



# China Banks Sector

## Mild fundamental improvement in sight

- NIM continue to narrow, with pressure easing in the remainder of 2024
- Cautious on liquidity outlook: deposit funds may shift to WMPs
- Overall asset quality to stay benign
- **OVERWEIGHT** on the sector fundamentals; expect higher share price volatility near dividend ex-date

**Expect NIM pressure to reduce gradually.** According to NFRA data, system NIM narrowed by 15bps QoQ and 20bps YoY to 1.54% in 1Q24. We believe the reduced NIM was caused by the impact of interest rate adjustments on the mortgage loan balance in 4Q23. Despite the effects of such interest rate adjustment have been largely realized, ongoing LPR cut would continue to create NIM pressure, therefore, we expect NIM to continue squeezing, yet on an easing trend. Meanwhile, with higher loan allocation to the five outlined segments (technology finance, green finance, inclusive finance, pension finance, and digital finance) by the government, the average lending rate for new loans increased by 16bps QoQ to 3.99% in Mar 2024. By category, the average NIM of big banks and joint stock banks (JSBs) narrowed by 22bps and 21bps YoY to 1.47% and 1.62%, larger than the 18bps and 13bps YoY reduction to 1.45% and 1.72% for city/rural commercial banks, due to the former's higher obligation in social responsibility.

**Easing liquidity.** SHIBOR has been reduced since early FY24, with 3M SHIBOR falling from 2.53% on Dec 29, 2023, to 1.96% as of May 31, 2024 - an indication that liquidity in the banking system has been improving, that would provide support to NIM. Meanwhile, the sector's average liquidity ratio increased from 67.88% in Dec 2023 to 68.66% in Mar 2024. Average excess ratio, however, reduced from 2.23% in 4Q23 to 1.70% in 1Q24, partly due to banks' faster loan growth in the beginning of the year. Nevertheless, as we believe banks will continue to lower deposit rates and curb high-yield deposit products, as seen in 1Q24, funds from deposits may be redirected to wealth management products (WMPs) offering better yields in following months. As such, banks' liquidity can be restricted, which may once again drive up SHIBOR. We believe big banks possess more stable deposit base than smaller banks, which helps defend NIM. The shift of funds from deposits to WMPs can enhance the banks' topline by reducing interest expenses and increasing fee income at the same time.

**Provisions to determine net profit growth.** System net profit increased by 0.7% YoY and 30.3% QoQ in 1Q24. By category, big banks' 1Q24 net profit dropped by 4.57% YoY, compared to the positive growth of 1.13%-15.5% for JSBs/city commercial banks/rural commercial banks over the same period. With the reducing provision coverage in the latter, we believe the positive net profit growth in JSBs/city commercial banks/rural commercial banks could be driven by reduction in provision expenses. Specifically, average provision coverage ratio among JSBs/city commercial banks/rural commercial banks dropped by 1.04%-3.70% QoQ to 132.71%-218.03% when the figure increased by 2.74% QoQ to 251.22%. among the big banks.

**Asset quality stayed benign.** Asset quality remained stable in 1Q24 - the sector's average NPL ratio stayed flat QoQ at 1.59% by Mar 2024. By category, average NPL ratio of big banks/JSBs was down QoQ by 1bps at 1.25%; city commercial banks inched up by 3bps QoQ to 1.78% and rural commercial banks stayed flat QoQ at 3.34% as of Mar 2024. Although specific areas, such as the property-related sectors, will continue to pose risk, we expect the overall asset quality to stay benign for the rest of 2024. Average provision ratio and provision coverage were down by 1bps and 60bps QoQ to 3.26% and 204.54% as of Mar 2024.

## Sector Report

Jun 3, 2024

Rating (H): OVERWEIGHT  
Rating (A): OVERWEIGHT

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### Key data

Avg.24E P/E (x) (H/A shr)	4.14/5.38
Avg.24E P/B (x) (H/A shr)	0.41/0.53
Avg 24E dividend yield (H/A shr)	7.53%/5.70%

Last sector rating (H/A shr)	Overweight/ Overweight
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Previous Report Date	Apr 16, 2024
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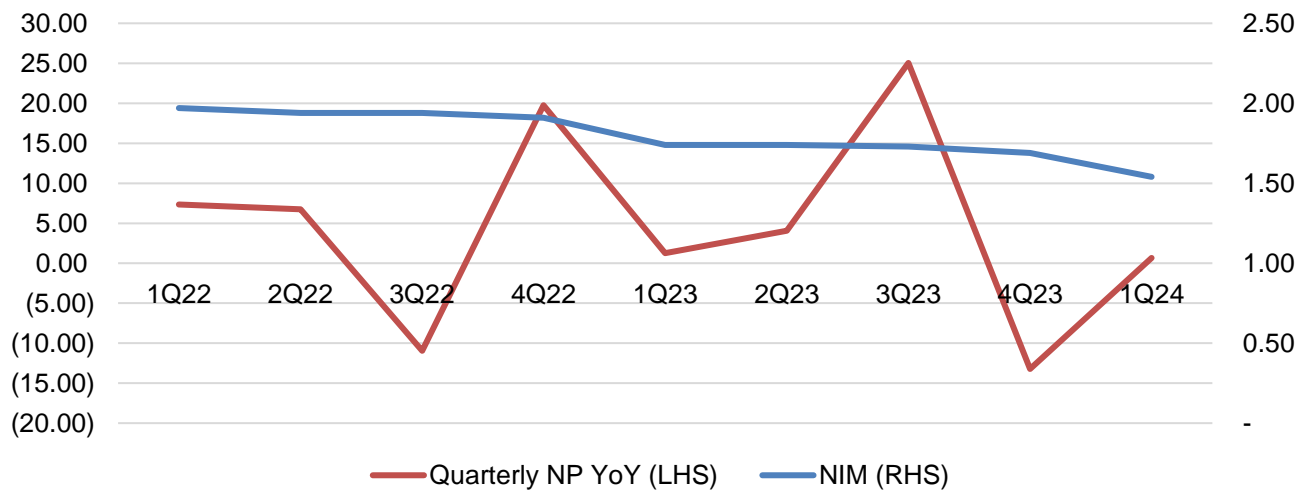
Source(s): Bloomberg, ABCI Securities estimates



**OVERWEIGHT on A/H share banks sector.** We reiterate our **OVERWEIGHT** rating for A/H-share banks as reducing NIM pressure and benign asset quality outlook could help to support banks' sustainable ROAE assumption in our Gordon Growth Model. In view of the 24.1%/14.3% and 14.9%/16.2% accumulated average share price return for the H/A big banks and JSBs in the past six months, profit taking near the dividend ex-date at end-Jun /early Jul may drive up short term share price volatility.

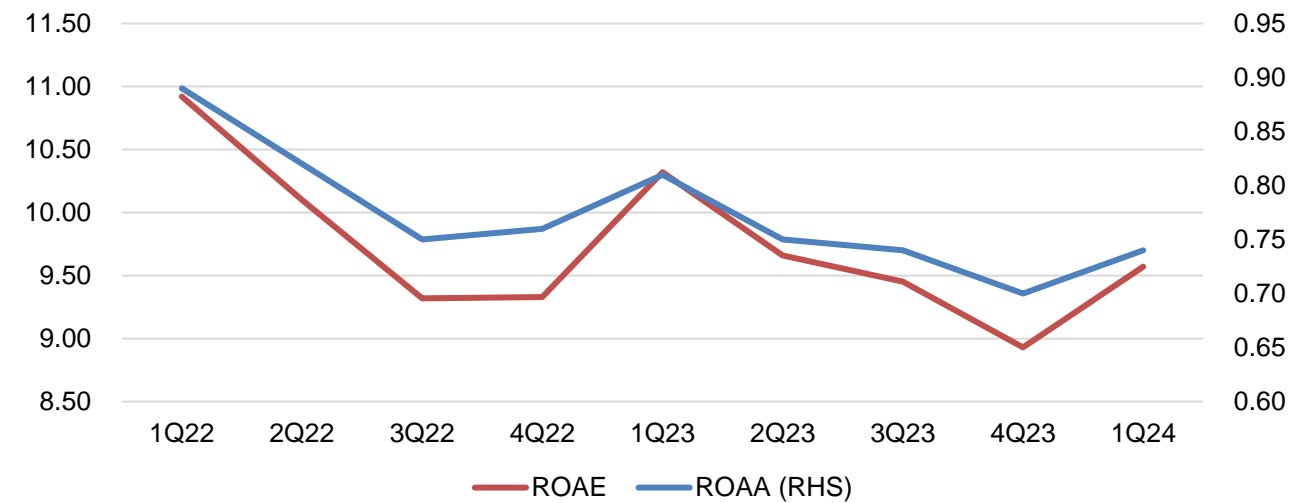
**Risk Factors:** 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Increasing competition from non-bank financial institutions; 3) Sharp deterioration in asset quality in specific regions; 4) Slow macro recovery can add to social responsibility and policy risk in a bid to support real economy; 5) Persisting pressure in NIM and slow revival in net fee income; 6) Declining ROAA and ROAE trends; 7) Issuance of additional capital and non-capital TLAC instruments to fulfill regulatory requirement.

**Exhibit 1: Sector average NIM (annualized) vs. sector quarterly net profit YoY (%)**



Source(s): Bloomberg, NFRA, ABCI Securities

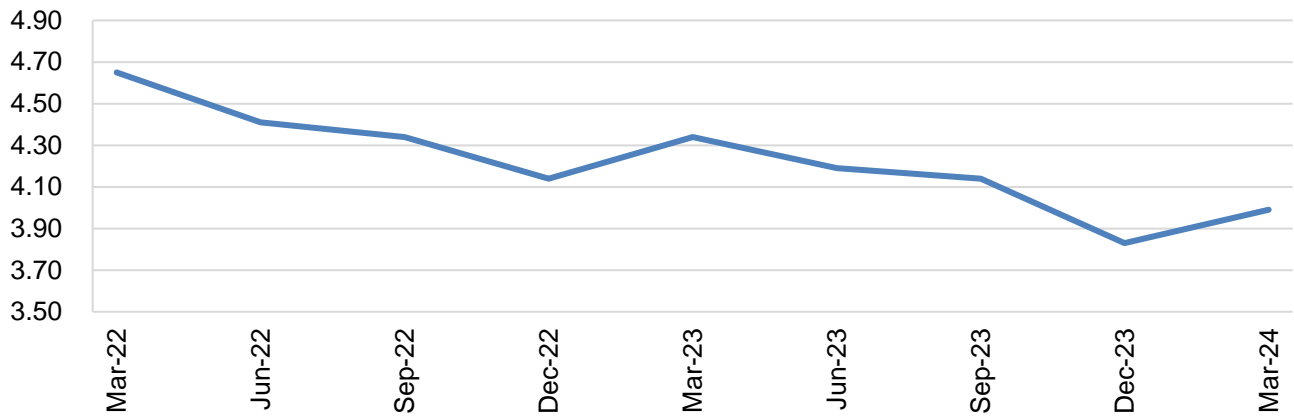
**Exhibit 2: Sector average ROAA (annualized) and ROAE (annualized) (%)**



Source(s): Bloomberg, NFRA, ABCI Securities

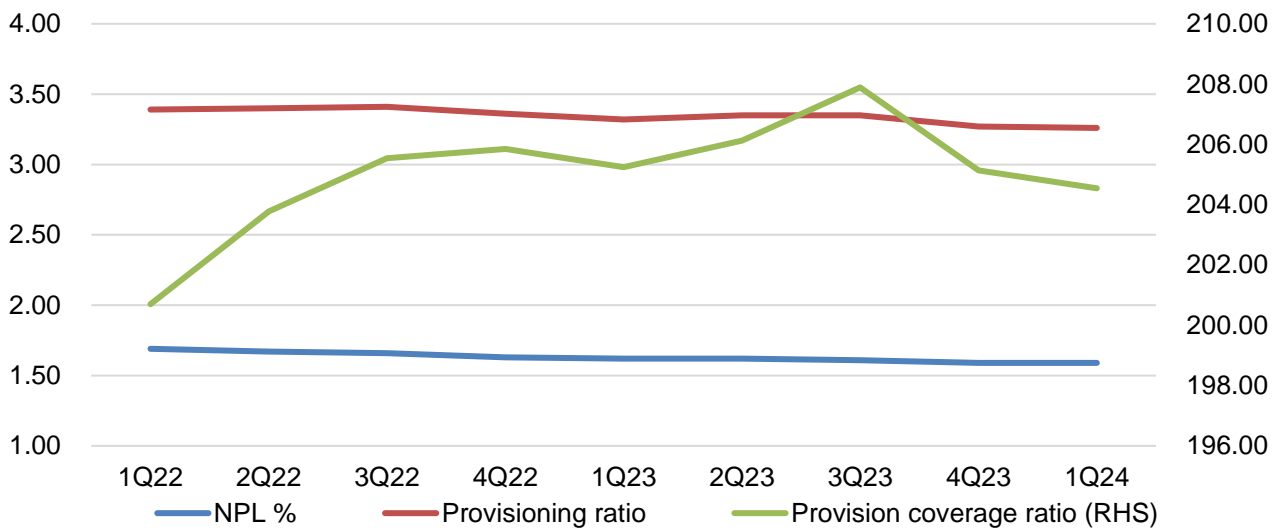


Exhibit 3: Sector monthly new loan average lending rate (%)



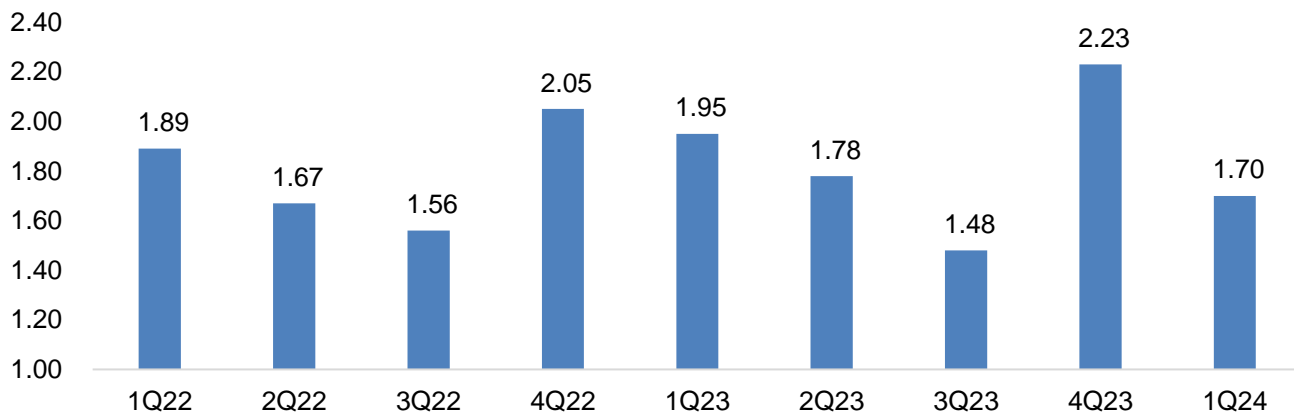
Source(s): PBOC, ABCI Securities

Exhibit 4: Sector average asset quality indicators (period end) (%)



Source(s): Bloomberg, NFRA, ABCI Securities

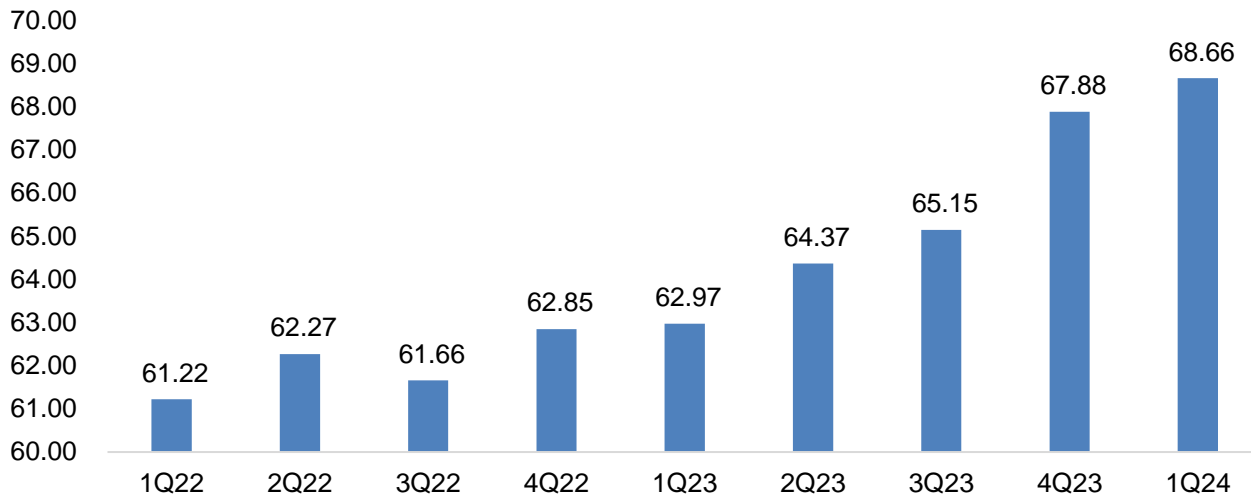
Exhibit 5: Sector average excess reserve ratio (%)



Source(s): Bloomberg, NFRA, ABCI Securities

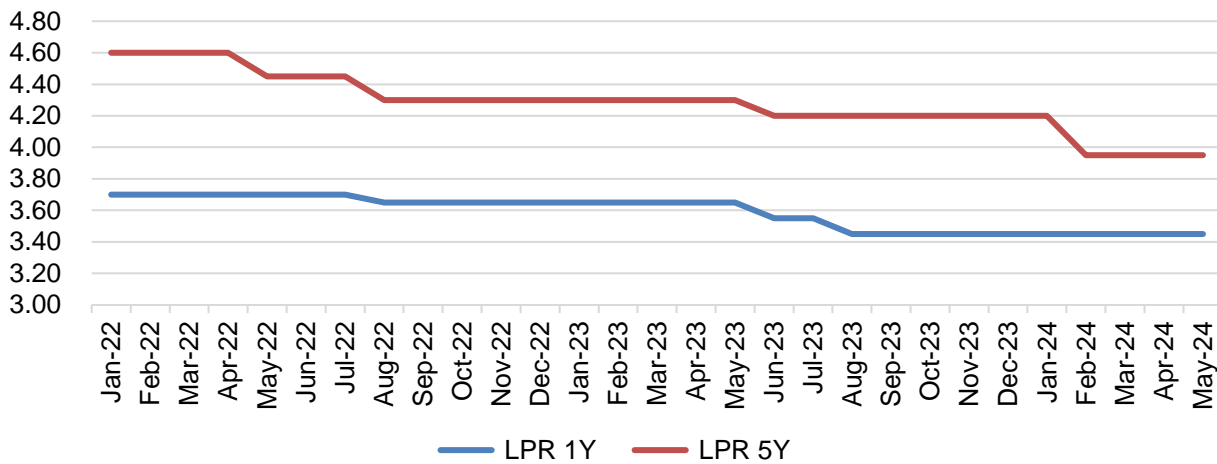


Exhibit 6: Sector average liquidity ratio (%)



Source(s): Bloomberg, NFRA, ABCI Securities

Exhibit 7: LPR (%)



Source(s): Bloomberg, ABCI Securities

Exhibit 8: Major index and share price performance (Data as of May 31, 2024)

	1M chg (%)	3M chg (%)	6M chg (%)	1Y chg (%)
<b>Major index</b>				
HSI	(2.15)	8.98	7.42	(4.59)
HSCEI	(2.36)	11.59	10.95	(0.56)
HSMBI	2.56	11.43	24.84	6.99
CSI 300	(0.68)	1.19	2.88	(7.30)
CSI Financial Index	1.84	1.89	6.67	(1.93)
<b>H-shares prices</b>				
Big banks average	3.86	10.62	24.12	8.19
JSB average	1.30	5.01	14.29	(3.04)
<b>A-shares prices</b>				
Big banks average	0.44	3.32	14.86	13.54
JSB average	2.50	5.91	16.24	5.92

Source(s): Bloomberg, ABCI Securities



## Disclosures

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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 7\%$ )
Hold	- Market return rate ( $\sim 7\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim 7\%$ )
Sell	Stock return $<$ - Market return ( $\sim 7\%$ )

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 2005 (HSI total return index 2005-23 CAGR at 7.4%)

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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