

MSB (1988 HK / 600016 CH)

Large provisions to sweep out legacy portfolio

- Lower earnings forecast on large provisions, designated to wipe out legacy portfolio
- NPL ratio to mildly improve with gradual increase in risk buffers
- Larger Fintech investment to enhance capacity in retail business service; asset mix and profit contribution from retail segment to increase
- Maintain **BUY** on low valuation. Our GGM-based H/A shr TPs imply 21E P/B of 0.46x/0.54x

Large provision slashes profitability. We adjust MSB's FY21E/22E earnings downward by 29.37% and 24.3% on larger-than-expected provision expenses in FY20. Despite NPL ratio only inched up by 1bps to 1.82% in 4Q20, provision expenses surged 50.7% QoQ in 4Q20 as a result of heavy-handed NPL handling. With the bank's dedication to wipe out legacy non-performing assets, scale of NPL handling in FY21E will be at least comparable to that of FY20; also, large provisions can be expected. Assuming macro environment in China would improve, we expect MSB's NPL ratio to drop by 2bps-4bps each in FY21E-23E to 1.72% by end-FY23E while provisioning ratio and provision coverage ratio would strengthen to 2.64% and 153.49% by FY23E. ROAE would be in the range of 6.99%-8.75% in FY21E-23E.

Mild increase in topline revenue. Despite NIM stayed flat YoY at 2.14% in FY20, mild pressure was seen in 4Q20 on deliberate reduction in structure deposits balance and reduced asset yield. Our base case scenario expects MSB's NIM to narrow by ~5bps each in FY21E-23E to 1.99% by FY23E, which would translate into a 5.4% NII CAGR over FY20-23E. Assuming a stable net fee income growth at 3.2% CAGR in FY20-23E, topline should expand at 5.3% CAGR.

Boosting the retail business segment. In order capture the opportunities resulted from growing personal net worth and personal consumption in China, many banks are targeting to expand their retail business and wealth management services. MSB's operating income and profit before tax mixes in retail segment increased from 37.8% and 38.2% in FY19 to 39.1% and 59.4% in FY20. Meanwhile, total asset mix of retail segment rose from 21.0% in FY19 to 23.1% in FY20. With the rapid acceleration in digitalization, we expect MSB to increase its investment in Fintech to enhance its capacity in the retail business segment.

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Results and Valuation

FY ended Dec 31	2019A	2020A	2021E	2022E	2023E
Revenue (RMB mn)	177,745	181,807	193,319	203,418	212,222
Chg (% YoY)	15.3	2.3	6.3	5.2	4.3
Net profit* (RMB mn)	53,819	34,309	37,882	44,427	51,173
Chg (% YoY)	6.9	(36.3)	10.4	17.3	15.2
EPS (RMB)	1.22	0.71	0.79	0.94	1.09
Chg (% YoY)	7.0	(41.8)	11.5	18.9	16.4
BVPS (RMB)	10.26	10.50	11.05	11.70	11.84
Chg (% YoY)	9.5	2.4	5.2	5.9	1.2
P/E (x) – H-shr	2.98	5.12	4.59	3.86	3.32
P/B (x) – H-shr	0.35	0.34	0.33	0.31	0.31
P/E (x) – A-shr	4.06	6.98	6.26	5.26	4.52
P/B (x) – A-shr	0.48	0.47	0.45	0.42	0.42
ROAA (%)	0.87	0.51	0.53	0.58	0.63
ROAE (%)	12.40	6.81	6.99	7.82	8.75
DPS(RMB)	0.37	0.21	0.32	0.37	0.43
Yield (%) H-shr	10.22	5.88	8.79	10.23	11.79
Yield (%) A-shr	7.49	4.31	6.45	7.50	8.64

Note: Company; HKD/CNY=1.1927

*Net profit = Net profit attributable to shareholders of the Company

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 6.04
TP (A): RMB 6.00

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Price (H/A shr)	HK\$ 4.32/ RMB 4.94
Est. share price return (H/A shr)	39.81%/ 21.46%
Est. dividend yield (H/A shr)	8.79%/6.45%
Est. total return (H/A shr)	48.60%/ 27.91%
Last Rating & TP (H/A shr)	BUY, HK\$6.73/ BUY, RMB6.72
Previous Report Date	15 Oct, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	6.06/3.85
52Wk H/L (RMB) (A shr)	6.72/4.92
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)	244,052.3
H-shr market cap (HK\$ mn)	35,943.7
A-shr market cap (HK\$ mn)	208,108.6
3-mth avg daily turnover (HK\$ mn) (H shr)	132.19
3-mth avg daily turnover (RMB mn) (A shr)	591.55
Major shareholder(s) (%):	
Dajia Life Insurance	17.84

Source(s): Bloomberg, ABCI Securities

Maintain BUY on lower valuation. We roll over our GGM calculation to mid-FY22E BVPS and lower our EPR assumption by 1ppt on improving macro environment. Downward adjustment in net profit forecasts, however, reduces our sustainable ROAE assumption by 1.28ppt. Our H/A shr TPs were lowered by 10.3%/10.7% to HK\$ 6.04/RMB 6.00, which implies FY21E P/B at 0.46x/0.54x. We believe MSB's fundamental outlook will depress investors' interest in short run. The counter is trading at trough valuations of 0.33x/0.45x 21E P/B; maintain **BUY**.

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 COVID-19 pandemic.

Exhibit 1: 2020 actual results vs. ABCI estimates

(RMB mn)	2020E	2020A	AvE (%)
Net interest income	120,118	135,224	12.58
Net fee and commission	54,387	27,664	(49.13)
Operating income	201,942	181,807	(9.97)
Operating expenses	(54,356)	(50,485)	(7.12)
Impairment losses	(88,242)	(94,616)	7.22
Profit before tax	59,344	36,706	(38.15)
Income tax expenses	(8,902)	(1,604)	(81.98)
Net profit	49,403	34,309	(30.55)
Key indicators (%)			AvE (ppt)
Net interest margin	2.04	2.14	0.10
Net interest spread	1.90	2.12	0.22
Cost to income ratio	24.01	24.57	0.56
Return on average assets	0.69	0.51	(0.18)
Return on average equity	9.23	6.81	(2.42)
Dividend payout	30.00	24.93	(5.07)
CT1 CAR	8.04	8.51	0.47
Total CAR	12.14	13.04	0.90
NPL ratio	1.73	1.82	0.09
Provision to total loans	2.63	2.53	(0.10)
Provision coverage	152.02	139.38	(12.64)

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in 2021E and 2022E forecasts

(RMB mn)	2021E (old)	2021E (new)	change (%)	(RMB mn)	2022E (old)	2022E (new)	change (%)
Net interest income	130,972	144,266	10.15	Net interest income	141,241	151,931	7.57
Net fee and commission	56,562	28,494	(49.62)	Net fee and commission	59,390	29,349	(50.58)
Operating income	215,000	193,319	(10.08)	Operating income	228,488	203,418	(10.97)
Operating expenses	(58,941)	(53,802)	(8.72)	Operating expenses	(63,874)	(57,410)	(10.12)
Impairment losses	(91,796)	(93,924)	2.32	Impairment losses	(94,463)	(92,613)	(1.96)
Profit before tax	64,263	45,593	(29.05)	Profit before tax	70,151	53,396	(23.88)
Income tax expenses	(9,639)	(6,839)	(29.05)	Income tax expenses	(10,523)	(8,009)	(23.89)
Net profit attributable to equity holders	53,636	37,882	(29.37)	Net profit attributable to equity holders	58,691	44,427	(24.30)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.93	2.09	0.16	Net interest margin	1.81	2.04	0.23
Net interest spread	1.75	1.89	0.14	Net interest spread	1.60	1.82	0.22
CIR	24.57	24.73	0.16	CIR	25.15	25.16	0.01
ROAA	0.65	0.53	(0.12)	ROAA	0.63	0.58	(0.05)
ROAE	9.40	6.99	(2.41)	ROAE	9.62	7.82	(1.80)
Dividend payout	30.00	28.00	(2.00)	Dividend payout	30.00	29.00	(1.00)
CT1 CAR	7.63	8.51	0.88	CT1 CAR	7.29	8.56	1.27
Total CAR	11.24	13.23	1.99	Total CAR	10.55	13.56	3.01
NPL ratio	1.81	1.80	(0.01)	NPL ratio	1.90	1.76	(0.14)
Provision to total loans	2.75	2.58	(0.17)	Provision to total loans	2.87	2.60	(0.27)
Provision coverage ratio	151.93	143.33	(8.60)	Provision coverage ratio	151.05	147.73	(3.32)

Source(s): Company, ABCI Securities estimates

Exhibit 3: Changes in GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	6.73	6.04	6.72	6.00	Roll over to mid-2022E BVPS
Sustainable ROE (%)	9.09	7.81	9.09	7.81	Larger-than-expected provision expenses
COE (%)	12.16	10.70	11.46	9.89	
Target 21E P/B (x)	0.50	0.46	0.57	0.54	
Rfr (%)	3.16	3.23	3.16	3.23	With reference to China 10Y government bond
Beta	0.90	0.83	0.83	0.74	With reference to Bloomberg data
ERP (%)	10.00	9.00	10.00	9.00	Lower risk premium on recovering macro environment in China
LT gr (%)	6.00	5.50	6.00	5.50	

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Net interest income	122,034	135,224	144,266	151,931	158,225
Non-interest income	55,711	46,583	49,053	51,487	53,997
Of which: Fees and commissions	28,204	27,664	28,494	29,349	30,376
Operating income	177,745	181,807	193,319	203,418	212,222
Operating expenses	(44,313)	(44,662)	(47,804)	(51,172)	(54,294)
Amortization	(5,703)	(5,823)	(5,998)	(6,238)	(6,549)
Pre-provision operating profit	127,729	131,322	139,518	146,009	151,379
Impairment loans losses	(62,991)	(94,616)	(93,924)	(92,613)	(89,934)
Profit before tax	64,738	36,706	45,593	53,396	61,445
Tax	(9,814)	(1,604)	(6,839)	(8,009)	(9,217)
Minority interests	(1,105)	(793)	(872)	(960)	(1,055)
Net profit attributable to equity holders	53,819	34,309	37,882	44,427	51,173
Preference share dividend	558	3,337	3,337	3,337	3,337
Net profit attributable to ordinary shareholders	53,261	30,972	34,545	41,090	47,836
Growth (%)					
Net interest income	59.1	10.8	6.7	5.3	4.1
Non-interest income	(28.1)	(16.4)	5.3	5.0	4.9
Of which: Fees and commissions	(41.4)	(1.9)	3.0	3.0	3.5
Operating income	15.3	2.3	6.3	5.2	4.3
Operating expenses	(3.5)	0.8	7.0	7.0	6.1
Amortization	82.9	2.1	3.0	4.0	5.0
Pre-provision operating profit	21.5	2.8	6.2	4.7	3.7
Impairment loans losses	36.0	50.2	(0.7)	(1.4)	(2.9)
Profit before tax	10.1	(43.3)	24.2	17.1	15.1
Tax	16.1	(83.7)	326.4	17.1	15.1
Minority interests	36,733.3	(28.2)	10.0	10.0	10.0
Net profit attributable to equity holders	6.9	(36.3)	10.4	17.3	15.2
Preference share dividend	5.4	498.0	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	7.0	(41.8)	11.5	18.9	16.4
Per share (RMB)					
EPS	1.22	0.71	0.79	0.94	1.09
BVPS	10.26	10.50	11.05	11.70	11.84
DPS	0.37	0.21	0.32	0.37	0.43
Key ratio (%)					
Net interest margin	2.14	2.14	2.09	2.04	1.99
Net interest spread	2.14	2.12	1.89	1.82	1.77
Cost to income ratio	24.57	24.93	24.73	25.16	25.58
Return on average assets	0.87	0.51	0.53	0.58	0.63
Return on average equity	12.40	6.81	6.99	7.82	8.75
Effective tax rate	15.16	4.37	15.00	15.00	15.00
Dividend payout	30.10	27.18	28.00	29.00	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)	2019A	2020A	2021E	2022E	2023E
Cash & equivalent	371,155	401,525	420,870	442,452	467,781
Interbank assets	367,544	295,456	271,640	261,160	252,217
Investment securities	2,184,305	2,120,650	2,184,270	2,271,640	2,385,222
Net loans and advances	3,430,427	3,782,297	4,144,739	4,517,067	4,890,609
Total interest earning assets	6,353,431	6,599,928	7,021,518	7,492,319	7,995,829
Property and equipment	51,365	51,129	51,640	52,157	52,678
Other non-interest earning assets	277,045	299,176	316,657	334,562	353,029
Total assets	6,681,841	6,950,233	7,389,815	7,879,038	8,401,536
Customer deposits	3,637,034	3,768,151	3,951,186	4,159,682	4,376,824
Interbank liabilities	1,494,192	1,493,091	1,567,746	1,661,810	1,778,137
Subordinated debt	817,225	957,880	1,101,562	1,266,796	1,456,816
Total interest bearing liabilities	5,948,451	6,219,122	6,620,493	7,088,289	7,611,776
Current taxes	17,764	18,589	19,518	20,494	21,519
Other liabilities	184,797	171,274	184,188	175,883	167,189
Total liabilities	6,151,012	6,408,985	6,824,200	7,284,667	7,800,484
Share capital	113,642	113,642	113,642	113,642	113,642
Reserves	405,203	415,895	440,028	468,425	474,614
Minorities	11,984	11,711	11,945	12,304	12,796
Shareholder's equity	530,829	541,248	565,615	594,371	601,052
Growth (%)					
Cash & equivalent	(4.7)	8.2	4.8	5.1	5.7
Interbank assets	8.8	(19.6)	(8.1)	(3.9)	(3.4)
Investment securities	10.9	(2.9)	3.0	4.0	5.0
Net loans and advances	14.9	10.3	9.6	9.0	8.3
Total interest earning assets	11.8	3.9	6.4	6.7	6.7
Property and equipment	5.3	(0.5)	1.0	1.0	1.0
Other non-interest earning assets	5.2	8.0	5.8	5.7	5.5
Total assets	11.5	4.0	6.3	6.6	6.6
Customer deposits	14.8	3.6	4.9	5.3	5.2
Interbank liabilities	(1.8)	(0.1)	5.0	6.0	7.0
Subordinated debt	21.2	17.2	15.0	15.0	15.0
Total interest bearing liabilities	10.9	4.6	6.5	7.1	7.4
Current taxes	103.5	4.6	5.0	5.0	5.0
Other liabilities	(3.8)	(7.3)	7.5	(4.5)	(4.9)
Total liabilities	10.6	4.2	6.5	6.7	7.1
Share capital	111.7	0.0	0.0	0.0	0.0
Reserves	10.6	2.6	5.8	6.5	1.3
Minorities	9.7	(2.3)	2.0	3.0	4.0
Shareholder's equity	23.2	2.0	4.5	5.1	1.1
Key ratio (%)					
CT1 CAR	8.89	8.51	8.51	8.56	8.69
Total CAR	13.17	13.04	13.20	13.56	14.32
NPL ratio	1.56	1.82	1.80	1.76	1.72
Provision to total loans	2.43	2.53	2.58	2.60	2.64
Provision coverage ratio	155.50	139.38	143.33	147.73	153.49

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

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 2008 (For reference: HSI total return index 2008-20 CAGR at 9.2%)

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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