

China Banking Sector

Implications of 5 bps cut on 1-yr LPR

Sector re-rating driver is still the expectation on asset quality improvement. LPR cut is in line and it has limited impacts on banks' earnings. As the sector is trading at historical bottom (0.4x 2022E P/B), we think some banks with strong balance sheet become attractive. Maintain OUTPERFORM on banking sector and our top pick is Postal (1658 HK, Buy) with target price of HK\$7.20.

- On 20 Dec 2021, 1-yr LPR dropped 5 bps to 3.80% and 5-yr LPR remained at 4.65%.** It is the first LPR cut since April 2020. After cutting RRR, regulators continue to reduce borrowing cost by lowering 1-yr LPR. Unchanged 5-yr LPR shows PBOC's attitude on no speculation on residential property (房住不炒).
- Releasing borrowers' pressure on financing cost.** The RRR cut will create more loan supply on the market and LPR cut will lower financing cost for borrowers. As PBOC commented on 6 Dec 2021, 50 bps RRR cut will release RMB 1.2tn long term fund and help financial institutions save RMB 15bn funding cost every year. At the same time, PBOC asked banks to transfer RMB 15bn saved cost to borrowers, especially for SME borrowers.
- In our view, impacts on banks' earnings is quite limited.** Since mortgage and part of long term loan is pegged with 5-yr LPR, these loans will not be affected by the 1-yr LPR cut. As we assumed 15% of ordinary loan is pegged with 5-yr LPR, loan affected by 20 Dec's LPR cut will be RMB 130.44bn. Based on our estimate that 33% of total loan will be re-priced in next year, FY22E banks' net interest income will drop RMB 22bn, as 0.7% of pre-tax profits. In the long term, after all the affected loan have been re-priced, net interest income will drop RMB 65bn, as 2.2% of pre-tax profits. Actually, since previous RRR cut (effective on 15 Dec 2021) will help banks save RMB 15bn funding cost, current LPR and RRR cut only cause a net decline of RMB 7bn on banks' NII, as 0.24% of their total pre-tax profits. In the long term, after all the 1-yr LPR linked loan have been re-priced, banks will have a net decline of RMB 50bn on NII, as 1.7% of their total pre-tax profits. In 2022, we expect more LPR cuts and MLF rate cut if the economic recovery is slow.
- Valuation/Key risks.** Our top pick is Postal (1658 HK, Buy), based on GGM. Target price is HK\$7.20, implying 0.86x 2021E and 0.79x 2022E P/B. During last three years, PSBC (H) was trading at 0.71x FY22E P/B, while currently it is trading at 0.62x P/B, below -1SD of historical mean (0.64x P/B). Thus, we think most negatives are priced in.

Valuation Table

Name	Ticker	Mkt Cap	RAT-ING	Closing price	TP(LC)	Upside	P/E	P/B	Yield
PSBC	1658 HK	535	BUY	5.64	7.20	28%	6.8	0.9	6.10%
CCB	939 HK	1,344	BUY	5.29	6.33	20%	4.4	0.5	8.55%
SPDB	600000 CH	253	HOLD	8.58	9.34	9%	4.8	0.5	6.25%
BOSH	601229 CH	102	BUY	7.14	9.04	27%	5.2	0.6	6.91%
CQRCB	3618 HK	30	HOLD	2.65	2.80	6%	2.5	0.2	12.75%
BOCS	601577 CH	32	HOLD	7.81	8.32	7%	4.1	0.6	6.41%

Source: CMBIS estimates based on 2022E earnings. Closing price @ 20 Dec, Mkt cap (LC bn)

OUTPERFORM
(Maintain)

China Banking Sector

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Stocks covered

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601229 CH	BUY	9.04	27%
3618 HK	HOLD	2.8	6%
601577 CH	HOLD	8.32	7%
601658.SH	BUY	7.07	34%
601939.SH	BUY	7	20%
601077.SH	HOLD	3.6	-6%

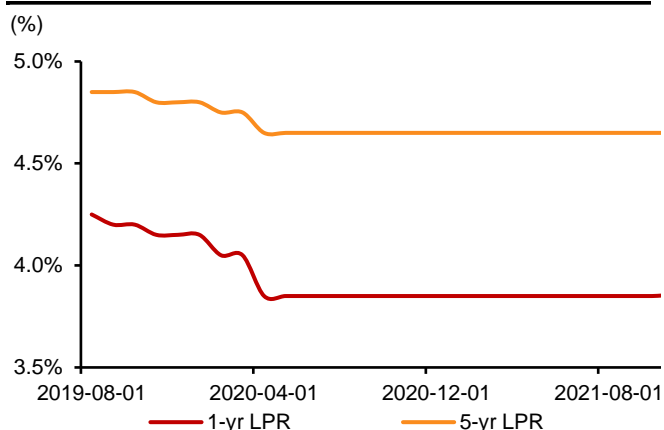
Source: CMBIS estimates

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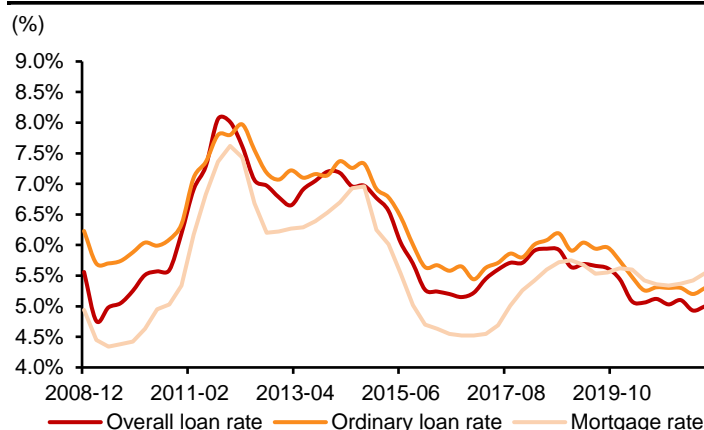
Focus Charts

Figure 1: LPR change



Source: PBOC

Figure 2: Market lending rate



Source: PBOC

Figure 3: Estimates on loan affected (RMB bn)

Total loan	Mortgage	Other loan	Estimated 1-yr LPR linked loan	Estimated affected loan as % of total loan (in 2022)	Estimated affected loan as % of total loan (long term)
191,558	38,100	153,458	130,440	22.47%	68.09%

Source: PBOC, CMBIS estimates

Figure 4: Estimates on NII impacts

2022 NII chg	Long term NII chg	2022 term NII chg as % of pre-tax profit	Long term NII chg as % of pre-tax profit
(22)	(65)	-0.7%	-2.2%

Source: CBIRC, CMBIS estimates

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