

China

Neutral (no change)

Highlighted Companies

Bank of China

ADD, TP HK\$4.20, HK\$2.55 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 valuations (lowest FY22F P/BV ratio of the big four banks) and its high FY22F dividend yield (highest of big four banks).

China Merchants Bank

ADD, TP HK\$84.10, HK\$30.10 close

China Merchants Bank (CMB) is our top sector pick. We believe its ROE and better-than-peers 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, Rmb11.34 close

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

Summary Valuation Metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
Bank of China	3.08	2.80	2.52
China Merchants Bank	5.10	4.30	3.61
Ping An Bank	5.58	4.71	3.90
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
Bank of China	0.33	0.31	0.28
China Merchants Bank	0.84	0.73	0.64
Ping An Bank	0.61	0.55	0.49
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
Bank of China	10.25%	11.28%	12.53%
China Merchants Bank	6.47%	7.68%	9.15%
Ping An Bank	2.37%	2.81%	3.39%

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Banks

Easy to offer water; hard to make one drink

- While Sep system corporate loan growth accelerated yoy to a six-year high, we wonder whether corporates are actually spending the borrowed funds.
- Corporate time deposit growth is accelerating, especially among the big four banks (the main driver of loan growth) that tend to lend more to large SOEs.
- Requiring banks to lend to higher-risk sectors may accentuate this trend, as we think loans go to large safer firms that are less likely to need these funds.
- This could exacerbate net interest margin compression, with provisioning buffer drawdowns needed to ensure stable profitability. Retain Sector Neutral.

Strong Sep loans driven by corporate loan growth (a 6-year high)

Sep 2022's new Rmb loans were Rmb2.47tr (Bloomberg consensus Rmb1.8tr), with corporate loans the key driver. Sep Rmb loan growth yoy was 11.2% (Aug: 10.8%), with Sep corporate loans (including bills) growth at 13.4% (Aug: 12.8%) and the highest since Feb 2016's 13.5% yoy (Fig 9). Excluding bills, Sep corporate loan growth yoy was 11.7% (Aug: 10.7%). Household loan growth continued to be weak in Sep at 7.2% yoy (Aug: 7.4%), with Sep household short term loan growth yoy at 7.6% (Aug 7.9%) and Sep household long term loan growth yoy at 7% (Aug 7.3%) (Fig 7).

You can lead someone to water, but you cannot make them drink

A concern is that small banks have been increasingly filling up their loans with banks banks (Fig 5). Big four banks on the other hand, that lend more to large state-owned enterprises (SOE) than small banks and has been driving loan growth (Fig 10), are seeing much faster corporate time deposit growth (Fig 1). We had alluded to this twin phenomenon in [Plenty of money but where to invest?](#) dated 13 Sep 2022. We think this signals corporates are unwilling to invest the borrowed funds to grow their businesses and would rather place these funds in a time deposit, even if time deposit rates fall (see [Deposit rate cuts: History shows little benefit](#), dated 16 Sep 2022).

Property credit quotas = higher corporate time deposit growth?

Bloomberg reported on 30 Sep 2022 that China's financial regulators told China's big six banks to each extend at least Rmb100bn (total of Rmb600bn), in the form of mortgages, loans to property developers and corporate bonds in the final four months of 2022. We estimate this Rmb600bn equates to 1.1% of total system financing to these property segments in Sep 2022 (Fig 27). We believe it is likely this credit is extended to large property developers and think corporate time deposit growth could continue accelerating.

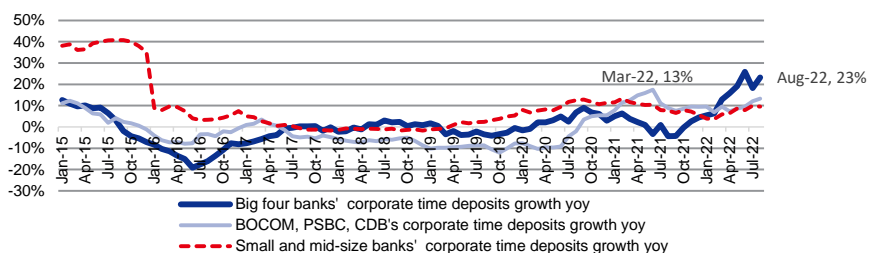
Underlying credit demand improving qoq, except for property

Interestingly, PBOC survey data indicates there was an improvement in 3Q22 underlying corporate credit demand qoq, except to the property developer sector (Fig 29).

Retain sector Neutral rating; top picks: CMB, PAB & BOC

We value the banks using a stress-test-adjusted GGM (Fig 34). Upside/downside risks: better-/worse-than-expected economy and an increase/decrease in policy risks.

Figure 1: Corporate time deposit growth is accelerating, especially for the big banks, which are more likely to lend to state-owned enterprises, in our view



SOURCES: CGS-CIMB RESEARCH, WIND, PBOC

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

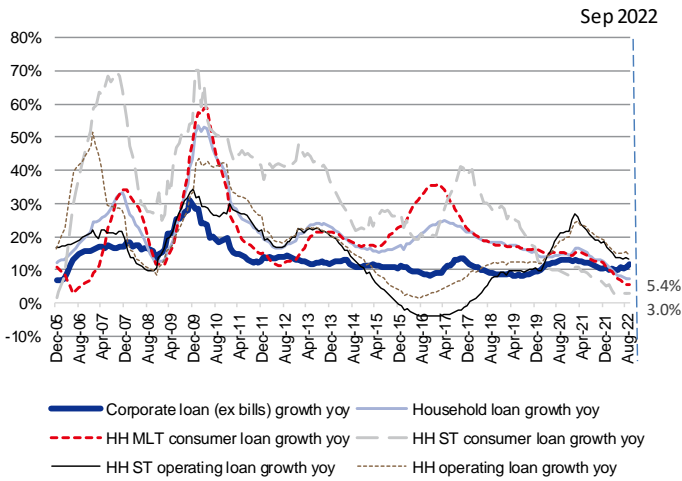
Company	Ticker	Rating	Mkt cap (US\$ bn)	Price (Lcy)	Target price (Lcy)	Upside/ Downside	P/BV (x)		P/E (x)		P/POP (x)		Dividend yield		ROE(%)		
							FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	
ICBC	1398 HK	Add	204.6	3.61	5.90	63%	0.34	0.31	3.0	2.7	1.7	1.5	10.4	11.3	12.0	12.1	
CCB	0939 HK	Add	144.6	4.41	8.00	81%	0.34	0.31	2.9	2.6	1.6	1.4	10.6	11.5	12.3	12.3	
BOC	3988 HK	Add	117.3	2.55	4.20	65%	0.31	0.28	2.8	2.6	1.6	1.4	11.1	12.2	11.2	11.3	
ABC	1288 HK	Add	136.9	2.31	4.40	90%	0.31	0.28	2.8	2.5	1.4	1.3	11.5	12.6	11.5	11.6	
BOCOM	3328 HK	Hold	43.4	4.05	5.30	31%	0.30	0.27	2.8	2.6	1.4	1.3	11.3	12.4	10.9	11.1	
CMB	3968 HK	Add	109.7	30.10	84.10	179%	0.77	0.68	4.7	4.0	2.8	2.5	7.0	8.3	17.4	18.2	
CITIC	0998 HK	Add	27.6	3.10	4.80	55%	0.23	0.21	2.2	1.9	0.8	0.8	12.7	14.4	10.9	11.4	
MSB	1988 HK	Hold	19.3	2.27	2.50	10%	0.16	0.16	2.5	2.1	0.8	0.7	12.1	14.0	6.8	7.5	
CQRCB	3618 HK	Add	5.3	2.55	4.10	61%	0.22	0.21	2.2	1.9	1.0	0.9	13.7	15.6	10.6	11.1	
H-share weighted average								0.38	0.34	3.1	2.8	1.7	1.5	10.5	11.6	12.4	12.6
ICBC - A	601398 CH	Add	204.6	4.35	5.10	17%	0.49	0.45	4.2	3.9	2.4	2.2	7.3	7.9	12.0	12.1	
CCB - A	601939 CH	Add	144.6	5.55	7.10	28%	0.51	0.47	4.3	4.0	2.4	2.2	7.1	7.7	12.3	12.3	
BOC - A	601988 CH	Add	117.3	3.05	3.80	25%	0.43	0.40	4.0	3.7	2.2	2.1	7.8	8.6	11.2	11.3	
ABC - A	601288 CH	Add	136.9	2.86	3.90	36%	0.45	0.41	4.1	3.7	2.0	1.9	7.8	8.5	11.5	11.6	
BOCOM - A	601328 CH	Hold	43.4	4.61	4.80	4%	0.40	0.37	3.8	3.5	2.0	1.8	8.4	9.2	10.9	11.1	
CMB - A	600036 CH	Add	109.7	29.89	71.50	139%	0.91	0.80	5.5	4.7	3.3	2.9	6.0	7.1	17.4	18.2	
CITIC - A	601998 CH	Add	27.6	4.63	4.90	6%	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	19.3	3.40	2.50	-29%	0.29	0.28	4.4	3.8	1.4	1.3	6.8	7.9	6.8	7.5	
PAB - A	000001 CH	Add	31.0	11.34	22.70	100%	0.61	0.55	5.6	4.7	1.7	1.5	2.4	2.8	11.5	12.3	
CQRCB - A	601077 CH	Add	5.3	3.62	4.50	24%	0.38	0.35	3.7	3.2	1.7	1.6	8.1	9.3	10.6	11.1	
A-share weighted average								0.54	0.49	4.5	4.0	2.3	2.1	6.9	7.7	12.5	12.8
Combined sector weighted average								0.46	0.42	3.8	3.4	2.0	1.8	8.7	9.6	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 13 OCT 2022

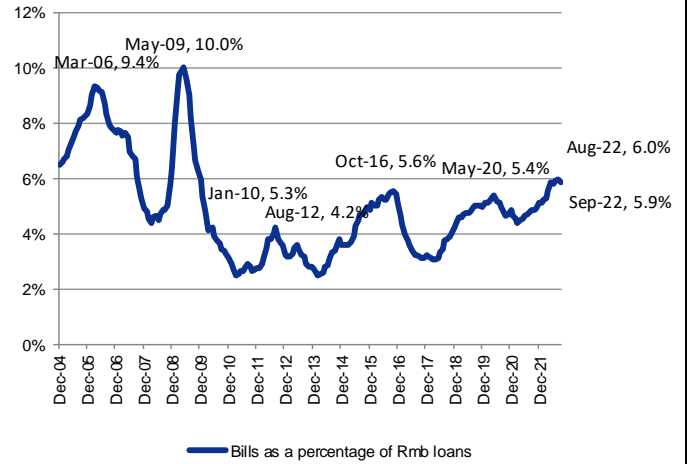
Easy to offer water; hard to make one drink

Figure 3: China's loan growth yoy by type



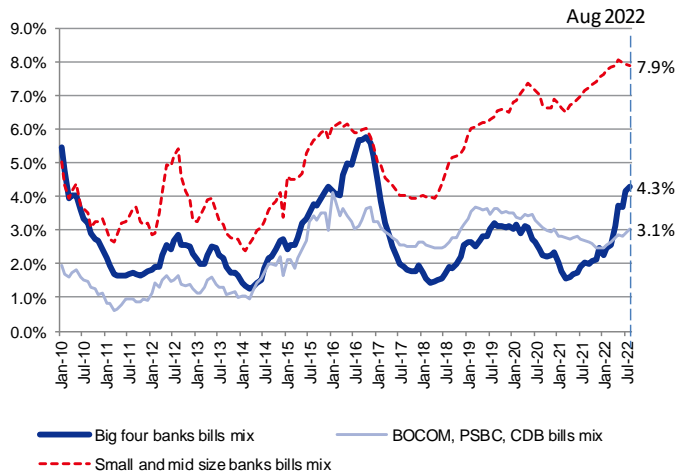
SOURCES: CGS-CIMB RESEARCH, PEOPLE'S BANK OF CHINA (PBOC), WIND
HH = Household; MLT = medium-to-long-term; ST = short-term

Figure 4: Bills as a percentage of Rmb loans across time



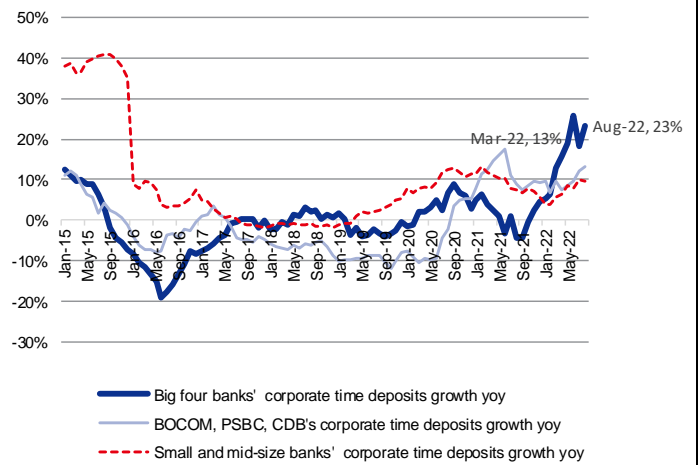
SOURCES: CGS-CIMB RESEARCH, PBOC

Figure 5: Bill mix as a percentage of total loans, by bank size



SOURCES: CGS-CIMB RESEARCH, PBOC, WIND

Figure 6: Corporate time deposit growth by type of bank



SOURCES: CGS-CIMB RESEARCH, PBOC, WIND

Figure 7: Key monthly loan growth yoy data for mainland China

	Total domestic Rmb loans	Corporate loan (ex bills)	Household loans	Household short-term loans	Household medium-to-long term loans	Bills
Aug-21	12.1%	11.6%	13.7%	12.0%	14.4%	8.6%
Sep-21	11.9%	11.1%	13.2%	11.7%	13.8%	13.9%
Oct-21	11.9%	10.9%	13.1%	11.7%	13.7%	16.9%
Nov-21	11.7%	10.5%	12.9%	11.0%	13.7%	17.8%
Dec-21	11.5%	10.5%	12.5%	10.4%	13.4%	17.9%
Jan-22	11.5%	10.7%	11.6%	10.2%	12.1%	22.1%
Feb-22	11.3%	10.1%	10.8%	10.3%	11.0%	28.7%
Mar-22	11.4%	10.3%	10.1%	9.1%	10.4%	35.3%
Apr-22	10.8%	9.9%	8.9%	7.7%	9.2%	37.1%
May-22	10.9%	10.0%	8.3%	7.6%	8.5%	43.1%
Jun-22	11.2%	10.8%	8.1%	7.9%	8.2%	39.4%
Jul-22	10.9%	10.5%	7.7%	7.7%	7.7%	40.2%
Aug-22	10.8%	10.7%	7.4%	7.9%	7.3%	37.6%
Sep-22	11.2%	11.7%	7.2%	7.6%	7.0%	34.7%

SOURCES: CGS-CIMB RESEARCH, WIND, PBOC

Figure 8: Recent periods of acceleration in corporate loan growth coinciding with an acceleration in corporate time deposit growth

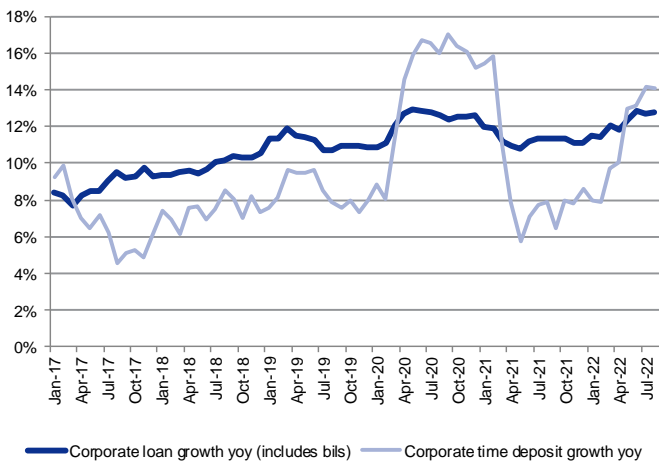


Figure 9: Corporate loan growth in Sep 2022 is the highest in more than six years

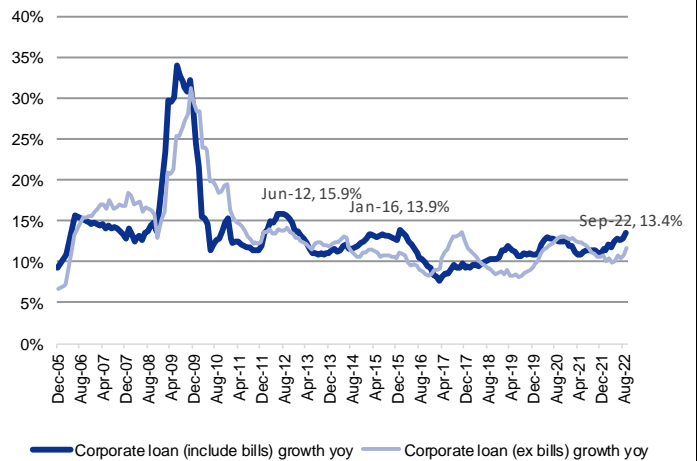


Figure 10: Loan growth in China by type of bank

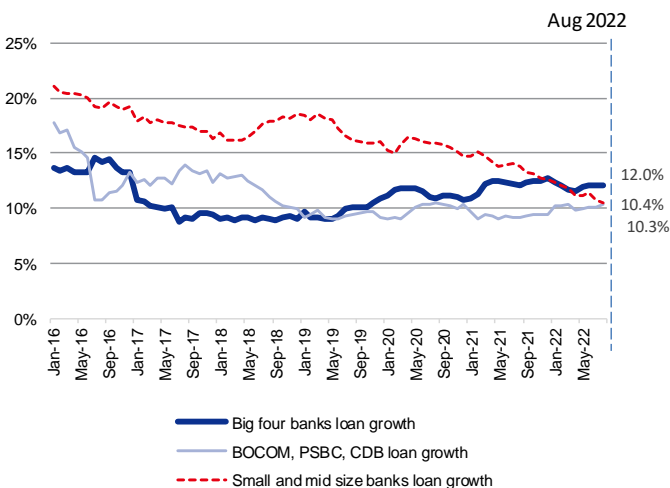


Figure 11: Growth of outstanding balances of total TSF, RMB loans and shadow-banking-related TSF

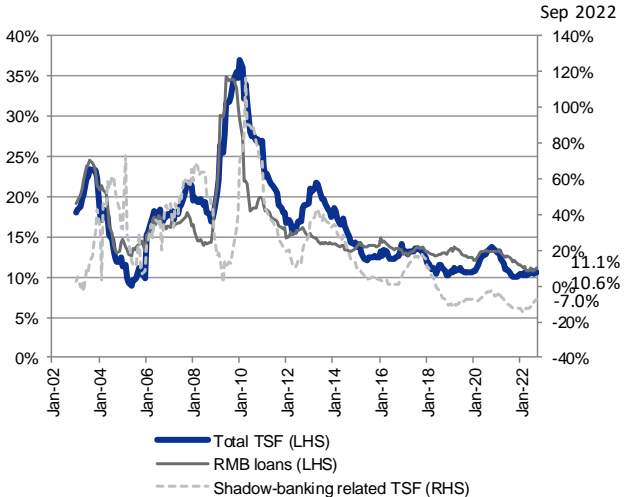
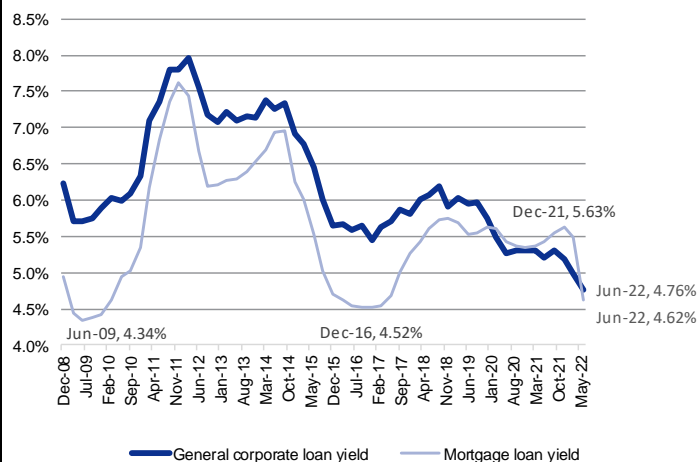
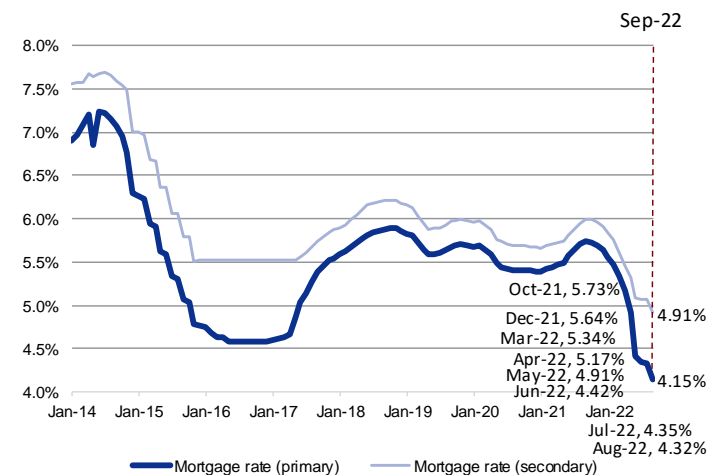


Figure 12: Loan yields in China for mortgages and general corporate loans



SOURCES: CGS-CIMB RESEARCH, PEOPLE'S BANK OF CHINA (PBOC)

Figure 13: Mortgage rates for primary mortgages and secondary mortgages



SOURCES: CGS-CIMB RESEARCH, RONG260, BEIKE RESEARCH INSTITUTE, BLOOMBERG

Figure 14: Property developer mix of total loans

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	1H22
ICBC	4.8%	4.7%	4.9%	5.2%	5.5%	5.4%	5.1%	4.5%	4.2%
CCB	6.1%	5.0%	3.8%	4.0%	4.6%	4.4%	4.7%	4.5%	3.8%
ABC	7.3%	6.2%	5.3%	5.3%	5.2%	5.3%	5.3%	5.1%	4.5%
BOC	8.4%	8.3%	7.5%	8.4%	7.8%	8.0%	8.0%	7.7%	7.7%
BOCOM	6.0%	6.1%	5.0%	4.2%	4.5%	5.0%	6.0%	6.4%	7.0%
CMB	7.2%	7.5%	7.0%	7.3%	8.0%	8.2%	8.3%	7.8%	7.4%
CITIC	8.2%	10.1%	10.2%	10.4%	8.9%	7.2%	7.1%	6.5%	6.5%
MSB	13.1%	11.9%	9.2%	9.1%	12.7%	13.7%	11.4%	8.9%	8.5%
PAB	9.6%	10.9%	9.9%	9.0%	8.8%	9.8%	10.2%	9.4%	9.9%
CQRCB	5.7%	6.6%	4.7%	3.2%	2.2%	1.8%	1.2%	0.8%	0.7%
Big four banks average	6.5%	5.9%	5.3%	5.6%	5.7%	5.7%	5.7%	5.4%	4.9%
Mid-size banks average	8.3%	8.6%	7.6%	7.4%	8.1%	8.1%	7.9%	7.3%	7.3%
Sector average	6.9%	6.5%	5.8%	6.0%	6.2%	6.2%	6.2%	5.8%	5.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 15: Growth yoy of property developer loans

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	1H22
ICBC	6.2%	14.1%	15.2%	14.9%	6.8%	5.5%	-2.7%	-5.4%
CCB	-9.1%	-14.2%	16.4%	20.7%	4.6%	19.7%	6.2%	-10.5%
ABC	-6.7%	-6.9%	12.3%	8.0%	13.9%	13.2%	9.8%	-6.8%
BOC	6.4%	-1.2%	9.3%	11.6%	13.9%	9.1%	6.6%	7.0%
BOCOM	9.4%	-10.1%	-8.5%	15.9%	22.1%	31.6%	20.6%	29.2%
CMB	18.4%	6.8%	14.7%	21.3%	16.4%	6.1%	2.8%	-1.8%
CITIC	41.9%	15.1%	13.5%	-6.0%	-7.7%	-0.5%	-1.0%	-1.7%
MSB	3.0%	-7.0%	12.9%	51.5%	22.8%	-7.8%	-17.9%	-13.8%
PAB	34.3%	10.5%	4.2%	15.1%	29.9%	18.9%	6.2%	2.2%
CQRCB	27.4%	-20.1%	-24.2%	-22.9%	-2.8%	-29.3%	-17.4%	-17.2%
Big four banks	-0.5%	-1.8%	12.9%	13.5%	9.9%	11.1%	4.8%	-3.0%
Mid-size banks	18.7%	2.5%	8.3%	18.5%	15.4%	6.8%	1.0%	2.7%
Total	4.8%	-0.5%	11.3%	14.9%	11.6%	9.6%	3.6%	-1.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 16: NPL ratios of loans to selected industries (FY21 vs. 1H22)

	FY21				1H22			
	Wholesale and retail	Property dev.	Manufac.	Personal business loans	Wholesale and retail	Property dev.	Manufac.	Personal business
ICBC	8.3%	4.8%	3.7%	1.0%	5.4%	5.5%	3.4%	0.9%
CCB	2.0%	1.9%	4.2%	0.7%	1.8%	3.0%	3.5%	0.6%
BOC	3.7%	3.4%	4.4%	0.6%	2.7%	4.0%	3.4%	0.6%
ABC	1.9%	5.1%	3.6%	n.a	1.8%	5.7%	2.7%	n.a
BOCOM	4.8%	1.4%	3.9%	0.7%	4.8%	1.4%	3.5%	0.7%
CMB	2.5%	1.4%	2.1%	0.6%	1.8%	2.8%	1.6%	0.6%
CITIC	4.0%	3.6%	3.1%	n.a	3.2%	2.9%	2.4%	n.a
MSB	2.6%	2.7%	1.9%	2.1%	2.6%	3.0%	2.6%	1.8%
PAB	9.9%	0.0%	1.4%	0.7%	4.8%	0.0%	1.6%	1.5%
CQRCB	0.6%	0.2%	0.8%	n.a	0.4%	0.8%	0.6%	n.a
Big four banks average	4.2%	3.8%	4.0%	0.6%	3.0%	4.5%	3.3%	0.6%
Mid-size banks average	2.6%	2.1%	2.1%	1.3%	2.1%	2.5%	1.9%	1.1%
Sector average	3.9%	3.4%	3.6%	0.6%	2.9%	4.1%	3.0%	0.6%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

*Sector average data refers to the weighted average data of banks under our coverage; Property dev. = Property developers; Manufac. = Manufacturers

Figure 17: NPL ratio (property developer)

%	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	1H22
ICBC	0.8	1.5	2.2	2.7	1.7	1.7	2.3	4.8	5.5
CCB	1.1	1.2	2.5	2.2	1.7	0.9	1.3	1.9	3.0
ABC	1.0	1.8	2.5	1.1	1.4	1.5	1.8	3.4	4.0
BOC	0.5	0.9	0.9	1.4	0.9	0.5	4.7	5.1	5.7
BOCOM	n.a.	n.a.	n.a.	n.a.	0.5	0.3	1.4	1.3	1.9
CMB	0.3	0.6	1.0	1.3	1.0	0.4	0.3	1.4	2.8
CITIC	0.1	0.1	0.1	0.3	0.4	1.2	3.4	3.6	2.9
MSB	0.2	0.1	0.3	0.2	0.3	0.3	0.7	2.7	3.0
CQRCB	0.0	0.1	0.1	-	0.7	8.6	-	-	-
PAB	-	-	0.1	0.8	1.6	1.2	0.2	0.2	0.8
Big four banks	0.8	1.3	1.9	1.8	1.4	1.1	2.7	3.9	4.7
Mid size banks	0.1	0.1	0.2	0.3	0.5	0.5	1.4	1.9	2.4
All banks under our coverage	0.6	1.0	1.4	1.4	1.2	1.0	2.2	3.2	3.9

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 18: The percentage of loans comprising mortgages for the 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 19: 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 REPORT

Figure 20: Mortgage NPL ratios of the China banks

(%)	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21	1H22
ICBC	n.a.	n.a.	n.a.	n.a.	n.a.	0.23	0.29	0.28	0.24	0.24	0.31
CCB	0.28	0.24	0.25	0.24	0.27	0.24	0.25	0.19	0.20	0.20	0.25
BOC	0.36	0.35	0.33	0.32	0.31	0.29	0.34	0.32	0.31	0.27	0.36
ABC	0.36	0.36	0.29	0.31	0.26	0.30	0.32	0.38	0.32	0.36	0.36
BOCOM	n.a.	n.a.	n.a.	0.00	n.a.	0.36	0.40	0.37	0.34	0.34	0.37
CMB	0.34	0.33	0.27	0.28	0.25	0.25	0.25	0.29	0.25	0.28	0.27
CITIC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MSB	n.a.	n.a.	n.a.	n.a.	n.a.	0.21	n.a.	0.22	0.22	0.26	0.33
PAB	0.09	0.08	0.09	0.09	0.15	0.30	0.42	0.31	0.31	0.34	0.30
CQRCB	0.73	0.61	0.51	0.43	0.40	0.33	0.32	0.31	0.28	0.46	0.70
Big four banks	0.33	0.31	0.29	0.28	0.28	0.26	0.30	0.29	0.26	0.26	0.32
Mid-size banks	0.31	0.29	0.24	0.31	0.23	0.31	0.28	0.33	0.30	0.31	0.26
Sector weighted average	0.33	0.31	0.28	0.29	0.28	0.27	0.30	0.29	0.27	0.27	0.31

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 21: 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	3.2	3.7	4.0	4.1	3.9	3.8	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 22: Credit card loans growth rate of the China banks under our coverage (%)

(%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	1H22
ICBC	38	25	19	15	8	18	17	8	1	2	-6
CCB	79	50	22	18	13	27	15	14	11	9	9
BOC	65	38	21	0	12	24	14	12	5	2	1
ABC	49	30	15	0	9	31	20	25	14	16	6
BOCOM	61	38	36	21	13	30	27	-7	-1	6	4
CMB	45	46	42	42	31	20	17	17	11	13	7
CITIC	69	60	46	39	35	40	33	16	-6	9	2
MSB	72	71	30	16	21	42	34	13	4	2	2
PAB	101	75	19	44	23	68	56	14	-2	17	8
CQRCB	n.a.	72	85	64	-20	-17	-6	14	11	83	65
Big four	54	35	19	10	11	24	16	14	7	7	3
Mid-size	63	53	35	32	24	36	31	10	2	10	5
Total	57	41	26	19	17	30	24	12	4	8	4

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORT

Figure 23: Credit card NPL ratio of the listed banks under our coverage

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	1H22
ICBC	n.a.	n.a.	n.a.	n.a.	n.a.	2.21%	1.89%	1.90%	2.24%
CCB	0.83%	1.06%	0.97%	0.89%	0.97%	1.03%	1.40%	1.33%	1.44%
BOC	2.06%	3.37%	3.45%	2.54%	2.34%	2.22%	2.50%	2.05%	1.92%
ABC	1.73%	2.73%	2.88%	1.99%	1.66%	1.57%	1.55%	0.99%	1.24%
BOCOM	1.68%	1.82%	1.95%	1.84%	1.52%	2.38%	2.27%	2.20%	2.66%
CMB	0.94%	1.37%	1.40%	1.11%	1.11%	1.35%	1.66%	1.65%	1.67%
CITIC	n.a.	n.a.	1.48%	1.24%	1.85%	1.74%	2.38%	1.83%	1.92%
MSB	n.a.	n.a.	n.a.	n.a.	2.15%	2.48%	3.28%	2.95%	2.95%
PAB	2.77%	2.50%	1.43%	1.18%	1.32%	1.66%	2.16%	2.11%	2.15%
CQRCB	n.a.	n.a.	3.63%	2.75%	n.a.	n.a.	2.16%	2.07%	1.98%
Big four banks	1.45%	2.13%	2.15%	1.63%	1.53%	1.70%	1.77%	1.52%	1.67%
Mid-size banks	1.29%	1.42%	1.57%	1.34%	1.43%	1.86%	2.28%	2.08%	2.18%
Total	1.38%	1.77%	1.85%	1.48%	1.47%	1.78%	2.03%	1.81%	1.94%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 24: Property developer loans of China's big six banks

Rmb bn	FY21	1H22	1H22 growth hoh
ICBC	932	942	1%
CCB	838	763	-9%
ABC	876	843	-4%
BOC	687	735	7%
BOCOM	420	494	18%
PSBC	139	178	28%
Total	3,892	3,954	2%
System property developer loans	12,010	12,490	4%
Big six banks as a ratio of system property developer loans	32%	32%	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Note that the figure for BOC is for the mainland China business only

Figure 25: Mortgages of China's big six banks

Rmb bn	FY21	1H22	1H22 growth hoh
ICBC	6,033	6,449	7%
CCB	6,106	6,479	6%
ABC	4,932	5,344	8%
BOC	4,316	4,352	1%
BOCOM	1,387	1,528	10%
PSBC	2,169	2,229	3%
Total	24,945	26,382	6%
System mortgages	38,300	38,900	2%
Big six banks as a ratio of system mortgages	65%	68%	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Note that the figure for BOC is for the mainland China business only

Figure 26: Property developer loans and mortgages of China's big six banks in mainland China

Rmb bn	FY21	1H22	1H22 growth hoh	Rmb100bn as a percentage of combined 1H22 mortgage & property developer loans
ICBC	6,966	7,391	6%	1.4%
CCB	6,944	7,242	4%	1.4%
ABC	5,809	6,187	7%	1.6%
BOC	5,004	5,086	2%	2.0%
BOCOM	1,807	2,022	12%	4.9%
PSBC	2,308	2,407	4%	4.2%
Total	28,837	30,336	5%	0.3%
System mortgages and property developer loans	50,310	51,390	2%	
Big six banks as a ratio of system mortgages & property developer loans	57%	59%		

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

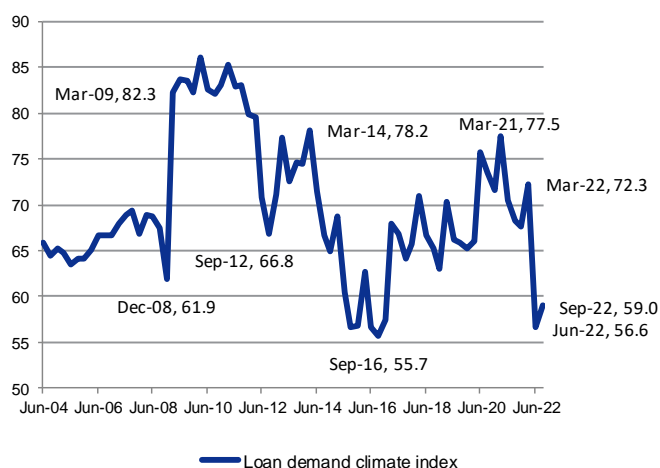
Note that the figure for BOC is for the mainland China business only

Figure 27: Impact that a Rmb600bn credit quota requirement has on system credit for property developers and mortgages

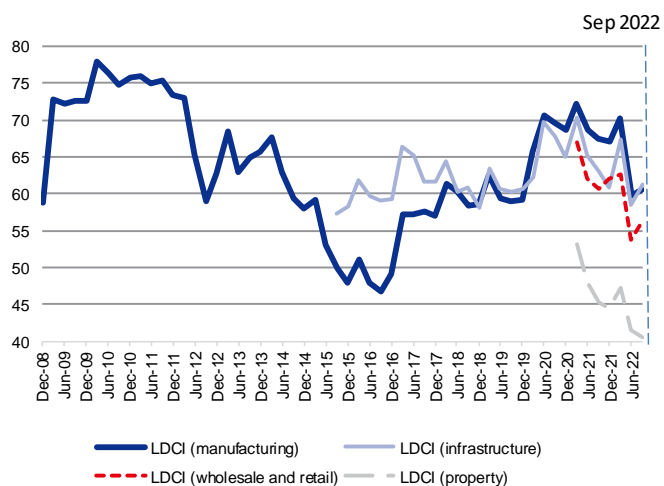
(Rmb bn)	3Q22
Property developer loans (system)*	12,490
Mortgages (system)*	39,265
Property developer bonds (onshore) (system)	1,790
Total (system)	53,545
Ratio that Rmb600bn is of 3Q22 system credit to property developers & mortgages	1.1%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, WIND

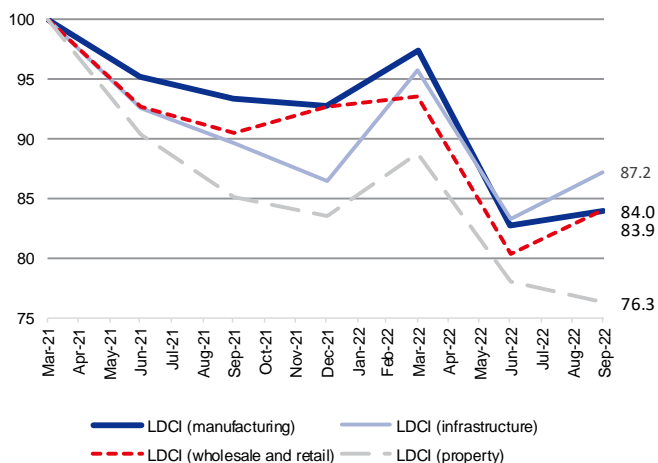
* we have estimated 3Q22 system data for property developer loans and mortgages as 3Q22 data has not yet been disclosed

Figure 28: Underlying loan demand had fallen significantly in 2Q22, with a slight bounce qoq in 3Q22


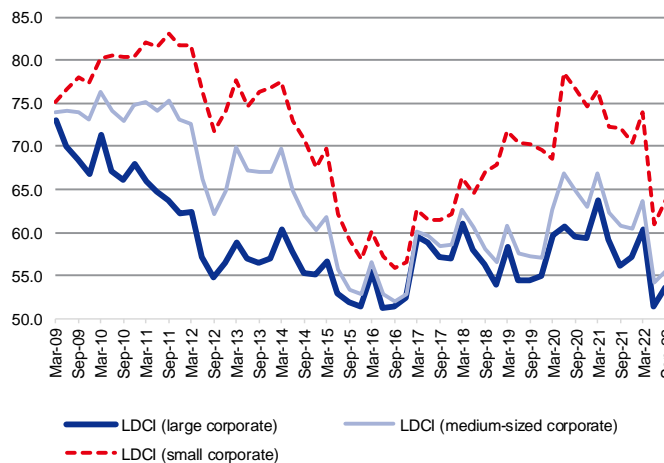
SOURCES: CGS-CIMB RESEARCH, WIND, PBOC

Figure 29: Loan demand climate index (LDCI) by industry across time


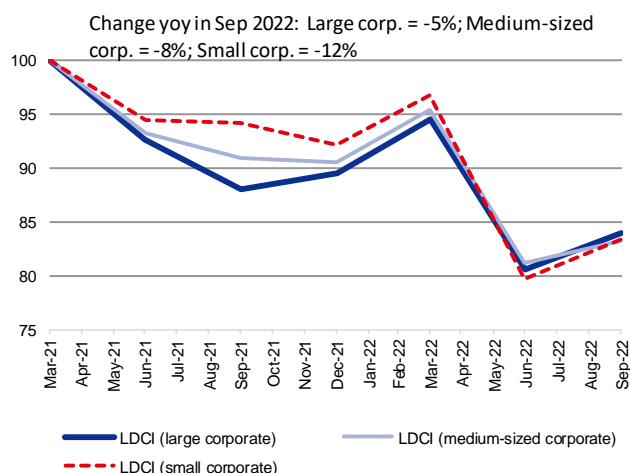
SOURCES: CGS-CIMB RESEARCH, PBOC, WIND

Figure 30: Trends in PBOC's loan demand climate index (LDCI) by industry since Mar 2021 (rebased to a base of 100 as of Mar 2021)


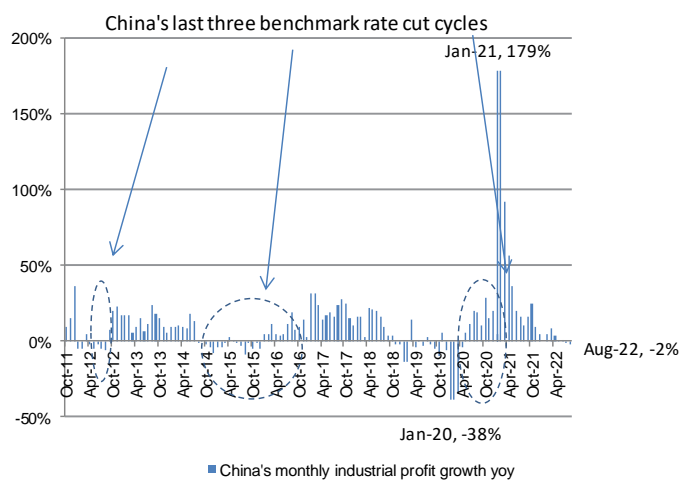
SOURCES: CGS-CIMB RESEARCH, PBOC, WIND

Figure 31: Loan demand climate indices are at or near a post-2008 record low


SOURCES: CGS-CIMB RESEARCH, PBOC, WIND

Figure 32: Trends in PBOC's loan demand climate index (LDCI) by firm size since Mar 2021 (rebased to a base of 100 as of Mar 2021)


SOURCES: CGS-CIMB RESEARCH, PBOC, WIND

Figure 33: China's monthly industrial profit growth yoy


SOURCES: CGS-CIMB RESEARCH, PBOC, WIND

Valuation and risks

We value the H-share China banks using a stress-test-adjusted GGM. For A-share banks, we value them using a weighted average valuation approach, which takes into account a fundamentally derived, stress-test-adjusted GGM (50%) and their historical average A-H share valuation gap since Jan 11 (50%). We list our key valuation assumptions in Fig 34.

Figure 34: Summary of valuation methodology and risks


Company	Ticker	TP (HK\$)	Rating	Valuation methodology	Risks
ICBC	1398 HK	5.90	Add	Stress-test-adjusted GGM, assuming COE of 10.0% and a 'g' of 3%, which implies a target P/BV of 0.56x and a sustainable ROE of 6.9%	Lower-than-expected change in NIM, worse-than-expected asset quality
CCB	939 HK	8.00	Add	Stress-test-adjusted GGM, assuming COE of 10.0% and a 'g' of 3%, which implies a target P/BV of 0.62x and a sustainable ROE of 7.3%	Lower-than-expected change in NIM, worse-than-expected asset quality
BOC	3988 HK	4.20	Add	Stress-test-adjusted GGM, assuming COE of 10.4% and a 'g' of 3%, which implies a target P/BV of 0.50x and a sustainable ROE of 6.7%	Slower-than-expected US rate rises; Risks with One Belt One Road
ABC	1288 HK	4.40	Add	Stress-test-adjusted GGM, assuming COE of 11.4% and a 'g' of 3%, which implies a target P/BV of 0.58x and a sustainable ROE of 7.8%	Worse-than-expected asset quality, especially in the county areas; Downward NIM pressure
BOCOM	3328 HK	5.30	Add	Stress-test-adjusted GGM, assuming COE of 11.3% and a 'g' of 3%, which implies a target P/BV of 0.39x and a sustainable ROE of 6.2%	Better/ worse-than-expected progress with SOE reform, better/ worse-than-expected asset quality
CMB	3968 HK	84.10	Add	Stress-test-adjusted GGM, assuming COE of 9.4% and a 'g' of 3%, which implies a target P/BV of 2.15x and a sustainable ROE of 16.8%	Worse-than-expected change in NIM, Worse-than-expected asset quality
CITIC	998 HK	4.80	Add	Stress-test-adjusted GGM, assuming COE of 15.0% and a 'g' of 3%, which implies a target P/BV of 0.40x and a sustainable ROE of 7.8%	Better/worse-than-expected change in NIM, better/worse-than-expected asset quality
MSB	1988 HK	2.60	Hold	Stress-test-adjusted GGM, assuming COE of 14.5% and a 'g' of 3%, which implies a target P/BV of 0.20x and a sustainable ROE of 5.3%	Worse-than-expected asset quality; Unexpected change in strategy under new management and major shareholder
CQRCB	3618 HK	4.10	Add	Stress-test-adjusted GGM, assuming COE of 14.6% and a 'g' of 3%, which implies a target P/BV of 0.40x and a sustainable ROE of 7.6%	Lower-than-expected change in NIM, Worse-than-expected slowdown of Chongqing's economic growth leading to worse asset quality
PAB	000001 CH Rmb22.70		Add	Stress-test-adjusted GGM, assuming COE of 9.8% and a 'g' of 3%, which implies a target P/BV of 1.23x and a sustainable ROE of 11.4%	Worse-than-expected change in NIM, Worse-than-expected asset quality

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Sector downside risks include a worse-than-expected economic slowdown in China. This could result in higher-than-expected asset quality pressure, as well as greater-than-expected loan prime rate (LPR) cuts, which could also depress net interest margins. We discussed the impact of a slower China economy in detail in [Levers at work](#), dated 19 Mar 2020, where we argued that provisioning coverage ratios and non-performing loan (NPL) recognition ratios represented potential levers that can cushion a slowdown in net profit growth.

Another downside risk is that the larger banks may face greater-than-expected policy risks with respect to lending in the event of a significant economic slowdown. Such policy-directed lending could result in asset quality problems for these banks further down the road, in our view.

A sector upside risk is a substantial improvement in the Covid-19 situation, which could then lead to improved consumer confidence, a stronger economy and, consequently, reduced asset quality pressures.

<p>ESG in a nutshell</p>	
<p>We view China banks as having medium ESG risk. The Refinitiv combined ESG scores in 2020 of the China banks under our coverage ranged from B to C. We see relative strength in Social scores being offset by weaker Governance scores (which we think is in part due to the government being the majority shareholder of most of the China banks under our coverage) and somewhat neutral Environmental scores. We view the China banks as good corporate citizens with a strong sense of social responsibility, and an important provider of inclusive finance. Given President Xi's announcement in Apr 2021 that China's coal consumption will decline starting no later than 2026 and given China's pledge to hit peak emissions by 2030 and achieve carbon neutrality by 2060, the China banks have been actively developing and rolling out green finance solutions. These can be positive on the ESG scores of China banks going forward. Having said that, the road to more environmentally friendly lending could be rocky, given that policymakers do at times direct banks to lend more to certain sectors. For example, the China banks were told by policymakers in early-Oct 2021 to ramp up funding to coal and energy companies to ease China's power shortages.</p>	
<p>Keep your eye on</p> <p>The pace at which green finance solutions are rolled out by the China banks, as well as the extent to which China banks ramped up lending to coal and energy companies in late-2021 to help ease China's power shortages. Note that the central bank, the People's Bank of China (PBOC), said in early-Jun 2021 that it would implement mandatory disclosure requirements on climate-related impact for the banks and had issued a 'Banking Sector Financial Institution Green Finance Assessment Plan (银行业金融机构绿色金融评价方案), with both qualitative and quantitative metrics used to assess the China banks' green finance initiatives.</p>	<p>Implications</p> <p>More lending to coal and energy companies in the near term could be negative for ESG scores via an arguably worse Environmental score. However, this could be temporary, and we do expect loan growth to these companies to slow once China's power shortages ease.</p>
<p>ESG highlights</p> <p>Our top ESG pick for the China banks is CCB. Refinitiv assigned a combined ESG score of B to CCB in 2020, which is the highest combined ESG in 2020 of the China banks under our coverage.</p>	<p>Implications</p> <p>We do think that investors have historically focused very heavily on concerns over governance of the China banks (given their largely state-owned nature), which could see conflicts with the interests of minority shareholders. We also think that investors may not have adequately factored in these banks' shift to offer more green finance solutions to help China achieve its 2030 and 2060 carbon goals. This should lead to improved ESG scores across time and better valuations.</p>
<p>Trends</p> <p>One of the key ESG focus areas for banks is to increase green financing, especially since policymakers have been more vocal in 2021 about their environmental goals and the explicit timelines (2030 and 2060) that have been announced.</p>	<p>Implications</p> <p>The banks have been increasing their disclosures on how they are complying with national objectives to increase green financing.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

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