

## China

September 16, 2022 - 5:23 PM

**Neutral** (no change)

**Highlighted Companies**
**Bank of China**
**ADD, TP HK\$4.20, HK\$2.68 close**

We like Bank of China's (BOC) exposure to a rising US rate hike cycle via its HK subsidiary. We also like its inexpensive valuation (lowest of the big-four banks' FY22F P/BV) and its high FY22F dividend yield (highest of big-four banks).

**China Merchants Bank**
**ADD, TP HK\$84.10, HK\$41.15 close**

China Merchants Bank (CMB) is our top sector pick. We believe its ROE and better-than-peer net profit will be sustained, driven by its retail banking operations. We think continued rising ROE under the new president could be a re-rating catalyst.

**Ping An Bank**
**ADD, TP Rmb22.70, Rmb13.00 close**

Ping An Bank (PAB) is a key beneficiary of the ongoing recovery in credit card asset quality. It could also benefit notably from any loss of market share for fintech players given a stricter fintech regulatory environment.

**Summary Valuation Metrics**

P/E (x)	Dec-22F	Dec-23F	Dec-24F
Bank of China	3.16	2.87	2.58
China Merchants Bank	6.80	5.73	4.81
Ping An Bank	6.40	5.40	4.47
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
Bank of China	0.34	0.31	0.29
China Merchants Bank	1.11	0.98	0.85
Ping An Bank	0.70	0.63	0.56
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
Bank of China	10.00%	11.01%	12.23%
China Merchants Bank	4.86%	5.76%	6.86%
Ping An Bank	2.07%	2.45%	2.96%

**Analyst(s)**
**Michael CHANG, CFA**

T (852) 2539 1323

E michael.chang@cgs-cimb.com

**Laura LI Zhiyi**

T (852) 2532 1127

E laura.li@cgs-cimb.com

# Banks

## Deposit cost cuts: History shows little benefit

- Our EPS forecasts are unchanged despite deposit rate cuts, due to political pressure to pass on the lower deposit costs to lower loan yields.
- Some small and mid-size banks may face less political pressure to pass on deposit costs, with MSB, PAB, CQRCB benefitting more than peers (Fig 1).
- Loan growth for big banks has overtaken smaller banks since Apr 2022 (Fig 5-6), suggesting more political pressure to support the economy in our view.
- We remain sector Neutral. Sector top picks: CMB, BOC, PAB and CITIC.

### Deposit rate cuts first, with lower loan yields to follow

- We do not expect any benefit to FY22F net interest margins (NIM) or EPS, even though China's largest seven banks have cut their advertised time deposits rates by 10-15bp, and their demand deposit rates by 0.5bp.
- This is due to political pressure. We believe a key reason for the People's Bank of China (PBOC) window guidance for banks to cut deposit rates is an expectation that these banks will pass on the lower deposit costs in the form of lower deposit yields.
- This is what happened in Apr 2022 when deposit rates were also cut, with 2Q22 NIM falling 9bp qoq and 11bp yoy for the banks we cover (Fig 3).
- In the event that some banks (possibly small and mid-size banks, and/or non-state-owned) do not pass on the full amount of the deposit rate cut, then MSB, PAB and CQRCB could see FY22F net profits benefitting more than peers (Fig 1).

### Big banks seem to be helping the real economy more

- Loan growth for the big four banks has overtaken smaller banks' since Apr 2022, (Figs 5-6). This in marked contrast to pre-pandemic, where smaller banks have grown faster than big banks. We think that this indicates big banks face greater national service pressure amidst times of greater economic weakness.
- Their stronger loan growth is even more surprising, given the big banks higher 1H22 mix of consumer (including mortgage) loans (Figs 7-8) and their slow growth.
- Household consumption loan growth of 5.1% yoy in Aug 2022 was the lowest since Jun 2006's 4.5% yoy. This was driven by household short-term consumption loans (3% yoy), with household medium to long term consumption loan growing 5.5% yoy (slowest since Sep 2006's 5.2% yoy) (Fig 12).

### Maintain sector Neutral; top picks are CMB, BOC, PAB and CITIC

- We retain our Neutral rating for China's banking sector. We value the banks using a stress-test adjusted GGM. Upside/downside risks: better-/worse-than-expected economy and increase/decrease in policy risks.

**Figure 1: Impact on the China banks, assuming no political pressure to pass through deposit cost cuts to loan yields, and assuming no change in provisioning buffers to offset the impact**

	Percentage impact for FY22F net profit (annualised)	Percentage impact for FY22F net profit (non-annualised)
ICBC	3.4%	0.7%
CCB	2.9%	0.6%
BOC	3.6%	0.7%
ABC	3.9%	0.8%
BOCOM	4.2%	0.9%
CMB	1.5%	0.3%
CITIC	3.6%	0.8%
MSB	6.1%	1.3%
PAB	4.1%	0.8%
CQRCB	4.0%	0.8%
Big four banks	3.4%	0.7%
Mid-size banks	3.3%	0.7%
Sector	3.4%	0.7%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 2: China banks valuation table (H-share and A-share banks)**

Company	Ticker	Rating	Mkt cap (US\$ bn)	Price (Lcy)	Target price (Lcy)	Upside/ Downside	P/BV (x)		P/E (x)		P/POP (x)		Dividend		ROE(%)		
							FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	
ICBC	1398 HK	Add	217.5	3.84	5.90	54%	0.36	0.33	3.2	2.9	1.8	1.6	9.8	10.7	12.0	12.1	
CCB	0939 HK	Add	157.9	4.69	8.00	71%	0.36	0.33	3.1	2.8	1.7	1.5	9.9	10.8	12.3	12.3	
BOC	3988 HK	Add	123.5	2.68	4.20	57%	0.32	0.30	3.0	2.7	1.6	1.5	10.6	11.6	11.2	11.3	
ABC	1288 HK	Add	142.4	2.45	4.40	80%	0.32	0.30	2.9	2.7	1.5	1.3	10.9	11.8	11.5	11.6	
BOCOM	3328 HK	Hold	46.9	4.38	5.30	21%	0.32	0.30	3.1	2.8	1.6	1.5	10.5	11.5	10.9	11.1	
CMB	3968 HK	Add	126.2	41.15	84.10	104%	1.05	0.92	6.4	5.4	3.8	3.4	5.1	6.1	17.4	18.2	
CITIC	0998 HK	Add	27.6	3.35	4.80	43%	0.25	0.23	2.4	2.1	0.9	0.8	11.8	13.3	10.9	11.4	
MSB	1988 HK	Hold	21.3	2.43	2.60	7%	0.18	0.17	2.7	2.3	0.8	0.8	11.3	13.1	6.8	7.5	
CQRCB	3618 HK	Add	5.4	2.68	4.10	53%	0.23	0.22	2.3	2.0	1.1	1.0	13.0	14.8	10.6	11.1	
<b>H-share weighted average</b>								0.44	0.40	3.5	3.1	1.9	1.8	9.6	10.6	12.4	12.6
ICBC - A	601398 CH	Add	217.5	4.39	5.10	16%	0.49	0.45	4.3	3.9	2.4	2.2	7.2	7.9	12.0	12.1	
CCB - A	601939 CH	Add	157.9	5.57	7.10	27%	0.51	0.47	4.3	4.0	2.4	2.2	7.0	7.7	12.3	12.3	
BOC - A	601988 CH	Add	123.5	3.09	3.80	23%	0.44	0.40	4.1	3.7	2.3	2.1	7.7	8.5	11.2	11.3	
ABC - A	601288 CH	Add	142.4	2.87	3.90	36%	0.45	0.42	4.1	3.7	2.0	1.9	7.8	8.5	11.5	11.6	
BOCOM - A	601328 CH	Hold	46.9	4.65	4.80	3%	0.40	0.37	3.9	3.5	2.0	1.8	8.3	9.1	10.9	11.1	
CMB - A	600036 CH	Add	126.2	36.01	71.50	99%	1.10	0.96	6.7	5.6	3.9	3.5	4.9	5.9	17.4	18.2	
CITIC - A	601998 CH	Add	27.6	4.64	5.00	8%	0.41	0.38	3.9	3.5	1.5	1.4	7.2	8.1	10.9	11.4	
MSB - A	600016 CH	Reduce	21.3	3.62	2.50	-34%	0.31	0.29	4.7	4.1	1.5	1.4	6.4	7.4	6.8	7.5	
PAB - A	000001 CH	Add	34.6	13.00	22.70	75%	0.70	0.63	6.4	5.4	1.9	1.8	2.1	2.4	11.5	12.3	
CQRCB - A	601077 CH	Add	5.4	3.63	4.50	24%	0.38	0.35	3.7	3.3	1.7	1.6	8.1	9.2	10.6	11.1	
<b>A-share weighted average</b>								0.58	0.53	4.7	4.2	2.5	2.3	6.7	7.4	12.5	12.8
<b>Combined sector weighted average</b>								0.51	0.46	4.1	3.7	2.2	2.0	8.1	9.0	12.5	12.7

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

ICBC: INDUSTRIAL AND COMMERCIAL BANK OF CHINA; CCB: CHINA CONSTRUCTION BANK; BOC: BANK OF CHINA; ABC: AGRICULTURAL BANK OF CHINA; BOCOM: BANK OF COMMUNICATIONS; CMB: CHINA MERCHANTS BANK; CITIC: CHINA CITIC BANK; MSB: CHINA MINSHENG BANK; CQRCB: CHONGQING RURAL COMMERCIAL BANK

DATA AS OF 16 SEP 2022

**Figure 3: Net interest margins of China banks**

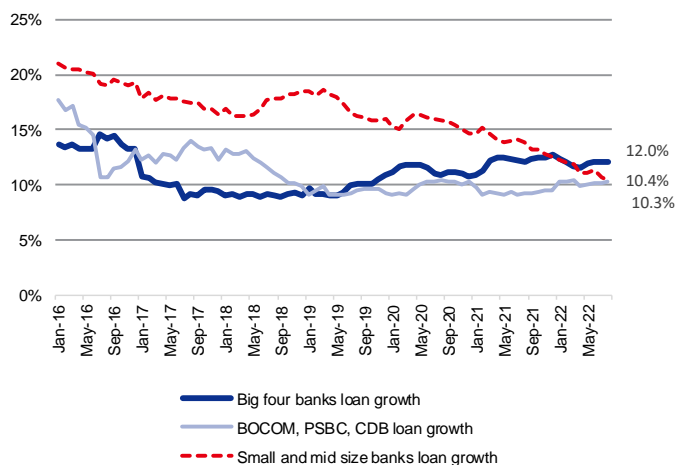
	2Q22	2Q22 qoq	2Q22 yoy	1H22	1H22 hoh	1H22 yoy
ICBC	1.98%	-0.12%	-0.14%	2.03%	-0.07%	-0.09%
CCB	2.05%	-0.10%	-0.10%	2.09%	-0.03%	-0.04%
BOC	1.78%	0.04%	0.04%	1.76%	0.01%	0.00%
ABC	1.92%	-0.17%	-0.18%	2.02%	-0.10%	-0.10%
BOCOM	1.50%	-0.06%	-0.06%	1.53%	-0.04%	-0.02%
CMB	2.37%	-0.14%	-0.09%	2.44%	-0.03%	-0.05%
CITIC	1.97%	-0.06%	-0.06%	1.99%	-0.01%	-0.10%
MSB	1.61%	-0.08%	-0.33%	1.65%	-0.15%	-0.37%
PAB	2.72%	-0.08%	-0.07%	2.76%	0.01%	-0.07%
CQRCB	1.99%	-0.08%	-0.21%	2.03%	-0.08%	-0.20%
Big four	1.94%	-0.09%	-0.10%	1.98%	-0.05%	-0.06%
Mid-size	1.95%	-0.08%	-0.12%	1.99%	-0.05%	-0.11%
Total	1.94%	-0.09%	-0.11%	1.99%	-0.05%	-0.07%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

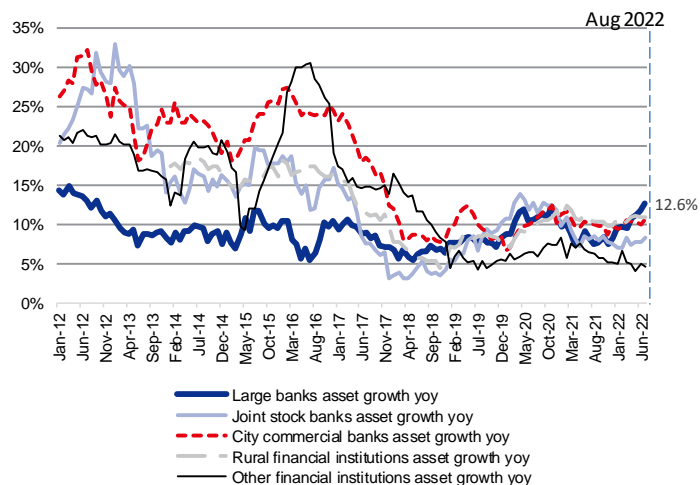
**Figure 4: 1H22 demand and time deposit mix of the China banks under our coverage**

	Time deposit mix	Demand deposit mix
ICBC	51.3%	46.4%
CCB	47.4%	49.5%
BOC	47.0%	47.8%
ABC	46.7%	48.9%
BOCOM	61.2%	37.6%
CMB	36.4%	63.6%
CITIC	52.2%	47.8%
MSB	64.2%	34.4%
PAB	62.1%	36.8%
CQRCB	70.3%	29.1%
Big four banks	53.2%	48.1%
Mid size banks	53.7%	45.6%
Sector	49.6%	47.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 5: Loan growth in China by type of bank**


SOURCES: CGS-CIMB RESEARCH, PBOC, WIND

**Figure 6: Large banks asset growth yoy has recently become the fastest growing segment of the banking industry**


SOURCES: CGS-CIMB RESEARCH, CHINA BANKING AND INSURANCE REGULATORY COMMISSION (CBIRC)

**Figure 7: Mix of consumer loans in total loans (%) (including mortgages)**

(%)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	1H22 (%)
ICBC	24	25	27	30	33	35	36	35	35	33
CCB	28	30	33	37	41	43	43	43	41	39
BOC	29	29	30	34	36	38	39	39	39	37
ABC	25	26	28	32	35	37	39	39	39	37
BOCOM	23	27	26	28	31	33	32	32	32	30
CMB	23	25	32	39	41	43	44	44	44	42
CITIC	19	21	23	30	33	37	37	36	36	35
MSB	13	15	17	24	26	27	26	28	29	27
PAB	27	25	26	28	41	47	47	47	49	48
CQRCB	27	25	23	21	22	24	26	29	35	29
Big four	26	27	30	33	36	38	39	39	38	36
Mid-size	21	23	26	31	34	37	37	37	37	36
Total	25	26	29	33	36	38	38	38	38	36

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 8: The percentage of loans comprising mortgages for China banks**

(%)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	1H22 (%)
ICBC	17.3	18.8	21.1	24.8	27.7	29.8	30.8	30.8	30.8	28.9
CCB	22.1	24.0	26.7	30.8	33.0	35.1	35.6	34.7	34.0	31.9
BOC	19.8	20.0	22.4	26.4	28.1	29.7	30.6	31.2	30.8	28.9
ABC	17.9	19.1	21.6	26.3	29.2	30.7	31.2	30.7	31.9	28.4
BOCOM	14.0	15.4	16.2	18.8	19.6	20.8	21.4	22.1	22.7	21.6
CMB	12.2	13.1	17.7	22.3	23.4	23.6	24.7	25.3	24.7	23.4
CITIC	11.4	10.6	10.6	15.1	15.8	17.8	19.4	20.5	20.0	19.6
MSB	3.9	3.8	5.6	12.0	12.5	11.0	12.0	13.4	14.7	14.1
PAB	7.7	5.4	3.8	5.8	9.0	9.1	8.6	9.0	9.1	8.8
CQRCB	22.5	19.0	16.4	14.5	14.8	15.8	16.7	18.0	17.3	16.1
Big four	19.2	20.5	22.9	27.1	29.5	31.4	32.1	31.9	31.9	29.5
Mid-size	10.9	11.1	12.4	16.3	17.3	17.8	18.6	19.4	19.5	18.8
Total	17.4	18.3	20.5	24.4	26.4	27.9	28.6	28.7	28.7	26.8

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 9: Mix of credit card loans in total loans (%)**

(%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	1H22
ICBC	2.3	2.8	3.1	3.3	3.5	3.5	3.8	4.1	4.0	3.7	3.3	2.9
CCB	1.6	2.4	3.2	3.5	3.8	3.8	4.4	4.8	5.0	5.0	4.8	4.5
BOC	1.5	2.3	2.9	3.2	2.9	3.0	3.4	3.6	3.7	3.5	3.2	3.0
ABC	1.8	2.3	2.7	2.8	2.5	2.5	3.0	3.2	3.6	3.6	3.7	3.5
BOCOM	2.9	4.0	5.0	6.5	7.3	7.5	9.0	10.4	8.8	7.9	7.5	6.8
CMB	4.5	5.6	7.1	8.7	11.1	12.5	13.8	14.6	14.9	14.8	15.1	14.4
CITIC	2.2	3.3	4.5	5.8	7.0	8.3	10.4	12.8	12.9	10.9	10.9	10.3
MSB	3.2	4.8	7.2	8.1	8.3	8.4	10.5	12.9	12.2	12.0	11.7	11.1
PAB	4.0	6.9	10.2	10.0	12.1	12.3	17.8	23.7	23.3	19.8	20.3	18.5
CQRCB	0.0	0.7	1.0	1.6	2.4	1.7	1.2	1.0	1.0	1.0	1.7	1.8
Big four	1.8	2.5	3.0	3.2	3.2	3.7	4.0	4.1	3.9	3.8	3.5	3.5
Mid-size	3.3	4.6	6.2	7.5	8.7	9.5	11.6	13.8	13.4	12.3	12.3	11.5
Total	2.2	3.0	3.7	4.2	4.5	4.7	5.6	6.4	6.4	6.0	5.9	5.4

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 10: Mortgage growth rate of the China banks under our coverage (%)**

(%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	1H22
ICBC	13	28	20	22	29	22	17	13	11	11	7
CCB	16	23	20	23	30	17	14	11	10	10	6
BOC	11	12	12	21	29	16	14	14	11	9	6
ABC	18	23	20	24	33	22	17	14	12	12	8
BOCOM	14	26	15	4	27	16	12	13	14	15	10
CMB	4	-20	23	52	46	14	11	19	15	8	4
CITIC	9	13	5	16	61	17	27	21	18	6	3
MSB	-14	-13	12	64	159	19	-4	25	23	16	7
PAB	-7	-8	-15	-17	85	79	19	6	24	17	9
CQRCB	14	32	-1	-4	-1	15	20	21	25	11	0
Big-four	14	21	18	22	30	19	15	13	11	11	7
Mid-size	6	4	13	21	51	18	13	17	17	11	7
Total	13	19	17	22	33	19	15	13	12	11	7

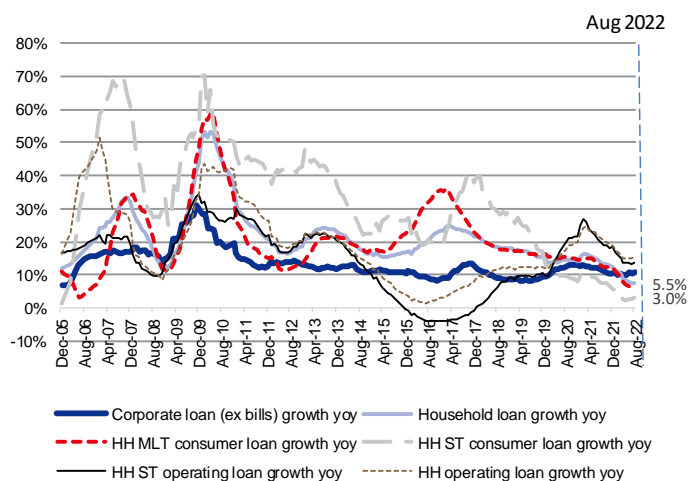
SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 11: Credit card loans growth rate of the China banks under our coverage (%)**

(%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
ICBC	38	25	19	15	8	18	17	8	1	2
CCB	79	50	22	18	13	27	15	14	11	9
BOC	65	38	21	0	12	24	14	12	5	2
ABC	49	30	15	0	9	31	20	25	14	16
BOCOM	61	38	36	21	13	30	27	-7	-1	6
CMB	45	46	42	42	31	20	17	17	11	13
CITIC	69	60	46	39	35	40	33	16	-6	9
MSB	72	71	30	16	21	42	34	13	4	2
PAB	101	75	19	44	23	68	56	14	-2	17
CQRCB	n.a.	72	85	64	-20	-17	-6	14	11	83
Big four	54	35	19	10	11	24	16	14	7	7
Mid-size	63	53	35	32	24	36	31	10	2	10
Total	57	41	26	19	17	30	24	12	4	8

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 12: China's loan growth yoy by type: Household consumption loan growth yoy is the lowest since Jun 2006**



SOURCES: CGS-CIMB RESEARCH, PBOC, WIND

HH = Household; MLT = medium-to-long-term; ST = short-term

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