

Harbin Bank Co., Ltd. (HRB, 6138 HK)

Fundamentals steadily improving; maintain BUY

- Clear fundamental improvements were seen in 2H18 as reflected by better topline, earnings, deposits and asset quality
- We revise up our 2019E-20E earnings, supported by robust balance sheet growth and stable NIM outlook
- Setback in asset quality was seen in manufacturing sector, but HRB's solid risk buffer should shield it from excessive risk
- However, suspension of dividend distribution may temporarily hamper share price performance. Our GGM suggests 0.43x target P/B. Trading at 0.34x 19E P/B, reiterate **BUY** on undemanding valuation

Clear fundamental improvements in 2H18. HRB reported its 2018 net profit at RMB 5,549mn, up 5.71% YoY, beating our forecast by 8.8% on lower provision expenses. Although NIM narrowed by 28bps YoY to 1.87% and net fee YoY was down by 2.18% YoY, topline revenue was up slightly by 1.36% YoY in 2018. While topline and net profit in 1H18 dropped 12.5% and 2.03% YoY, fundamentals improved in 2H18. Also, deposit grew 4.56% YoY in 2018, reverting from HoH decline in June 2018 of -2.02%. Meanwhile, NPL ratio reduced by 6bps HoH in 2H18 to 1.73% compared to a 9bps HoH increment to 1.79% in 1H18.

Revise up 2019E-20E earnings. We raise our 2019E-20E earnings forecasts by 12.3% and 16.0%. NIM would experience mild pressure in 2019E, to be followed by stabilization in 2020E-21E. We forecast 2021E NIM to be 1.79%; in particular, we assume asset yield to remain stable at 5.03%-5.11% and funding costs to increase mildly by 7-13bps YoY in 2019E-21E. Balance sheet growth would be solid, with loans and deposits growing by 8.9%-9.2% YoY and 5%-5.5% YoY in 2019E-21E. Consequently, NII would increase by 10.8%-11.1% YoY in 2019E-21E. Given the regulatory tightening for wealth management products, we expect overall net fee income to remain stable, with bank card fees as the key growth driver. We forecast NP to grow by 6.4%-7.7% YoY in 2019E-21E.

Solid risk buffer. Provision ratio and provision coverage ratio were 2.94% and 169.88% as of Dec 2018. Overall asset quality is resilient, given NPL ratio was down by 3bps YoY to 1.73% as of Dec 2018; besides, special-mention loan ratio stayed flat at 2.8% while overdue (>90days) ratio reduced by 29bps YoY to 1.67%. For the manufacturing sector, NPL ratio was up 3.21ppt YoY to 7.28%, but we believe HRB will reduce exposure in the sector and increase its effort in NPL handling. We forecast the bank's NPL ratio to rise by 4-6bps YoY in 2019E-21E and reach 1.88% by end 2021E, with provisioning ratio and provision coverage staying in the range of 2.99%-3.12% and 165.96%-168.93% over 2019E-21E.

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	14,134	14,325	15,465	16,781	18,217
Chg (% YoY)	(0.3)	1.4	8.0	8.5	8.6
Net profit (RMB mn)	5,249	5,549	5,905	6,358	6,835
Chg (% YoY)	7.6	5.7	6.4	7.7	7.5
EPS (RMB)	0.48	0.50	0.54	0.58	0.62
Chg (% YoY)	7.6	4.2	6.4	7.7	7.5
BVPS (RMB)	3.75	4.21	4.91	5.70	6.57
Chg (% YoY)	13.0	12.3	16.8	15.9	15.3
P/E (x)	3.59	3.32	3.12	2.90	2.70
P/B (x)	0.45	0.40	0.34	0.29	0.26
ROAE (%)	13.50	12.68	11.49	10.65	9.93
ROAA (%)	0.96	0.94	0.91	0.90	0.88
DPS(RMB)	0.05	0.00	0.00	0.00	0.00
Yield (%)	2.98	-	-	-	-

Net profit = Net profits attributable to shareholders of the Company; HKD/CNY=1.1693

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 25, 2019

Rating: BUY

TP:HK\$ 2.48

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Share price (HK\$)	1.96
Est. share price return	26.5%
Est. dividend yield	0.0%
Est. total return	26.5%
Previous Rating & TP	BUY;HK\$2.16
Previous Report Date	Sep 20,2018

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	2.29/1.61
Issued shares (mn)	10,996
H-share(mn)	3,024
Domestic shares (mn)	7,972
Market cap (HK\$ mn)	21,552
H-share(mn)	5,927
Domestic shares (mn)	15,625
3-mth avg daily turnover(HK\$ mn)	0.61
Major shareholder(s) (%):	
Harbin Economic Development	19.65

Source(s): Company, ABCI Securities

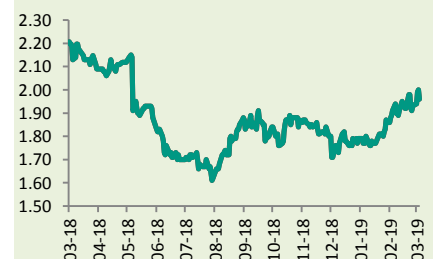
Share Performance (%)

	Absolute	Relative*
1-mth	4.26	2.11
3-mth	14.62	1.39
6-mth	6.52	2.28

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Maintain BUY on undemanding valuation. CT1 and CAR were reported at 9.74% and 12.15% as of Dec 2018, reflecting no immediate capital need. Still, in order to support continuous balance sheet growth, we believe the bank might further fuel up its capital position through various channels. The bank, however, once again suspended dividend distribution in 2018 soon after the resumption in 2017, which we believe may temporarily hamper share price. Our TP at HK\$ 2.48 is derived by Gordon growth model (GGM) with a target 19E P/B of 0.43x. The counter is currently trading at 0.34x 19E P/B. Reiterate BUY on undemanding valuation.

Risk factors: 1) Asset quality deterioration in HLJ; 2) Pricing competition from big banks entering the local regions; 3) Cross-region business development risk; 4) Low average daily turnover of shares; 5) Suspension of ordinary share dividend.

Exhibit 1: HRB's 2018 actual results vs. ABCI estimates

(RMB mn)	2018A	2018E	AvE (%)
Net interest income	10,127	10,463	(3.21)
Net fee and commission	2,391	2,322	2.97
Operating income	14,325	13,676	4.75
Operating expenses	(4,594)	(4,039)	13.74
Impairment losses	(2,426)	(2,742)	(11.52)
Profit before tax	7,305	6,895	5.95
Income tax expenses	(1,731)	(1,724)	0.42
Net profit	5,549	5,102	8.75
Key indicators (%)			AvE (ppt)
Net interest margin	1.87	1.90	(0.03)
Net interest spread	1.67	1.89	(0.22)
Cost to income ratio	30.88	29.54	1.34
Return on average assets	0.94	0.89	0.05
Return on average equity	12.68	11.38	1.30
Dividend payout	0.00	13.00	(13.00)
CT1 CAR	9.74	9.87	(0.13)
Total CAR	12.15	12.40	(0.25)
NPL ratio	1.73	1.86	(0.13)
Provision to total loans	2.94	3.15	(0.21)
Provision coverage	169.88	169.35	0.53

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Net interest income	11,466	10,127	11,218	12,466	13,840
Net fee and commission	2,445	2,391	2,368	2,379	2,403
Other operating income	381	1,807	1,879	1,936	1,974
Operating income	14,134	14,325	15,465	16,781	18,217
Operating expenses	(4,344)	(4,594)	(4,870)	(5,187)	(5,550)
Impairment losses	(2,762)	(2,426)	(2,787)	(3,186)	(3,632)
Profit before tax	7,028	7,305	7,808	8,408	9,036
Income tax expenses	(1,819)	(1,731)	(1,874)	(2,018)	(2,169)
Minority interests	(60)	(26)	(29)	(32)	(32)
Net profit attributable to equity holders	5,249	5,549	5,905	6,358	6,835
Preference share dividend	0	0	0	0	0
Net profit attributable to ordinary shareholders	5,249	5,549	5,905	6,358	6,835
Growth (%)					
Net interest income	(0.9)	(11.7)	10.8	11.1	11.0
Net fee and commission	2.1	(2.2)	(1.0)	0.5	1.0
Other operating income	85.8	373.7	4.0	3.0	2.0
Operating income	(0.3)	1.4	8.0	8.5	8.6
Operating expenses	(4.0)	5.8	6.0	6.5	7.0
Impairment losses	(16.2)	(12.2)	14.9	14.3	14.0
Profit before tax	9.0	3.9	6.9	7.7	7.5
Income tax expenses	22.6	(4.9)	8.3	7.7	7.5
Minority interests	(30.2)	(56.9)	12.0	11.0	0.0
Net profit attributable to equity holders	7.6	5.7	6.4	7.7	7.5
Preference share dividend	na	na	na	na	na
Net profit attributable to ordinary shareholders	7.6	5.7	6.4	7.7	7.5
Per share (RMB)					
EPS	0.48	0.50	0.54	0.58	0.62
BVPS	3.75	4.21	4.91	5.70	6.57
DPS	0.05	0.00	0.00	0.00	0.00
Key ratio (%)					
Net interest margin*	2.15	1.87	1.77	1.78	1.79
Net interest spread	1.95	1.67	1.52	1.45	1.38
Cost to income ratio	29.71	30.88	31.49	30.91	30.46
Return on average assets	0.96	0.94	0.91	0.90	0.88
Return on average equity	13.50	12.68	11.49	10.65	9.93
Effective tax rate	25.52	23.69	24.00	24.00	24.00
Dividend payout	10.48	-	-	-	-

Note1: Individual items may not sum to total due to rounding difference

Note2: Key ratios may not match with financial reports due to adjustment for comparison consistency among individual equities

* Forecast calculation based on IFRS9 (excluding interest income from FVTPL financial assets)

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Cash and equivalent	69,533	75,809	81,873	87,605	92,861
Interbank asset	25,402	32,190	40,237	49,492	58,400
Net loans and advances	230,647	248,572	268,771	293,075	328,941
Investment securities	204,494	224,879	249,615	274,577	297,916
Total interest earning assets	530,075	581,449	640,497	704,748	778,117
Other assets	34,180	34,140	35,164	35,867	36,226
Total assets	564,255	615,588	675,660	740,616	814,343
Customer deposits	378,258	400,280	422,296	443,410	467,798
Interbank liabilities	41,531	49,487	58,395	68,322	79,254
Subordinated debt	91,334	112,766	134,192	158,347	185,265
Total interest bearing liabilities	511,124	562,534	614,883	670,079	732,317
Other liabilities	10,723	5,563	5,452	6,517	8,342
Total liabilities	521,846	568,097	620,335	676,596	740,659
Share capital	10,996	10,996	10,996	10,996	10,996
Retained earnings	13,452	16,720	22,626	28,984	35,819
Reserves	16,813	18,559	20,414	22,660	25,379
Minority interests	1,148	1,217	1,290	1,380	1,491
Total equity	42,409	47,492	55,326	64,020	73,684
Growth (%)					
Cash and equivalent	3.8	9.0	8.0	7.0	6.0
Interbank asset	(47.7)	26.7	25.0	23.0	18.0
Net loans and advances	17.4	7.8	8.1	9.0	12.2
Investment securities	6.4	10.0	11.0	10.0	8.5
Total interest earning assets	5.1	9.7	10.2	10.0	10.4
Other assets	(1.8)	(0.1)	3.0	2.0	1.0
Total assets	4.7	9.1	9.8	9.6	10.0
Customer deposits	10.2	5.8	5.5	5.0	5.5
Interbank liabilities	(61.2)	19.2	18.0	17.0	16.0
Subordinated debt	118.1	23.5	19.0	18.0	17.0
Total interest bearing liabilities	3.9	10.1	9.3	9.0	9.3
Other liabilities	12.3	(48.1)	(2.0)	19.5	28.0
Total liabilities	4.0	8.9	9.2	9.1	9.5
Share capital	0.0	0.0	0.0	0.0	0.0
Retained earnings	34.3	24.3	35.3	28.1	23.6
Reserves	8.5	10.4	10.0	11.0	12.0
Minority interests	38.8	6.0	6.0	7.0	8.0
Total equity	13.6	12.0	16.5	15.7	15.1
Key ratio (%)					
CT1 CAR	9.72	9.74	10.14	10.71	11.22
Total CAR	12.25	12.15	12.49	13.07	13.58
NPL ratio	1.70	1.73	1.77	1.82	1.88
Provision to total loans	2.84	2.94	2.99	3.05	3.12
Provision coverage ratio	167.29	169.88	168.93	167.58	165.96

Note1: Individual items may not sum to total due to rounding difference

Note2: Key ratios may not match with financial reports due to adjustment 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 (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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