

# China Banking Sector

## Implications on loan and deposit rate cut

Following the footsteps of large banks, regional banks start to cut their deposit rate as well. Although banks' NIM will continue to compress in FY22 due to loan rate drop, declining deposit rate can help mitigate the NIM compression. Banks with more time deposits will outperform on NIM performance. Maintain OUTPERFORM on banking sector, and our top pick as PSBC (1658 HK, BUY) with a target price of HK\$8.40.

- Under the circumstance of industry-wide deposit rate drop, we estimate banks with more time deposits to benefit more.** We assume a 30% of time deposits will be repriced within one year and repriced deposit drop 10 bps on cost. Meanwhile, demand deposit rates are unaffected. On NII perspective, with 10 bps deposit rate drop, PSBC's NIM will be improved by 1.96 bps, higher than the average 1.31 bps/1.21 bps of SOEs avg/listed banks avg. In addition, ICBC's NIM will get a 1.24 bps boost, PSBC and ICBC will outperform other SOEs. Among JSBs, the average NIM will be improved by 1.11 bps, and Everbright/Ping An Bank are benefited more significantly by 1.46bps/1.30bps respectively. From profit perspective, PSBC, Wuxi Bank and Lanzhou Bank are outperformers, with pre-tax profit improvement of 2.74%, 1.87% and 3.94%, respectively. Meanwhile, avg pre-tax profit improvement of SOEs, JSBs and listed banks are 1.32%, 1.19% and 1.07%, respectively.
- Since regulator's intention of guiding deposits rate downward is to allow banks to provide more support on real economy, we think that the saved deposit cost will be transferred to loan borrowers.** Assuming 10 bps drop on both deposit rate and lending rate, estimated NIM of SOEs/JSBs/listed banks will compress 1.2 bps, 1.57 bps and 1.34 bps, respectively. On earnings perspective, estimated revenue and pre-tax profit of SOEs/JSBs/listed banks will drop 0.45%/0.51%/0.47% and 1.09%/1.66%/1.18%, respectively.
- Deposit driven banks will outperform wholesale driven ones.** Specifically, PSBC, Bank of Guiyang and CQRCB will outperform other banks because of their high time deposits to liability ratio. Although these three banks still have to face a narrowing NIM, compression is estimated to be less than other banks.
- Maintain OUTPERFORM on banking sector and PSBC (1658 HK, BUY) as our top pick.** Since PSBC is the key beneficiary on deposit rate drop, we maintain it as our top pick. Our TP implies 0.91x 2022E and 0.85x 2023E P/B. The stock is trading at 0.69x/0.63x FY22/23E P/B, 5% above +1SD of 3-yr historical mean.

### Valuation Table

| Name | Ticker    | Mkt Cap (LC bn) | Rating | Closing price (LC) | TP (LC) | Upside | P/E | P/B | Yield |
|------|-----------|-----------------|--------|--------------------|---------|--------|-----|-----|-------|
| PSBC | 1658 HK   | 529             | BUY    | 5.94               | 8.40    | 41%    | 5.0 | 0.6 | 6.0%  |
| CCB  | 939 HK    | 1,367           | BUY    | 5.65               | 8.10    | 43%    | 3.6 | 0.4 | 8.2%  |
| SPDB | 600000 CH | 233             | HOLD   | 7.85               | 9.00    | 14%    | 4.1 | 0.4 | 6.7%  |
| BOSH | 601229 CH | 91              | BUY    | 6.38               | 8.68    | 36%    | 3.7 | 0.5 | 7.7%  |
| CQRC | 3618 HK   | 34              | HOLD   | 3.02               | 3.40    | 11%    | 2.6 | 0.2 | 11.2% |
| BOCS | 601577 CH | 29.9            | HOLD   | 7.44               | 8.30    | 12%    | 3.8 | 0.6 | 6.7%  |

Source: CMBIGM estimates based on 2022E earnings. Note: All closing prices are as of 25 May

**OUTPERFORM**  
(Maintain)

### China Banking Sector

**Eric Wang**  
(852) 6367 0561  
ericwang@cmbi.com.hk

**Gigi Chen, CFA**  
(852) 3916 3739  
gigichen@cmbi.com.hk

### Stocks covered

| Ticker    | Rating | TP (LC) | Upside |
|-----------|--------|---------|--------|
| 1658 HK   | BUY    | 8.40    | 41%    |
| 939 HK    | BUY    | 8.10    | 43%    |
| 600000 CH | HOLD   | 9.00    | 14%    |
| 601229 CH | BUY    | 8.68    | 36%    |
| 3618 HK   | HOLD   | 3.05    | 11%    |
| 601577 CH | HOLD   | 8.30    | 12%    |
| 601658 SH | BUY    | 7.07    | 35%    |
| 601939 SH | BUY    | 7.50    | 26%    |
| 601077 SH | HOLD   | 3.60    | -6%    |

Source: CMBIGM estimates

### Recent Reports:

- China Banking – Looking for the safe harbour ([link](#))
- China Banking – 4Q21 Quarterly Review ([link](#))
- China Financials Weekly – +VE impact from LPR cut and lower mortgage floor ([link](#))

Figure 1: Implications of 10 bps cut on both term deposit rate and loan rate

| Bank             | Ticker    | Mkt cap   | NIM   | NII chg | NIM chg<br>x bps | Revenue<br>chg | Pre-tax<br>profit chg |
|------------------|-----------|-----------|-------|---------|------------------|----------------|-----------------------|
| ICBC             | 601398.SH | 1,612,265 | 2.11% | -0.61%  | -1.29            | -0.45%         | -0.99%                |
| CCB              | 601939.SH | 1,188,429 | 2.13% | -0.70%  | -1.48            | -0.51%         | -1.11%                |
| ABC              | 601288.SH | 1,062,965 | 2.12% | -0.64%  | -1.35            | -0.51%         | -1.24%                |
| CMB              | 600036.SH | 929,529   | 2.48% | -0.78%  | -1.93            | -0.48%         | -1.07%                |
| BOC              | 601988.SH | 890,429   | 1.75% | -0.83%  | -1.45            | -0.58%         | -1.27%                |
| PSBC             | 601658.SH | 495,839   | 2.36% | -0.13%  | -0.30            | -0.11%         | -0.43%                |
| CIB              | 601166.SH | 415,484   | 2.29% | -0.68%  | -1.56            | -0.45%         | -1.04%                |
| BoComm           | 601328.SH | 347,827   | 1.56% | -0.86%  | -1.34            | -0.51%         | -1.48%                |
| PAB              | 000001.SZ | 283,132   | 2.79% | -0.55%  | -1.54            | -0.39%         | -1.45%                |
| SPDB             | 600000.SH | 230,415   | 1.83% | -0.90%  | -1.64            | -0.64%         | -2.06%                |
| BNB              | 002142.SZ | 226,503   | 2.21% | -0.49%  | -1.07            | -0.30%         | -0.78%                |
| Citic            | 601998.SH | 206,717   | 2.05% | -0.81%  | -1.67            | -0.59%         | -1.84%                |
| CEB              | 601818.SH | 158,624   | 2.16% | -0.50%  | -1.09            | -0.37%         | -1.07%                |
| CMBC             | 600016.SH | 150,142   | 1.91% | -0.74%  | -1.40            | -0.55%         | -2.60%                |
| Bank of Nanjing  | 601009.SH | 110,070   | 1.88% | -0.31%  | -0.58            | -0.20%         | -0.43%                |
| Bank of Jiangsu  | 600919.SH | 103,092   | 2.28% | -0.57%  | -1.30            | -0.41%         | -0.98%                |
| Bank of Beijing  | 601169.SH | 94,298    | 1.83% | -0.74%  | -1.36            | -0.58%         | -1.52%                |
| Bank of Shanghai | 601229.SH | 91,207    | 1.74% | -0.53%  | -0.92            | -0.38%         | -0.90%                |
| Hangzhou Bank    | 600926.SH | 87,709    | 1.83% | -0.58%  | -1.06            | -0.42%         | -1.16%                |
| HXB              | 600015.SH | 81,091    | 2.35% | -0.69%  | -1.63            | -0.57%         | -1.75%                |
| CZB              | 601916.SH | 68,568    | 2.27% | -0.74%  | -1.68            | -0.57%         | -2.07%                |
| SHRCB            | 601825.SH | 60,664    | 1.86% | -0.45%  | -0.84            | -0.36%         | -0.72%                |
| Bank of Chengdu  | 601838.SH | 60,469    | 2.13% | -0.46%  | -0.98            | -0.37%         | -0.75%                |
| CQRCB            | 601077.SH | 40,518    | 2.17% | -0.28%  | -0.62            | -0.24%         | -0.67%                |
| Changsha Bank    | 601577.SH | 29,438    | 2.40% | -0.43%  | -1.03            | -0.33%         | -0.87%                |
| Bank of LZ       | 001227.SZ | 26,998    | 1.72% | -0.43%  | -0.73            | -0.33%         | -1.66%                |
| Bank of Suzhou   | 002966.SZ | 23,700    | 1.91% | -0.46%  | -0.88            | -0.32%         | -0.89%                |
| Qilu Bank        | 601665.SH | 23,637    | 2.02% | -0.43%  | -0.88            | -0.32%         | -0.97%                |
| Bank of Guiyang  | 601997.SH | 22,157    | 2.26% | -0.25%  | -0.57            | -0.22%         | -0.48%                |
| CSRCB            | 601128.SH | 21,433    | 3.06% | -0.39%  | -1.20            | -0.34%         | -0.97%                |
| Bank of CQ       | 601963.SH | 20,231    | 2.06% | -0.45%  | -0.93            | -0.36%         | -0.86%                |
| Bank of Qingdao  | 002948.SZ | 19,563    | 1.79% | -0.61%  | -1.09            | -0.42%         | -1.45%                |
| Bank of ZZ       | 002936.SZ | 19,280    | 2.31% | -0.47%  | -1.09            | -0.38%         | -1.42%                |
| QDRCB            | 002958.SZ | 18,000    | 2.16% | -0.52%  | -1.13            | -0.41%         | -1.27%                |
| Bank of Xi'an    | 600928.SH | 16,356    | 1.91% | -0.46%  | -0.87            | -0.38%         | -0.89%                |
| Bank of Xiamen   | 601187.SH | 15,386    | 1.62% | -0.81%  | -1.31            | -0.67%         | -1.51%                |
| RFRCB            | 601528.SH | 12,256    | 2.34% | -0.51%  | -1.18            | -0.46%         | -1.11%                |
| Bank of Wuxi     | 600908.SH | 10,760    | 1.95% | -0.40%  | -0.78            | -0.32%         | -0.79%                |
| ZJGRCB           | 002839.SZ | 10,718    | 2.43% | -0.41%  | -0.99            | -0.32%         | -1.09%                |
| Zijing           | 601860.SH | 10,434    | 1.83% | -0.65%  | -1.19            | -0.57%         | -1.44%                |
| SZRCB            | 603323.SH | 9,556     | 2.24% | -0.59%  | -1.32            | -0.47%         | -1.42%                |
| JYRCB            | 002807.SZ | 9,101     | 2.14% | -0.50%  | -1.07            | -0.42%         | -1.07%                |
| Listed banks avg | -         | 221,785   | 2.07% | -0.65%  | -1.34            | -0.47%         | -1.18%                |
| SOE avg          | -         | 932,959   | 2.01% | -0.63%  | -1.20            | -0.45%         | -1.09%                |
| JSB avg          | -         | 280,411   | 2.24% | -0.71%  | -1.57            | -0.51%         | -1.66%                |

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.