



# China Banks Sector – Industry data update

## Fundamentals remain stable for big banks

- Average NPL ratio of big banks and JSBs were stable in 1Q20. Asset quality pressure in district banks will result in higher earnings volatility in coming quarters
- We expect new RMB loans to stay solid in May and June 2020 without material changes in banks' lending attitude
- Big banks would continue to lead inclusive finance loan growth
- Larger NIM pressure is inevitable; big banks and JSBs could partly offset the negative impacts through robust balance sheet growth
- Reiterate **OVERWEIGHT** for both A/H-shr banks sector. Prefer H-shr banks over their A-shr counterparts for the former's lower valuation and higher dividend yield. Expect sector fundamentals earliest to stabilize in 4Q20. Our sector top picks are **ABC (601288CH, 1288 HK)** and **CCB (601939CH, 939HK)**

**Higher asset quality pressure in district banks.** According to CBIRC, system NPL ratio was marked at 1.91% as of Mar 2020, up 5bps QoQ. By category, average NPL ratio of big banks only increased by 1bps QoQ to 1.39%, while average NPL ratio of joint stock banks (JSBs) stayed flat QoQ at 1.64%. However, asset quality pressure in city commercial banks and rural commercial banks was evident in 1Q20, with their average NPL ratios increasing by 13bps and 19bps QoQ to 2.45% and 4.09% due to smaller operation size and high exposure to MSEs. We are cautious on asset quality outlook in coming quarters since overdue loans in 1Q20 would only be classified as NPL in later quarters. Asset quality in big banks and JSBs would be more stable than that in district banks, whose earnings would turn more volatile in coming quarters due to uncertain changes in asset quality. In 1Q20, big banks and JSBs' total net profit grew 4.69% and 9.4% YoY, compared to -1.16% YoY for city commercial banks and 1.94% YoY for rural commercial banks.

**Solid loan growth to persist in May and June 2020.** As of Apr 2020, system loans grew by 12.9% YoY, up from 12.7% YoY by end-Mar, indicating increased support to real economy in recent months. New RMB loans in Apr was RMB 1.7tr, of which the proportion of medium-to-long-term loans remained stable at 58.5% (1Q20: 60.6%), signaling a positive lending attitude. 4M20 new RMB loans was RMB 8.8tr, or 46.3% of our full-year loan forecast at RMB 19tr. Assuming 1H20 new RMB loans would reach 60% of our full-year forecast, the monthly new RMB loans would be at ~RMB 1.3tr each in May and June.

**Big banks to top growth in inclusive finance lending.** As expected, big banks would support inclusive finance, especially with the increased funding needs induced by COVID-19 and decelerating economic growth in China. In 1Q20, new inclusive finance lending by the big banks was up 15.2% QoQ, outpacing other bank categories that showed an increase of 3.3%-5.7% QoQ, according to CBIRC. Nonetheless, rural commercial banks are still the major supporter, contributing to 36.2% of new inclusive finance lending in 1Q20, followed by 29.9% by big banks. The two bank categories will continue be the major supporters in coming quarters.

**Corporates actively seeking for alternative funding.** Total social financing (TSF) reveals increasing funding demand in China. In Apr, TSF amounted to RMB 3.09tr, up 85% YoY, of which the proportion of bank loans fell from 65.4% in 1Q20 to 52.4% while the proportion in corporate bonds issuance increased from 16.0% in 1Q20 to 29.2% in Apr. The surge in funding demand induced by the pandemic cannot be satisfied by bank loans alone; corporates would still need to seek for alternative funding sources. Geographically, 1Q20 TSF mainly came from coastal regions - Jiangsu, Zhejiang, and Guangdong aggregated to 35.9% of total TSF in 1Q20, according to PBOC.

**Larger NIM pressure on the way.** According to PBOC, average lending yield was 5.08% in Mar, down 61bps YoY or 36bps QoQ. The drop was deeper than that in Dec 2019 (-20bps YoY or -18bps QoQ). Meanwhile, the proportion of loan priced at above LPR had been reducing from 84.13% in Aug 2019 to 76.81% in Dec 2019 and 72.83% in Mar 2020. The extent of reduction in loan pricing has been greater than that in LPR in recent months. System NIM was down 10bps QoQ in 1Q20 to 2.1%; by category, rural commercial banks showed the highest NIM drop of

## Sector Report

### May 13, 2020

Rating (H): Overweight  
Rating (A): Overweight

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#### Key Data

Avg.20E P/E (x) (H/A shr)	4.27/5.26
Avg.20E P/B (x) (H/A shr)	0.49/0.66
Avg.20E Dividend Yield (%) (H/A shr)	5.74/5.80
Previous sector rating (H/A shr)	Overweight/ Overweight
Date	Mar 12, 2020

Source(s): Bloomberg, ABCI Securities estimates

#### Sector Performance – H shr

	Absolute	Relative*
1-mth	(1.05)	(1.05)
3-mth	(6.57)	(1.00)
6-mth	(6.25)	(10.21)

\*Relative to MXCN

Source(s): Bloomberg, ABCI Securities

#### Sector Performance – A shr

	Absolute	Relative*
1-mth	(0.30)	(5.14)
3-mth	(3.18)	(2.81)
6-mth	(8.51)	(9.41)

\*Relative to CSI300

Source(s): Bloomberg, ABCI Securities



37bps QoQ, while other bank categories were able to offset the NIM impact with robust balance sheet growth. System total assets and total liabilities grew 10.7% and 10.4% QoQ in 1Q20. By category, total assets and total liabilities of big banks and JSBs grew 10.3%/9.3% and 12.8%/12.1%, faster than the 8.3%/8.1% and 8.2%/8.1% growth in city commercial banks and rural commercial banks, according CBIRC. Larger NIM pressure is inevitable under the rate cut cycle, but big banks and JSBs would be able to defend margins through solid balance sheet growth and balance sheet component management.

**OVERWEIGHT on A/H share banks sector; fundamentals to stabilize in 4Q20 at the earliest.** We reiterate our **OVERWEIGHT** rating for both A/H share banks; we prefer H-share banks based on the lower valuation and higher dividend yield. We recommend yield investors to accumulate shares of big banks. Our sector top picks are **ABC (601288CH, 1288 HK) and CCB (601939CH, 939HK)**.

**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; 6) Prolonged impact from COVID-19 pandemic.

**Sector valuation summary – H shr (Data as of May 13, 2020)**

Company	Ticker	Rating	Price (HK\$)	TP (HK\$)	Upside (%)	FY20E P/B(x)	FY21E P/B (x)	FY20E P/E (x)	FY21E P/E (x)	FY20E Yield(%)	FY21E Yield(%)
ICBC	1398 HK	BUY	5.09	7.19	41.26	0.61	0.56	5.13	4.94	6.02	6.25
CCB	939 HK	BUY	6.16	8.94	45.13	0.61	0.56	5.07	4.88	6.00	6.23
ABC	1288 HK	BUY	3.15	4.88	54.92	0.53	0.49	4.73	4.49	6.63	6.97
BoCom	3328 HK	BUY	4.82	6.57	36.31	0.44	0.41	4.26	4.11	7.53	7.80
CMB	3968 HK	BUY	36.05	41.80	15.95	1.21	1.08	8.08	7.22	4.28	4.77
MSB	1988 HK	BUY	5.55	7.00	26.13	0.46	0.42	3.97	3.78	7.89	8.27
CITICB	998 HK	BUY	3.70	5.56	50.27	0.34	0.32	3.25	2.98	7.90	8.60
CEB	6818 HK	BUY	3.15	3.92	24.44	0.44	0.41	4.03	3.74	8.69	9.26

\*CNY/HKD =1.0928 throughout this report, unless otherwise stated

Note: No revision of forecasts and TPs since previous company report published on Apr 15 2020

Source(s): Bloomberg, ABCI Securities estimates

**Sector valuation summary – A shr (Data as of May 13, 2020)**

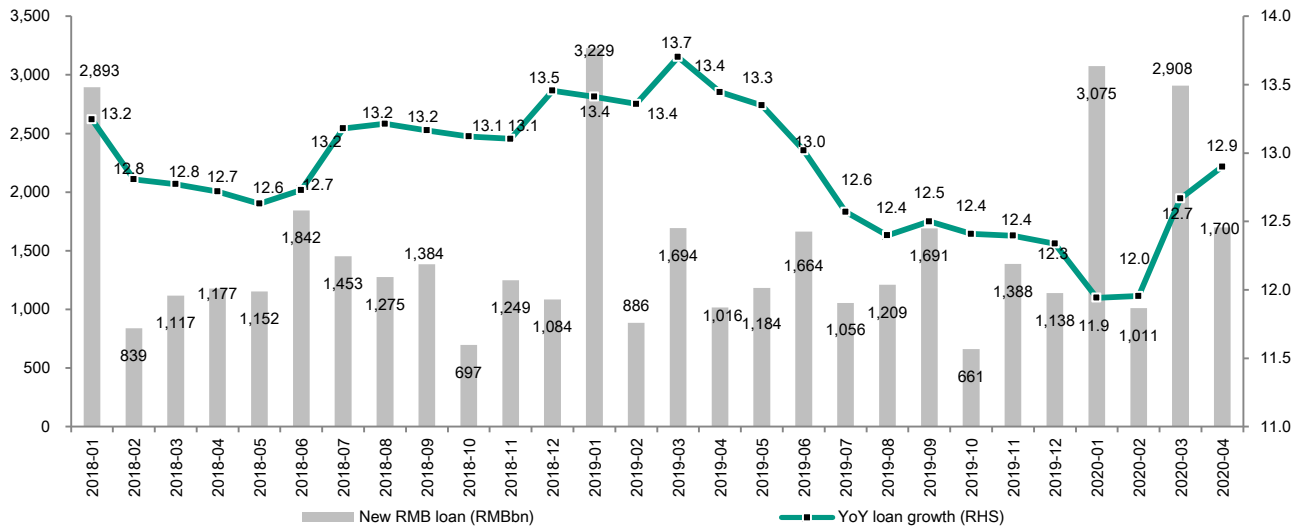
Company	Ticker	Rating	Price (RMB)	TP (RMB)	Upside (%)	FY20E P/B(x)	FY21E P/B (x)	FY20E P/E (x)	FY21E P/E (x)	FY20E Yield(%)	FY21E Yield(%)
ICBC	601398CH	BUY	5.12	7.46	45.70	0.67	0.62	5.64	5.43	5.48	5.69
CCB	601939CH	BUY	6.34	9.21	45.27	0.69	0.63	5.71	5.49	5.33	5.54
ABC	601288CH	BUY	3.40	5.08	49.41	0.63	0.58	5.58	5.30	5.62	5.91
BoCom	601328CH	BUY	5.12	6.87	34.18	0.51	0.47	4.94	4.77	6.49	6.72
CMB	600036CH	BUY	34.31	43.49	26.76	1.26	1.12	8.41	7.51	4.12	4.59
MSB	600016CH	BUY	5.77	6.99	21.14	0.52	0.48	4.50	4.29	6.95	7.28
CITICB	601998CH	BUY	5.08	5.97	17.52	0.52	0.47	4.87	4.47	5.27	5.73
CEB	601818CH	HOLD	3.67	3.70	0.82	0.56	0.52	5.13	4.76	6.83	7.28

Note: No revision of forecasts and TPs since previous company report published on Apr 15 2020

Source(s): Bloomberg, ABCI Securities estimates

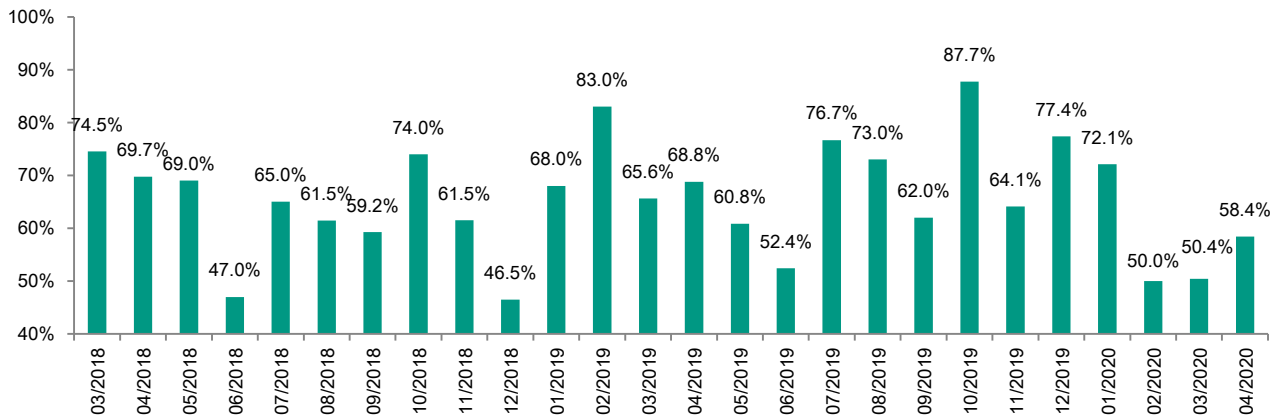


Exhibit 1: Monthly RMB loans (RMB bn) and total RMB loan balance YoY (%)



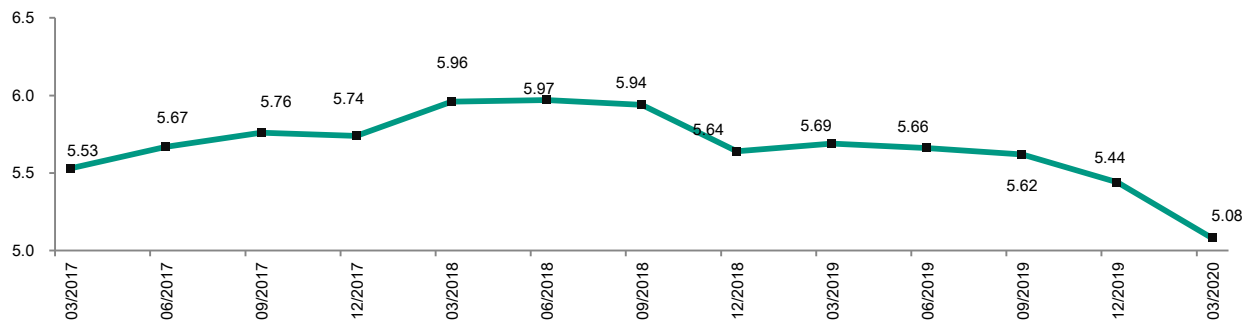
Source(s): PBOC, ABCI Securities

Exhibit 2: Medium-to-long-term loans to monthly total RMB loans (%)



Source(s): PBOC, ABCI Securities

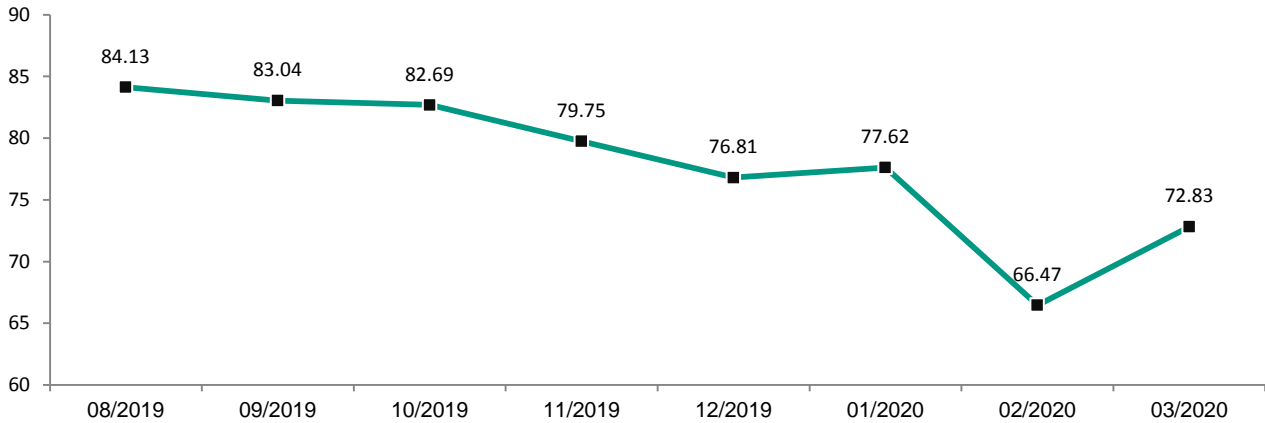
Exhibit 3: System monthly average lending rate (%)



Source(s): PBOC, ABCI Securities

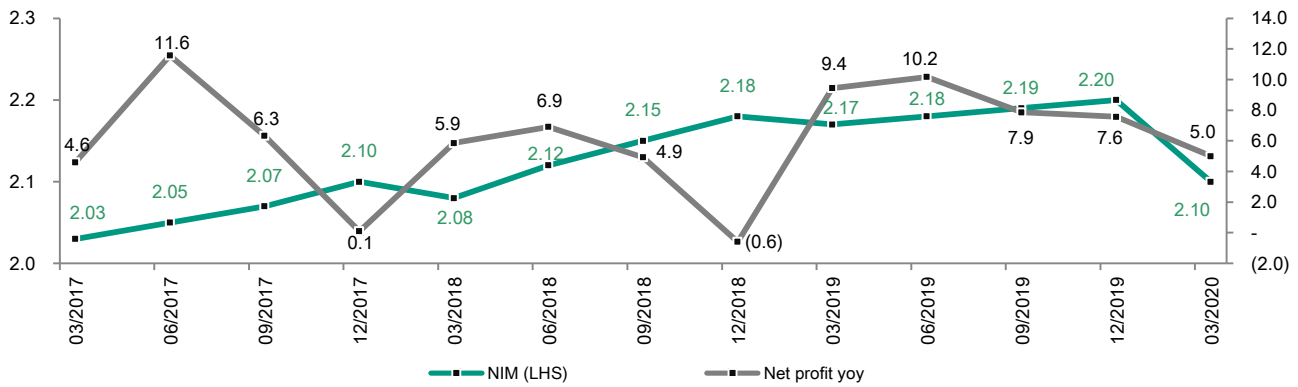


Exhibit 4: Proportion of loans priced at above LPR (%)



Source(s): PBOC, ABCI Securities

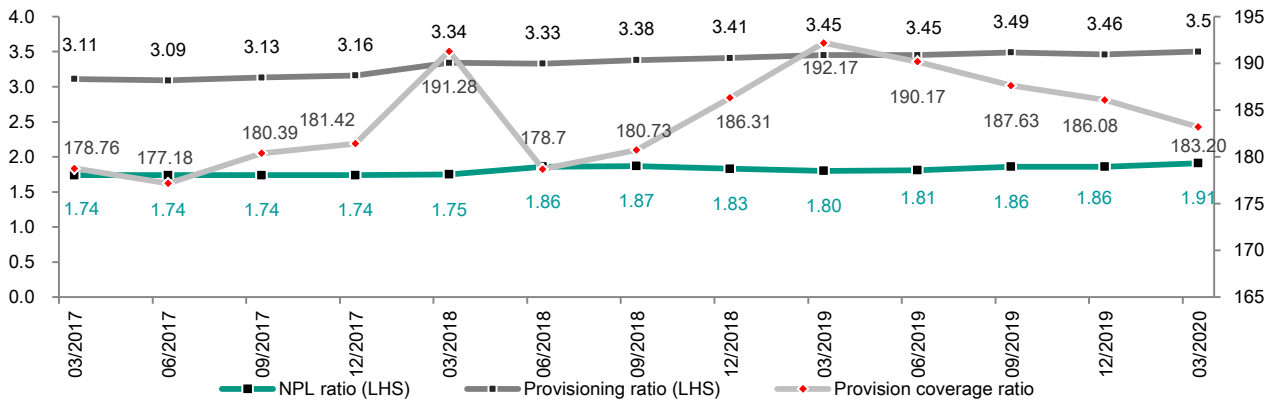
Exhibit 5: System NIM vs. system quarterly net profit YoY (%)



Source(s): CBIRC, ABCI Securities

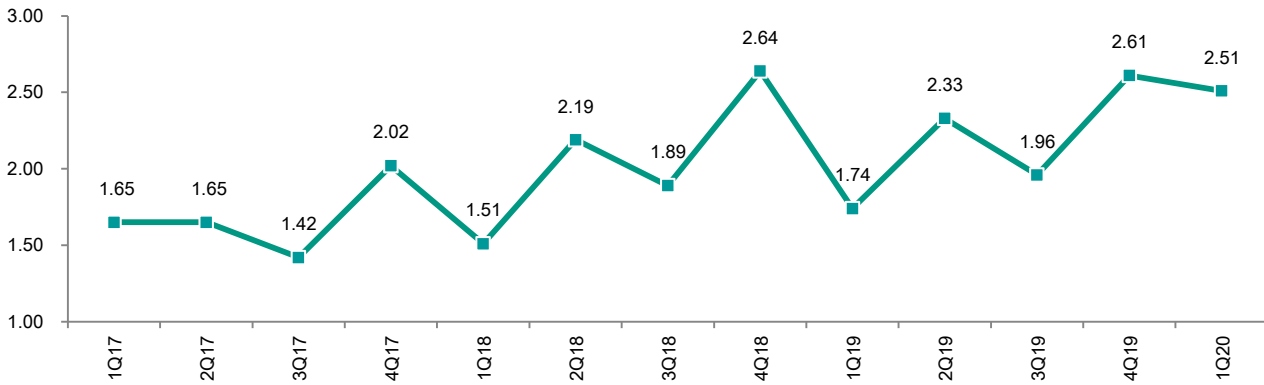


Exhibit 6: System asset quality indicators (%)



Source(s): CBIRC, ABCI Securities

Exhibit 7: Excess reserve ratio (%)



Source(s): CBIRC, ABCI Securities



## Disclosures

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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%)

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 2008 (HSI total return index 2008-19 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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