

Minsheng Bank (1988 HK / 600016 CH)

Earnings outlook remains challenging

- NII growth unlikely to resume in FY23E due to pricing factors though balance sheet growth was faster than our expectation
- Net fee income may surprise the market
- Weak risk buffers would limit earnings growth
- Maintain **HOLD** until solid evidence of fundamental recovery occurs. Our GGM-based H/A-shr TPs imply 0.19x/0.28x 23E P/B

NII unlikely to turn around in FY23E. We lower our FY23E/24E NIM forecast by 7bps/13bps to 1.44%/1.33% on pricing factor, taken into account the continuous reduction in market interest rate and policy driven in lower mortgage lending rates. Our base case suggests MSB's NIM to contract by another 8bps HoH to 1.4% in 2H23. NII could resume to positive growth in FY24E the earliest, supported by faster balance sheet growth than expected. We raise our FY22-25E total asset and liability CAGR to 8.0% and 8.4%, and loan and deposit CAGR to 8.8% and 9.6%.

Positive surprise in net fee income. MSB's 9.84% YoY growth in net fee income in 1H23 was impressive, thanks to the 74.49% and 35.31% YoY growth in agency services and settlement services. If China's macro economy and retail consumption recover faster, MSB's net fee income growth could exceed market expectation. We raise our FY22-25E net fee income CAGR from 3.0% to 7.5% based on the positive signs of rebound. Still, due to the weak NII growth, our base case projects a FY22-25E topline CAGR at 0.8%.

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Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	165,554	139,219	137,211	139,236	142,507
Chg (% YoY)	(8.9)	(15.9)	(1.4)	1.5	2.3
Net profit* (RMB mn)	34,381	35,269	34,828	35,398	36,612
Chg (% YoY)	0.2	2.6	(1.3)	1.6	3.4
EPS (RMB)	0.71	0.71	0.70	0.71	0.74
Chg (% YoY)	0.3	0.4	(2.1)	1.9	3.9
BVPS (RMB)	11.06	11.53	12.06	12.52	13.00
Chg (% YoY)	5.4	4.3	4.5	3.8	3.8
P/E (x) – H-shr	3.34	3.33	3.40	3.34	3.21
P/B (x) – H-shr	0.21	0.21	0.20	0.19	0.18
P/E (x) – A-shr	5.39	5.37	5.48	5.38	5.18
P/B (x) – A-shr	0.35	0.33	0.32	0.31	0.29
ROAA (%)	0.50	0.50	0.46	0.43	0.42
ROAE (%)	6.59	6.31	6.00	5.89	5.90
DPS(RMB)	0.213	0.214	0.239	0.243	0.251
Yield (%) H-shr	8.99	9.03	10.07	10.23	10.58
Yield (%) A-shr	5.58	5.60	6.25	6.35	6.57

Note: HKD/CNY=1.08

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

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

Company Report

Sep 4, 2023

Rating (H): HOLD
 Rating (A): HOLD
 TP (H): HK\$ 2.49
 TP (A): RMB 3.38

Analyst : Johannes Au
 Tel: (852) 2147 8802
 johannesau@abci.com.hk

Price (H/A shr)	HK\$ 2.56/ RMB 3.82
Est. share price return (H/A shr)	-2.73%/ -11.52%
Est. dividend yield (H/A shr)	10.07%/6.25%
Est. total return (H/A shr)	7.34%/ -5.27%

Last Rating & TP (H/A shr) HOLD, HK\$2.52 / HOLD, RMB3.02

Previous Report Date 4 Apr, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	3.52/2.19
52Wk H/L (RMB) (A shr)	4.52/3.27
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)	167,269.5
H-shr market cap (HK\$ mn)	20,967.1
A-shr market cap (HK\$ mn)	146,302.4
3-mth avg daily turnover (HK\$ mn) (H shr)	43.57
3-mth avg daily turnover (RMB mn) (A shr)	295.66
Major shareholder(s) (%):	
Dajia Life Insurance	17.84
New Hope	4.18
China Oceanwide	4.12

Source(s): Bloomberg, ABCI Securities

Marginal risk buffer limits earnings support. In our opinion, MSB's relatively low risk buffers would limit its flexibility to support earnings. As of Jun 2023, MSB's provisioning ratio and provision coverage ratio were reported at 2.31% and 146.85%, much lower than the joint-stock bank average of 2.84% and 220.0%, according to the NAFR statistics. Assuming provision expenses to reduce by -2.3% CAGR over FY22-25E, our base case forecast earnings to grow at only 1.3% CAGR. In particular, we estimate a net profit growth at -1.3% YoY for FY23E. We project the bank's provisioning ratio and provision coverage ratio to stay at 2.14%-2.25% and 139.87%-146.10% over FY23E-25E.

Pending improvement in fundamentals. We revise down our sustainable ROAE and long-term growth assumptions while revising the beta and risk premium applied in GGM; also, we roll over our TP calculation to mid-24E BVPS. Our H/A-shr TPs are adjusted by -1.2%/12.0% to HK\$ 2.49/RMB 3.38, which imply 0.19x/0.28x FY23E P/B. We believe concrete fundamental recovery is critical to rebuild investor confidence. Maintain **HOLD**.

Risk Factors: 1) Business focus in MSEs may increase volatility in credit cost; 2) Potential asset quality deterioration in specific sectors or regions; 3) Delayed recovery in topline and earnings growth; 4) Low provisioning ratio and provision coverage ratio; 5) Declining NIM and ROAE and increasing CIR; 6) China Oceanwide's pledged shares of MSB is frozen 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	109,919	105,331	(4.17)	Net interest income	112,053	105,968	(5.43)
Net fee and commission	20,679	21,592	4.42	Net fee and commission	21,300	23,211	8.97
Operating income	141,870	137,211	(3.28)	Operating income	144,600	139,236	(3.71)
Operating expenses	(54,443)	(53,654)	(1.45)	Operating expenses	(56,621)	(55,264)	(2.40)
Impairment losses	(49,183)	(46,855)	(4.73)	Impairment losses	(48,207)	(46,740)	(3.04)
Profit before tax	38,244	36,702	(4.03)	Profit before tax	39,772	37,233	(6.38)
Income tax expenses	(1,912)	(1,468)	(23.22)		(1,989)	(1,489)	(25.14)
Net profit attributable to equity holders	35,783	34,828	(2.67)	Net profit attributable to equity holders	37,191	35,398	(4.82)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.51	1.44	(0.07)	Net interest margin	1.46	1.33	(0.13)
CIR	38.43	39.15	0.72	CIR	39.21	39.74	0.53
ROAA	0.48	0.46	(0.02)	ROAA	0.47	0.43	(0.04)
ROAE	6.16	6.00	(0.16)	ROAE	6.19	5.89	(0.30)
Dividend payout	30.00	30.00	-	Dividend payout	30.00	30.00	-
CT1 CAR	9.27	8.83	(0.44)	CT1 CAR	9.15	8.67	(0.48)
Total CAR	13.27	12.63	(0.64)	Total CAR	12.88	12.21	(0.67)
NPL ratio	1.62	1.54	(0.08)	NPL ratio	1.59	1.51	(0.08)
Provision to total loans	2.43	2.25	(0.18)	Provision to total loans	2.48	2.21	(0.27)
Provision coverage ratio	150.00	146.10	(3.90)	Provision coverage ratio	155.97	146.36	(9.61)

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	2.52	2.49	3.02	3.38	H-shr TP reduce on forex adjustment*
Sustainable ROE (%)	5.89	5.79	5.89	5.79	Lower ROAE expected
COE (%)	14.33	13.97	11.51	10.77	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	4.00	3.90	4.00	3.90	
Target 23E P/B (x)	0.18	0.19	0.25	0.28	

*HKD/CNY reduced from 1.15 in our previous report to 1.08

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	105,331	105,968	107,211
Non-interest income	39,779	31,756	31,880	33,268	35,296
Of which: Fees and commissions	27,566	20,274	21,592	23,211	25,184
Operating income	165,554	139,219	137,211	139,236	142,507
Operating expenses	(51,181)	(52,602)	(53,654)	(55,264)	(57,474)
Pre-provision operating profit	114,373	86,617	83,557	83,972	85,033
Impairment loans losses	(78,773)	(49,447)	(46,855)	(46,740)	(46,166)
Profit before tax	35,600	37,170	36,702	37,233	38,867
Tax	(747)	(1,393)	(1,468)	(1,489)	(1,943)
Minority interests	(472)	(508)	(406)	(345)	(311)
Net profit attributable to equity holders	34,381	35,269	34,828	35,398	36,612
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	30,512	31,082	32,296
Growth (%)					
Net interest income	(7.0)	(14.6)	(2.0)	0.6	1.2
Non-interest income	(14.6)	(20.2)	0.4	4.4	6.1
Of which: Fees and commissions	(0.4)	(26.5)	6.5	7.5	8.5
Operating income	(8.9)	(15.9)	(1.4)	1.5	2.3
Operating expenses	1.4	2.8	2.0	3.0	4.0
Pre-provision operating profit	(12.9)	(24.3)	(3.5)	0.5	1.3
Impairment loans losses	(16.7)	(37.2)	(5.2)	(0.2)	(1.2)
Profit before tax	(3.0)	4.4	(1.3)	1.4	4.4
Tax	(53.4)	86.5	5.4	1.4	30.5
Minority interests	(40.5)	7.6	(20.0)	(15.0)	(10.0)
Net profit attributable to equity holders	0.2	2.6	(1.3)	1.6	3.4
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	(2.1)	1.9	3.9
Per share (RMB)					
EPS	0.71	0.71	0.70	0.71	0.74
BVPS	11.06	11.53	12.06	12.52	13.00
DPS	0.213	0.214	0.239	0.243	0.251
Key ratio (%)					
Net interest margin	1.91	1.60	1.44	1.33	1.24
Cost to income ratio	29.74	36.44	39.15	39.74	40.38
Return on average assets	0.50	0.50	0.46	0.43	0.42
Return on average equity	6.59	6.31	6.00	5.89	5.90
Effective tax rate	2.10	3.75	4.00	4.00	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	364,410	379,122	392,884
Due from FIs and repo	252,676	274,149	342,461	414,855	489,805
Investment securities	2,034,433	2,225,870	2,359,422	2,489,190	2,613,650
Net loans and advances	3,967,679	4,072,982	4,439,753	4,833,455	5,254,237
Total interest earning assets	6,616,090	6,911,553	7,506,047	8,116,623	8,750,575
Property and equipment	56,786	58,896	62,430	65,551	68,829
Other non-interest earning assets	279,910	285,224	298,371	312,716	328,352
Total assets	6,952,786	7,255,673	7,866,847	8,494,891	9,147,756
Customer deposits	3,825,693	4,051,592	4,461,409	4,887,610	5,330,760
Due to FIs and repo	1,725,091	1,833,211	2,034,864	2,238,351	2,462,186
Subordinated debt	711,024	648,107	615,702	584,917	555,671
Total interest bearing liabilities	6,261,808	6,532,910	7,111,975	7,711,877	8,348,616
Current taxes	8,811	5,040	4,536	4,173	3,964
Other liabilities	95,628	104,909	114,000	122,695	116,288
Total liabilities	6,366,247	6,642,859	7,230,511	7,837,745	8,468,868
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	484,063	504,195	525,226
Minorities	12,259	12,886	13,530	14,207	14,917
Shareholder's equity	586,539	612,814	636,337	657,146	678,888
Growth (%)					
Cash & balances with central bank	(10.0)	(6.3)	7.6	4.0	3.6
Due from FIs and repo	(14.5)	8.5	24.9	21.1	18.1
Investment securities	(4.1)	9.4	6.0	5.5	5.0
Net loans and advances	4.9	2.7	9.0	8.9	8.7
Total interest earning assets	0.2	4.5	8.6	8.1	7.8
Property and equipment	11.1	3.7	6.0	5.0	5.0
Other non-interest earning assets	(6.4)	1.9	4.6	4.8	5.0
Total assets	0.0	4.4	8.4	8.0	7.7
Customer deposits	1.5	5.9	10.1	9.6	9.1
Due to FIs and repo	10.7	6.3	11.0	10.0	10.0
Subordinated debt	(25.8)	(8.8)	(5.0)	(5.0)	(5.0)
Total interest bearing liabilities	(0.4)	4.3	8.9	8.4	8.3
Current taxes	(52.6)	(42.8)	(10.0)	(8.0)	(5.0)
Other liabilities	(9.7)	9.7	8.7	7.6	(5.2)
Total liabilities	(0.7)	4.3	8.8	8.4	8.1
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	5.0	4.2	4.2
Minorities	4.7	5.1	5.0	5.0	5.0
Shareholder's equity	8.4	4.5	3.8	3.3	3.3
Key ratio (%)					
CT1 CAR	9.04	9.17	8.83	8.67	8.48
Total CAR	13.64	13.14	12.63	12.21	11.76
NPL ratio	1.79	1.68	1.54	1.51	1.53
Provision to total loans	2.60	2.39	2.25	2.21	2.14
Provision coverage ratio	145.30	142.49	146.10	146.36	139.87

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

Tel: (852) 2868 2183