



## China Banks Sector

### New targets for the Big 5 banks

- 2019 RMB loan growth of RMB 17tr was in line with our expectation
- Big 5 banks to increase inclusive MSEs loan by 20% YoY and reduce related average lending rate by 50bps in 2020
- Easing CBIRC targets for the Big 5 banks indicates a better real economy environment than 2019
- Increase MSEs in loan mix would help offset NIM pressure
- Risk management continues to be the top policy priority in banking sector; tighter control over credit to property sector and a more detailed NPL classification in 2020 can be expected
- Softer growth in new RMB loans is expected for Jan 2020 due to CNY holidays
- **OVERWEIGHT** rating for both A/H-shr banks sector on undemanding valuation; **ABC (601288 CH, 1288 HK)** and **CCB (601939 CH, 939 HK)** are our top picks

**2019 RMB loan growth in line with expectation.** According to CBIRC's 2020 work report, new RMB loans for 2019 amounted to RMB 17tr, consistent with our full-year forecast. CBIRC's targets for the Big 5 banks (ICBC, CCB, ABC, BOC and BoCom) for 2020 mandates that the inclusive MSE loans to increase by 20% YoY and the related average lending rate of new loans to reduce further by 50bps YoY; meanwhile, our ABCI economist forecasts the 2020E new RMB loans to be RMB 18tr. CBIRC's 2020 targets were similar to those of 2019 in which a 30% increase for inclusive MSE loans and a 100bps reduction in average new lending rate were suggested. The 2019 targets were exceeded with a 55% YoY increase in inclusive MSE loans and a more than 100 bps reduction in average new lending rate. In our opinion, easing targets for the Big 5 banks in 2020 reflect the effectiveness of policy direction and implies that CBIRC's expectation of a better operating environment for inclusive MSE in 2020.

**Easing NIM outlook.** As expected, despite reduction in MSE average new lending rate, the increased proportion of MSEs in the loan mix would help offset NIM pressure since the average lending rate for these loans are higher than that of corporate or retail ones. CBIRC's statistics show that system NIM increased mildly from 2.17% in 1Q19 to 2.19% in 3Q19; system average lending rate stayed at above 5.6% for the first three quarters of 2019. CBIRC data for 4Q19 would be released in Feb - we do not expect any major changes in NIM and average lending rate pattern.

**Risk management remains as the top policy priority.** Aside from the new targets set for the Big 5 banks, risk management remains as the top policy priority in 2020. In particular, avoiding illegal fund flow into the property market was pinpointed in CBIRC's work report to clamp down speculation. Separately, total NPL handling by banks amounted to RMB 2tr in 2019; a more detailed NPL classification is expected in 2020 to enhance asset quality of banks.

**Soft new RMB loan growth in Jan 2020 on seasonality.** Early months of the year tend to be the peak season of lending. For Jan 2020, we expect a soft loan growth given the CNY will fall on 24-30, hence shortening the number of business days. Suppressed loan demand in Jan would contribute to a rebound in loan growth for Feb 2020.

**Reiterate OVERWEIGHT on A/H share banks sector at current valuation.** We reiterate our **OVERWEIGHT** rating for both A/H share banks mainly on undemanding valuation. However, ongoing trade negotiation between China and the US would continue to weigh on asset quality and affect sector share price performance. Our top picks are **ABC (601288CH, 1288 HK)** and **CCB (601939 CH, 939 HK)** for both A/H markets.

## Sector Report

Jan 13, 2020

Rating (H): Overweight

Rating (A): Overweight

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#### Key Data

Avg.20E P/E (x) (H/A shr)	4.64/6.21
Avg.20E P/B (x) (H/A shr)	0.54/0.75
Avg.20E Dividend Yield (%) (H/A shr)	5.24/5.19
Previous sector rating (H/A shr)	Overweight/ Overweight
Date	8 Oct, 2019

Source(s): Bloomberg, ABCI Securities

#### Sector Performance – H shr

	Absolute	Relative*
1-mth	3.55	(2.63)
3-mth	7.21	(6.18)
6-mth	5.24	(5.55)

\*Relative to MXCN

Source(s): Bloomberg, ABCI Securities

#### Sector Performance – A shr

	Absolute	Relative
1-mth	0.74	(3.36)
3-mth	(0.42)	(5.70)
6-mth	0.31	(7.71)

\*Relative to CSI300

Source(s): Bloomberg, ABCI Securities



**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) Sharp decline in loan demand; 5) Policy risk in new and fast-growing businesses.

### Sector valuation summary – H shr (Data as of Jan 13, 2020)

Company	Ticker	Rating	Price (HK\$)	TP (HK\$)	Upside (%)	FY19E P/B(x)	FY20E P/B (x)	FY19E P/E (x)	FY20E P/E (x)	FY19E Yield(%)	FY20E Yield(%)
ICBC	1398 HK	BUY	5.97	7.84	31.32	0.76	0.70	6.03	5.58	5.09	5.47
CCB	939 HK	BUY	6.80	9.60	41.18	0.72	0.66	5.65	5.30	5.46	5.79
ABC	1288 HK	BUY	3.38	5.41	60.06	0.60	0.55	4.62	4.29	6.33	6.99
BoCom	3328 HK	BUY	5.52	7.48	35.51	0.53	0.49	4.95	4.72	6.32	6.52
CMB	3968 HK	BUY	41.10	46.60	13.38	1.52	1.35	10.01	9.06	3.18	3.48
MSB	1988 HK	BUY	5.99	7.15	19.37	0.52	0.48	4.47	4.22	6.95	7.33
CITICB	998 HK	BUY	4.60	5.96	29.57	0.46	0.42	4.40	4.09	7.09	7.58
CEB	6818 HK	BUY	3.70	4.26	15.14	0.55	0.50	5.06	4.70	6.08	6.39
HB	3698 HK	BUY	2.91	4.07	39.86	0.41	0.33	3.45	3.19	1.55	1.93
HRB	6138 HK	BUY	1.56	2.04	30.77	0.28	0.24	2.57	2.39	-	-
BCQ	1963 HK	BUY	4.71	5.67	20.38	0.35	0.32	3.70	3.61	3.58	3.58

\*CNY/HKD =1.1254 throughout this report, unless otherwise stated

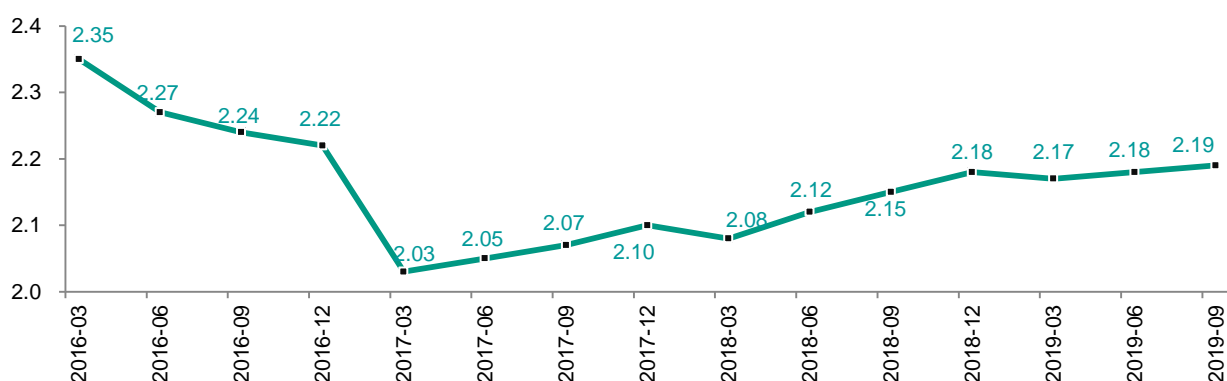
Source(s): Bloomberg, ABCI Securities estimates

### Sector valuation summary – A shr (Data as of Jan 13, 2020)

Company	Ticker	Rating	Price (RMB)	TP (RMB)	Upside (%)	FY19E P/B(x)	FY20E P/B (x)	FY19E P/E (x)	FY20E P/E (x)	FY19E Yield(%)	FY20E Yield(%)
ICBC	601398CH	BUY	5.93	8.65	45.87	0.85	0.78	6.74	6.24	4.55	4.89
CCB	601939CH	BUY	7.17	10.46	45.89	0.86	0.78	6.70	6.29	4.60	4.88
ABC	601288CH	BUY	3.68	5.52	50.00	0.74	0.68	5.66	5.26	5.16	5.71
BoCom	601328CH	BUY	5.65	7.42	31.33	0.61	0.56	5.71	5.43	5.49	5.66
CMB	600036CH	BUY	39.10	46.05	17.77	1.62	1.45	10.71	9.70	2.97	3.25
MSB	600016CH	BUY	6.35	7.64	20.31	0.62	0.57	5.34	5.04	5.83	6.14
CITICB	601998CH	HOLD	6.09	6.05	-0.66	0.69	0.63	6.55	6.09	4.76	5.09
CEB	601818CH	HOLD	4.28	4.26	-0.47	0.72	0.66	6.58	6.11	4.67	4.91

Source(s): Bloomberg, ABCI Securities estimates

### Exhibit 1: System NIM (%)



Source(s): CBIRC, ABCI Securities

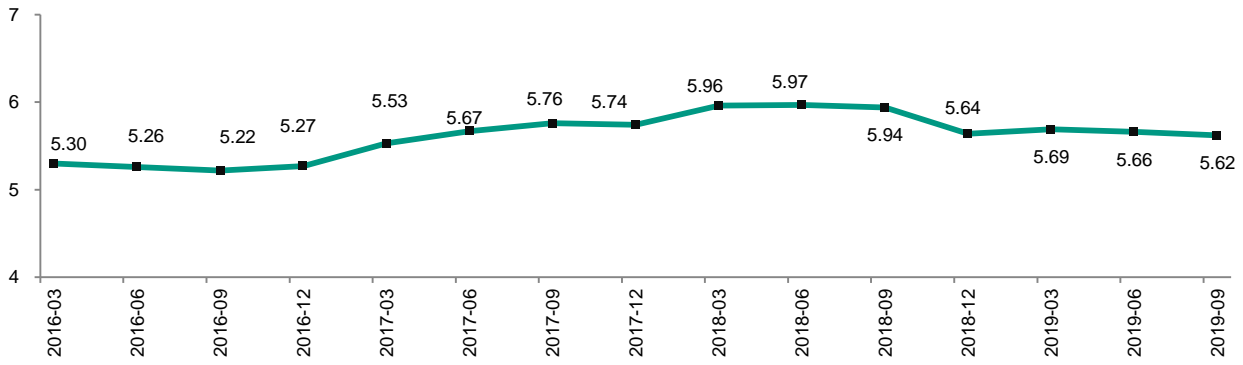


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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Exhibit 2: System average lending rate (%)



Source(s): PBOC, ABCI Securities



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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

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 2005 (HSI total return index 2005-17 CAGR at 10%)

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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