

# China Banks

# OVERWEIGHT (Unchanged)

## Jul 2014: Sharp fall in RMB deposits

- Increased investment in WMPs, money market funds and A-shares has led to a deposit plunge. Keep OVERWEIGHT
- Continued shift towards less risky loans
- Decline in trust loans & bankers' acceptance

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### What's New

**Temporary plunge in RMB deposits.** Total RMB deposits declined by CNY1.98t MoM in Jul 2014 (+CNY3.8t MoM in Jun 2014). According to the PBOC, bank customers have shifted from deposits to investment in wealth management products (WMPs) and money market funds (CNY1.6t in Jul 2014) as well as A-shares (China brokers' guaranteed funds increased by CNY0.3t MoM in Jul 2014). In line with deposits, M2 growth moderated from 14.7% YoY in June 2014 to 13.5% YoY in Jul 2014. The PBOC maintained a net injection of liquidity into the banking system for the fourth month in a row in Jul 2014 (CNY109b). Besides, an increase in China's trade balance (USD47.3b in Jul 2014 vs. USD31.6b in Jun 2014) also helped M2 growth. With gradual maturity of the WMPs and potential improvement in external trade conditions, we expect RMB deposit growth and M2 growth to recover in Aug-Sep 2014.

**More selective loan growth.** In line with the decline in RMB deposits, RMB loan growth decelerated to CNY0.4t MoM in Jul 2014. Key drivers include long-term individual loans (proxy of residential mortgages), long-term corporate loans (proxy of project financing) and discounted bills. In view of rising NPLs, banks remained cautious on SME loans and micro-finance. The RMB loan-to-deposit (L/D) ratio rose to 69.9% in Jul 2014 (68.3% in Jun 2014). We expect continued shift towards less risky loans in 2H14.

**Slower rise in shadow bank assets.** Total aggregate financing reduced to CNY0.3t in Jul 2014 (CNY2t in Jun 2014), reflecting the decline in trust loans and undiscounted bankers' acceptance. As expected, the launch of Document 140 should prompt banks to reduce their exposure to risky shadow bank assets in 2H14.

### What's Our View

**Maintain OVERWEIGHT.** We see a 7-17% EPS CAGR for H-share banks in 2013-2016 under our conservative assumption on NPLs and provisions. Dividend pay-outs should be sustainable in 2014-2016.

### Financial summary of China banks (share prices as of 12 Aug 2014)

Bank	BB code	Rating	SP (HKD)	TP (HKD)	Upside (%)	Net profit (CNYm)			PER (x)			P/B (x)			ROE (%)			Yield (%)		
						2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
ABC	1288 HK	BUY	3.78	4.45	17.7	166,315	178,878	206,507	5.9	5.5	4.8	1.2	1.0	0.9	20.9	19.9	20.2	5.8	6.5	7.5
BOC	3988 HK	BUY	3.71	4.15	11.9	156,911	156,249	178,727	5.3	5.3	4.6	0.9	0.8	0.7	17.9	16.0	16.4	6.6	6.6	7.5
BOCOM	3328 HK	SELL	5.89	4.15	(29.5)	62,295	48,564	56,390	5.6	7.2	6.2	0.8	0.8	0.7	15.6	11.1	11.9	5.5	4.2	4.8
BOCQ	1963 HK	BUY	5.29	5.90	11.5	2,329	2,032	2,592	4.9	5.6	4.4	0.9	0.8	0.7	21.4	14.3	16.2	5.3	4.4	5.7
CCB	939 HK	BUY	5.95	6.70	12.6	214,657	227,692	247,009	5.5	5.2	4.8	1.1	1.0	0.9	21.4	20.0	19.1	6.3	6.7	7.3
CMB	3968 HK	BUY	15.68	16.20	3.3	51,743	56,053	68,602	5.5	5.6	4.6	1.2	1.0	0.9	22.2	19.7	20.9	4.9	5.3	6.5
CMSB	1988 HK	SELL	7.95	5.80	(27.0)	42,278	41,056	44,972	4.3	4.9	4.8	0.9	0.9	0.8	23.4	19.0	17.6	1.6	1.9	2.1
CNCB	998 HK	HOLD	5.11	4.35	(14.9)	39,175	34,296	41,258	4.9	5.6	4.6	0.8	0.8	0.7	18.5	14.4	15.6	6.2	5.4	6.5
CQRB	3618 HK	BUY	4.02	4.35	8.2	5,991	5,865	7,019	5.0	5.1	4.3	0.8	0.7	0.7	17.6	15.3	16.4	6.0	5.9	7.0
HUSB	3698 HK	BUY	3.40	3.90	14.7	4,926	5,205	6,295	6.1	5.8	4.8	1.0	0.9	0.8	18.9	15.6	17.0	5.7	6.1	7.3
ICBC	1398 HK	HOLD	5.28	4.85	(8.1)	262,649	252,888	278,413	5.7	5.9	5.3	1.2	1.0	0.9	21.9	18.7	18.2	6.2	6.0	6.7

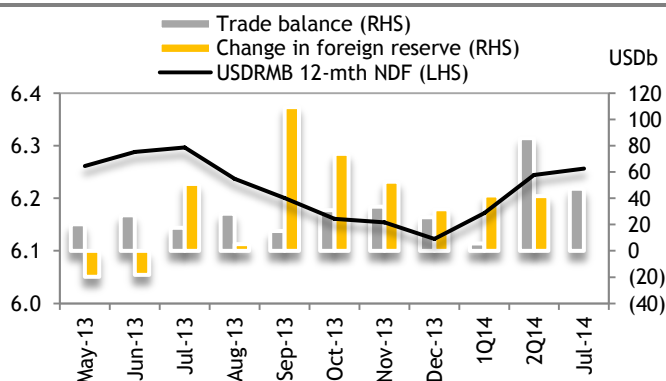
Source: Company data, Maybank Kim Eng

Figure 1: Banking sector's QoQ loan growth and loan mix

QoQ growth (CNYb)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	2Q14
Short term individual loans	256	346	356	226	386	449	427	191	301	360	26
Long term individual loans	249	282	443	370	597	649	572	449	629	591	180
Short term corporate loans	1,001	721	601	1,007	773	481	706	783	933	447	-236
Long term corporate loans	620	455	344	148	837	511	727	255	1,120	940	208
Bill finance	258	507	67	-300	109	176	-269	-100	-76	319	173
Other loans	70	84	56	31	66	59	37	34	107	69	34
<b>Total loan growth</b>	<b>2,460</b>	<b>2,395</b>	<b>1,867</b>	<b>1,482</b>	<b>2,755</b>	<b>2,325</b>	<b>2,200</b>	<b>1,613</b>	<b>3,014</b>	<b>2,726</b>	<b>385</b>
Mortgage	203	151	338	302	504	500	420	140	490	450	NA
Property development loans	130	87	48	26	189	60	170	90	260	260	NA
Micro-finance	449	490	420	290	200	470	575	385	490	470	NA
Personal consumption loans	241	343	516	470	590	730	680	540	575	635	NA
Industrial loans (Medium-to-long-term)	170	50	30	0	120	20	120	0	210	160	NA
Service sector loans (Medium-to-long-term)	280	310	240	160	640	370	530	210	790	680	NA

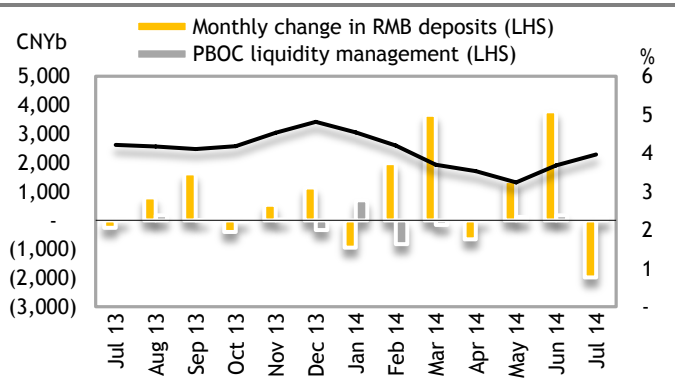
Source: PBOC, Maybank Kim Eng

Figure 2: Trade balance, change in foreign reserves\* & USD/RMB NDF rate of China



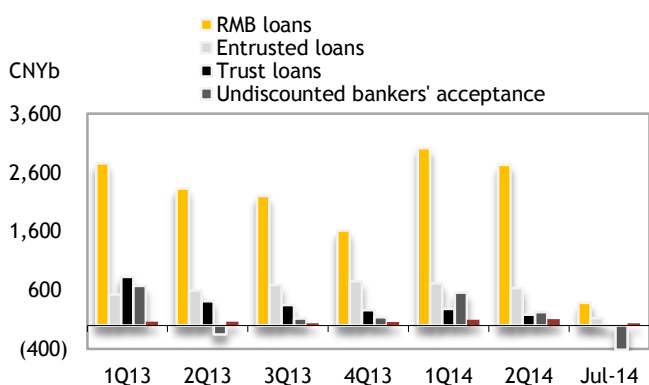
\*Change in foreign reserves and trade balance in 1Q14 refers to monthly average  
Source: PBOC, National Bureau of Statistics, Maybank Kim Eng

Figure 3: RMB deposit change, PBOC liquidity management and SHIBOR



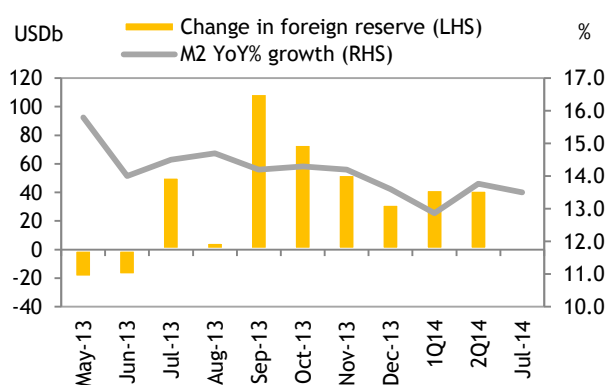
Source: PBOC, Maybank Kim Eng

Figure 4: Key items of aggregate social financing



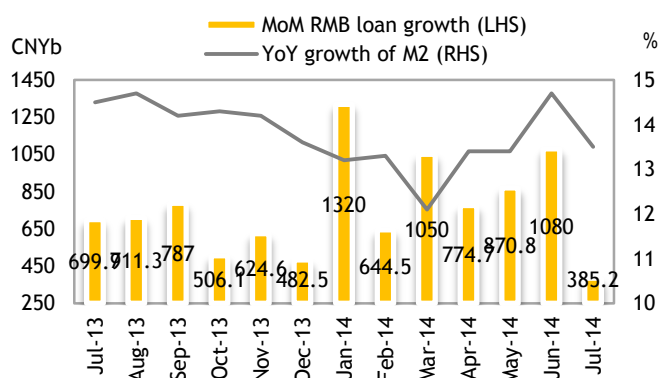
Source: PBOC, Maybank Kim Eng

Figure 5: M2 growth and change in China's foreign reserves\*



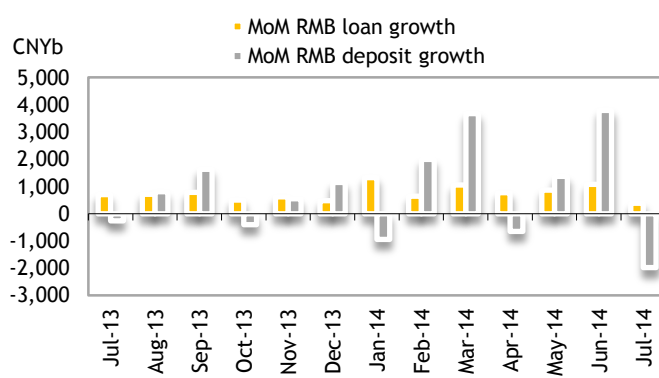
\*M2 growth and Change in foreign reserves in 1Q14 refers to monthly average  
Source: PBOC, Maybank Kim Eng

Figure 6: New RMB loan and M2 YoY growth



Source: PBOC, Maybank Kim Eng

Figure 7: New RMB loan and deposit



Source: PBOC, Maybank Kim Eng

Figure 8: Key financial data of H-share banks

	ABC	BOC	BOCOM	BOCQ	CCB	CMB	CMSB	CNCB	CQRB	HUSB	ICBC
Pre-provisional profit (CNYm)											
2013	267,164	235,195	98,277	3,592	322,955	78,555	70,140	64,378	9,108	6,786	374,761
2014E	307,991	268,597	101,167	4,369	367,990	98,172	78,519	70,140	10,605	8,323	409,050
2015E	346,445	304,290	109,827	4,926	395,868	115,160	86,314	79,347	12,050	9,918	443,371
YoY % change											
2013	10.3	13.9	9.5	30.3	10.8	20.7	17.2	17.6	20.2	11.2	10.3
2014E	15.3	14.2	2.9	21.6	13.9	25.0	11.9	9.0	16.4	22.7	9.1
2015E	12.5	13.3	8.6	12.8	7.6	17.3	9.9	13.1	13.6	19.2	8.4
Net profit (CNYm)											
2013	166,315	156,911	62,295	2,329	214,657	51,743	42,278	39,175	5,991	4,926	262,649
2014E	178,878	156,249	48,564	2,032	227,692	56,053	41,056	34,296	5,865	5,205	252,888
2015E	206,507	178,727	56,390	2,592	247,009	68,602	44,972	41,258	7,019	6,295	278,413
YoY % change											
2013	14.6	12.4	6.7	21.0	11.1	14.3	12.6	26.2	11.7	14.4	10.1
2014E	7.6	(0.4)	(22.0)	(12.7)	6.1	8.3	(2.9)	(12.5)	(2.1)	5.7	(3.7)
2015E	15.4	14.4	16.1	27.5	8.5	22.4	9.5	20.3	19.7	20.9	10.1
EPS (CNY)											
2013	0.51	0.56	0.84	0.86	0.86	2.30	1.49	0.84	0.64	0.45	0.75
2014E	0.55	0.56	0.65	0.75	0.91	2.22	1.30	0.73	0.63	0.47	0.72
2015E	0.64	0.64	0.76	0.96	0.99	2.72	1.32	0.88	0.75	0.57	0.79
YoY % change											
2013	14.6	12.3	6.7	(9.6)	11.1	9.7	12.6	26.2	11.7	(15.4)	9.6
2014E	7.6	(0.4)	(22.0)	(12.7)	6.1	(3.4)	(13.0)	(12.5)	(2.1)	5.7	(3.7)
2015E	15.4	14.4	16.1	27.5	8.5	22.4	1.9	20.3	19.7	20.9	10.1
DPS (CNY)											
2013	0.18	0.20	0.26	0.22	0.30	0.62	0.10	0.25	0.19	0.16	0.26
2014E	0.20	0.20	0.20	0.19	0.32	0.67	0.12	0.22	0.19	0.16	0.25
2015E	0.23	0.22	0.23	0.24	0.35	0.82	0.13	0.26	0.23	0.20	0.28
YoY % change											
2013	13.1	12.0	8.3	348.0	11.9	(1.6)	(66.7)	68.0	13.7	56.0	9.5
2014E	10.4	(0.1)	(24.5)	(16.2)	6.3	8.3	20.6	(12.7)	(2.1)	5.7	(2.8)
2015E	16.6	14.4	16.1	27.5	8.5	22.4	9.5	20.3	19.7	20.9	10.9
Loan growth (%)											
2013	12.3	10.8	10.8	18.1	14.3	15.4	13.7	16.7	18.3	19.3	12.7
2014E	10.8	10.0	10.2	16.9	10.5	13.9	12.8	14.4	17.1	18.6	9.9
2015E	10.0	9.4	9.5	15.2	9.1	12.9	12.0	12.8	16.0	17.2	8.3
Net interest margin (%)											
2013	2.79	2.24	2.52	2.81	2.74	2.82	2.49	2.60	3.41	2.63	2.57
2014E	2.90	2.26	2.31	2.81	2.80	2.64	2.62	2.35	3.37	2.64	2.51
2015E	2.88	2.26	2.28	2.78	2.77	2.62	2.60	2.31	3.35	2.63	2.49
Cost-income ratio (%)											
2013	42.6	39.3	40.0	38.9	36.8	40.8	39.6	38.6	44.2	33.3	35.3
2014E	41.5	38.3	41.0	37.6	36.3	38.8	39.6	39.0	44.0	31.2	35.1
2015E	41.0	37.4	41.1	37.8	36.5	38.3	39.5	38.8	44.0	29.6	34.9
Credit cost (%)											
2013	0.76	0.32	0.59	0.64	0.53	0.50	0.88	0.63	0.51	0.24	0.41
2014E	0.94	0.66	1.13	0.84	0.77	0.92	1.30	1.05	0.78	0.74	0.78
2015E	0.86	0.61	0.99	0.57	0.73	0.85	1.31	0.94	0.72	0.70	0.71
Core tier-1 CAR (%)											
2013	9.2	9.7	9.8	10.8	10.8	9.3	8.7	8.8	11.9	12.6	10.6
2014E	9.2	9.6	9.8	10.3	10.8	9.0	9.0	8.4	11.1	11.7	10.5
2015E	9.1	9.6	9.9	10.1	11.0	9.0	9.2	8.3	10.5	11.1	10.5

Source: Company data, Maybank Kim Eng

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