

China Financial Weekly

MLF rate drop in line

MLF rate drop in line with consensus and we expect additional LPR drop in near term. Maintain PSBC (1658 HK) as top pick in banking sector and lift target price of CCB (939 HK) to HK\$7.10. Less concerns on property default risk is key catalyst on sector re-rating in next few weeks. On insurance front, we think market concerns over investment assets quality may be eased, and P&C insurers will benefit more than life insurance business, as the liability duration of P&C insurers is much shorter than the assets duration, hence more defensive against yield decline. PICC P&C (2328 HK) remains our top pick of insurance space.

- MLF rate and reverse repo rate decline in line at 17 Jan 2022.** As PBOC comments, to maintain the sufficient liquidity in banking system, they conduct RMB 700bn 1-yr MLF and RMB 100 bn 7D reverse repo with the rate of 2.85% and 2.1%. Both of these two rates decline 10 bps. Since 1-yr LPR has already declined in Dec, we think this MLF rate drop comes in line.
- Expecting additional LPR cut in near term.** Under LPR framework, the LPR change usually tracks with MLF rate change. However, MLF rate remains unchanged while LPR dropped last month. On Dec 2021, 1-yr LPR down 5 bps to 3.8% while 5-yr LPR remains unchanged 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. Current 10 bps down on MLF will save banks cost on financing. Then banks should transfer the saved cost to real economy (borrowers). Thus, we expect more LPR drop ahead, to release borrowers' burden on interest expense.
- Upcoming Lunar New Year maybe one of the reasons for PBOC's liquidity injection.** Usually, corporate borrowers will have a strong demand on cash inflow before Lunar New Year, the borrowers need to repay account payable and pay employees' salary and bonus before Lunar New Year. To avoid a liquidity risk in banking system and meet the demand from real economy, PBOC often maintains an easing monetary strategy near Lunar New Year.
- Overweight banking sector and 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 0.68x P/B, below historical mean (0.71x P/B). Thus, we think most negatives are priced in. Lift target price of CCB (939 HK) from HK\$6.33 to HK\$7.10, our target price on CCB implies 0.55x 2022E P/B, equivalent to -1SD of historical mean (0.64x P/B). Key sector risk in 2022 is default risk on property sector and worse than consensus economy growth in 2022.
- On insurance sector, PICC P&C (2328 HK) remains our top pick,** as its liability duration is around one year, much shorter than its assets duration of about 5 years, which means the earnings and book value of PICC is more defensive against interest rate decline. The stock is trading at 0.6x 2022E P/B and 7.8% dividend yield 2022E with ROE of 12%, below its 3-year historical average of 0.8x P/B.

OUTPERFORM
(Maintain)

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Stocks Covered:

Ticker	Rating	Target Price	Upside
2318 HK	Buy	87.02	44%
601318CH	Buy	72.23	42%
2628 HK	Buy	18.41	37%
601628CH	Sell	18.34	-37%
2601 HK	Buy	36.98	61%
601601CH	Buy	36.84	36%
1336 HK	Buy	34.04	52%
601336CH	Sell	28.26	-26%
966 HK	Buy	14.21	26%
1339 HK	Buy	3.57	46%
601319CH	Sell	3.70	-21%
2328 HK	Buy	11.53	63%
6060 HK	Buy	44.27	54%
1658 HK	Buy	7.20	18%
939 HK	Buy	6.33	8%
600000CH	Hold	9.34	9%
601229CH	Buy	9.04	25%
3618 HK	Buy	2.80	-3%
601577CH	Hold	8.32	3%
601658SH	Hold	7.07	28%
601939SH	Buy	7.00	17%
601077SH	BUY	3.60	-8%

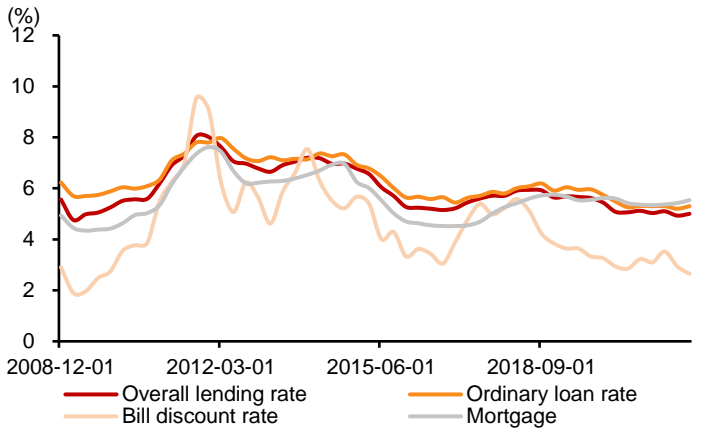
Source: Company data, CMBIS estimates

Recent Reports:

- China Insurance – P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22 ([link](#))
- PICC P&C (2328 HK) – Auto growth pick up; Non-auto UW to improve ([link](#))
- China Banking Sector – Implications of 5 bps cut on 1-yr LPR ([link](#))
- China Banking – Looking for the safe harbour ([link](#))

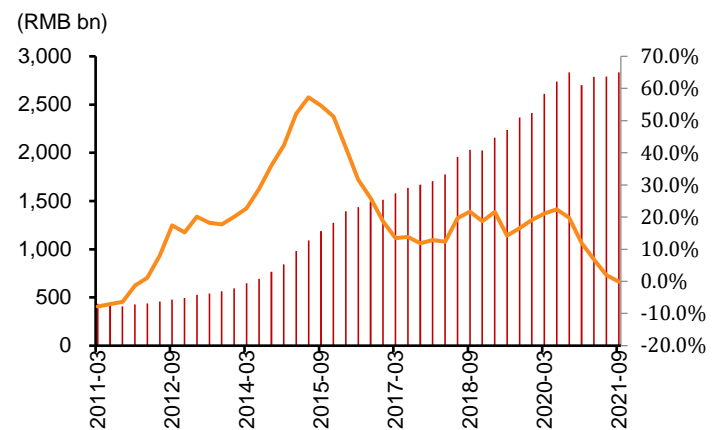
Focus Charts

Figure 1: Market lending rate



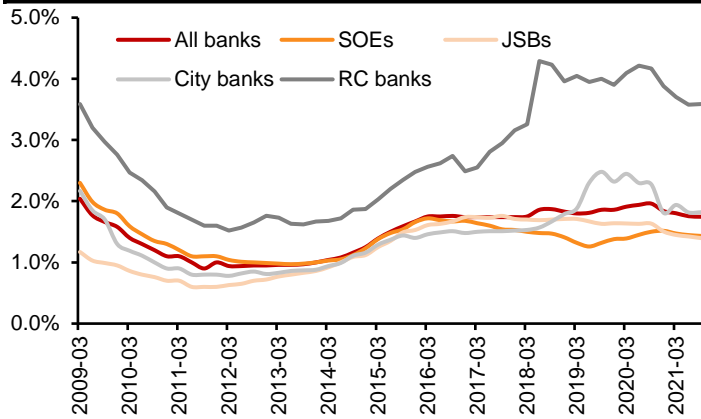
Source: Company data, CMBIS estimates

Figure 2: Sector NPL balance and growth



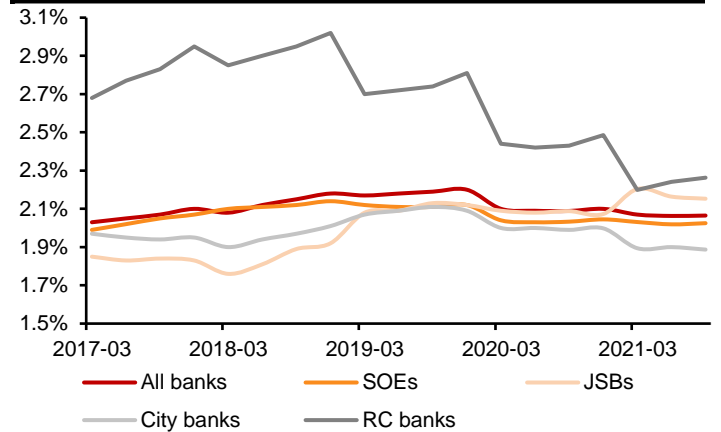
Source: Company data, CMBIS estimates

Figure 3: Sub-sector NPL ratio



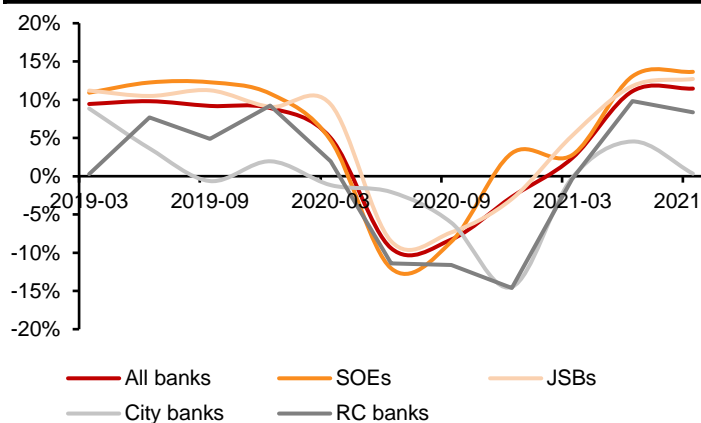
Source: Company data, CMBIS estimates

Figure 4: Sub-sector NIM



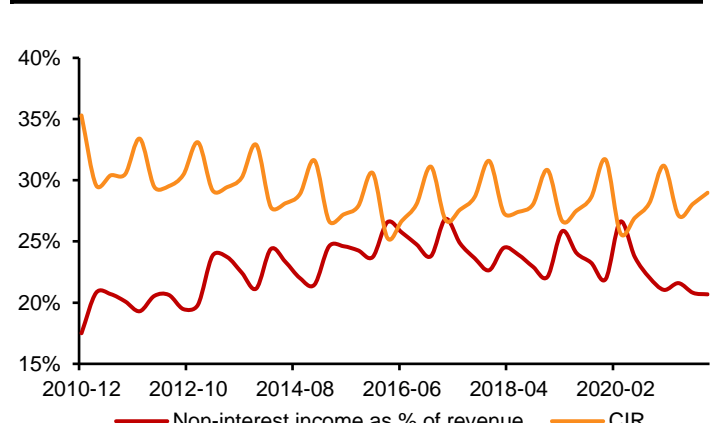
Source: Company data, CMBIS estimates

Figure 5: Sub-sector earnings growth



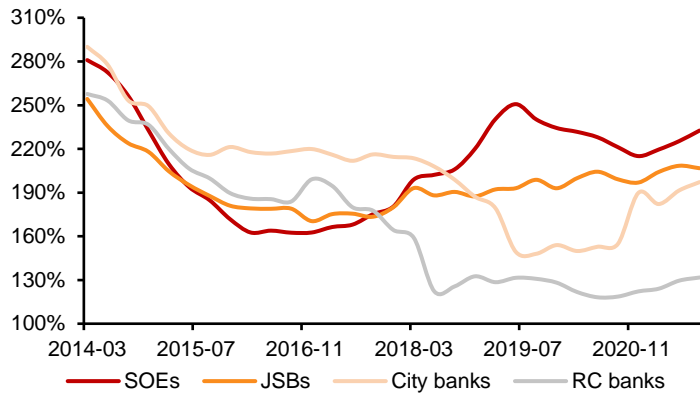
Source: Company data, CMBIS estimates

Figure 6: CIR and non-interest income as % of revenue



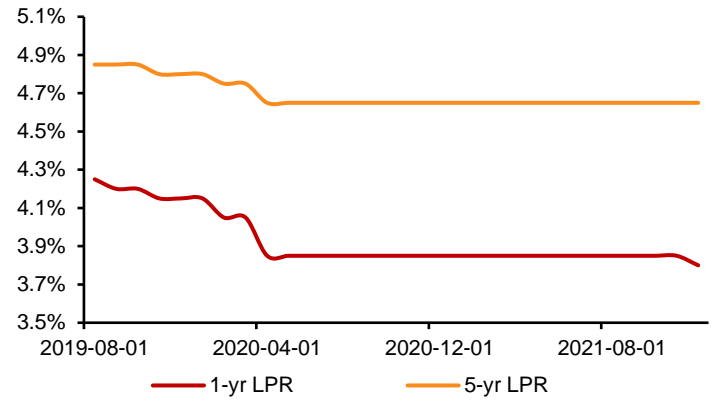
Source: Company data, CMBIS estimates

Figure 7: Sub sector provision coverage ratio changes



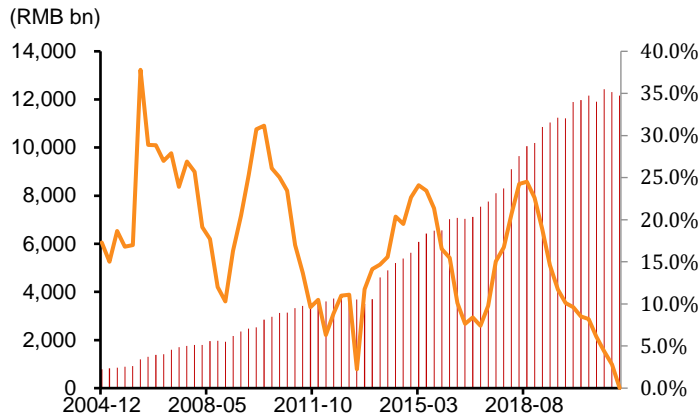
Source: Company data, CMBIS estimates

Figure 8: Loan Prime Rate (LPR) changes



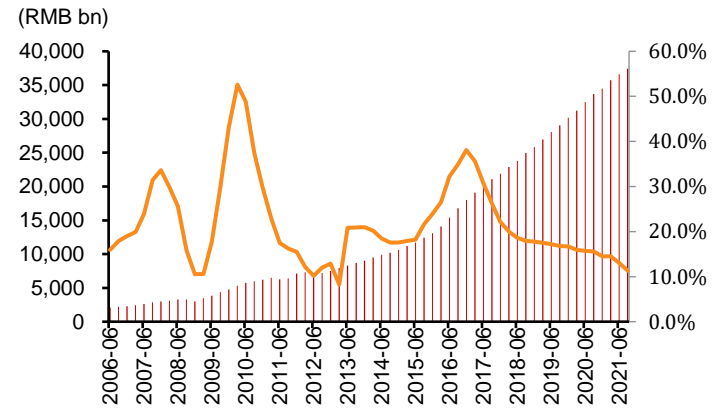
Source: Company data, CMBIS estimates

Figure 9: Development loan balance and growth



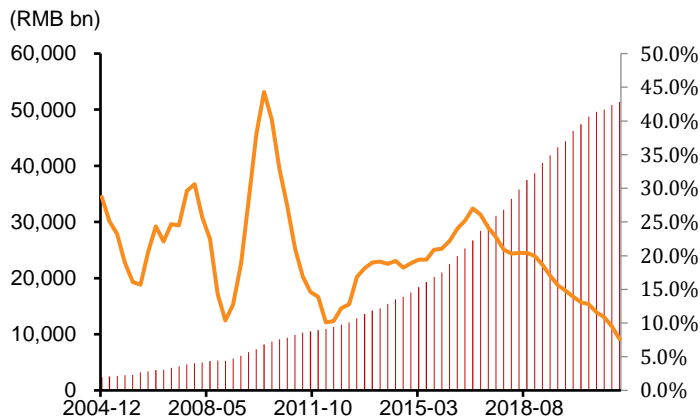
Source: Company data, CMBIS estimates

Figure 10: Mortgage balance and growth



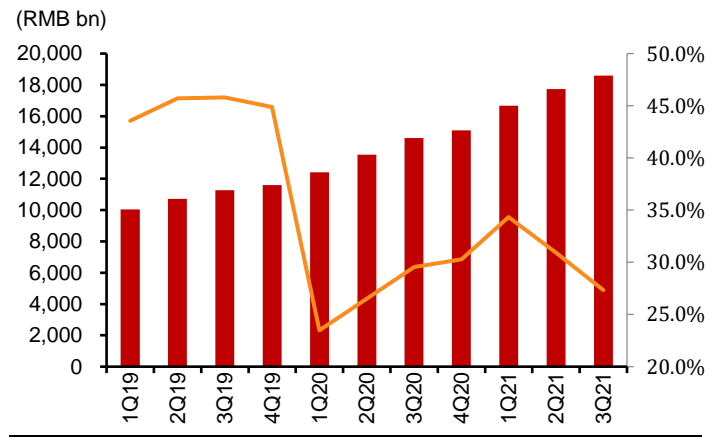
Source: Company data, CMBIS estimates

Figure 11: All property loan changes



Source: Company data, CMBIS estimates

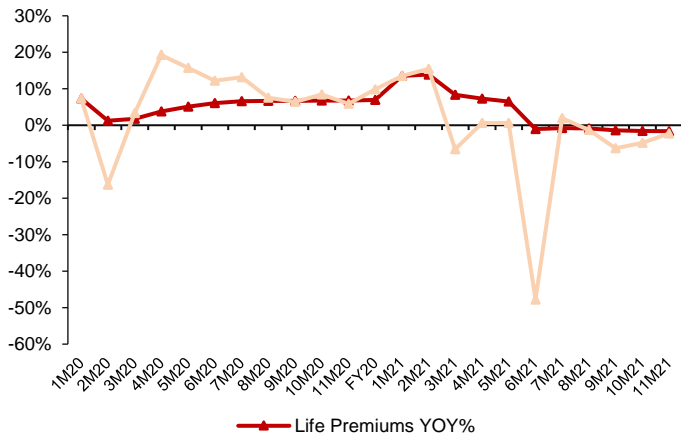
Figure 12: Sector SME loan balance changes



Source: Company data, CMBIS estimates

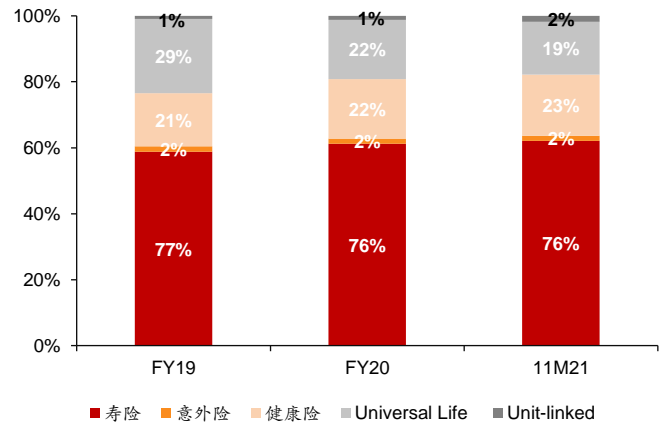
Insurance Industry

Figure 1: Life Insurance Premiums YOY% & MOM%



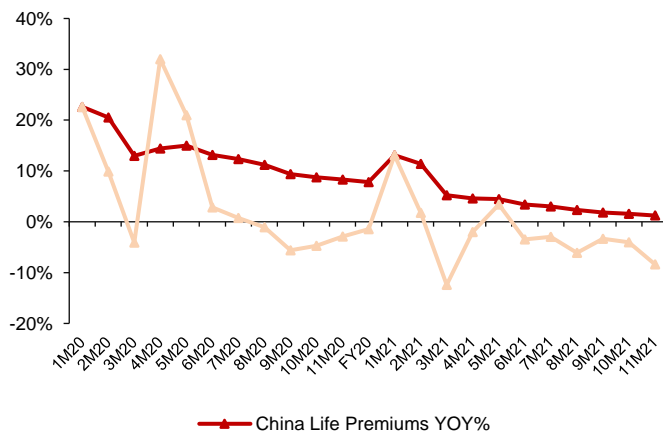
Source: Company data, CMBIS

Figure 2: Life Premiums Mix %



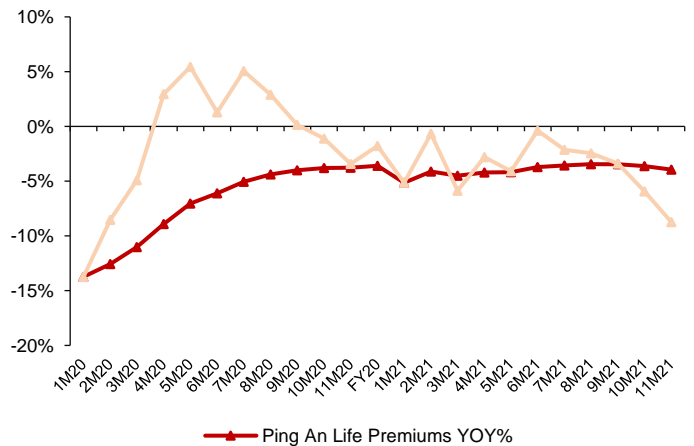
Source: Company data, CMBIS

Figure 3: China Life (2628 HK) Premiums YOY% & MOM%



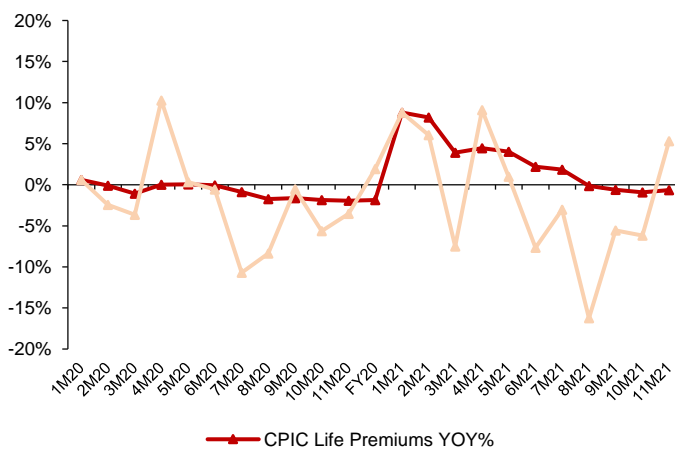
Source: Company data, CMBIS

Figure 4: Ping An (2318 HK) Life Premiums YOY% & MOM%



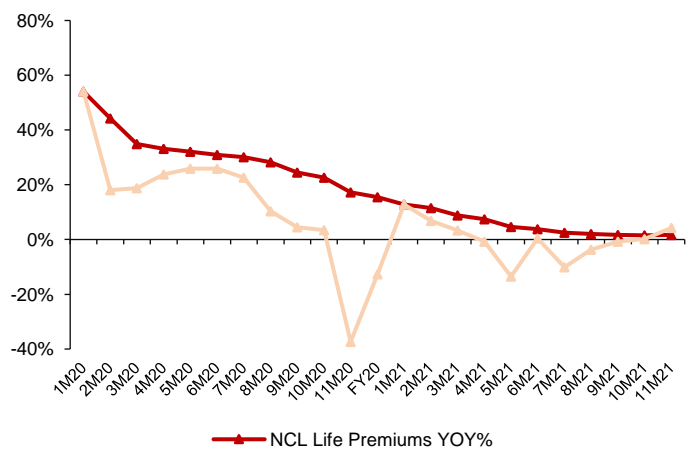
Source: Company data, CMBIS

Figure 5: CPIC (2601 HK) Life Premiums YOY% & MOM%



Source: Company data, CMBIS

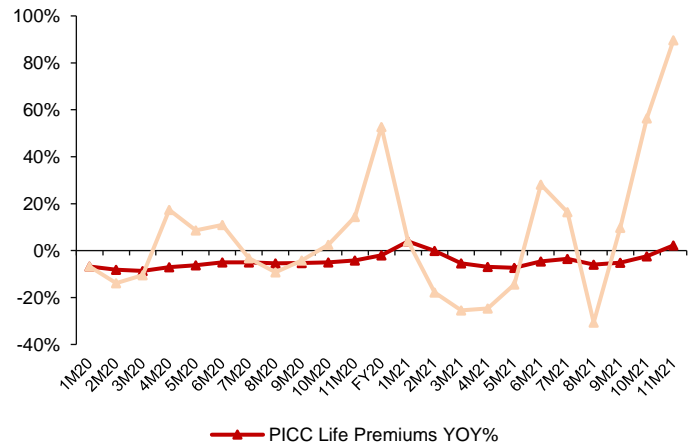
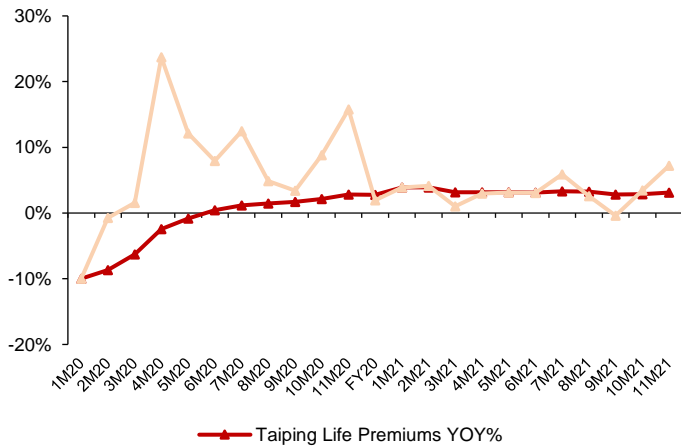
Figure 6: NCL (1336 HK) Life Premiums YOY% & MOM%



Source: Company data, CMBIS

Figure 7: Taiping (0966 HK) Life Premiums YOY% & MOM%

Figure 8: PICC Life (1339 HK) Premiums YOY% & MOM%

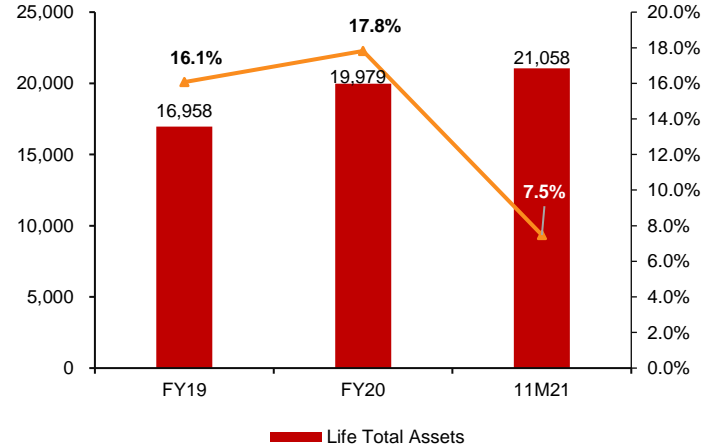
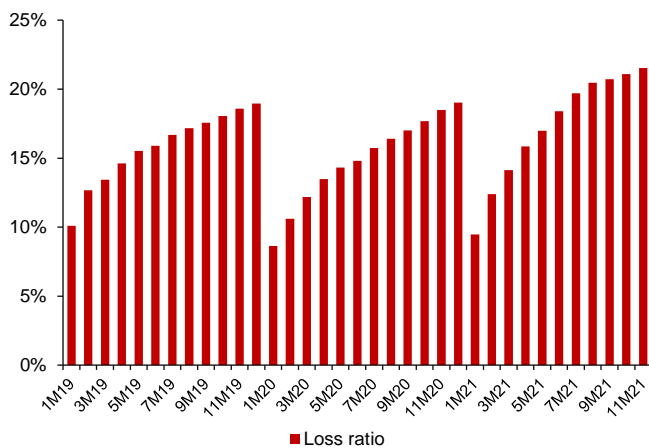


Source: Company data, CMBIS

Source: Company data, CMBIS

Figure 9: Life Industry Loss Ratio (1M19 – 11M21)

Figure 10: Life Industry Total Assets & YOY%

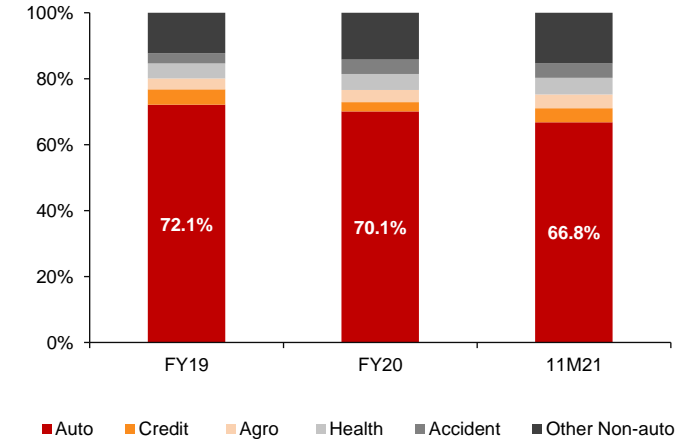
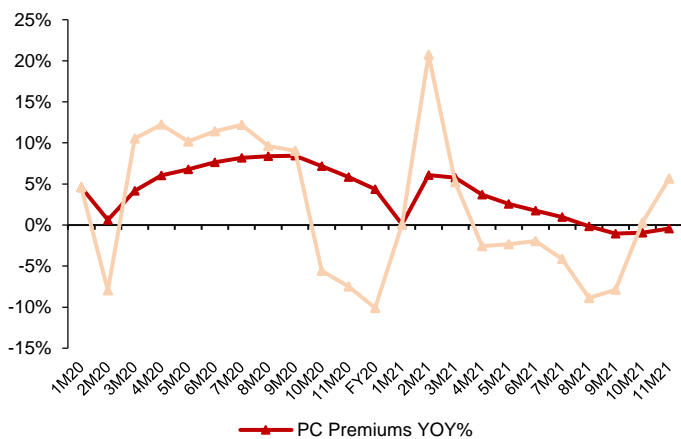


Source: Company data, CMBIS

Source: Company data, CMBIS

Figure 11: P&C Insurance Premiums YOY% & MOM%

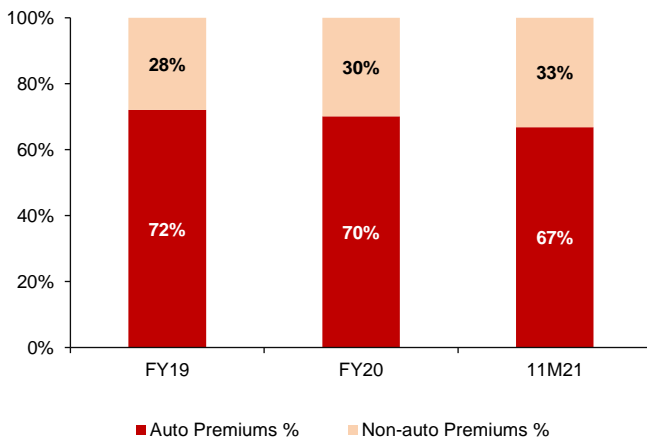
Figure 12: P&C Insurance Premiums Mix (%)



Source: Company data, CMBIS

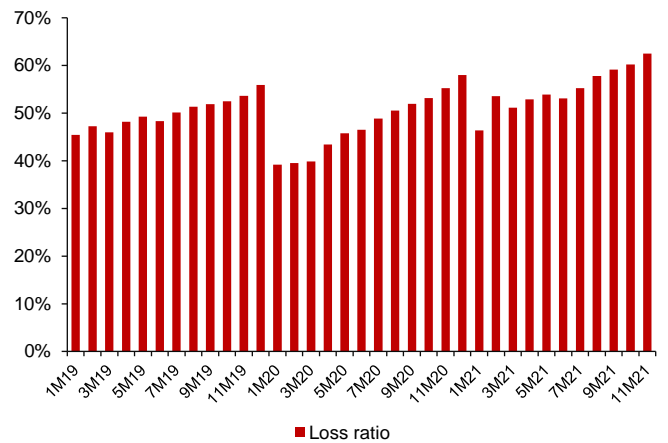
Source: Company data, CMBIS

Figure 13: P&C Auto VS Non-auto Premiums Mix (%)



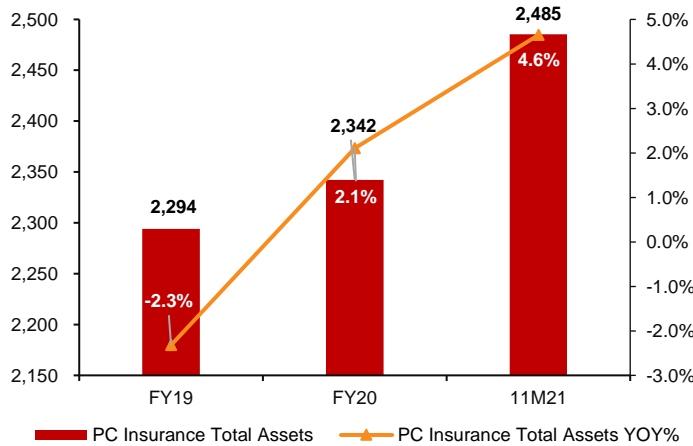
Source: Company data, CMBIS

Figure 14: P&C Industry Loss Ratio



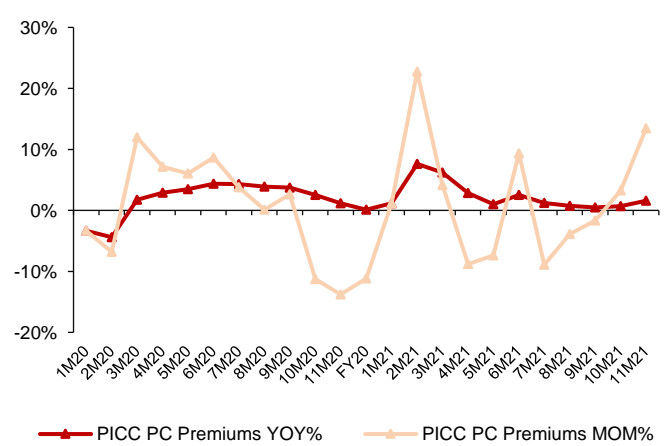
Source: Company data, CMBIS

Figure 15: P&C Industry Total Assets and YOY%



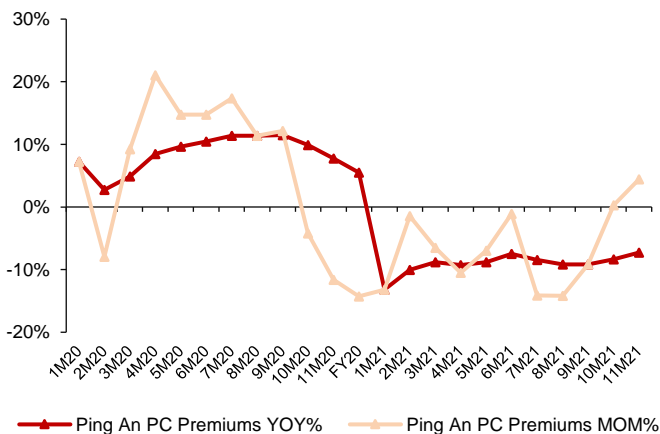
Source: Company data, CMBIS

Figure 16: PICC P&C (2328 HK) Premiums YOY% & MOM%



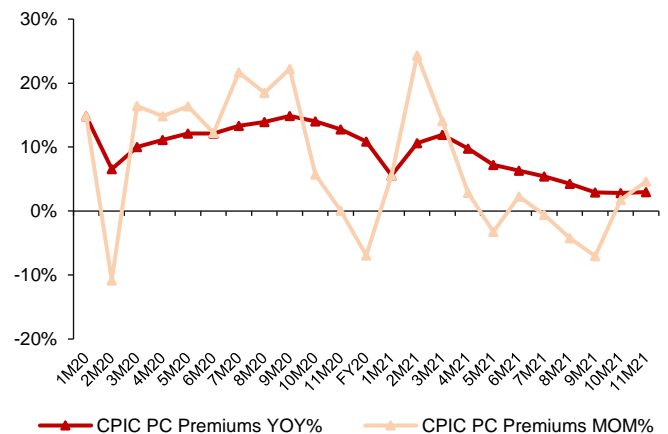
Source: Company data, CMBIS

Figure 17: Ping An (2318 HK) P&C Premiums YOY%&MOM%



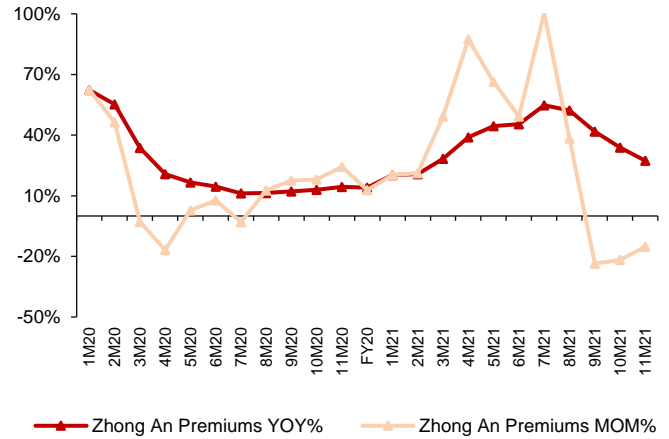
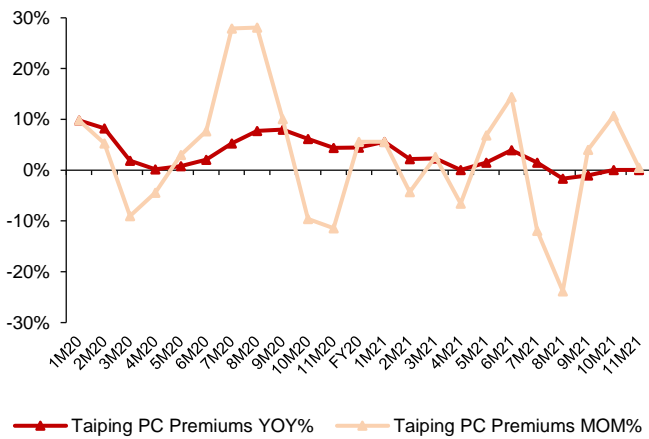
Source: Company data, CMBIS

Figure 18: CPIC (2601 HK) P&C Premiums YOY% & MOM%



Source: Company data, CMBIS

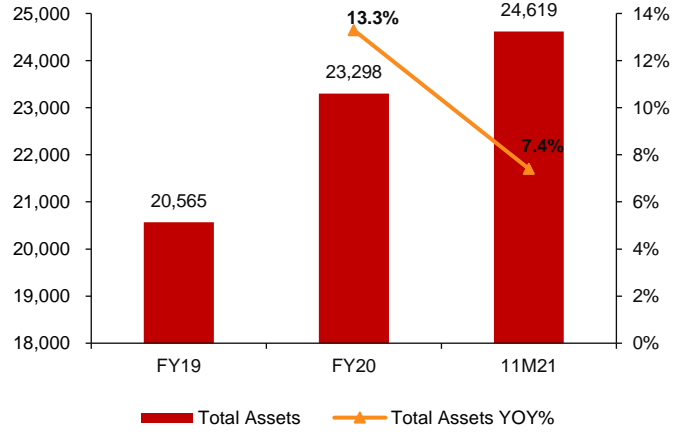
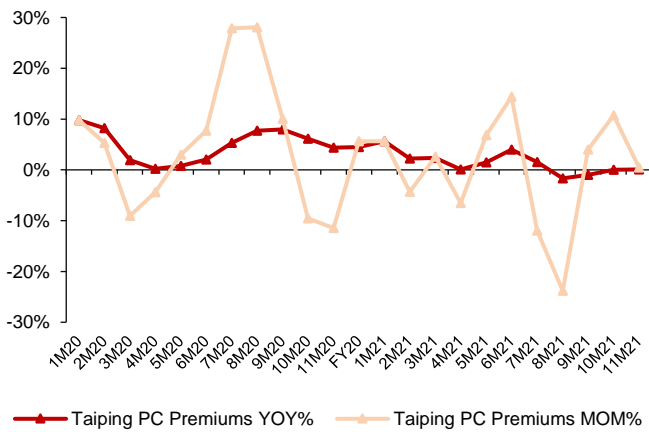
Figure 19: Taiping (0966 HK) P&C Premiums YOY%&MOM% **Figure 20: Zhong An(6060 HK) P&C Premium YOY%&MOM%**



Source: Company data, CMBIS

Source: Company data, CMBIS

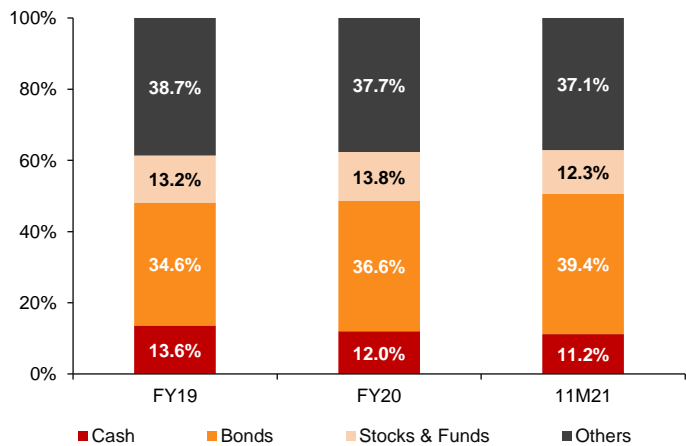
Figure 21: China Re (1508 HK) P&C Premium YOY%&MOM% **Figure 22: Industry – Total Assets & YOY%**



Source: Company data, CMBIS

Source: Company data, CMBIS

Figure 23: Industry – Investment Assets Mix (%)

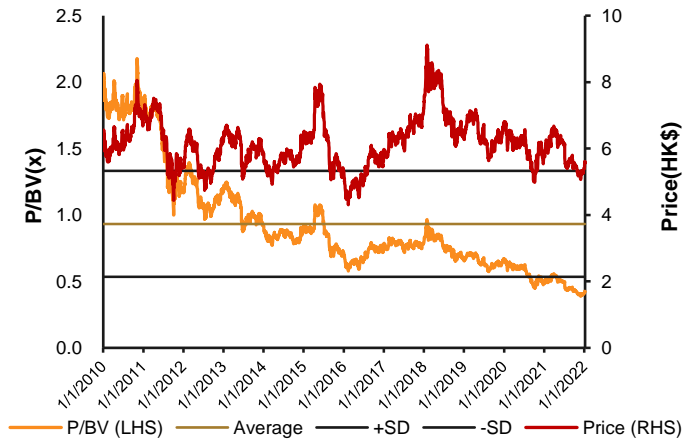
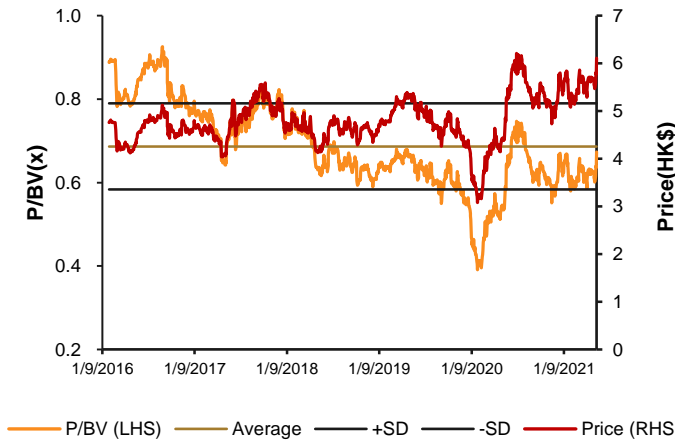


Source: Company data, CMBIS

Trading Bands of PBV by Banks

Fig.1: Postal Savings-H (1658 HK) 12-month forward P/B

Fig.2: CCB-H (0939 HK) 12-month forward P/B

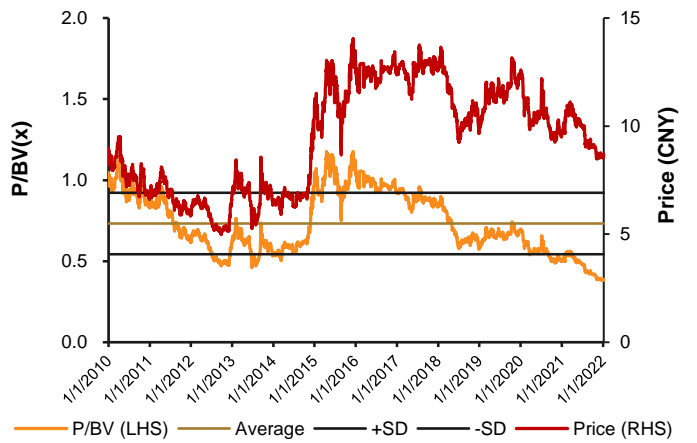
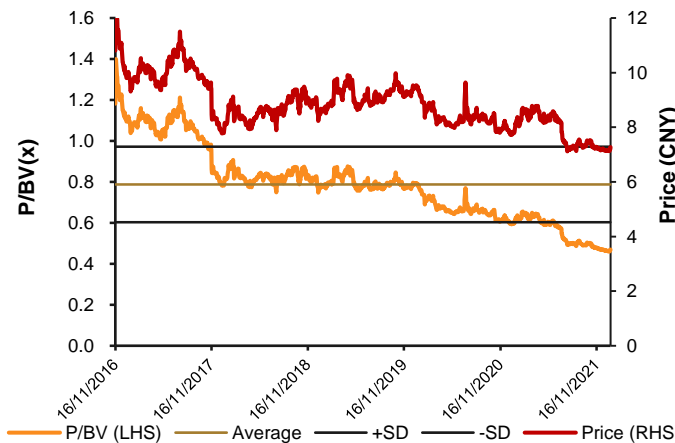


Source: Company data, CMBIS

Source: Company data, CMBIS

Fig.3: Bank of Shanghai (601229 CH) 12-month forward P/B

Fig.4: SPDB-CH (600000 CH) 12-month forward P/B

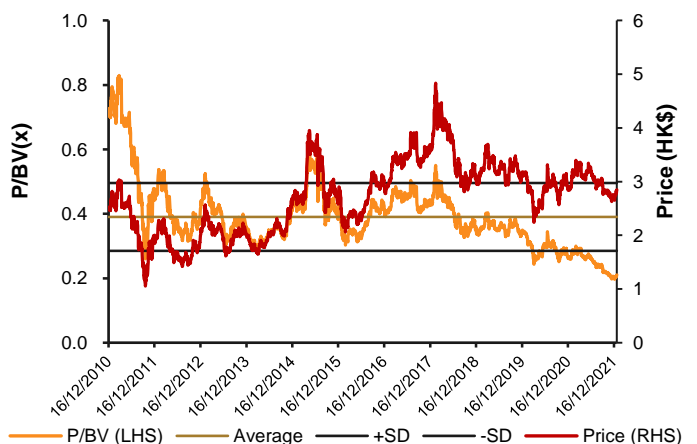
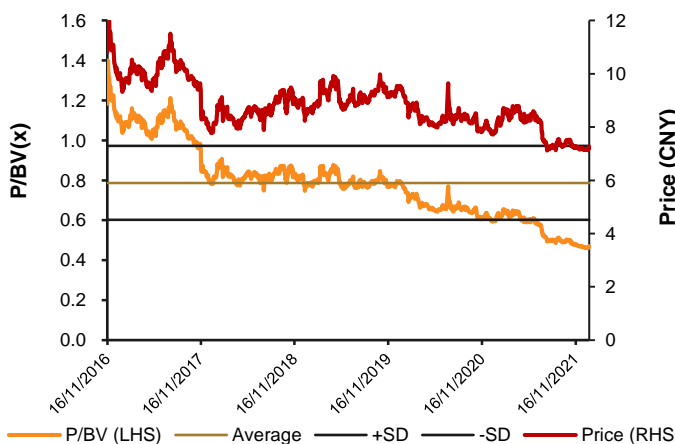


Source: Company data, CMBIS

Source: Company data, CMBIS

Fig.5: Bank of Changsha (601577 CH) 12-month forward P/B

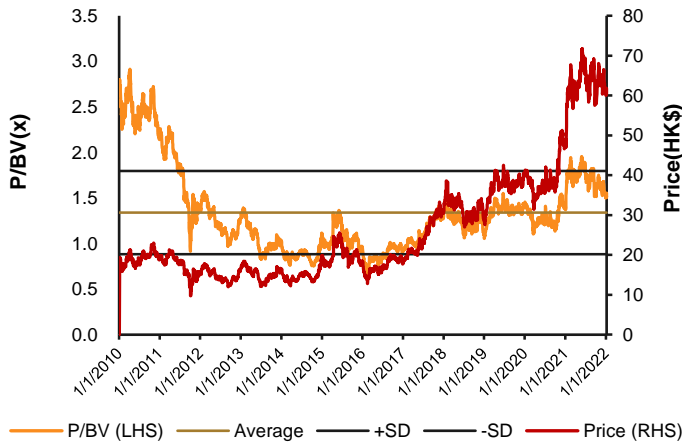
Fig.6: CQRC-H (3618 HK) 12-month forward P/B



Source: Company data, CMBIS

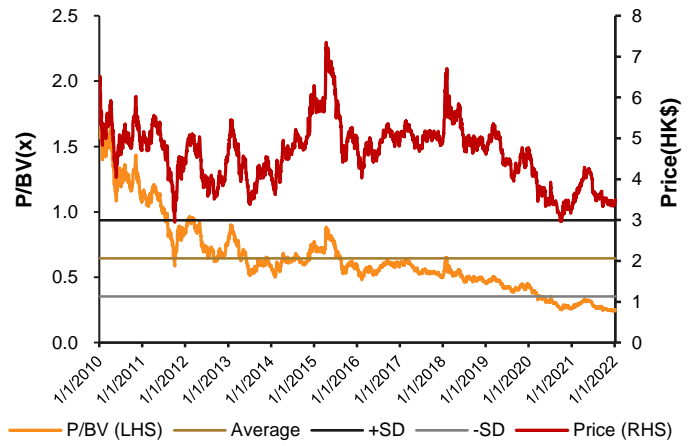
Source: Company data, CMBIS

Fig.7: CM BANK-H (3968 HK) 12-month forward P/B



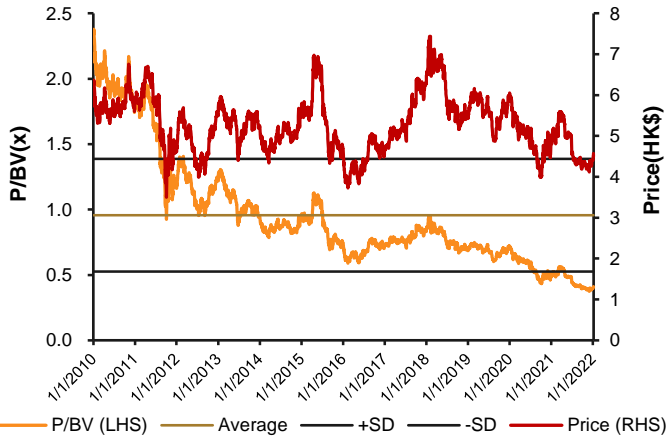
Source: Company data, CMBIS

Fig.8: CITIC BANK-H (0998 HK) 12-month forward P/B



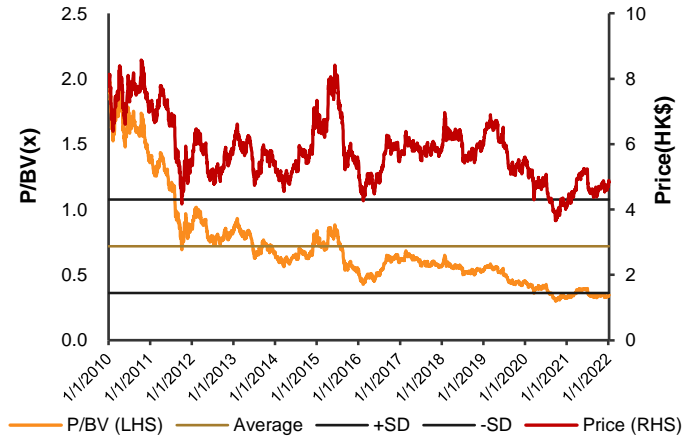
Source: Company data, CMBIS

Fig.9: ICBC-H (1398 HK) 12-month forward P/B



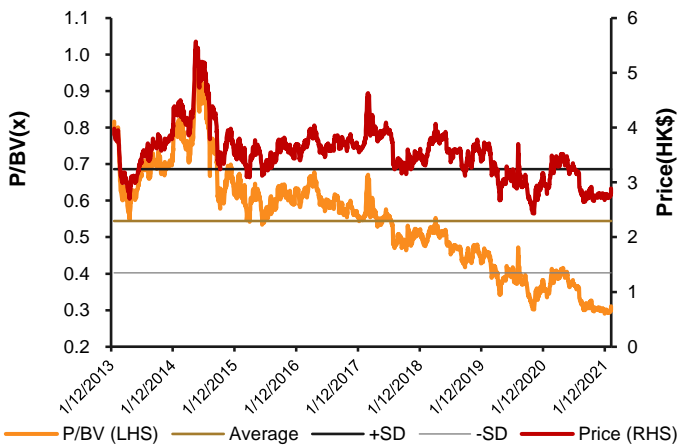
Source: Company data, CMBIS

Fig.10: BANKCOMM-H (3328 HK) 12-month forward P/B



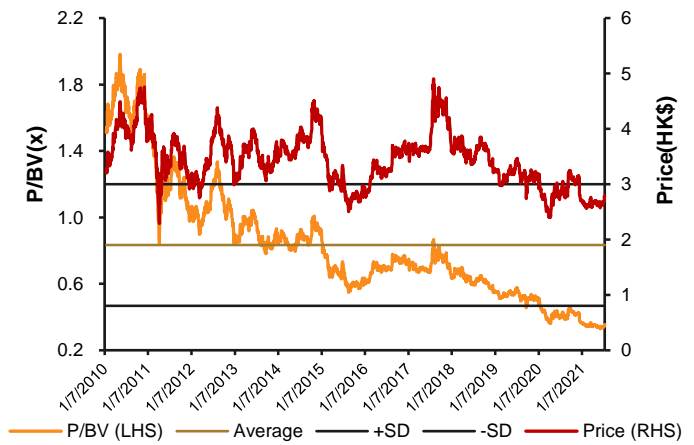
Source: Company data, CMBIS

Fig.11: CEB BANK-H (6818 HK) 12-month forward P/B



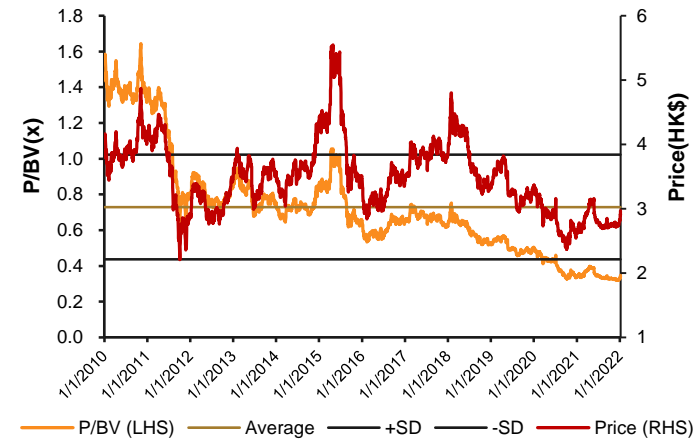
Source: Company data, CMBIS

Fig.12: ABC-H (1288 HK) 12-month forward P/B



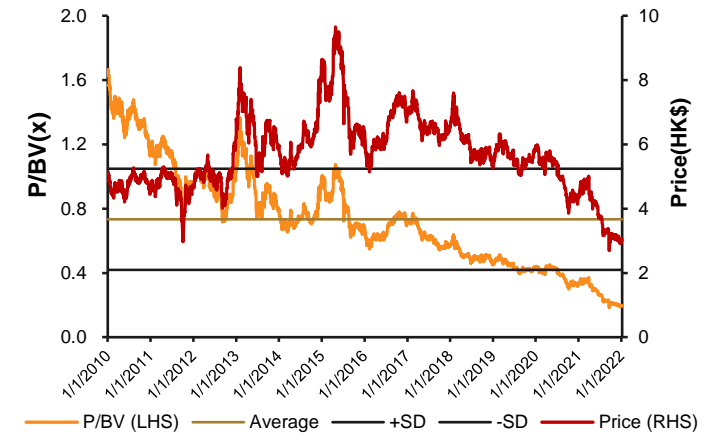
Source: Company data, CMBIS

Fig.13: Bank of China-H (3988 HK) 12-month forward P/B



Source: Company data, CMBIS

Fig.14: China Minsheng-H (1988 HK) 12-month forward P/B



Source: Company data, CMBIS

Trading Bands of PER by Banks

Fig.1: Postal Savings-H (1658 HK) 12-month forward P/E

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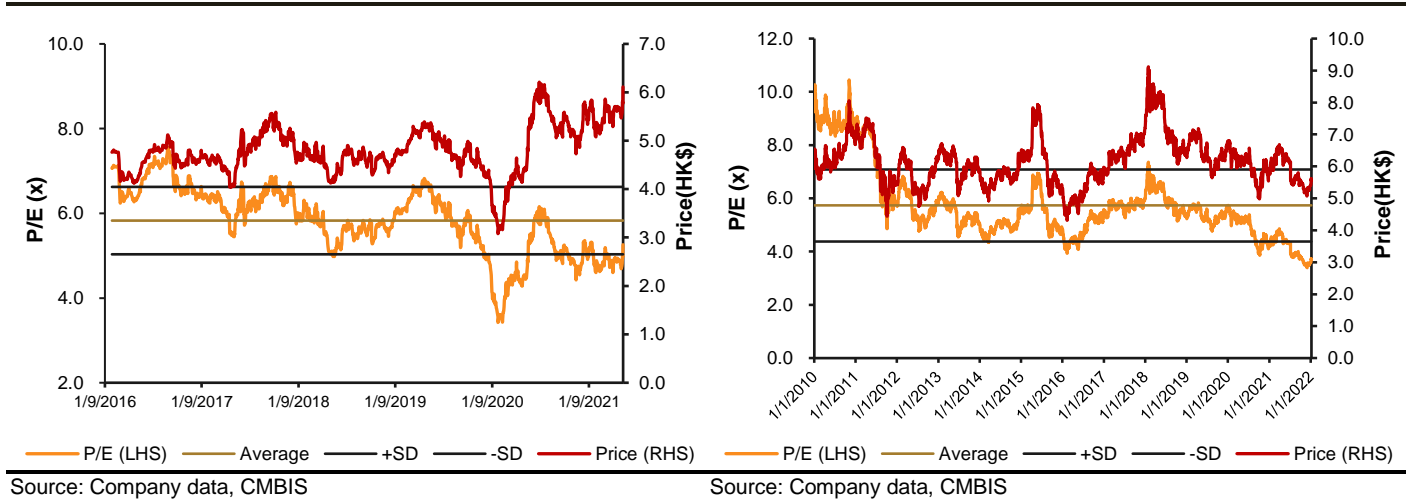


Fig.3: Bank of Shanghai (601229 CH) 12-month forward P/E

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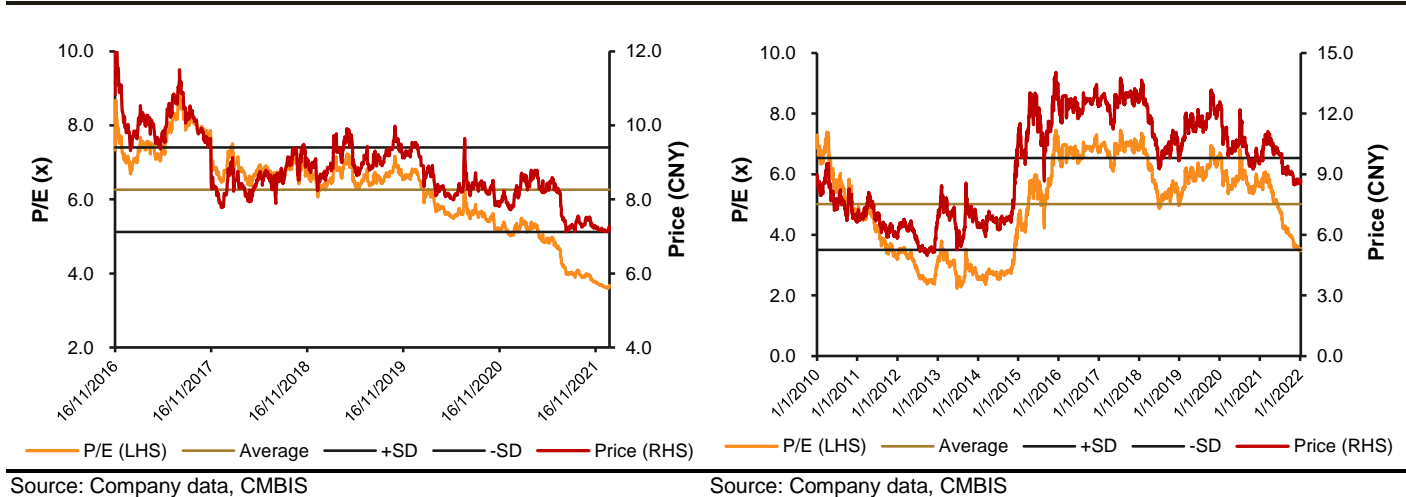


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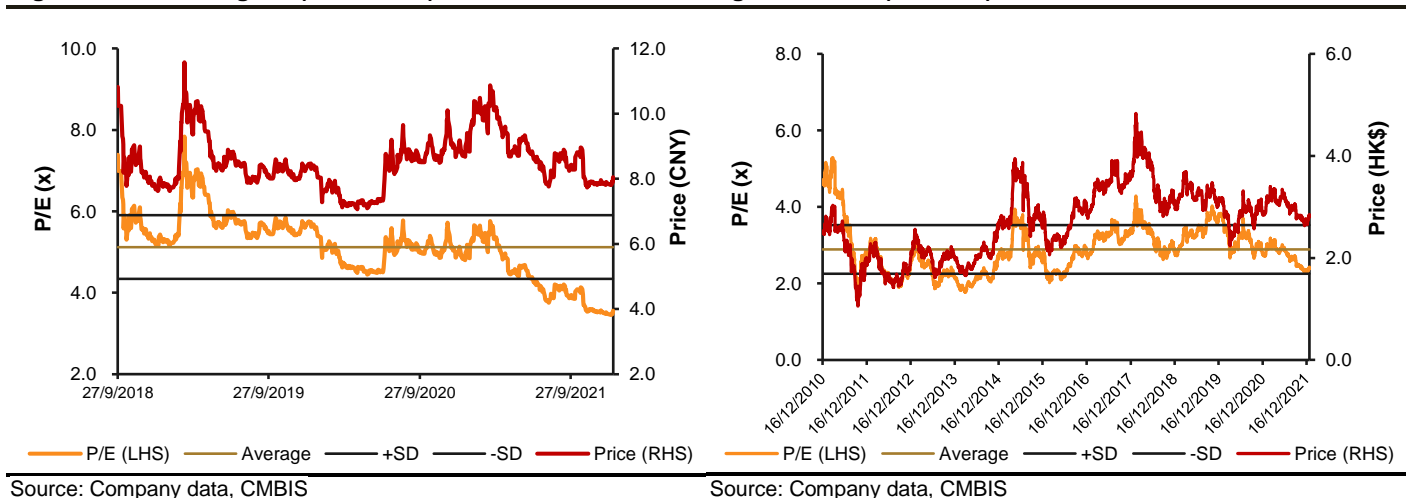
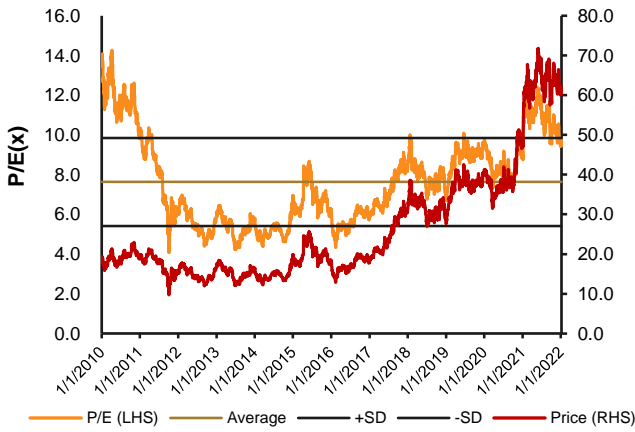
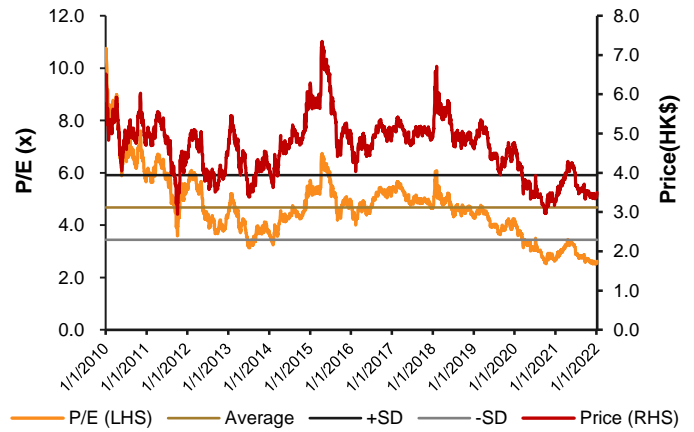


Fig.7: CM BANK-H (3968 HK) 12-month forward P/E



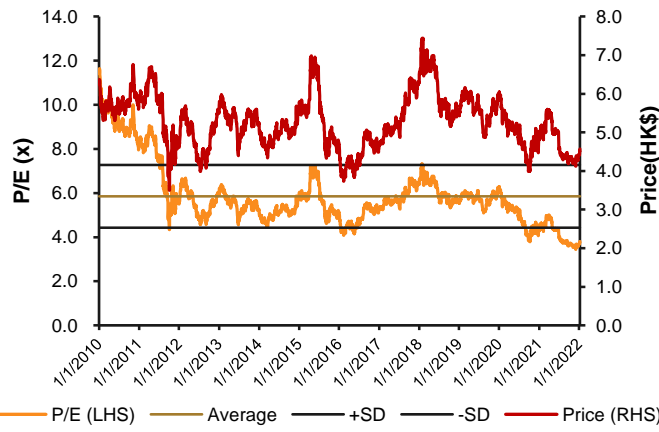
Source: Company data, CMBIS

Fig.8: CITIC BANK-H (0998 HK) 12-month forward P/E



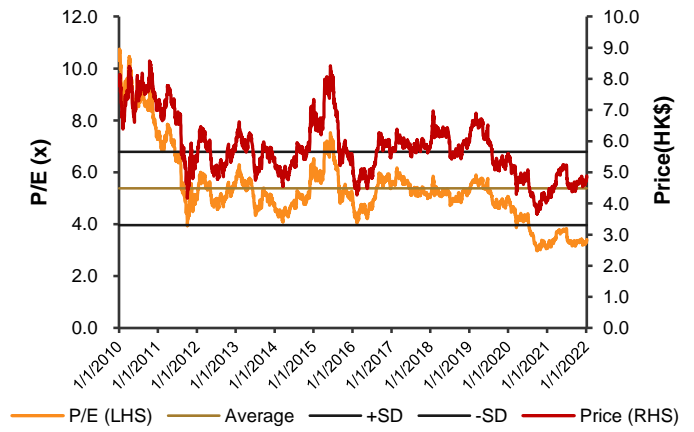
Source: Company data, CMBIS

Fig.9: ICBC-H (1398 HK) 12-month forward P/E



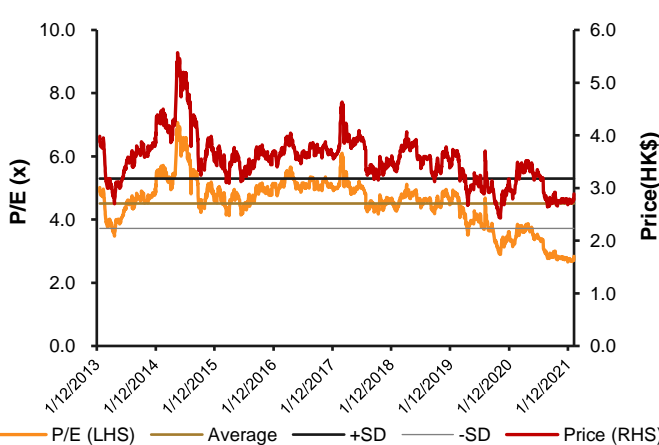
Source: Company data, CMBIS

Fig.10: BANKCOMM-H (3328 HK) 12-month forward P/E



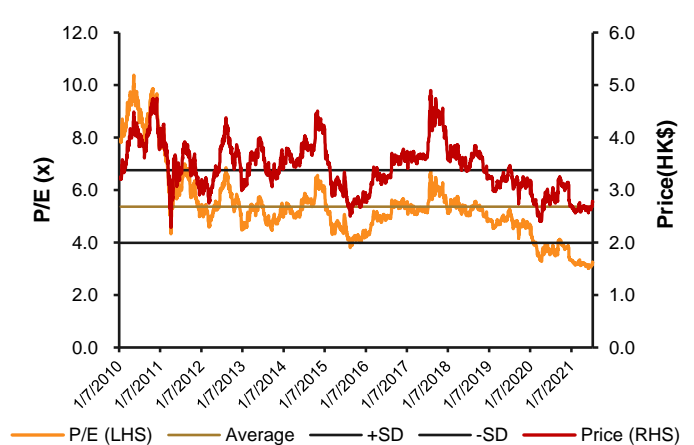
Source: Company data, CMBIS

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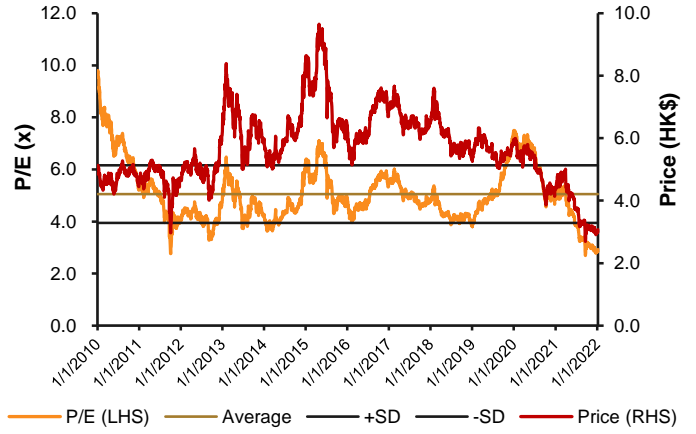
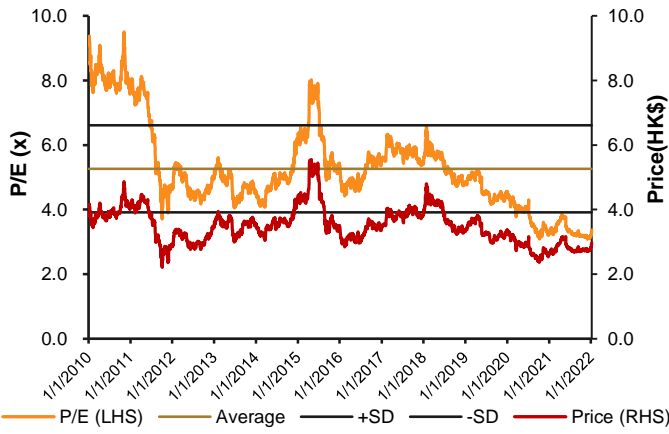
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Fig.13: Bank of China-H (3988 HK) 12-month forward P/E

Fig.14: China Minsheng-H (1988 HK)12-month forward P/E

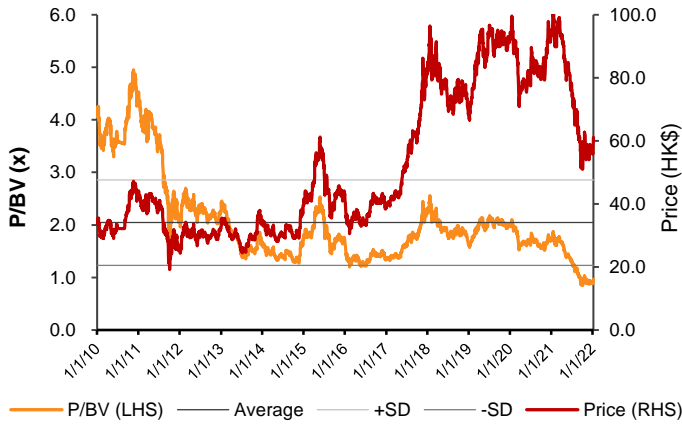


Source: Company data, CMBIS

Source: Company data, CMBIS

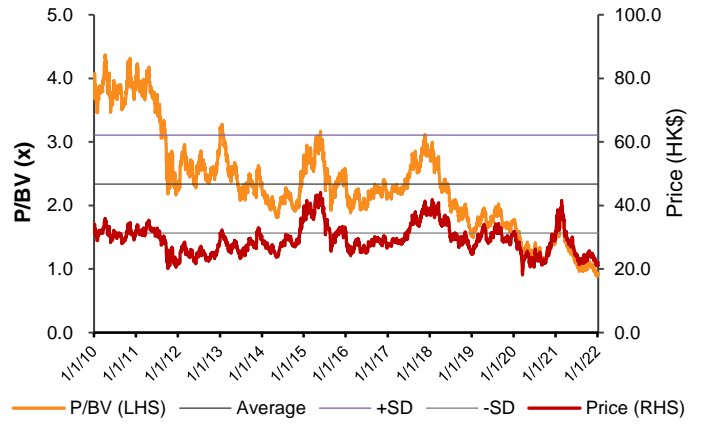
Trading Bands of PBV by Insurance

Fig.1: Ping An-H (2318 HK) 12-month forward P/B



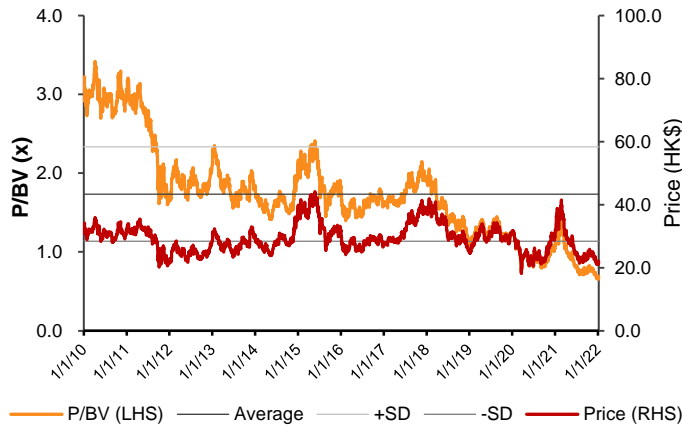
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Fig.2: China Life-H (2628 HK) 12-month forward P/B



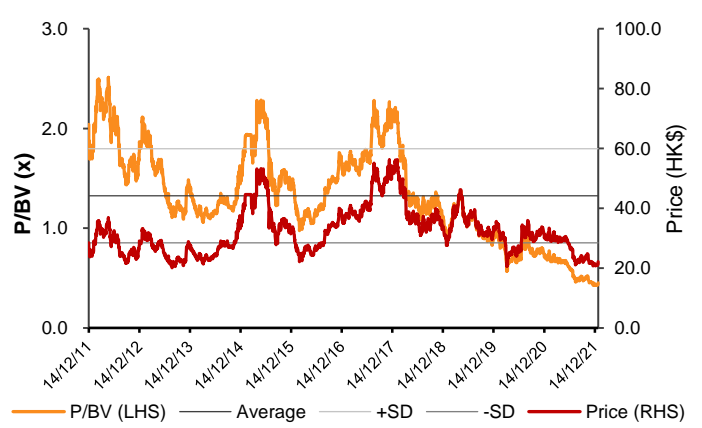
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Fig.3: CPIC-H (2601 HK) 12-month forward P/B



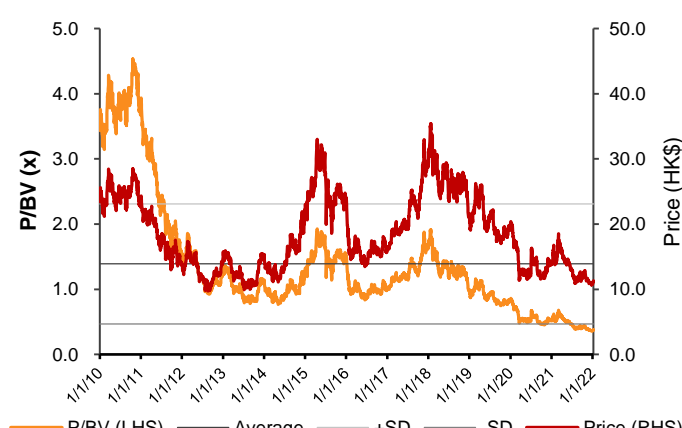
Source: Company data, CMBIS

Fig.4: New China Life-H (1336 CH) 12-month forward P/B



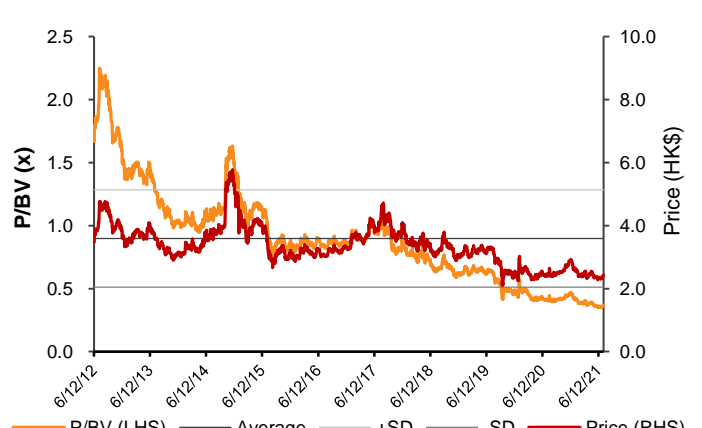
Source: Company data, CMBIS

Fig.5: China Taiping-H (966 HK) 12-month forward P/B



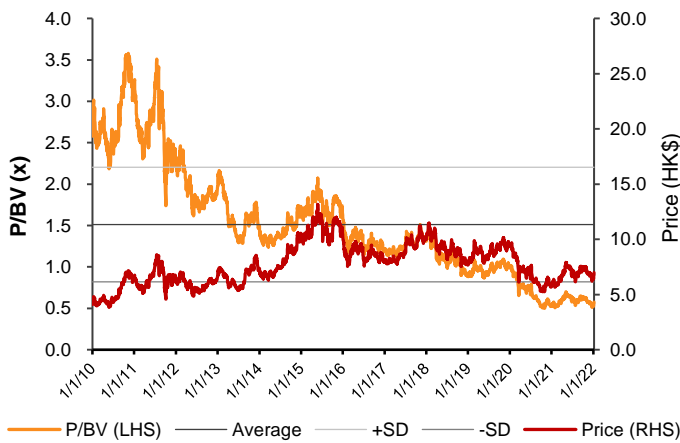
Source: Company data, CMBIS

Fig.6: PICC Group-H (1339 HK) 12-month forward P/B



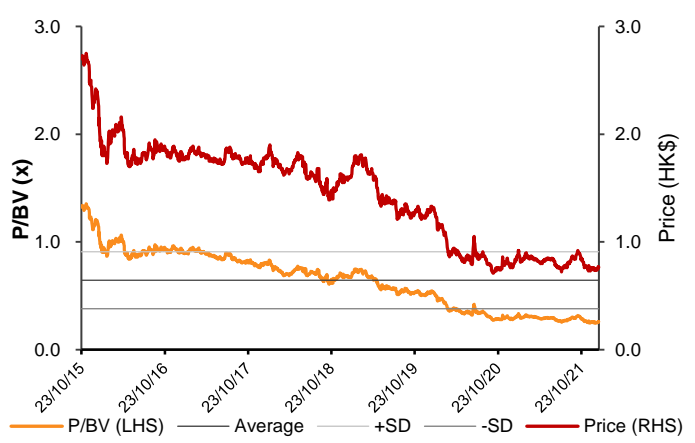
Source: Company data, CMBIS

Fig.7: PICC P&C-H (2328 HK) 12-month forward P/B



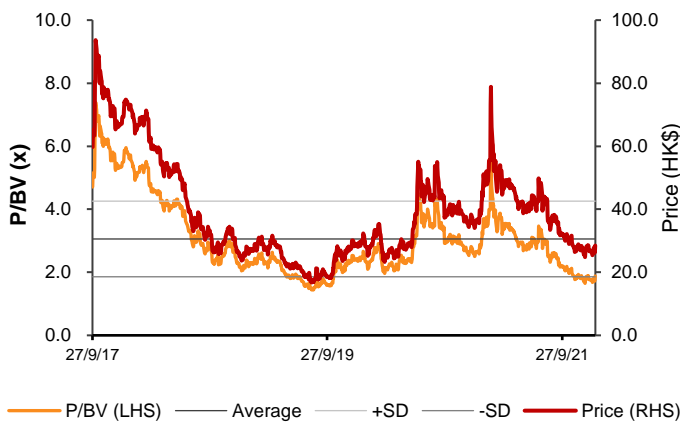
Source: Company data, CMBIS

Fig.8: China Re-H (1508 HK) 12-month forward P/B



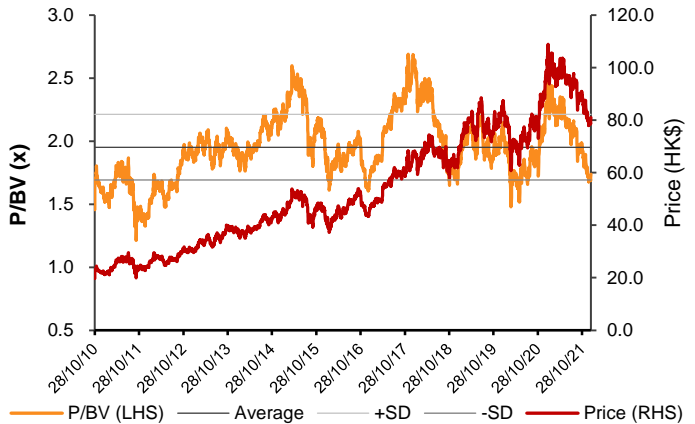
Source: Company data, CMBIS

Fig.9: Zhong An-H (6060 HK) 12-month forward P/B



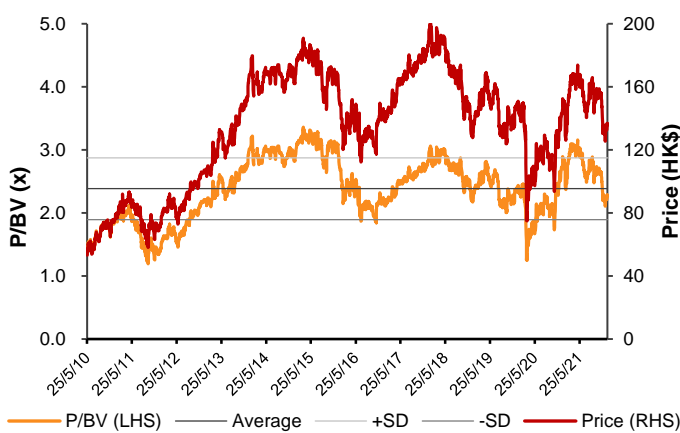
Source: Company data, CMBIS

Fig.10: AIA-H (1299 HK) 12-month forward P/B



Source: Company data, CMBIS

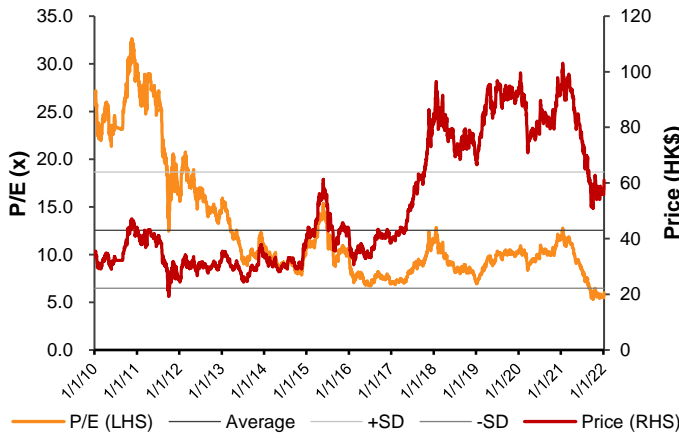
Fig.11: Prudential-H (2378 HK) 12-month forward P/B



Source: Company data, CMBIS

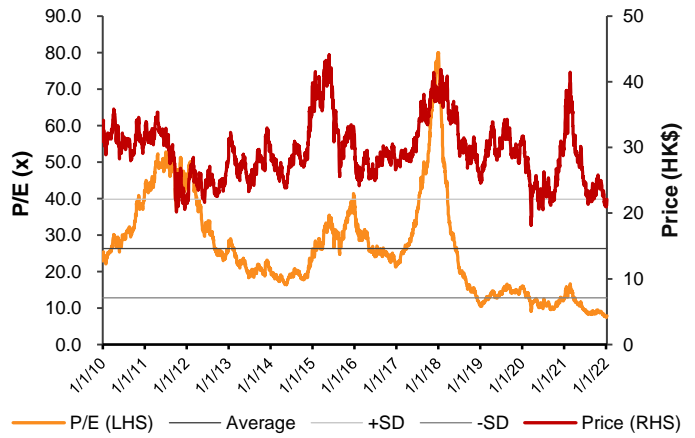
Trading Bands of PER by Insurance

Fig.1: Ping An-H (2318 HK) 12-month forward P/E



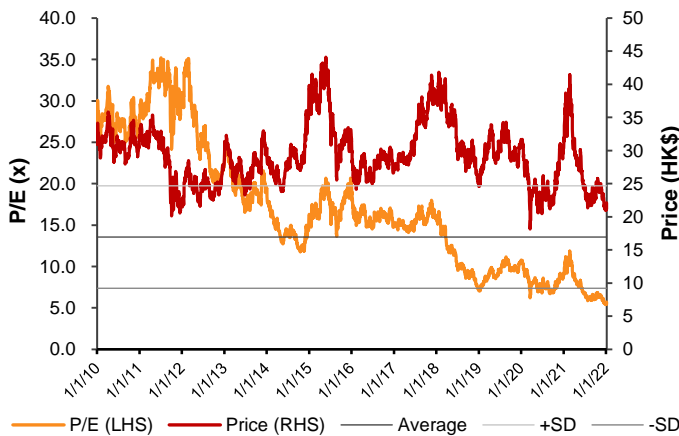
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Fig.2: China Life-H (2628 HK) 12-month forward P/E



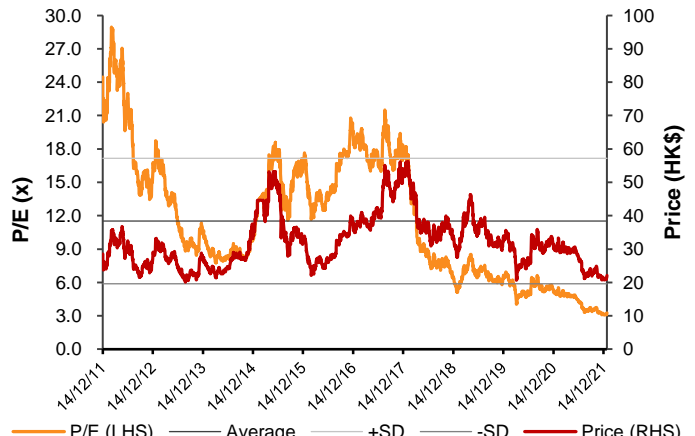
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Fig.3: CPIC-H (2601 HK) 12-month forward P/E



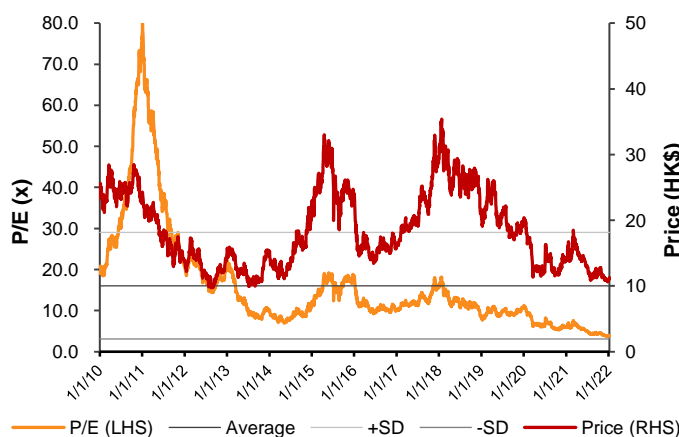
Source: Company data, CMBIS

Fig.4: New China Life-H (1336 CH) 12-month forward P/E



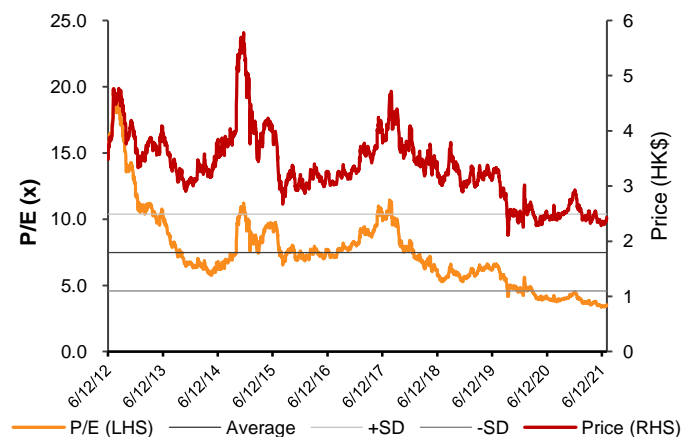
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Fig.5: China Taiping-H (966 HK) 12-month forward P/E



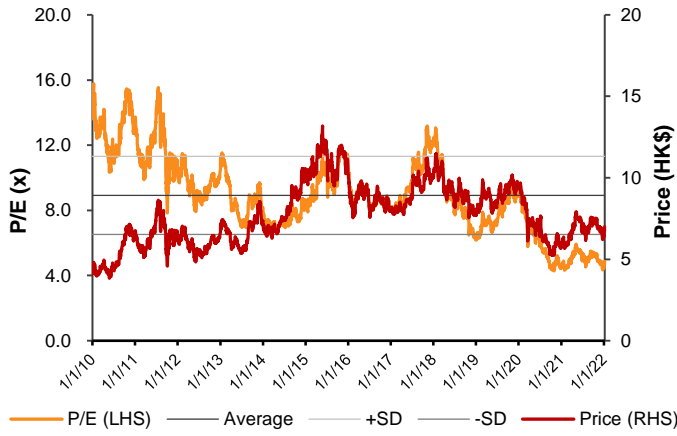
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Fig.6: PICC Group-H (1339 HK) 12-month forward P/E



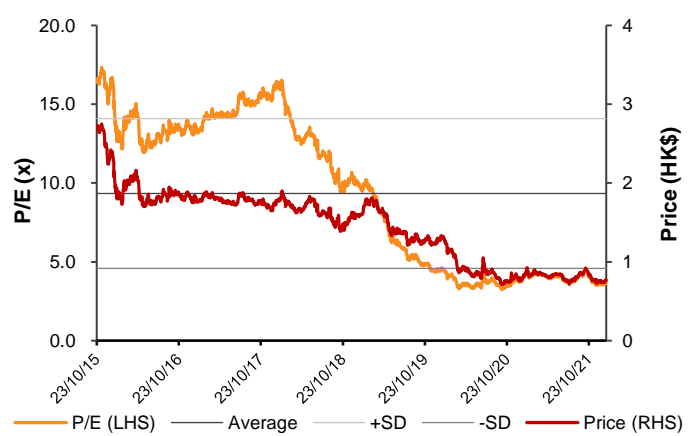
Source: Company data, CMBIS

Fig.7: PICC P&C-H (2328 HK) 12-month forward P/E



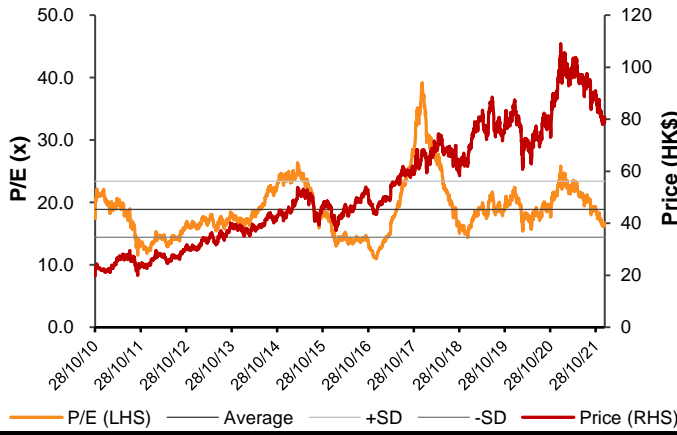
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Fig.8: China Re-H (1508 HK) 12-month forward P/E



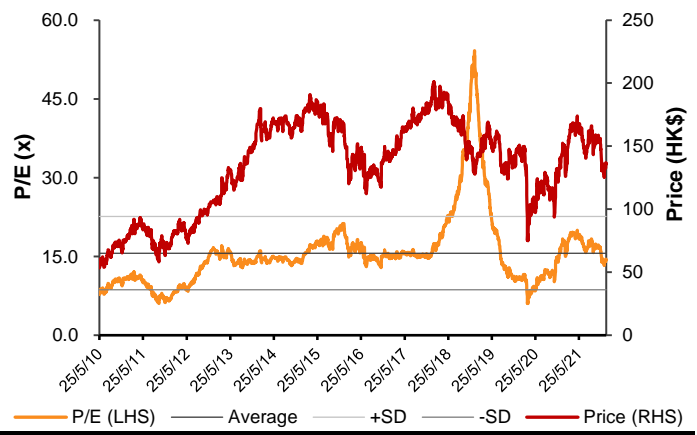
Source: Company data, CMBIS

Fig.9: AIA-H (1299 HK) 12-month forward P/E



Source: Company data, CMBIS

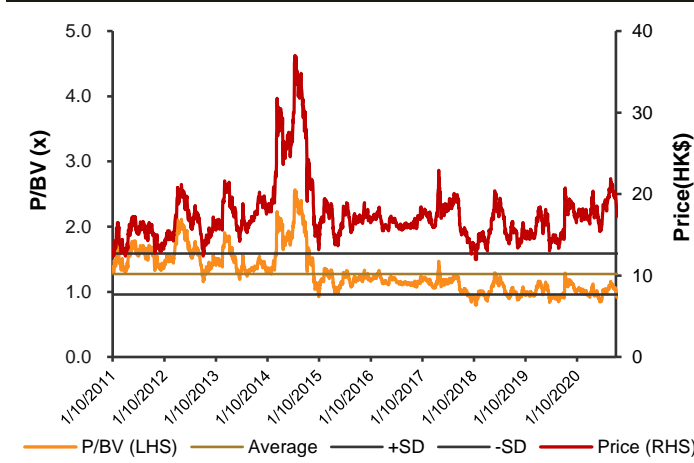
Fig.10: Prudential-H (2378 HK) 12-month forward P/E



Source: Company data, CMBIS

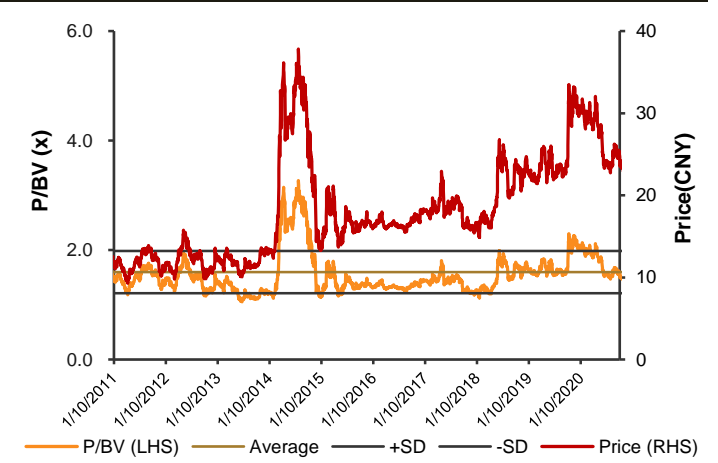
Trading Bands of PBV by Brokers

Fig.1: CITIC SEC-H (6030 HK) 12-month forward P/B



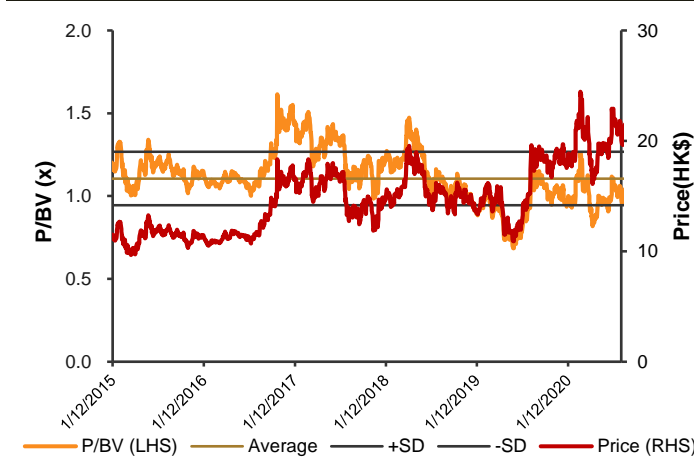
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Fig.2: CITIC-CH (60030 CH) 12-month forward P/B



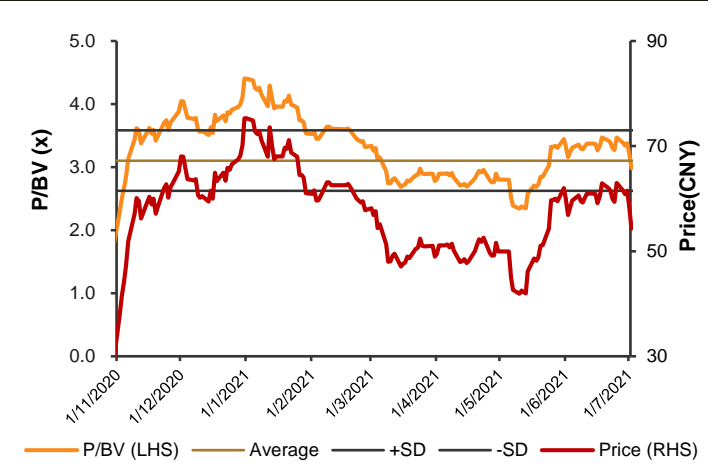
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Fig.3: CICC-H (3908 HK) 12-month forward P/B



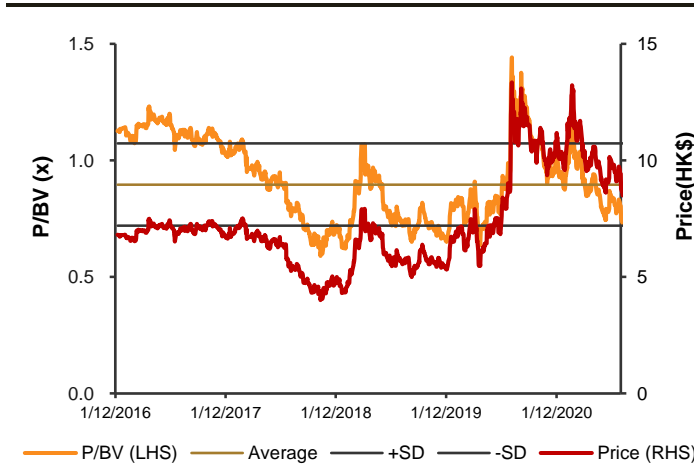
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Fig.4: CICC-CH (601995 CH) 12-month forward P/B



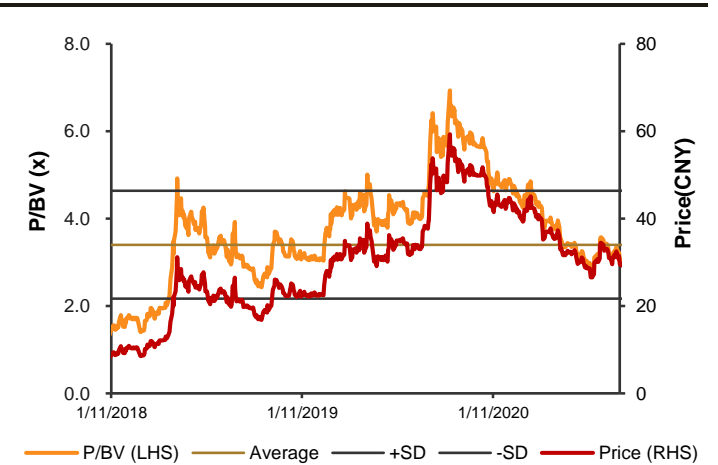
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Fig.5: CSC-H (6066 HK) 12-month forward P/B



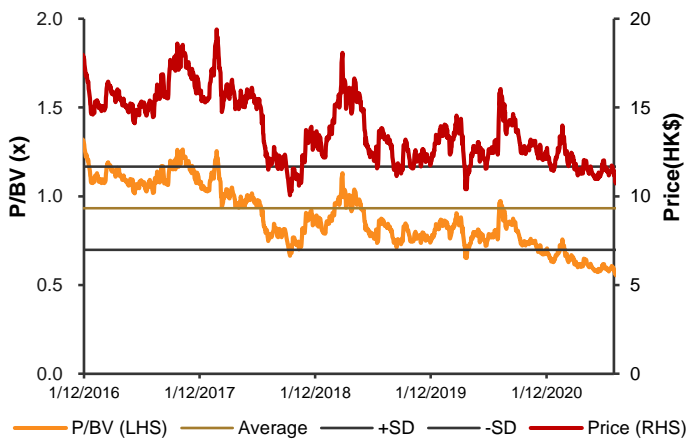
Source: Company data, CMBIS

Fig.6: CSC-CH (601066 HK) 12-month forward P/B



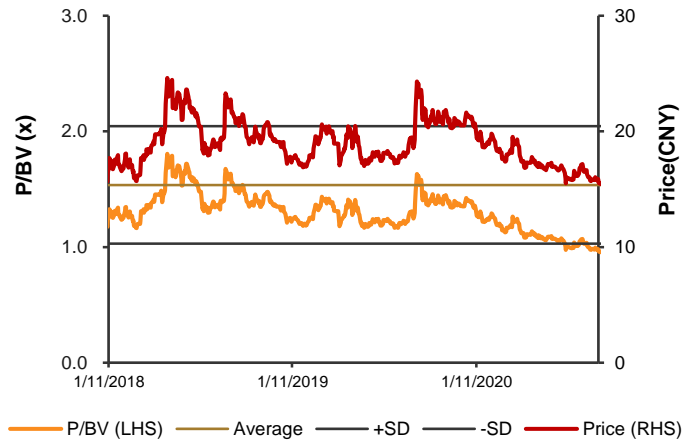
Source: Company data, CMBIS

Fig.7: HUATAI SEC-H (6886 HK) 12-month forward P/B



Source: Company data, CMBIS

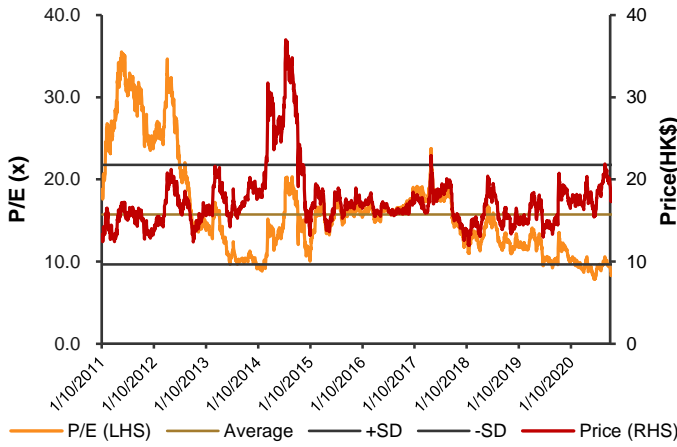
Fig.8: HUATAI SEC-CH (601688 CH) 12-month forward P/B



Source: Company data, CMBIS

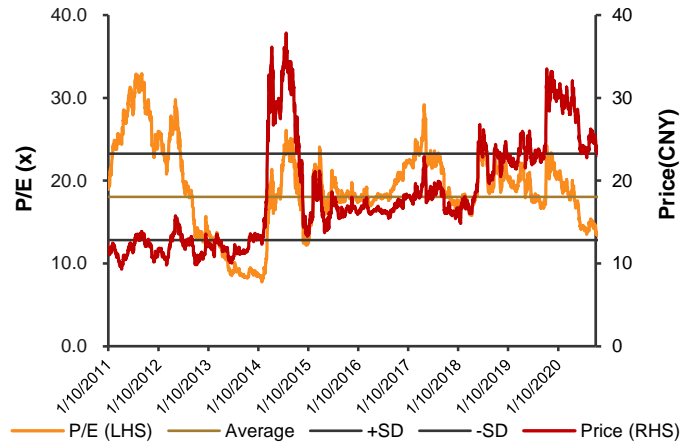
Trading Bands of PER by Brokers

Fig.1: CITIC SEC-H (6030 HK) 12-month forward P/E



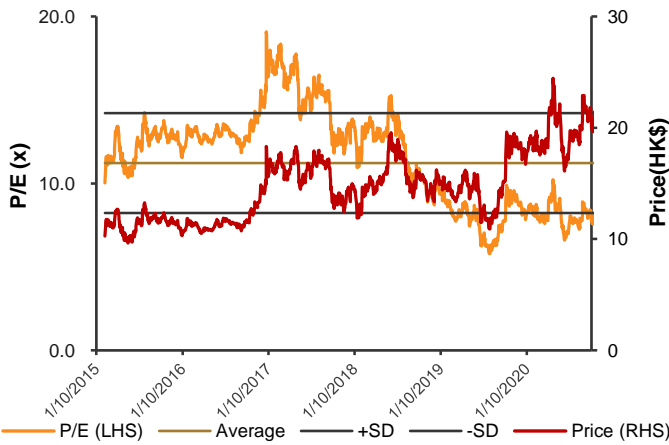
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Fig.2: CITIC-CH (60030 CH) 12-month forward P/E



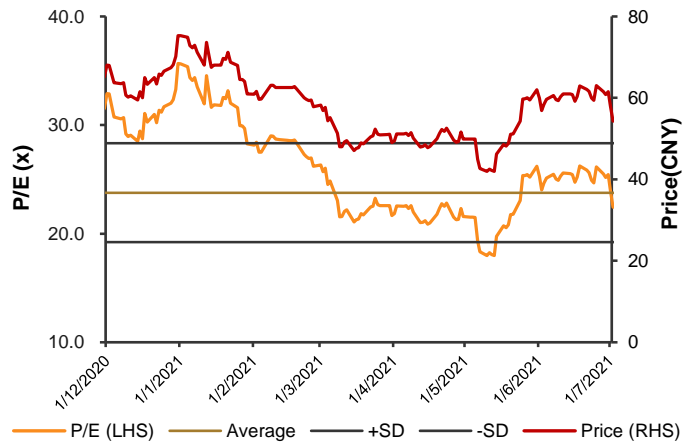
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Fig.3: CICC-H (3908 HK) 12-month forward P/E



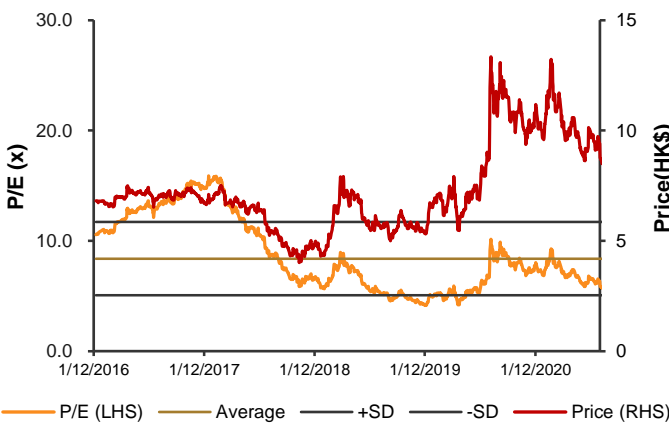
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Fig.4: CICC-CH (601995 CH) 12-month forward P/E



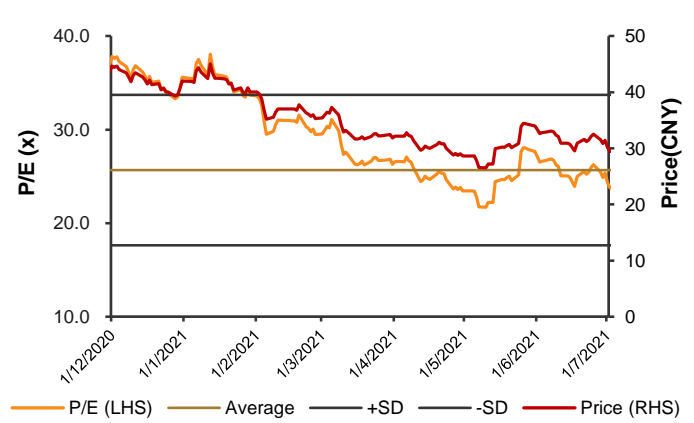
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Fig.5: CSC-H (6066 HK) 12-month forward P/E



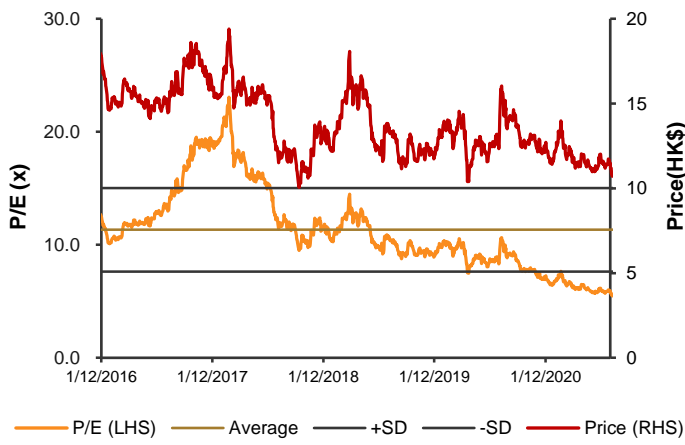
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Fig.6: CSC-CH (601066 HK) 12-month forward P/E



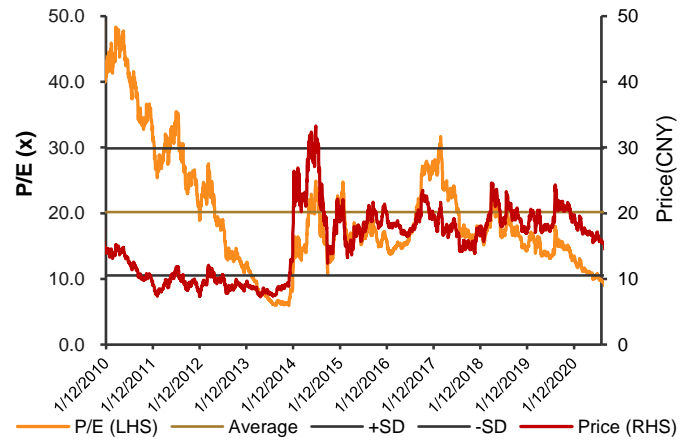
Source: Company data, CMBIS

Fig.7: HUATAI SEC-H (6886 HK) 12-month forward P/E



Source: Company data, CMBIS

Fig.8: HUATAI SEC-CH (601688 CH) 12-month forward P/E



Source: Company data, CMBIS

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