shr)	10.48%/7.11%
Est. total return (H/A shr)	4.16%/ -5.35%
Last Rating & TP (H/A shr)	HOLD, HK\$3.29 /HOLD, RMB3.43
Previous Report Date	20 Apr, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	3.14/2.19
52Wk H/L (RMB) (A shr)	3.95/3.27
Total issued shares (mn)	43,782.4
Issued H shr (mn)	8,320.3
Issued A shr (mn)	35,462.1
Market cap (HK\$ mn)	163,077.5
H-shr market cap (HK\$ mn)	22,381.6
A-shr market cap (HK\$ mn)	140,695.9
3-mth avg daily turnover (HK\$ mn) (H shr)	46.84
3-mth avg daily turnover (RMB mn) (A shr)	199.99
Major shareholder(s) (%):	
Dajia Life Insurance	17.84
New Hope	4.41
China Oceanwide	4.12

Source(s): Bloomberg, ABCI Securities

Pending rebound in net fee income. Similar to NII, MSB's net fee income was down 26.5% YoY in FY22. While a recovering economy and widened adoption of Fintech might help increase net fee income growth, we keep our net fee income CAGR projection at 3.0% over FY22-25E. We will raise our estimates when net fee income shows signs of rebound.

Stronger risk buffers needed. The bank's business focus on non-state-owned enterprises and medium, small, and micro enterprises would result a higher credit cost than peers. As of Dec 2022, its provisioning ratio and provision coverage ratio were 2.39% and 142.49%, and we believe these figures will need to go up. We estimate the scale of provision expenses in coming years to be similar to the FY22 level and the FY22-25E CAGR would be -2.3%. As a result, provisioning ratio and provision coverage ratio would gradually rise to 2.52% and 162.58% by end-2025E. Our base case scenario indicates the bank can lower its NPL ratio by 3bps-6bps YoY each in FY23E-25E leveraging on NPL handling and China's improving economy.

Maintain HOLD until fundamentals improve. We revise down our sustainable ROAE and long-term growth assumption. We also adjust the beta and risk premium applied in our GGM and roll over our TP calculation based on FY23E BVPS. Our H/A-shr TPs decline by 23.4%/12.0% to HK\$ 2.52/RMB 3.02, which imply 0.18x/0.25x FY23E P/B. Maintain **HOLD** until signs of fundamental recovery turn evident.

Risk Factors: 1) Business focus may increase volatility in credit cost; 2) Potential asset quality deterioration in specific sectors or regions; 3) Delayed recovery in fundamentals caused by derailment the five-year development plan; 4) Slower-than-peer balance sheet growth; 5) The relatively low provisioning ratio and provision coverage ratio; 6) Reducing NIM and ROAE, increasing CIR; 7) China Oceanwide's pledged shares of MSB is freeze due to legal proceedings.

Exhibit 1: Changes in forecasts

(RMB mn)	2023E (old)	2023E (new)	change (%)	(RMB mn)	2024E (old)	2024E (new)	change (%)
Net interest income	124,443	109,919	(11.67)	Net interest income	127,530	112,053	(12.14)
Net fee and commission	30,389	20,679	(31.95)	Net fee and commission	32,516	21,300	(34.49)
Operating income	170,300	141,870	(16.69)	Operating income	177,370	144,600	(18.48)
Operating expenses	(53,119)	(54,443)	2.49	Operating expenses	(54,954)	(56,621)	3.03
Impairment losses	(78,677)	(49,183)	(37.49)	Impairment losses	(80,872)	(48,207)	(40.39)
Profit before tax	38,504	38,244	(0.68)	Profit before tax	41,544	39,772	(4.27)
Income tax expenses	(1,925)	(1,912)	(0.68)		(2,077)	(1,989)	(4.24)
Net profit attributable to equity holders	35,954	35,783	(0.48)	Net profit attributable to equity holders	38,749	37,191	(4.02)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.71	1.51	(0.20)	Net interest margin	1.63	1.46	(0.17)
CIR	28.00	38.43	10.43	CIR	27.98	39.21	11.23
ROAA	0.48	0.48	-	ROAA	0.48	0.47	(0.01)
ROAE	6.24	6.16	(0.08)	ROAE	6.49	6.19	(0.30)
Dividend payout	30.00	30.00	-	Dividend payout	30.00	30.00	-
CT1 CAR	9.05	9.27	0.22	CT1 CAR	8.96	9.15	0.19
Total CAR	13.52	13.27	(0.25)	Total CAR	13.63	12.88	(0.75)
NPL ratio	1.84	1.62	(0.22)	NPL ratio	1.88	1.59	(0.29)
Provision to total loans	2.75	2.43	(0.32)	Provision to total loans	2.83	2.48	(0.35)
Provision coverage ratio	149.46	150.00	0.54	Provision coverage ratio	150.53	155.97	5.44

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	3.29	2.52	3.43	3.02	
Sustainable ROE (%)	6.64	5.89	6.64	5.89	Lower ROAE expected
COE (%)	12.05	14.33	10.51	11.51	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	5.00	4.00	5.00	4.00	Factor in slow balance sheet and earnings growth
Target 23E P/B (x)	0.22	0.18	0.29	0.25	

Source(s): Company, ABCI Securities estimates



Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Net interest income	125,775	107,463	109,919	112,053	112,760
Non-interest income	39,779	31,756	31,951	32,547	33,568
Of which: Fees and commissions	27,566	20,274	20,679	21,300	22,152
Operating income	165,554	139,219	141,870	144,600	146,327
Operating expenses	(51,181)	(52,602)	(54,443)	(56,621)	(59,169)
Pre-provision operating profit	114,373	86,617	87,427	87,979	87,159
Impairment loans losses	(78,773)	(49,447)	(49,183)	(48,207)	(46,099)
Profit before tax	35,600	37,170	38,244	39,772	41,060
Tax	(747)	(1,393)	(1,912)	(1,989)	(2,053)
Minority interests	(472)	(508)	(549)	(593)	(640)
Net profit attributable to equity holders	34,381	35,269	35,783	37,191	38,367
Dividend and interest to other equity instruments	(3,328)	(4,106)	(4,316)	(4,316)	(4,316)
Net profit attributable to ordinary shareholders	31,053	31,163	31,467	32,875	34,051
Growth (%)					
Net interest income	(7.0)	(14.6)	2.3	1.9	0.6
Non-interest income	(14.6)	(20.2)	0.6	1.9	3.1
Of which: Fees and commissions	(0.4)	(26.5)	2.0	3.0	4.0
Operating income	(8.9)	(15.9)	1.9	1.9	1.2
Operating expenses	1.4	2.8	3.5	4.0	4.5
Pre-provision operating profit	(12.9)	(24.3)	0.9	0.6	(0.9)
Impairment loans losses	(16.7)	(37.2)	(0.5)	(2.0)	(4.4)
Profit before tax	(3.0)	4.4	2.9	4.0	3.2
Tax	(53.4)	86.5	37.3	4.0	3.2
Minority interests	(40.5)	7.6	8.0	8.0	8.0
Net profit attributable to equity holders	0.2	2.6	1.5	3.9	3.2
Dividend and interest to other equity instruments	(0.3)	23.4	5.1	0.0	0.0
Net profit attributable to ordinary shareholders	0.3	0.4	1.0	4.5	3.6
Per share (RMB)					
EPS	0.71	0.71	0.72	0.75	0.78
BVPS	11.06	11.53	12.01	12.50	13.01
DPS	0.213	0.214	0.245	0.255	0.263
Key ratio (%)					
Net interest margin	1.91	1.60	1.51	1.46	1.39
Cost to income ratio	29.74	36.44	38.43	39.21	40.49
Return on average assets	0.50	0.50	0.48	0.47	0.46
Return on average equity	6.59	6.31	6.16	6.19	6.17
Effective tax rate	2.10	3.75	5.00	5.00	5.00
Dividend payout	30.03	30.07	30.00	30.00	30.00

Note: Individual items may not sum to total due to rounding difference

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)	2021A	2022A	2023E	2024E	2025E
Cash & balances with central bank	361,302	338,552	334,087	330,279	327,214
Due from FIs and repo	252,676	274,149	304,878	339,187	377,035
Investment securities	2,034,433	2,225,870	2,426,198	2,632,425	2,843,019
Net loans and advances	3,967,679	4,072,982	4,220,890	4,385,614	4,554,008
Total interest earning assets	6,616,090	6,911,553	7,286,052	7,687,505	8,101,276
Property and equipment	56,786	58,896	61,841	65,551	70,140
Other non-interest earning assets	279,910	285,224	301,156	323,440	353,206
Total assets	6,952,786	7,255,673	7,649,049	8,076,497	8,524,621
Customer deposits	3,825,693	4,051,592	4,368,810	4,709,871	5,061,423
Due to FIs and repo	1,725,091	1,833,211	1,924,872	2,021,115	2,122,171
Subordinated debt	711,024	648,107	615,702	584,917	567,369
Total interest bearing liabilities	6,261,808	6,532,910	6,909,384	7,315,903	7,750,963
Current taxes	8,811	5,040	4,788	4,549	4,321
Other liabilities	95,628	104,909	100,761	99,609	89,726
Total liabilities	6,366,247	6,642,859	7,014,932	7,420,061	7,845,010
Share capital	43,782	43,782	43,782	43,782	43,782
Other equity instruments	89,964	94,962	94,962	94,962	94,962
Reserves	440,534	461,184	481,843	503,485	525,950
Minorities	12,259	12,886	13,530	14,207	14,917
Shareholder's equity	586,539	612,814	634,117	656,436	679,611
Growth (%)					
Cash & balances with central bank	(10.0)	(6.3)	(1.3)	(1.1)	(0.9)
Due from FIs and repo	(14.5)	8.5	11.2	11.3	11.2
Investment securities	(4.1)	9.4	9.0	8.5	8.0
Net loans and advances	4.9	2.7	3.6	3.9	3.8
Total interest earning assets	0.2	4.5	5.4	5.5	5.4
Property and equipment	11.1	3.7	5.0	6.0	7.0
Other non-interest earning assets	(6.4)	1.9	5.6	7.4	9.2
Total assets	0.0	4.4	5.4	5.6	5.5
Customer deposits	1.5	5.9	7.8	7.8	7.5
Due to FIs and repo	10.7	6.3	5.0	5.0	5.0
Subordinated debt	(25.8)	(8.8)	(5.0)	(5.0)	(3.0)
Total interest bearing liabilities	(0.4)	4.3	5.8	5.9	5.9
Current taxes	(52.6)	(42.8)	(5.0)	(5.0)	(5.0)
Other liabilities	(9.7)	9.7	(4.0)	(1.1)	(9.9)
Total liabilities	(0.7)	4.3	5.6	5.8	5.7
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	28.8	5.6	0.0	0.0	0.0
Reserves	5.9	4.7	4.5	4.5	4.5
Minorities	4.7	5.1	5.0	5.0	5.0
Shareholder's equity	8.4	4.5	3.5	3.5	3.5
Key ratio (%)					
CT1 CAR	9.04	9.17	9.27	9.15	9.15
Total CAR	13.64	13.14	13.27	12.88	12.71
NPL ratio	1.79	1.68	1.62	1.59	1.55
Provision to total loans	2.60	2.39	2.43	2.48	2.52
Provision coverage ratio	145.30	142.49	150.00	155.97	162.58

Note: Individual items may not sum to total due to rounding difference

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 9%)
Hold	- Market return rate (\sim 9%) \leq Stock return rate $<$ Market return rate (\sim +9%)
Sell	Stock return $<$ - Market return (\sim -9%)

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 2006 (For reference: HSI total return index 2006-22 averaged at 8.4%)

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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