中国 银行

2019年展望：挑战犹存，但仍有“休整空间”(摘要)

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2017年一季度，我们基于“休整空间”的题材首次覆盖了中国银行股，因为当时行业即将从主要因产能过剩行业引发的不良率高企以及几轮降息后的净利差收窄中恢复元气。得益于随后的供给侧改革、协同监管努力以及经济回暖，中国银行业终于摆脱了困境。我们强调主要趋势如下：1) 信贷增长减速（2018年社会融资规模增幅为9.8%，增幅较2017年下降7.5个百分点）缓解系统性风险，而且影子银行余额/占比持续收缩（2018年较2017年下降2.9个百分点）；2) 资产质量改善，2018年三季度隐含不良率下降了1.3个百分点，得益于上游行业盈利能力改善以及贷款结构调整；3) 由于旺盛的贷款需求推动资产重定价，2016年底至2018年三季度，四大行净息差上升了19个基点。

虽然中国经济增速放缓，但我们认为研究范围内中国银行股仍有“休整空间”，因为系统债务增速和影子银行活动持续受到抑制，而且银行股估值极具吸引力，甚至低于2014-16年下行周期，而当前资产质量和净息差趋势明显好转且资本金/拨备强劲得多。

围绕资产质量和净息差的担忧过度；当前周期不同于2014-16年

资产质量：我们认为全系统信贷风险依然较低（基本稳定的隐含不良率前景甚至假设企业盈利减少），这不仅源于上游行业走强，还得益于贷款结构改善。我们仍对当前周期中消费领域的疲弱状况持谨慎看法，但需要强调的是，由于消费者财务杠杆较低，这一领域的表现历来更为平稳；而且截至2017年底银行的消费类贷款占比依然有限，至多为7%。在悲观情景假设下（万得市场预测A股EBIT利润向下修正30%）。我们计算的2019年隐含不良率为4.6%，略高于2018年三季度的3.8%，但仍远低于10%的前一下行周期峰值，也低于9.8%这一尚不会影响银行资本金基础的不良贷款吸收能力上限。

净息差：我们认为2019年净息差压力将保持温和（对于大型银行来说既不扩张也不压缩），因为我们认为当局下调基准利率的可能性很低（因为市场利率降低通常仅仅影响新贷款发放而不会影响存量贷款）。

虽然清理了影子银行和不良贷款，但银行业风险缓冲改善，截至2018年三季度不良贷款拨备覆盖率、拨备/（不良贷款+关注类贷款）以及一级资本充足率分别为181%/66%/11.3%，相比之下2017年二季度的低点为177%/57%/11.1%。此外，我们认为零售贷款占比提高以及存款利率放开将为本周期净息差带来支撑。虽然经济环境已经发生改变，而且需要当局进行政策调整来疏通基建项目/中小企业的信贷渠道，但我们认为降低系统风险的长期政策立场可能保持不变，我们预计当局将开展更多以市场为导向的政策调整，同时尽量避免影响银行的独立风险承担能力。

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经营环境良好，净息差/资产质量前景稳定；看好中小型银行

总的来说，我们认为中国银行业经营环境依然良好，尤其是净息差和资产质量前景均表现平稳。具体而言，我们预计2019/20年行业拨备前营业利润增速为9%/7%，得益于贷款同比增长12%/11%以及净息差同比小幅扩张4个/0个基点。我们预计资产质量稳健，我们覆盖银行的2020年平均不良率为1.44%（基本持平于2017年底的1.43%），同时我们认为2020年不良贷款拨备覆盖率将保持在243%的高位（2017年均值为257%）。我们预计，由于2019/20年税后净利润预计增长8%/8%，我们所覆盖银行的一级资本充足率有望进一步提高0.4个百分点。在当前周期中，我们相对更看好中小型银行，因为1) 受益于同业利率走低；2) 支持中小企业/民营企业的政治压力较轻。

虽然基本面改善，但是估值处在历史低点

中国H/A银行股市净率均值较2018年年初创下的高点回调了23%/32%。虽然H/A股银行公布的市净率从上一周期（2014年四季度至2016年一季度）谷底回升了17%/1%，但是我们计算的H股经隐含不良率调整后市盈率仅为0.65倍（2014年四季度至2016年一季度均值为1.01倍）。我们认为当前估值可能反映出投资者对于资产质量明显恶化和/或净息差降低感到担忧，我们认为这种忧虑情绪没有根据，因为我们预计政府将继续执行定向放松政策。

调整盈利预测和目标价格

在本报告中，我们调整了所覆盖银行股的2018-20年盈利预测，并基于更新后的CAMELOT评分调整了2019年拨备前营业利润目标倍数。我们的12个月目标价格平均调整幅度为5%，其中招商银行H股目标价格上调了约9%，兴业银行A股目标价格上调了16%，得益于该行基本面持续改善，同时也是当前低同业利率环境的主要受益者。我们研究范围内H/A股最新12个目标价格平均对应24%/18%的上行空间。我们的首选股为招商银行H/A股（将招商银行H股加入强力买入名单），兴业银行（加入强力买入名单）、建设银行H/A股以及工商银行H/A股。具体请参见我们发表的另一篇报告“兴业银行(601166.SS)：市场利率下行之际“行业王者”占领先机；重申买入，加入强力买入名单”。

*全文翻译随后提供

“Where are China banks now?” in 5 charts

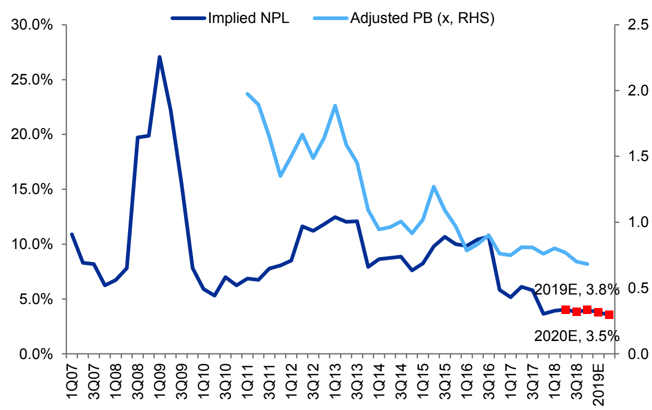
图表 1: We forecast banks to be in a better position vs. last cycle

	Our Forecast (3Q18-FY20E)	Last Cycle (3Q14-FY16)
Asset Quality		
NPL (bps)		
Big Banks	6	57
Other banks	-21	42
Implied NPL (bps)	-28	183
NIM (bps)		
Big Banks	-3	-58
Other banks	4	-47

	Our Forecast		Last Cycle	
	2019E	2020E	3Q14	4Q16
Risk buffer				
Tier 1 CAR				
Big Banks	13.0%	13.1%	10.8%	12.4%
Other banks	9.7%	9.8%	9.1%	9.9%
LLR/Loans				
Big Banks	2.94%	2.94%	2.78%	2.66%
Other banks	3.59%	3.39%	2.53%	3.24%
LLR/Implied NPL	83%	88%	35%	47%

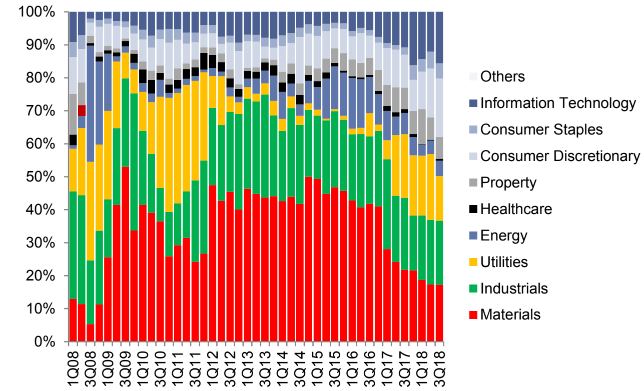
资料来源：Goldman Sachs Global Investment Research

图表 2: Implied NPL staying at low level while valuation is cheaper compared to prior downcycles
Implied NPL based on 3,000 A-share listed companies



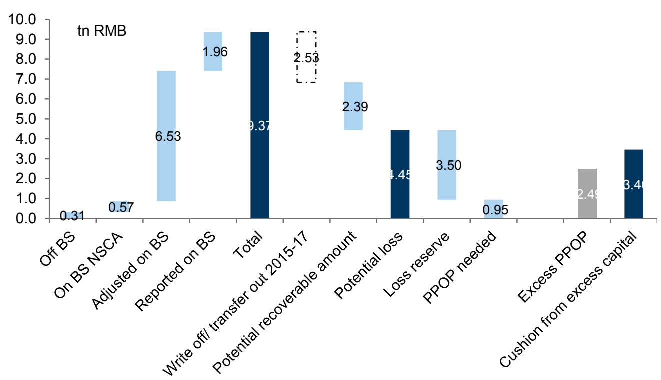
资料来源: PBOC, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 3: Upstream sectors historically accounted for the majority of NPLs (>60% during 2012-2016, vs 41% now)
NPL breakdown of corporate NPLs in A-share listco sample



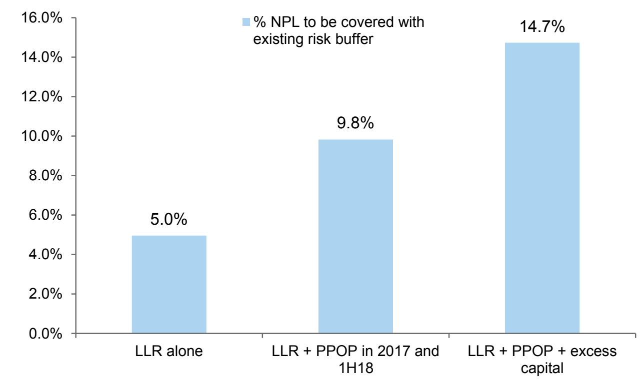
资料来源: Wind, Goldman Sachs Global Investment Research, PBOC, Gao Hua Securities Research

图表 4: We see sufficient buffer for banks to cover all implicit NPLs
as of FY18



资料来源: CBIRC, Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 5: We estimate that the existing risk buffer in banking system will be able to cover up to 14.7% of total NPL %



资料来源: CBIRC, Company data, Goldman Sachs Global Investment Research

What has changed since 1Q17? Lower systemic risk, improved NIM, stronger B/S but lower valuation

Systemic risk abated with 1) slower total leverage growth whereby 2018 additional TSF is 18% lower vs. the same period last year; and 2) shadow banking contracted further whereby outstanding shadow banking balance as % of total TSF is 2.9ppt lower vs. YE17. Given the new asset management rules now in place, we expect shadow banking to further decline in 2019.

Asset quality improved with 1.3ppt drop in implied NPL ratio from 1Q17 to 3Q18 on better corporate profitability, especially amongst upstream/cyclical sectors, thanks to capacity reduction and better loan mix. Given banks' continued effort on book clean-up, we expect asset quality to further improve in 2019 albeit at a slower pace given likely weaker economic conditions.

NIM recovered (according to CBIRC) by 11bps as of 3Q18 (vs YE2016) for big banks (ICBC/BOC/CCB/ABC/PSBC/CMB) with even greater improvement for the big-4 (+19bps) on efficient asset repricing. Looking ahead, we expect NIM to stay largely unchanged in 2019 given a low chance of benchmark rate cuts.

Increased buffer in the system: Banks' abilities to buffer risks have become stronger now despite the shadow and NPL clean up exercise with 181% NPL coverage, 66% Provision/(NPL+SML) and 11.3% Tier 1 CAR as of 3Q18 vs. the trough of 177%/57%/11.1% in 2Q17.

Valuation even lower: Major banks' valuation has not improved in terms of PB multiple and even decreased in terms of P/PPOP. We believe China banks, trading at a discount vs. prior cycle, deserve better multiples given reduced systematic risk, improved asset quality, stronger capital as well as more stable NIM outlook.

图表 6: Forecast at initiation and realization by 3Q18

	1Q17 forecast (FY16A-FY19E)	Actual realization (FY16-3Q18)		1Q17 forecast (FY16A-FY19E)	Actual realization (FY16-3Q18)
Asset Quality			**NIM (bps, CBIRC data)**		
NPL (bps)			Big Four	20	19
Big Banks	42	-21	Big Banks	17	13
Other banks	18	5	Other banks	-3	-21
Implied NPL	4.7%*	3.8%**			
Risk buffer			**Valuation**		
Tier 1 CAR			P/PPOP (Since 1Q17)		
Big Banks	106	28	H-Share		-0.69
Other banks	34	18	A-Share		0.13
LLR/Loans			P/B (Since 1Q17)		
Big Banks	65	26	H-Share		-0.07
Other banks	61	28	A-Share		-0.09
Loan growth					
Big Banks	24.9%	23.8%			
Other banks	42.3%	32.5%			

资料来源：Goldman Sachs Global Investment Research

图表 7: We forecast banks to be in a better position vs. last cycle

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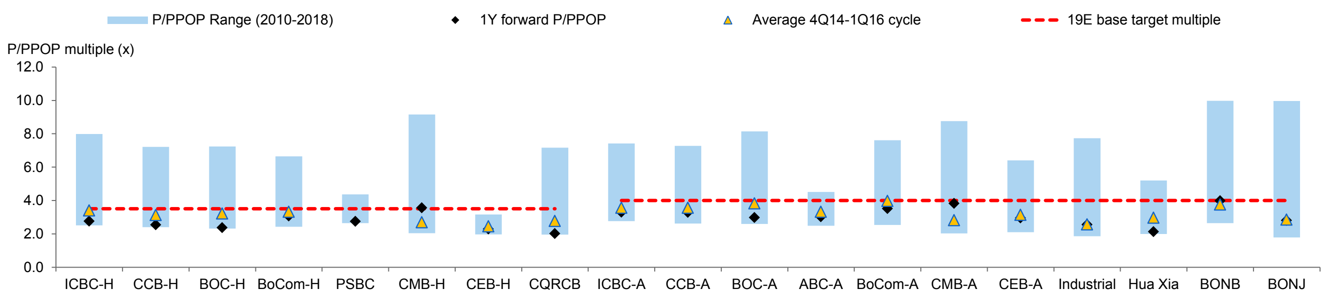
LLR/Implied NPL	83%	88%	35%	47%

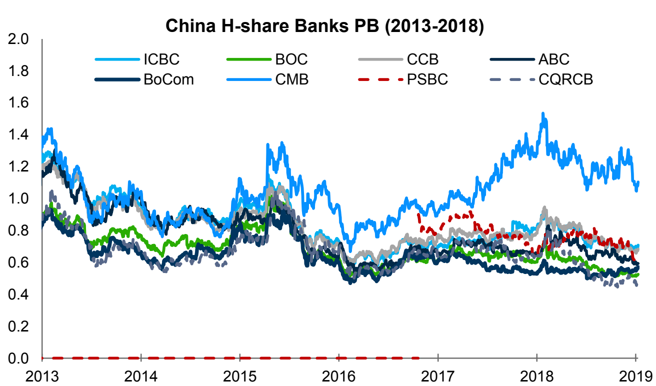
资料来源：Company data, Goldman Sachs Global Investment Research

图表 8: Most of the banks are trading on par or below last prior trough of down cycle



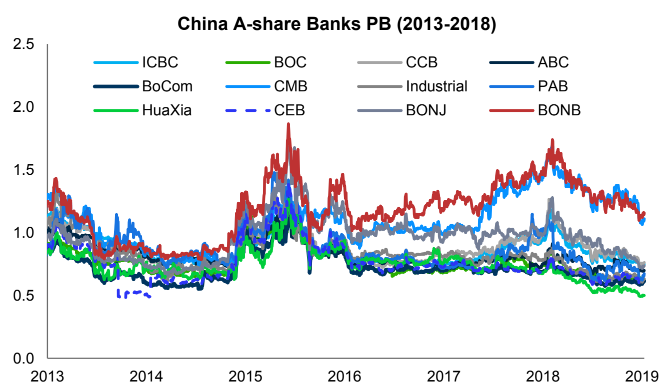
资料来源：Datastream, Goldman Sachs Global Investment Research

图表 9: China H-share banks P/B history (2013-2018)



资料来源：Datastream

图表 10: China A-share banks P/B history (2013-2018)



资料来源：Datastream

Healthy operating environment outlook with slight NIM compression and solid asset quality

Overall, we expect the operating environment to remain healthy for Chinese banks despite a softer economic outlook, especially on stable asset quality outlook. In particular, we forecast:

- 9%/7% sector PPOP growth (7%/7% for big-4 banks in 2019/20E), on the back of
    - 12%/11% yoy loan growth driven by infrastructure/construction and increased lending towards SMEs/private enterprises.
    - NIM peaking off but largely stable: Even though we expect NIM to sequentially peak in 1H19 (we forecast 2H20 average NIM to be 1 bps lower than the peak in 2H18), we forecast yearly NIM for 2020E to continue to rise by 4bps vs. 2018E due to low base in particular in 1H18. If we exclude Industrial Bank, which we expect to see a significant margin improvement of 23bp (link) on a combination of improved loan yields and lower interbank funding costs, yearly NIM will be flat (+2bp) for 2020E vs. 2018E.
- Solid asset quality with average NPL ratio 1.44% in 2020E for our covered banks (vs. 1.43% in YE2017) on the back of more proactive NPL disposals, while NPL coverage ratio remained at a high level of 243% (vs. 257% for YE2017) and credit cost decreased by 17bps during the same period mainly due to a high base in 2017 (NPL cleanup exercise).
- We further expect 0.4ppt improvement in T1 capital ratio for covered banks by 2020E (vs YE2017) on the back of 8%/8% NPAT growth 2019/20E as well as the completion of capital injection by a few banks (e.g. ABC in 1H18 and Hua Xia Bank in 2H18).

图表 11: Key assumptions

Loan growth (%)	2015	2016	2017	2018E	2019E	2020E
ICBC	8%	9%	9%	9%	9%	9%
CCB	11%	12%	10%	10%	10%	10%
BOC	8%	9%	9%	8%	8%	8%
ABC	10%	9%	10%	10%	9%	9%
BoCom	8%	10%	9%	9%	8%	8%
PSBC	32%	22%	21%	21%	18%	15%
CMB	12%	15%	9%	11%	12%	11%
CEB	16%	19%	13%	14%	12%	9%
Industrial	12%	17%	17%	20%	18%	12%
Hua Xia	14%	14%	15%	16%	14%	13%
BONB	22%	18%	14%	15%	14%	14%
BONJ	44%	32%	17%	18%	17%	16%
CQRCB	11%	12%	13%	12%	12%	11%

NIM yoy (bp)	2015	2016	2017	2018E	2019E	2020E
ICBC	(12)	(33)	4	2	(0)	(1)
CCB	(11)	(47)	(2)	6	1	(0)
BOC	(15)	(31)	4	(3)	(1)	(2)
ABC	(23)	(47)	5	2	(3)	(0)
BoCom	(5)	(43)	(28)	(9)	5	(1)
PSBC	(20)	(62)	15	25	(6)	(5)
CMB	2	(34)	2	7	2	(1)
CEB	(0)	(46)	(26)	(12)	5	1
Industrial	7	(49)	(59)	5	18	6
Hua Xia	(25)	(14)	(29)	(1)	9	(3)
BONB	(20)	(27)	(41)	2	3	(3)
BONJ	1	(48)	(38)	2	5	2
CQRCB	(17)	(49)	(2)	(46)	8	1

Net fee income growth (%)	2015	2016	2017	2018E	2019E	2020E
ICBC	8%	1%	-4%	4%	3%	4%
CCB	5%	4%	-1%	3%	6%	5%
BOC	1%	-4%	0%	1%	5%	5%
ABC	3%	10%	-20%	2%	1%	2%
BoCom	18%	5%	10%	1%	3%	3%
PSBC	34%	33%	11%	10%	13%	13%
CMB	34%	15%	5%	11%	13%	13%
CEB	37%	7%	9%	13%	8%	6%
Industrial	19%	14%	6%	8%	9%	14%
Hua Xia	62%	18%	26%	-5%	1%	4%
BONB	61%	39%	6%	-6%	4%	6%
BONJ	66%	18%	-9%	8%	2%	4%
CQRCB	40%	42%	8%	-1%	6%	5%

PPOP growth rate (%)	2015	2016	2017	2018E	2019E	2020E
ICBC	8%	0%	9%	9%	8%	8%
CCB	9%	-1%	10%	9%	8%	7%
BOC	4%	8%	0%	5%	7%	7%
ABC	5%	-1%	8%	15%	5%	6%
BoCom	7%	1%	-1%	8%	9%	5%
PSBC	12%	-11%	30%	35%	6%	7%
CMB	27%	8%	4%	12%	11%	11%
CEB	25%	5%	-5%	15%	8%	5%
Industrial	25%	6%	-13%	12%	17%	12%
Hua Xia	13%	17%	9%	1%	10%	7%
BONB	24%	27%	9%	16%	12%	8%
BONJ	52%	21%	-9%	10%	10%	7%
CQRCB	12%	4%	18%	12%	8%	7%

LLR/NPL (%)	2015	2016	2017	2018E	2019E	2020E
ICBC	156	137	154	169	169	168
CCB	151	150	171	204	215	217
BOC	153	163	159	169	159	151
ABC	189	173	208	240	241	238
BoCom	156	151	153	173	163	155
PSBC	298	272	325	258	220	184
CMB	179	180	262	345	396	438
CEB	156	152	158	153	154	157
Industrial	210	211	212	210	229	255
Hua Xia	167	159	157	162	166	171
BONB	309	351	493	548	544	493
BONJ	431	457	463	444	395	346
CQRCB	420	428	431	304	238	192

Tier 1 CAR (%)	2015	2016	2017	2018E	2019E	2020E
ICBC	13.5	13.4	13.3	13.2	13.5	13.7
CCB	13.3	13.2	13.7	14.3	14.3	14.3
BOC	12.1	12.3	12.0	11.9	12.0	12.1
ABC	11.0	11.1	11.3	12.8	12.9	12.9
BoCom	11.5	12.2	11.9	11.8	12.1	12.3
PSBC	8.5	8.6	8.6	9.9	9.4	9.1
CMB	10.8	11.5	13.0	13.4	13.5	13.8
CEB	10.2	9.3	10.6	9.9	9.5	9.6
Industrial	9.2	9.2	9.7	9.1	8.6	8.7
Hua Xia	8.9	8.4	8.3	9.6	9.1	8.6
BONB	9.0	8.6	8.6	9.2	9.6	10.0
BONJ	9.4	8.2	8.0	8.4	8.7	8.8
CQRCB	10.1	9.9	10.4	10.6	10.6	10.6

NPAT growth	2015	2016	2017	2018E	2019E	2020E
ICBC	0%	0%	3%	8%	8%	7%
CCB	0%	1%	5%	7%	8%	7%
BOC	-2%	-5%	5%	5%	5%	4%
ABC	1%	2%	5%	9%	8%	5%
BoCom	1%	1%	4%	2%	5%	3%
PSBC	7%	14%	20%	16%	9%	8%
CMB	3%	8%	13%	19%	11%	12%
CEB	2%	3%	4%	3%	4%	5%
Industrial	7%	7%	6%	15%	7%	14%
Hua Xia	5%	4%	-4%	3%	3%	4%
BONB	17%	19%	20%	19%	16%	14%
BONJ	25%	18%	17%	19%	10%	10%
CQRCB	6%	10%	12%	4%	8%	9%

Credit cost (%)	2015	2016	2017	2018E	2019E	2020E
ICBC	0.72	0.66	0.87	0.92	0.93	0.93
CCB	0.88	0.76	0.96	0.94	0.91	0.87
BOC	0.65	0.89	0.81	0.79	0.86	0.88
ABC	0.92	0.81	0.87	1.07	0.94	0.92
BoCom	0.73	0.69	0.67	0.78	0.82	0.83
PSBC	0.94	0.67	0.58	0.82	0.70	0.61
CMB	2.04	1.98	1.68	1.43	1.39	1.36
CEB	1.33	1.27	1.03	1.60	1.31	1.27
Industrial	2.54	2.47	1.46	1.25	1.37	1.33
Hua Xia	0.84	1.14	1.26	1.17	1.23	1.20
BONB	1.48	1.76	1.76	1.72	1.22	0.87
BONJ	2.50	2.15	0.97	1.17	1.01	0.79
CQRCB	1.11	0.79	0.97	1.32	1.23	1.10

NPL formation (%)	2015	2016	2017	2018E	2019E	2020E
ICBC	1.05	0.89	0.62	0.99	1.13	1.13
CCB	1.55	0.80	0.65	0.71	0.98	1.02
BOC	0.91	0.78	0.87	0.96	1.00	0.97
ABC	1.60	1.13	0.59	0.85	1.06	1.11
BoCom	0.67	0.89	0.52	1.29	1.03	1.03
PSBC	0.82	0.65	0.25	0.81	0.74	0.71
CMB	2.30	1.96	0.63	1.09	1.42	1.43
CEB	1.39	1.37	0.87	1.52	1.36	1.28
Industrial	2.16	2.10	1.24	1.13	1.13	1.09
Hua Xia	1.20	1.11	1.14	1.12	1.25	1.19
BONB	1.16	1.27	0.67	0.58	1.10	1.04
BONJ	1.80	1.62	0.70	1.00	1.12	1.04
CQRCB	0.56	0.49	0.46	1.64	1.55	1.46

资料来源：Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Asset quality: Peaking off but much less pressure than prior cycles

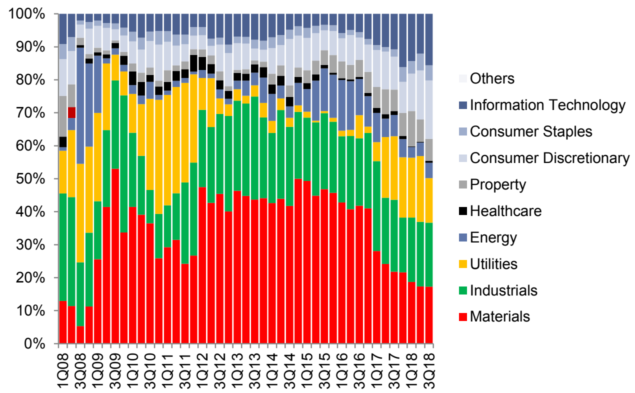
Despite a potential asset quality deterioration on weaker economic conditions going into 2019, we expect significantly less pressure than the prior cycle in 2014-16 not only on healthier operating environment brought by supply-side reform but also improved loan mix with higher exposure in retail loans. We remain cautious on the weakness in consumption in the current cycle, but highlight that: consumer sector related NPL has historically been more stable due to low financial leverage; and bank’s exposure is pretty limited at a maximum of 7% (only 1% for consumer discretionary alone). We also performed additional NPL test with working capital stress test to address the concern over working capital sensitivity that could potentially hurt consumer related sectors (our sample showed consumer discretionary sector features 15-30x negative working capital vs. close to zero working capital for all sectors on average).

Stable asset quality for corporate loans on solid profitability/cash flow within upstream sectors

Our implied NPL tracker shows that overall asset quality remained benign as of 3Q18. Based on our A-share listco sample (c.3,000 companies), implied NPL% was stable at 3.8% (vs .4.0% /3.6% at 1H18/YE17).

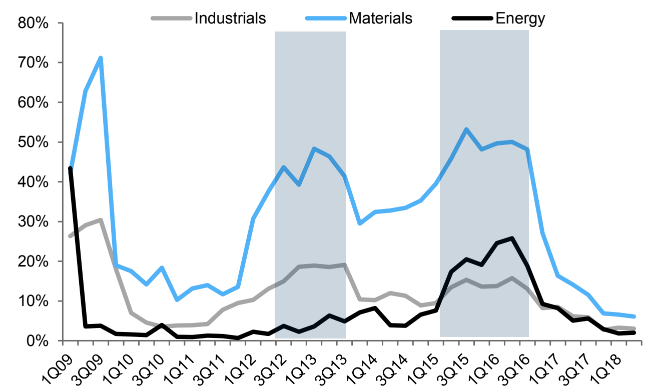
- Upstream sectors (materials/industrials/energy), which historically have accounted for the majority of NPLs (>60% within our A-share listco sample during 2012-2016), are now significantly less risky. They collectively account for only 41% of total implied NPLs, likely on the back of better profitability following supply-side reforms.
- Our China basic materials analyst, Trina Chen, has also highlighted that despite demand slowdown, this cycle would not be like 2015 given high utilization ratio is still high for upstream sectors (e.g. 103% for steel, 90% for coal) and disciplined productivity expansion.
- Utility companies, which typically have higher leverage, have seen relatively stable EBIT Interest Coverage ratio throughout the years (median EIC c.3.0x since 2012). Even if EBIT for utility sector sees a 30% haircut, the implied NPL for the sector only changes 3ppt, or +0.4ppt for the banking system based on 9M18 financial results.

图表 12: Upstream sectors historically accounted for the majority of NPLs (>60% during 2012-2016, vs 41% now)
NPL breakdown of corporate NPLs in A-share listco sample



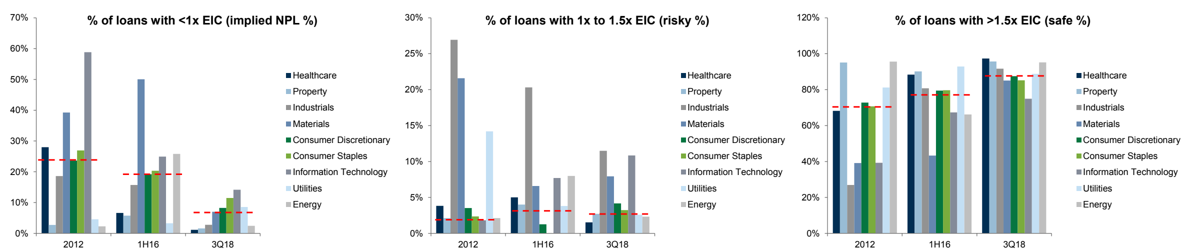
资料来源：Wind, Goldman Sachs Global Investment Research, PBOC, Gao Hua Securities Research

图表 13: Implied NPL% was much higher in prior downside cycles especially for cyclicals



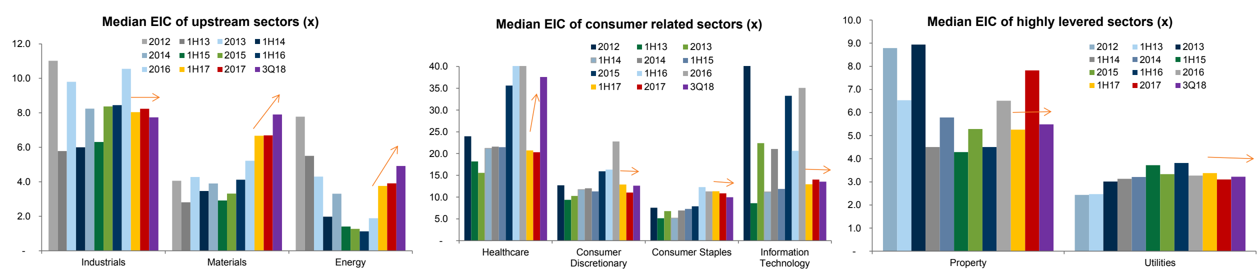
资料来源：Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 14: Proportion of companies at margin: % of loans with EIC>1.5x (safe debts) in almost all sectors increased
% of debts by EIC bands by sector



资料来源：Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 15: Median EIC more stable for utility and consumer sectors



资料来源：Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research

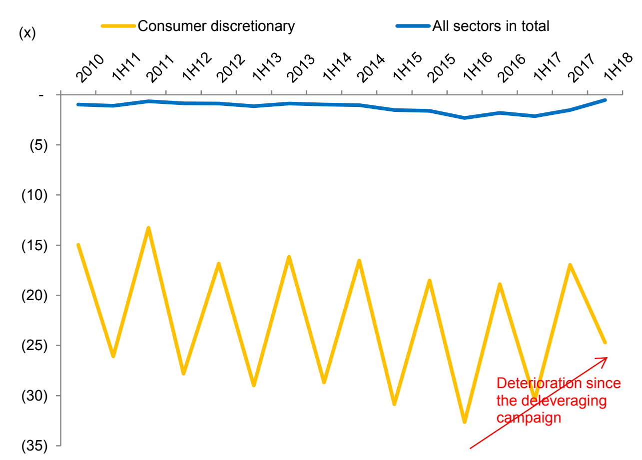
Consumer companies less likely to become a challenge, but cautious on working capital squeeze

We do note the pick up of NPL trends amongst certain consumer discretionary companies. The delta is now mainly caused by a few selected companies on their diversification into non-core business areas, and hence we do not yet consider it as a sign of overall asset quality deterioration for the sector.

- We highlight that banks have very limited loan exposure to consumer-related sectors. As of YE2017, exposure to all the consumer-related downstream sectors (which include consumer discretionary/ consumer staples/ healthcare/ information technology) was small at around 7% for the banking industry, for consumer discretionary alone, it only contributes to about 1% of loan portfolio.

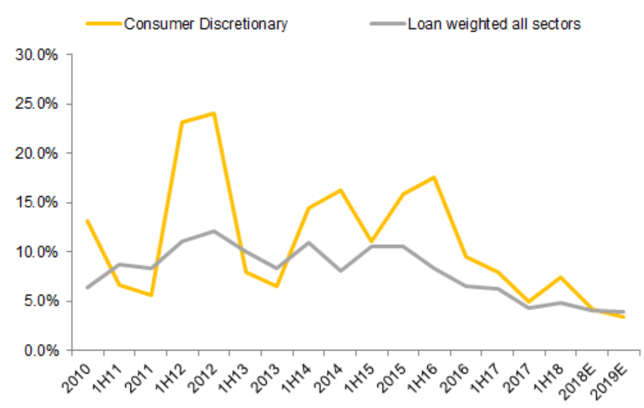
- They have historically showed resilience in asset quality (as compared to cyclical sectors), thanks to lower financial leverage (vs. profitability). With median EIC >10x throughout years, we expect the overall credit risk to be limited.
- We do note sector’s high sensitivity to working capital historically. In our A-share listco samples, consumer discretionary sector contributes 15-30x negative net working capital vs. close to zero net working capital for all sectors on average. We performed further stress tests to consider the effect of working capital deterioration (for all sectors) assuming it will be passed through to earnings. The result showed a maximum impact of 0.3ppt/1.0ppt/3.7ppt to total implied NPL if 3%/5%/10% working capital deterioration were applied. Due to limited loan exposure and high EBIT coverage, the impact to bank is insignificant even if further working capital deterioration on consumer discretionary sector happens. However, we acknowledge policymakers may potentially look to enhance the accessibility of downstream sectors to working capital financing (vs. the focus on Capex financing in the past), based on the squeeze in working capital for downstream companies since 1H17.

图表 16: Consumer discretionary features significantly negative W/C (vs. EBIT multiples) but has experienced deterioration since 1H17



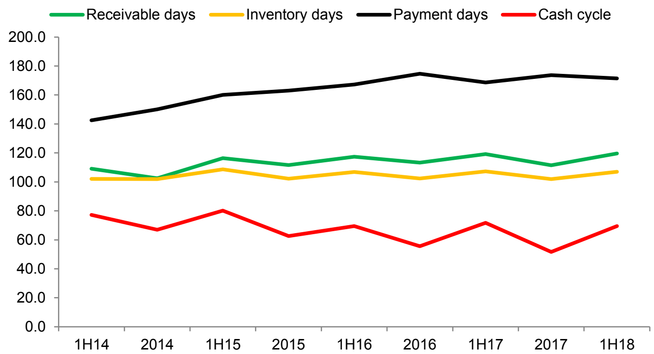
资料来源：Wind, Goldman Sachs Global Investment Research

图表 17: Implied NPL for the sector had higher volatility historically



资料来源：Wind, Goldman Sachs Global Investment Research

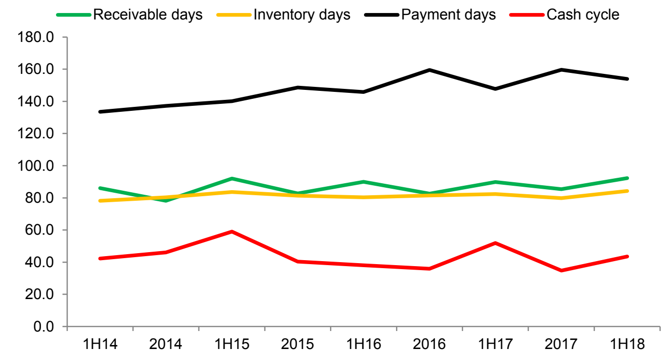
图表 18: A closer look showed the deterioration was not only caused by longer receivable days but also inability to delay payment...



Average cash cycle analysis for all sectors in average (median value)

资料来源：Wind, Goldman Sachs Global Investment Research

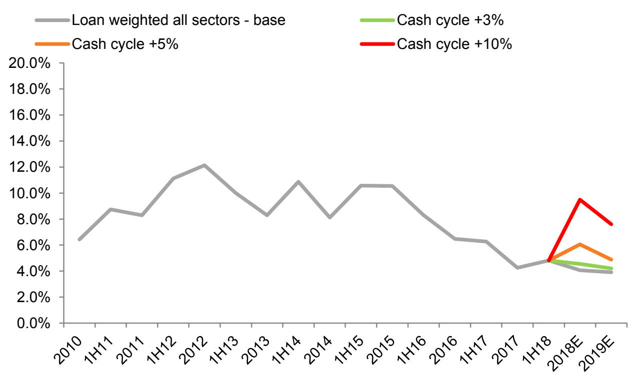
图表 19: ... and this is more obvious in consumer discretionary sector which is squeezed by upstream sectors



Cash cycle analysis for consumer discretionary sector (median value)

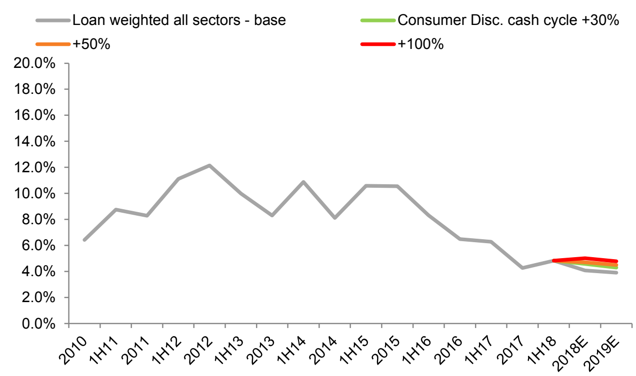
资料来源：Wind, Goldman Sachs Global Investment Research

图表 20: 0.3ppt/1.0ppt/3.7ppt impact to total implied NPL if 3%/5%/10% working capital deterioration were applied for all sectors



资料来源：Wind, Goldman Sachs Global Investment Research

图表 21: Due to limited loan exposure and high EBIT coverage, the impact to bank is insignificant even if there is further deterioration on consumer disc. W/C



资料来源：Wind, Goldman Sachs Global Investment Research

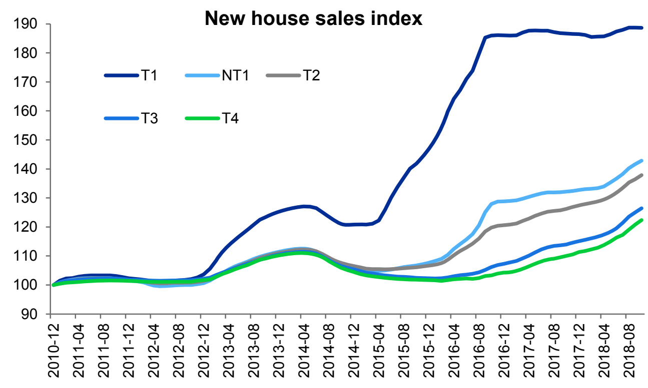
Mix shift an additional positive, asset quality still benign despite potential housing price pressures

Nevertheless, we believe the mix shift of total loan portfolio has also contributed to the now better / more stable asset quality. In particular, proportion of retail loans grew by 11.1ppt from YE07 to YE17, whereas loans to upstream sectors declined by 5.1ppt during the same period.

Retail NPL% is typically lower (average 0.82% for our covered banks at 1H18) vs. corporate NPL% (average 1.6% for our covered banks during the same period). However, we noticed rising concerns amongst investors on the credit risks on retail loans, as household leverage gradually climbed in the past few quarters.

- Mortgages are typically considered the safest part of banks’ loan book (average 0.29% NPL ratio for our covered banks as of 1H18) given that it is collateralized, and given that average property prices have increased by c.40%/30% for new/resale houses in China since 2015. We estimate that under an extreme bearish scenario of average property price declining by 40% (vs. actual property price performance of +5%/+9% in 2017/2018), Rmb 8.3tn (c.24%) of mortgage loans would be at risk. In particular, we see mortgages that originated in T1 cities to be at a higher risk from potentially earlier plateauing of property prices (2H16, vs non-T1 cities from 2H17).

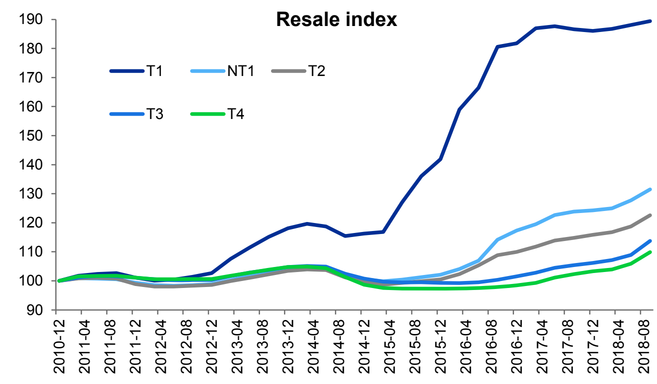
图表 22: New house sales price plateaued in 2016 for T1 cities
New house sales index (sample of 70 cities)



YE2010 = 100

资料来源：China National Stats Bureau

图表 23: Resale price saw a similar trend to new house sales
Resale house index (sample of 70 cities)



YE2010 = 100

资料来源：China National Stats Bureau

图表 24: We estimate c.24% of total mortgages would be at risk should property price fall by 40%
Arranged by year of mortgage origination

(Rmb bn)	2H16	2017	2018
Mortgage	408	3,211	4,950
% paid down	10%	6%	1%
% remaining	90%	94%	99%
$ outstanding loans	367	3,010	4,888
Total			8,264
as % outstanding mortgage			24%

Assumed LTV=70%, tenor=20 years

资料来源：Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 25: c.11% of total mortgages would be at risk if property prices were to fall by 35%
Arranged by year of mortgage origination

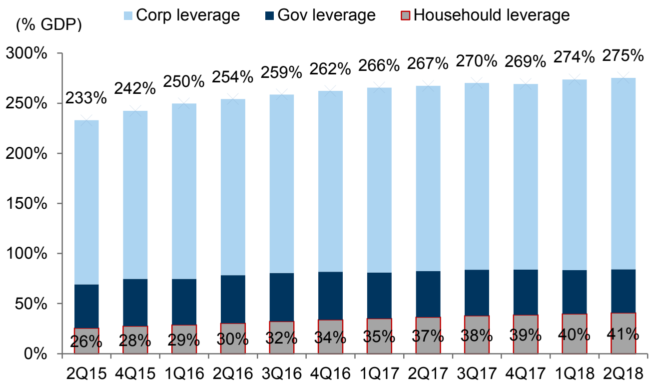
(Rmb bn)	2H16	2017	2018
Mortgage	178	511	3,064
% paid down	10%	6%	1%
% remaining	90%	94%	99%
$ outstanding loans	160	479	3,026
Total			3,665
as % outstanding mortgage			11%

Assumed LTV=70%, tenor=20 years

资料来源：Goldman Sachs Global Investment Research, Gao Hua Securities Research

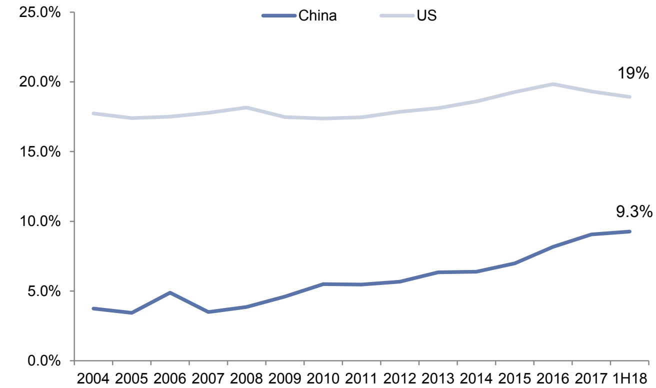
- In the ex-mortgage space, we think the overall risk of retail loans (both consumption and personal business loans) is still well contained (we estimate average 1.61% NPL ratio for our covered banks as of 1H18). We note some increase in credit card overdue in 1H but believe that this is likely a spillover effect from tighter liquidity conditions amongst the non-bank lenders (e.g. the P2P bankrupt in Jun-Aug). Given the marginally loosening regulatory environment for non-bank lenders since Aug, and the fact that Chinese households’ ex-mortgage leverage is still healthy (estimate 9.3% vs 19% in the US as of 1H18), we believe that asset quality for banks’ retail loans should remain stable in the foreseeable future.

图表 26: Household leverage climbed by 15ppt GDP in the past 3 years
Debt as % of GDP



资料来源：Goldman Sachs Global Investment Research, Gao Hua Securities Research, PBOC, CBIRC, CTA

图表 27: China ex-mortgage household leverage is still half of that of the US



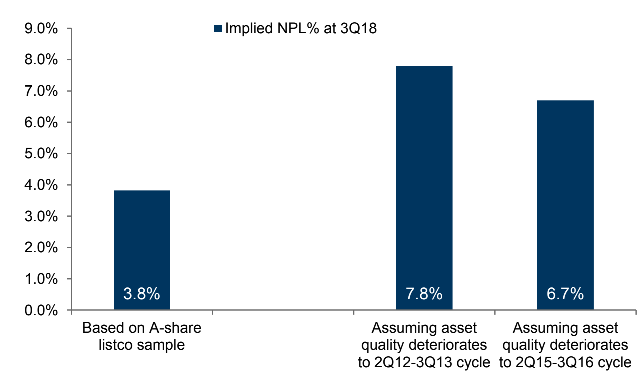
资料来源：Federal Reserve, PBOC, CBIRC, CTA, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Sensitivity test shows companies can tolerate a weaker profitability growth

We highlight investor concerns on potentially slower economic growth, and consequently weaker corporate profitability going forward. While uncertainties remain, we conducted sensitivity tests on overall asset quality, and determined that implied NPL% could worsen to 4.6% in 2019E:

1. If asset quality were to deteriorate to a similar level as in the previous trough periods (3Q08-3Q09, 2Q12-3Q13, and 2Q15-3Q16) except for materials sector on significantly better profitability vs. history. We expect implied NPL% to rise to 6.7%-16.2% from 3.8% at the moment.
2. If actual EBIT were 30% lower than Wind consensus estimates in 2019E/20E, we calculate that implied NPL% would rise to 4.6%/3.7% respectively, assuming funding cost remains stable going forward.

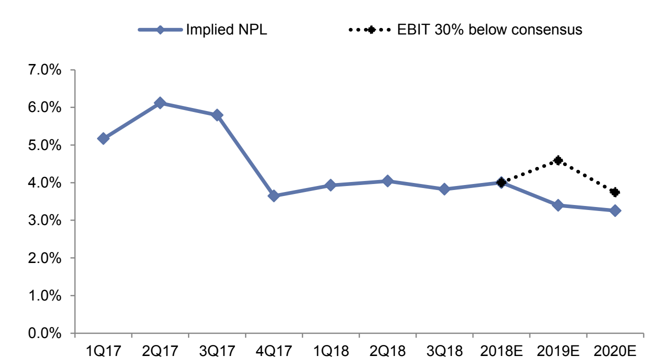
图表 28: Implied NPL% would be 6.7%-7.8% if asset quality were to deteriorate to historical trough times
Stress test NPL%



Assumed similar asset quality to historical cycle, except for material sector whose implied NPL% is fixed at 7% on significantly better asset quality vs history

资料来源：Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 29: Implied NPL will be 4.6%/3.7%, for 2019E/20E under 30% revised down of EBIT



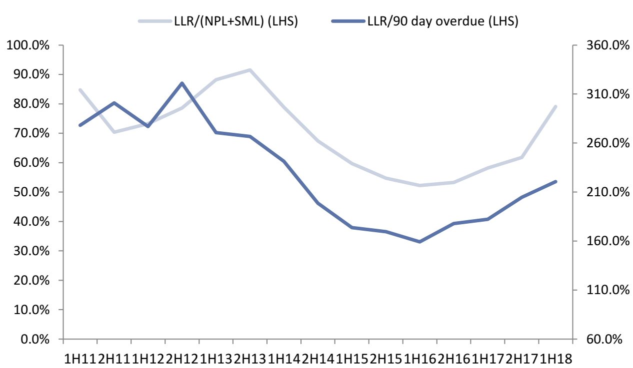
资料来源：Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Total risk buffer is sufficient for the banking system

Having said that, we argue that the risk buffer for the overall banking industry is probably at the healthiest level in history. Core tier 1 capital ratio reached 10.47% as of 3Q18 vs. 10.19% in 2016 and 10.07% in 2011; LLR/(NPL+SML) reached 84% as of 3Q18 vs. 53% in 2016 and 70% in 2011 on much more prudent NPL recognition policies since then. Similarly, LLR/ 90 days overdue loan also improved to 221% as of 1H18 vs 159% in 2016.

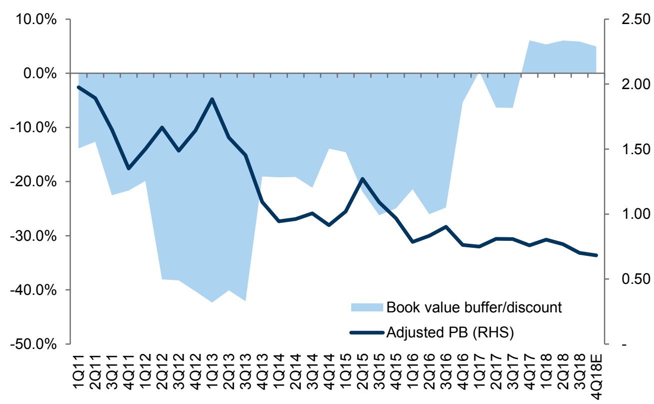
Assuming that banks are to digest all potential NPLs with lost reserve and PPOP at each point of time, we calculate that the banking industry now has extra risk reserve equivalent to 5% of book value as of 2018E, vs. average 19% discount to book value since 2011, or the worst being 42% discount in 2012.

图表 30: LLR coverage ratios are now back to similar levels as 2014



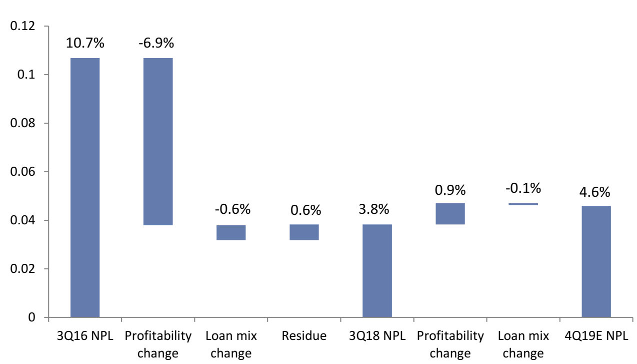
资料来源：Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 31: Adjusted PB is now at the lowest point in history while banks’ risk buffer is almost at the highest level
Book value buffer/discount vs average adj PB of H-share banks



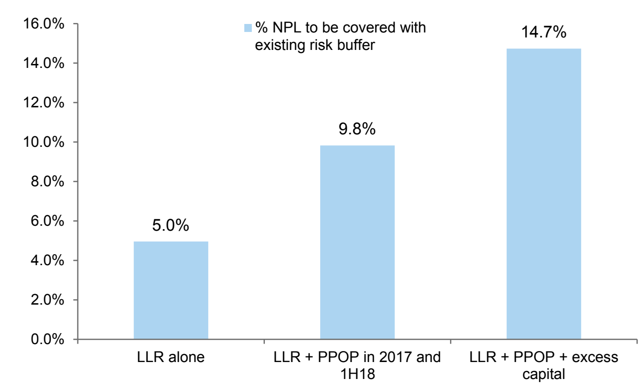
资料来源：CBIRC, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 32: Asset quality improved on better corporate profitability as well as loan mix shifts



资料来源：Goldman Sachs Global Investment Research, Gao Hua Securities Research

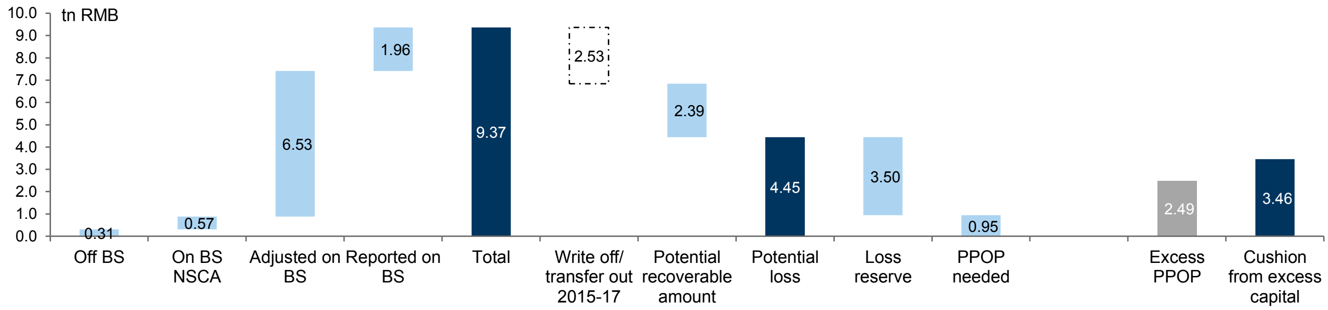
图表 33: We estimate that the existing risk buffer in banking system will be able to cover up to 14.7% of total NPL %



资料来源：CBRC, Goldman Sachs Global Investment Research

In a stress scenario, where we assume 7.8% implied NPL ratio for banks’ on-and-off BS loans (similar to the last down cycle), we estimate NPLs in China’s commercial banks at Rmb9.4tn as of 1H18. We believe, however, that China’s banking system still has adequate cushioning from rising PPOP, loss reserve, and excess capital to absorb the potential loss.

图表 34: We see sufficient buffer for banks to cover all implicit NPLs



资料来源：CBIRC, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Lastly, we examine the underwriting prudence of individual banks. We compare the sum of restructured loans and loans that are at least 1 day overdue, to factor in the potential scenario of banks restructuring loans before they become overdue. We found ICBC, CCB, PSBC, and BONB as the names with the most prudent reporting standard whereby the implied NPL (restructured and overdue loans) % is close to reported NPL%, likely on earlier recognition of NPLs. Given the continuous regulatory efforts pushing banks to report actual NPLs, we see the aforementioned banks as best prepared in this regard.

图表 35: CCB, BONB, PSBC, and ICBC showed the most prudent reporting standard with implied NPL% close to reported NPL%
As of 1H18

Rmb mn	ICBC	CCB	BOC	ABC	BoCom	CMB	Industrial	CEB	BONB	BONJ	CQRCB	PSBC	Huaxia
Restructured loans	5,171	5,745	274,917	56,538	9,017	24,632	6,110	18,663	68	917	463	1,165	259
of which overdue >3M	778	1,539	131,722			16,865		1,353					
Total overdue	269,610	191,632	274,917	209,984	91,844	63,553	47,539	51,032	3,172	5,629	5,922	40,795	68,323
NPL amount	229,976	198,754	163,304	185,895	71,512	55,382	42,619	33,790	3,025	3,751	4,464	38,917	27,206
Loan balance	14,654	13,334	11,231	11,309	4,658	3,653	2,605	2,209	357	430	348	3,724	1,519
Implied NPL (restructured loan + total overdue)	274,781	197,377	549,834	266,522	100,861	88,185	53,649	69,695	3,240	6,546	6,385	41,960	68,582
Implied NPL%	1.88%	1.48%	4.90%	2.36%	2.17%	2.41%	2.06%	3.15%	0.91%	1.52%	1.83%	1.13%	4.52%
Reported NPL%	1.54%	1.48%	1.43%	1.62%	1.49%	1.43%	1.59%	1.55%	0.80%	0.86%	1.23%	0.99%	1.77%
diff	*0.34%*	*0.00%*	*3.46%*	*0.74%*	*0.67%*	*0.99%*	*0.47%*	*1.60%*	*0.11%*	*0.66%*	*0.60%*	*0.13%*	*2.75%*

Defined implied NPL = restructured loans + total overdue; some banks do not report restructured loans that are over 3m overdue

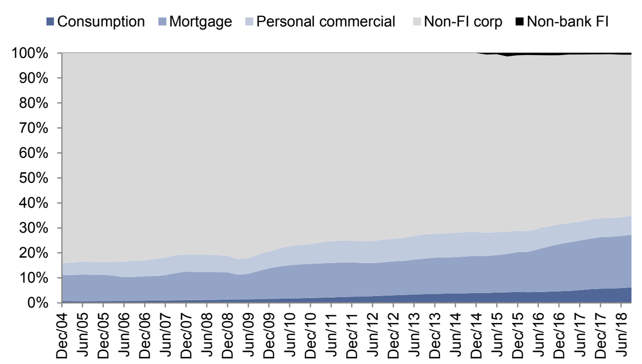
资料来源：Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

NIM to benefit from mix shift, compression overdone in last cycle

The central bank, in recent months, has injected massive liquidity into the interbank market amid trade tensions and prospects of slower economy growth. 3M Shibor has compressed by as much as 200bps from beginning of 2018 to 3Q18, which is now back to the 1H16 level. However, we do not agree with the view that NIM is necessarily under pressure for all the banks with the interbank rate having compressed. In particular, we see following factors that have made this cycle more different:

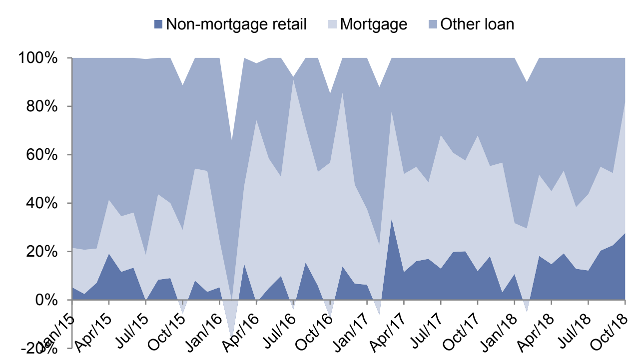
1. Contrary to the practice of some developed economies, most loans (especially corporate loans and mortgage) in China are lent out with references to benchmark rates, instead of interbank rates. Our economists believe that PBOC is less likely to cut the benchmark rate in the current cycle when Fed is still raising the rates to prevent capital outflow pressure.
2. Chinese banks are in the transitional stage towards a more market-oriented risk pricing practice, and are shifting away from SOE-centric strategy. We see banks with advantages in retail and SME lending to be better placed to maintain, or even to raise asset yields as the proportion of high-yield loans grow. Note also that as of 3Q18/9M18, consumption loan (incl. mortgage) has contributed to 35% of the balance (+6.3 ppts vs. 3Q15, before the deleveraging campaign started) and 43% of the net addition (+14.5 ppt vs 9M15).
3. With over 150bps decline in interbank rate, we expect smaller banks which have higher interbank funding exposure to benefit more in funding cost savings than larger banks. In particular, we add Industrial Bank to our A-share Conviction Buy list (link)

图表 36: Retail related loan has contributed to 35% of total bank loan balance as of 3Q18



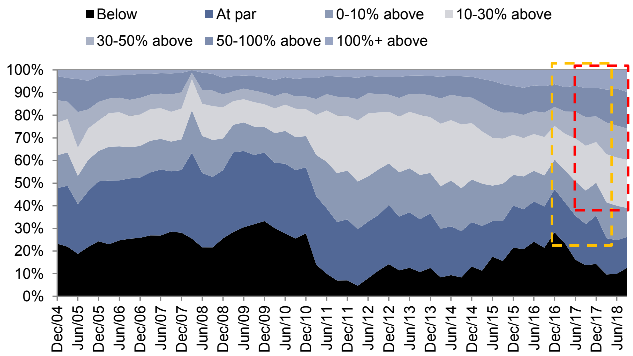
资料来源：PBOC

图表 37: Retail loan net addition took up 43% of loan addition in 9M18, which has soared up to 80% in Oct



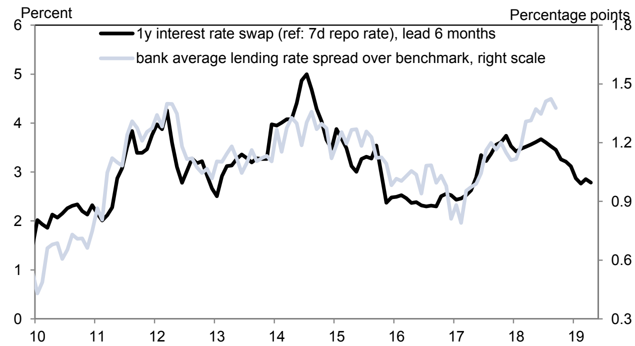
资料来源：PBOC

图表 38: The percentage of loan that is priced 10%+ above benchmark rate continued to rise though interbank rate and has compressed in 3Q18



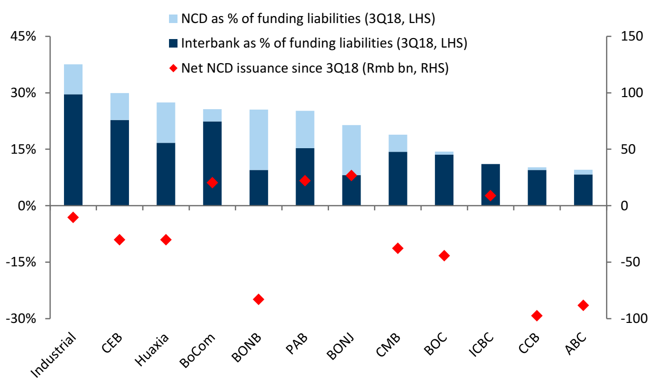
资料来源：PBOC

图表 39: We are seeing a wider divergence between 7d repo vs. lend rate spread which was not usual in history



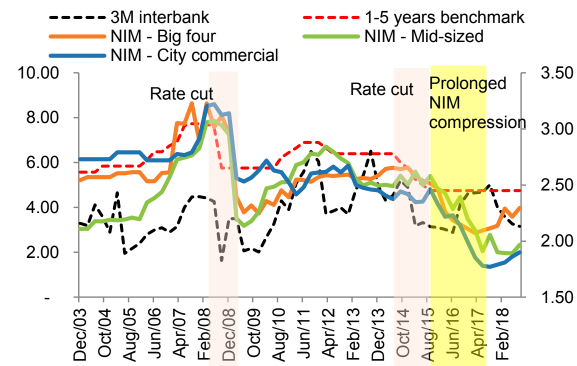
资料来源：WIND, PBOC, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 40: Small-mid sized banks generally have higher interbank liability exposure



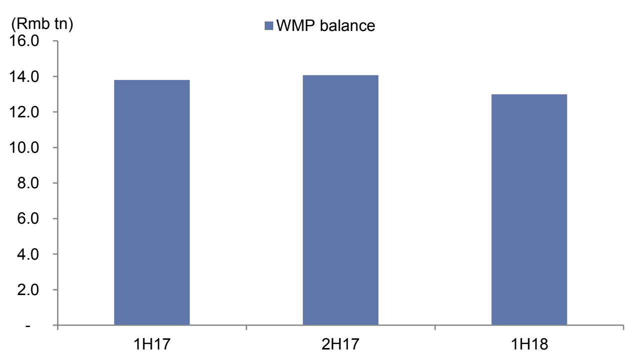
资料来源：Wind, Company data

图表 41: The prolonged NIM compression after 2015 was as a result of a combination of rate cuts and IDR



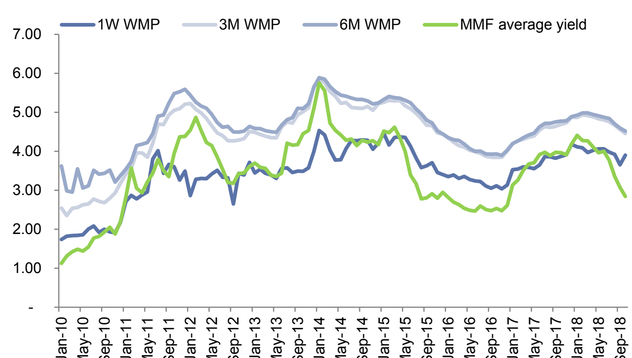
资料来源：PBOC, Wind, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 42: WMP balance for banks we cover has dropped by 8% in 1H18



资料来源：Company reports, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 43: MMF yield has come off quickly in recent months and becomes less attractive to investors



资料来源：Wind

Regulatory risks: Walking the tight rope but over-loosening is unlikely

Long-term systemic risks have abated

We have previously discussed that we see long-term systemic risks abating and hence a potentially healthier operating environment for the banking industry. We continue to see: 1) overall leverage growth slowing down. TSF growth slowed to 9.8% as YE18 (-7.5ppt vs 17.2% at YE17), with 2018 additional TSF 17% lower vs. the same period last year; and 2) shadow banking contracted further whereby outstanding shadow banking balance as % of total TSF lowered by 2.9ppt since YE17. We expect such decline to potentially continue for a prolonged period as a part of banks' efforts to comply with the New Asset Management rules.

图表 44: Long-term systemic risks continue to abate
Macro risk barometer

	2Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	latest vs YE17
Broad credit growth (yoy)															
TSF	12.3%	12.3%	13.4%	12.3%	12.3%	11.0%	14.3%	15.2%	15.9%	17.2%	11.9%	11.1%	10.6%	9.8%	-7.5%
M2	11.8%	13.3%	13.4%	11.8%	11.5%	11.3%	10.1%	9.1%	9.0%	8.1%	8.2%	8.0%	8.3%	8.1%	0.0%
Total banking assets	13.8%	15.4%	15.3%	13.7%	14.6%	16.6%	15.3%	12.0%	10.9%	8.2%	6.9%	6.4%	7.0%		-1.2%
Leverage (as % of GDP)															
Gov leverage	44%	47%	46%	48%	48%	48%	46%	46%	46%	45%	44%	43%			-2%
Househould leverage	26%	28%	29%	30%	32%	34%	35%	37%	38%	39%	40%	41%			2%
Corp leverage	164%	168%	175%	176%	178%	180%	185%	185%	186%	185%	190%	191%			6%
Aggregate	233%	242%	250%	254%	259%	262%	266%	267%	270%	269%	274%	275%			6%
Shadow banking (as % of debt financing)															
Flow	2.4%	18.0%	4.1%	-0.7%	0.9%	18.6%	11.6%	5.7%	9.4%	10.6%	-4.8%	-21.4%	-8.5%	-4.4%	-15.0%
Stock	17.1%	16.3%	16.0%	15.4%	15.0%	15.6%	15.7%	15.5%	15.3%	15.3%	14.8%	13.9%	12.9%	12.4%	-2.9%
Interest rates (%)															
3M interbank rate	3.7%	3.2%	3.3%	3.3%	3.1%	3.3%	4.5%	4.7%	5.0%	5.6%	4.9%	4.2%	3.8%	4.5%	-1.1%
Risk premium (AAA to BBB)	8.3%	8.6%	9.0%	10.1%	8.7%	8.4%	8.3%	8.5%	8.5%	8.6%	8.7%	9.8%	10.1%	10.2%	1.6%

Blue shade = improvement since YE17

资料来源：PBOC, BIS, Wind

A short term loosening bias to support growth, but we believe the chance of policy overshoot is low…

Regulators also seem to have been adjusting their tightening policies against the backdrop of economic slowdown since 1H2018 coupled with sustained external pressure. The situation becomes tricky loosening too little may provide insufficient support to the short term economic growth, while loosening too much risks giving back everything that has been achieved during the de-risking process and long term systemic financial risks may re-accelerate, and maybe more importantly could result in loss of credibility for the regulators. We think the magnitude of loosening depends on the level of pressure in the economy and social stability (employment). So far we believe the regulators are potentially still trying to loosen as little as possible to achieve the above two goals, and the likelihood of 'Da Shui Man Guan', or a systemic over-loosening is low.

- Regulators have reiterated that there will be no "Da Shui Man Guan", and instead they will conduct precise targeted financial support. In particular, regulators who are aware of the high SOE leverage/property sector risks (SOE deleveraging/no property price appreciation was mentioned recently) have identified Infrastructure and SME/private sector financing as two pillars of such precise targeted loosening (note the importance of the former in supporting growth and the latter in maintaining employment).

- PBOC has cut RRR 4 times already in 2018 (but has not reduced the benchmark rate yet) with Rmb2.3tn liquidity release, which theoretically can drive 13.2tn new credit assuming 5.75x money multiplier, but annual TSF addition still dropped by 4.2tn (-17% yoy) vs 2017. In fact, we think the power of RRR cut to drive bank lending may be relatively low (but still has a 2nd order impact of driving down interest rates) now because of many other constraints to banks including:
  - Capital. Shadow cleanup and more prudent NPL recognition etc. will all consume banks' capital, and we estimate Rmb2.6tn less new RWA in 2018 (please refer to our report "Capital is King - Can banks lend enough to offset a shadow cleanup?") note that TSF new addition dropped by 18%;
  - Risk management procedures and controls that have been developed over the last few years or in simple words, loan officers are likely worried that pushing too much credit to less credit worthy companies/projects will result in higher NPLs that negatively affect their scorecard (or even career risks),
  - Stronger enforcement of other regulatory requirements (restrictions) on shadow/NSCA/WMP etc. Note that post the formation of CBIRC, a new department that focuses on on-site examinations was established, and the department head of which is also a senior official of CBIRC. Hence, we expect stronger enforcement with more frequent regulatory checks.
  - Increased regulatory scope to include more financial conglomerates (vs. previously mainly for large banks) with potential systemic risks. Such efforts are spearheaded by the Financial Stability and Development Committee, the oversight body directly under the State Council focusing on long-term financial stability. One of their major ongoing initiatives is to revamp regulations towards systemically important financial institutions (SIFI), including potentially stricter requirements on capital, leverage, liquidity and corporate governance.
- We also believe that system credit supply is sufficient but funds allocation efficiencies hinge on better mixes. The 9.8% yoy TSF growth in 2018 is still above the nominal GDP growth. However, we do see inefficiencies in: 1) frictions cost (channel costs) are high in certain areas e.g. local government infrastructure and private sector lending where shadow is often the only availability for financing; 2) under-developed direct financing channels (bond and equity markets); and 3) private sector and in particular SMEs remain underfinanced.

Policy fine-tuning needed to boost SME

- Some news articles recently reported that the regulators have told banks (through window guidance) to put more effort to support SMEs. Earlier news reports indicated that CBIRC Chairman Mr. Guo introduced a specific plan (the "125 plan") on bank lending towards private enterprises in an interview with Financial Times, which caused widespread concerns among investors on potential asset quality deterioration going forward. However, a CBIRC spokesperson soon clarified that such a plan was meant as a general guidance, and that the policymakers had no intention in forcing banks into delivering standardized and quantitative targets in lending activities. In addition, PBOC governor Yi Gang also emphasized on a market-oriented approach in resolving SME financing difficulties. Relatively speaking, we expect smaller banks should face less political pressure to change strategy and support SME/private companies, or some of them may have already been well-developed in the respective business line and could actually benefit from a potential incentive reward from the government.

- Indeed, SME loans already grew by 18.1% ytd (as of 9M18) vs 9.8% yoy in 2017. However, note that SME loans only account for 30.1% (defined as loan with <Rmb 10m ticket size) of total corporate loans and hence we don't believe any short term financing support will help boost the economy significantly. We see practical difficulties for banks to increase their financing support to SMEs, especially in the down cycles. This is mainly because 1) SME lending is inherently riskier with likely higher NPLs vs. other types of loans and controlling NPL remains one of the most important KPI for loan officers/branch managers; 2) SMEs often lack a qualified collateral while Chinese banks tend to rely more on collateral in loan origination and have yet to develop underwriting skills for pure credit loans; and 3) in particular when APRs are guided by regulators to be at par to larger corporate, the cost of performing proper due diligence of a single SME loan may not justify the benefits.
- We think rational credit demand with appropriate risk pricing is key to help both SMEs to get financed and banks to maintain healthy balance sheets, and also a broader/deeper and multi-tiered bond/equity market will help private sector/SME financing but highlight that bonds (and equity) are still a low percentage. We believe presetting of rates and loan quota for SME lending could undermine banks to develop such underwriting skills and their incentives to provide real SME lending (potential regulation arbitrage).
- While a few city/rural commercial banks have built successful SME-related operations in their respective areas, we highlight that their business models usually rely heavily on a large team of on-the-ground loan officers, which takes time to train and is hence difficult to replicate nationwide in a short time. Certain banks have also taken a more innovative approach to include non-traditional data (e.g. utilities bills/tax payment history) in their credit decisions, however, the effectiveness of such practice is still not yet proven/testified by the economic cycles.

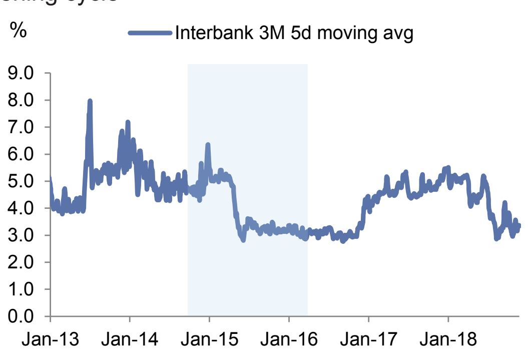
Infrastructure to support growth but less worry of over-borrowing given more disciplined government expenditure

A number of important laws/documents including the new budget law, state council document # 43 (strengthening local government debt budgeting/management), MOF documents #50/#87 (detailed documents tightening PPP/government purchase) have helped to establish three important constraints for local government's financing activities: within fiscal budget, no shadow financing, no implicit guarantees - in other words a transition from local government credit to real project financing. In addition, some financial institutions that had helped local governments breaching these constraints in their financing activities also received penalty tickets from the banking regulator. Even though policymakers have been fine-tuning their stance to encourage more infrastructure financing, we believe it is often potentially difficult for both local government officials themselves and banks to originate and structure projects in a relatively short period that could meet all the above criteria. We see potential for further loosening, for example an enlarged quota for directional/special-purpose muni bonds, and some loosening of the constraints discussed above. However, the cost of over-loosening are high, as it may potentially amount to: another round of local government debt build up, a loss of central government credibility, and potential new NPLs for banks.

Banks' historical share price performance/multiples vs regulatory cycles

We believe monetary loosening is only positive for banks' share price performance in the short run, as banks typically face challenges such as a NIM contraction and asset quality deterioration in following periods as a result of the likely weaker lending standard. For example, commercial banks' industry average NIM declined by c.70bp during the 2015-16 cycle, while NPL+SML% climbed by over 150bp in the 2 years following the regulatory loosening.

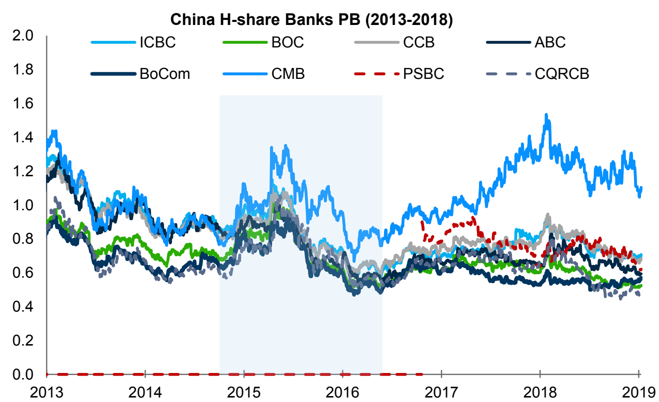
图表 45: Interbank rate was at historical low level in 2015-16 loosening cycle



Blue shaded area = periods of monetary loosening

资料来源：Wind

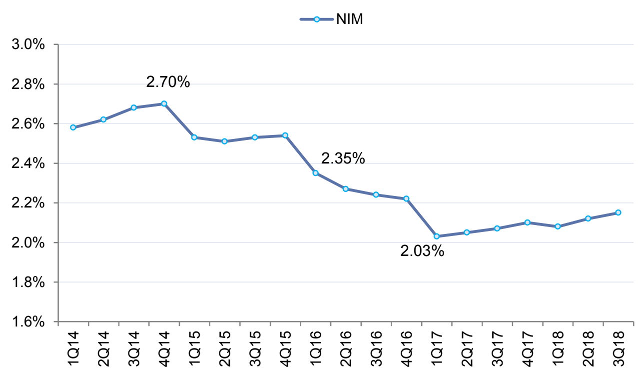
图表 46: Bank valuation peaked off soon after loosening policy took place in the previous credit cycle



Blue shaded area = periods of monetary loosening

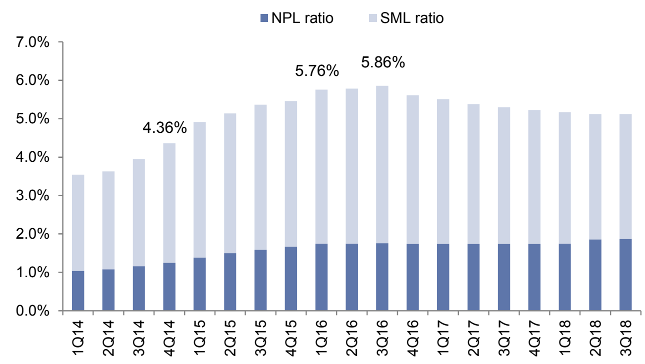
资料来源：Datastream

图表 47: As a result, NIM declined to 2.35% in 1Q16 from 2.70% in 4Q14 when loosening started, which further bottomed to 2.03% in 1Q17
Reported NIM (%)



资料来源：CBIRC

图表 48: While asset quality also worsened with NPL+SML% climbing to 5.76% in 1Q16 from 4.36% in 4Q14, which further peaked to 5.86% in 3Q16
Reported NPL and SML ratio



资料来源：CBIRC

We see limited downside risks to valuation

We also highlight that there has been no rate cuts (and only RRR cuts) in the ongoing cycle. Without a benchmark rate cut, we expect the (downward) asset repricing to come slower, as the impact of lower yields is only translated to the newly originated assets (vs. all outstanding assets in a rate cut situation). At the same time, asset quality seems to be much healthier this time round especially on better profitability amongst the upstream sectors.

China banks H/A shares have already corrected by 23%/32% on average since their highs at the beginning of 2018. At the current level of 0.65x/0.74x 1-year forward PB for H/A-share banks vs. the 1Q16 low of 0.55x/0.73x, the downside risk seems limited, in our view. In particular, the current valuation level is only +17%/+1% for H/A shares from the trough level during the last regulatory cycle, or +13%/-4% if we exclude CMB. From the P/PPOP perspective, most of our covered banks were trading close to or below the average multiple during the 4Q14-1Q16 cycle (except for CMB).

图表 49: H-share banks' PB valuation is on average 19% lower vs average of last loosening cycle (4Q14-1Q16) as of 14 Jan 2019

12m fwd P/B	ICBC	BOC	CCB	ABC	BoCom	CMB	PSBC	CQRCB	Avg
Peak at 4Q14-1Q16	1.15	1.02	1.10	1.00	0.93	1.35		1.05	1.09
Avg at 4Q14-1Q16	0.85	0.74	0.82	0.77	0.70	1.00		0.74	0.80
Trough at 4Q14-1Q16	0.58	0.52	0.58	0.54	0.47	0.67		0.50	0.55
2014	0.88	0.72	0.85	0.86	0.65	0.87		0.62	0.78
2015	0.89	0.78	0.86	0.80	0.73	1.07		0.79	0.85
2016	0.67	0.58	0.68	0.62	0.57	0.87	0.80	0.59	0.67
2017	0.76	0.65	0.77	0.69	0.59	1.12	0.80	0.67	0.76
2018	0.77	0.59	0.77	0.68	0.54	1.24	0.73	0.57	0.74
Current	**0.69**	**0.52**	**0.67**	**0.59**	**0.56**	**1.08**	**0.62**	**0.45**	**0.65**
vs peak in 4Q14-1Q16	**-40%**	**-49%**	**-39%**	**-40%**	**-39%**	**-20%**		**-57%**	**-41%**
vs average of 4Q14-1Q16	**-18%**	**-30%**	**-18%**	**-23%**	**-19%**	**7%**		**-38%**	**-20%**
vs trough in 4Q14-1Q16	**18%**	**1%**	**16%**	**10%**	**20%**	**62%**		**-9%**	**17%**

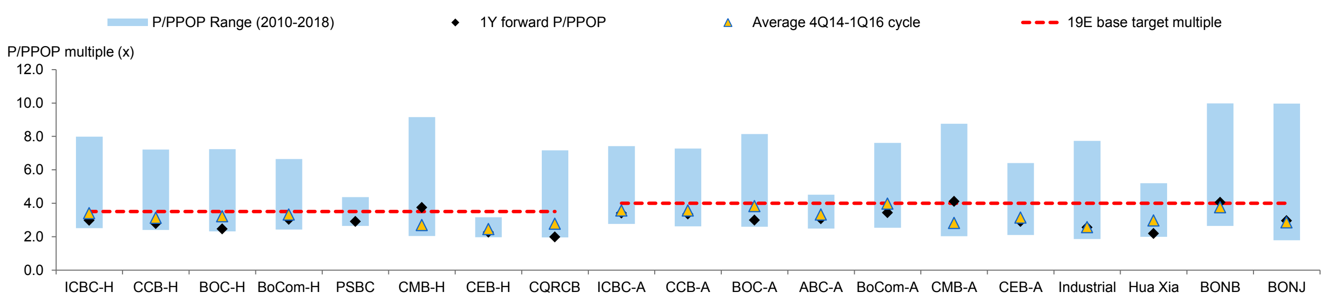
资料来源：Datastream

图表 50: A-share banks' PB valuation is on average 26% lower vs. average of last loosening cycle (4Q14-1Q16) as of 14 Jan 2019

12m fwd P/B	ICBC	BOC	CCB	ABC	BoCom	CMB	Industrial	Huaxia	CEB	BONB	BONJ	Average
Peak at 4Q14-1Q16	1.14	1.25	1.27	1.14	1.31	1.41	1.32	1.26	1.39	1.86	1.68	**1.37**
Avg at 4Q14-1Q16	0.91	0.91	0.97	0.91	0.87	1.08	0.95	0.88	0.95	1.26	1.17	**0.99**
Trough at 4Q14-1Q16	0.74	0.66	0.71	0.72	0.63	0.76	0.71	0.63	0.68	0.92	0.86	**0.73**
2014	0.80	0.70	0.79	0.79	0.63	0.81	0.73	0.70	0.66	0.89	0.78	**0.75**
2015	0.95	0.97	1.02	0.94	0.93	1.14	1.00	0.92	1.01	1.33	1.23	**1.04**
2016	0.77	0.70	0.77	0.76	0.71	1.02	0.83	0.77	0.74	1.16	1.00	**0.84**
2017	0.85	0.73	0.88	0.77	0.71	1.22	0.81	0.74	0.72	1.34	1.00	**0.89**
2018	0.87	0.69	0.91	0.76	0.65	1.35	0.70	0.59	0.66	1.35	0.93	**0.86**
Current	**0.74**	**0.63**	**0.75**	**0.69**	**0.61**	**1.09**	**0.63**	**0.50**	**0.63**	**1.14**	**0.73**	**0.74**
vs peak in 4Q14-1Q16	**-35%**	**-50%**	**-41%**	**-39%**	**-53%**	**-22%**	**-52%**	**-61%**	**-55%**	**-39%**	**-57%**	**-46%**
vs average of 4Q14-1Q16	**-19%**	**-31%**	**-22%**	**-23%**	**-30%**	**1%**	**-34%**	**-43%**	**-34%**	**-10%**	**-37%**	**-26%**
vs trough in 4Q14-1Q16	**1%**	**-6%**	**6%**	**-4%**	**-3%**	**44%**	**-12%**	**-20%**	**-8%**	**25%**	**-15%**	**1%**

资料来源：Datastream

图表 51: PPOP valuation comparison vs. 4Q14-1Q16 loosening cycle



资料来源：Datastream, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Revising estimates and target prices

Estimate revisions

Within our coverage, we incorporate 3Q18 results and fine-tune our 2018-20E estimates.

图表 52: Estimate changes

vs previous	PPOP			NPAT			Major adjustment vs. previously
	2018E	2019E	2020E	2018E	2019E	2020E	
ICBC	1%	0%	-1%	0%	1%	0%	Minor adjustment
CCB	0%	0%	-1%	-1%	-1%	-2%	Higher credit cost
BOC	-1%	-2%	-4%	-1%	-2%	-3%	Narrower NIM, higher credit cost
ABC	0%	-2%	-2%	0%	1%	0%	Faster loan growth, slower NIM expansion, lower credit cost
BoCom	3%	6%	9%	-2%	-2%	-3%	Faster loan growth, offset by higher credit cost
PSBC	0%	-5%	-10%	2%	1%	-5%	Narrower NIM expansion
CMB	1%	0%	0%	0%	-5%	-7%	Faster loan growth and fee growth, higher credit cost
CEB	2%	6%	6%	1%	0%	-2%	Faster loan growth, offset by higher credit cost
Industrial	1%	0%	-1%	-3%	-6%	-7%	NIM expansion, slower loan growth, higher credit cost
Hua Xia	2%	6%	11%	-3%	-4%	-5%	Faster loan growth, offset by higher credit cost
BONB	6%	0%	-2%	-2%	-6%	-7%	Higher credit cost
BONJ	-1%	0%	2%	5%	0%	-6%	Slower loan growth, slower NIM expansion
CQRCB	2%	2%	0%	-2%	-7%	-10%	Higher credit cost

资料来源：Goldman Sachs Global Investment Research, Gao Hua Securities Research

Revision to CAMELOT — based 2019E PPOP target multiples

We update the CAMELOT scores to reflect revised 2018-2020E estimates. (Refer to “Banking on further NIM recovery“ published Jan. 18 for details). In particular, we revised down management score (20% weighting) of all SOE banks by 1 point to reflect higher political pressure on loans towards SMEs/ private enterprises, and potentially subsequent deterioration of underwriting standards.

With this note, we also make below amendments to the CAMELOT-based 2019E PPOP target multiples:

1. Revise the baseline target multiples of A-share banks to the same as H-share banks (vs 0.5x higher for A-share banks) on diminishing A-H trading premium. We observe that the average A-H premium is now ~11%, -13ppt vs Oct 2018.
2. Revise up target multiples of CMB-H to 5.0x/5.0x (vs 4.5x/5.0x prior), on further improvement in competitive positioning. Always ranking at the top of CAMELOT table across peers, CMB now leads the 2nd runner-up (CCB) by 0.3ppt (vs 0.1ppt at 2Q18). In fact, we see such advantage already partially priced in as CMB has started to trade at a premium to peers in terms of both P/B and P/PPOP since last 1-2 years.
3. Revise up the target multiple of Industrial Bank to 3.5x (vs 3.0x prior) on improved ranking (Exhibit 53).

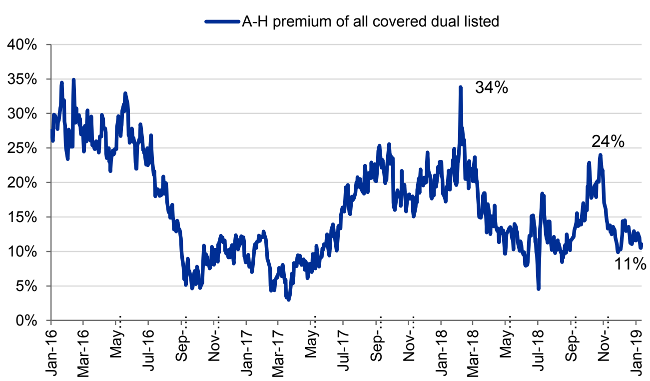
图表 53: Revised CAMELOT table
As of 2018E unless otherwise stated

Key metrics	Weight	Sub metrics	Sub weight	ICBC	CCB	BOC	ABC	BoCom	PSBC	CMB	Industrial	Hua Xia	CEB	BONB	BONJ	CQRCB
Capital	15%	Tier 1 CAR	50%	1	1	2	1	2	3	1	4	3	3	4	4	2
		Equity/assets	50%	1	1	1	2	3	4	2	4	1	3	4	4	2
Asset quality	20%	NPL rate	20%	4	2	2	4	3	1	2	3	4	3	1	1	1
		LLR/NPL	20%	4	3	4	2	3	2	1	2	4	4	1	1	1
		Overdue formation r	60%	1	2	4	1	3	1	2	4	4	2	1	3	3
Management	20%	Management	100%	2	2	3	3	3	3	1	2	4	3	2	3	3
Earnings	15%	ROA	20%	1	1	3	2	3	4	1	2	4	4	2	3	1
		ROE	20%	2	2	4	2	3	3	1	1	4	4	1	1	3
		PPOP 18-20E CAG	40%	2	2	3	4	3	4	1	1	2	4	1	4	3
		CIR	20%	1	1	4	4	4	4	2	1	3	2	3	2	1
Liquidity	5%	1H18 LCR	80%	3	2	2	3	4	1	1	4	4	4	1	3	1
		LDR	20%	2	3	2	2	3	1	3	4	4	4	1	1	1
Operating	20%	Regulatory risk	100%	2	2	2	2	2	2	2	2	3	3	3	3	3
Transparency	5%	Reporting standard	100%	2	2	2	2	2	2	1	2	3	3	3	3	3
Sum	100%	Sum		1.9	1.8	2.7	2.3	2.7	2.5	1.5	2.6	3.3	3.1	2.2	2.9	2.5
Target multiple for H share				4x	4x	3x	3.5x	3x	3.5x	5x			2.5x			2.5x
Target multiple for A share				4x	4x	3x	3.5x	3x		5x	3.5x	2.5x	2.5x	4.5x	3.0x	

Notes: 1) The CAMELOT ranking is based on our bank data 2018E forecast quartile unless indicated otherwise. 1 indicates the top quartile, 4 indicates the bottom quartile. 2) We rank the management by its structure stability (e.g., how long current management has been in place), efficiency, capability, etc. For operating measurement, we assign better scores to those banks with higher operating prudence and stable funding mix which are likely to be more resistant to regulatory headwinds. For transparency, we base our scores on the comprehensiveness of company disclosure, reporting standards, etc. 3) For asset quality we have adjusted our metrics to include overdue formation rate.

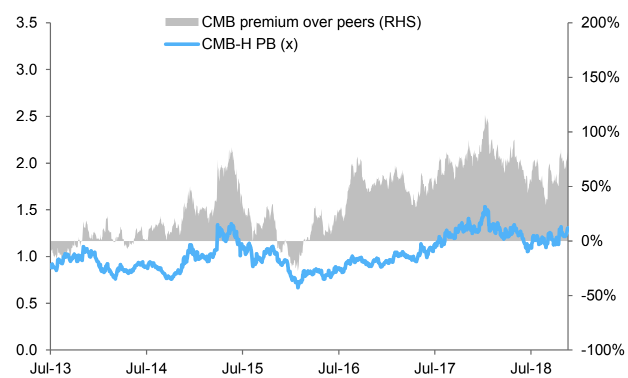
资料来源：Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 54: Average A-H premium is now c.11%, 13ppt lower vs Oct 2018
as of 14 Jan 2019



资料来源：Datastream, Goldman Sachs Global Investment Research

图表 55: CMB-H PB premium over peers



资料来源：Datastream

Valuation

China H-/A-share banks currently trade at 2.8x/3.0x 2019E P/PPOP multiples, below the 4x-8x P/PPOP multiples global peers have typically traded at except for during crisis periods when they have traded below 4x PPOP. We think current valuations are likely a reflection of investor concerns towards potential deterioration in asset quality, which we believe should ease if a targeted loosening is well executed. On average, our H-/A-share banks coverage currently has 24%/18% upside to our 12-month target prices.

Top picks

- CMB-H (Buy, add to CL) on strong PPOP growth outlook. In particular, we see CMB better placed on 1) lower political pressure in terms of providing loans to SMEs/private enterprises vs SOE banks, and 2) early mover advantage into real asset management. See page 25.

- Industrial Bank (Buy, add to CL) on 1) funding cost savings from now lower interbank rates; 2) a cleaner BS post continued NSCA unwinding in past 8 quarters, and 3) proven track record of above peer investment yields.
- Separately, we remove CCB-H off CL on lack of near term catalyst, however, maintain Buy rating on solid fundamentals.
- We are also Buy-rated on ICBC-H/A, CCB-A, and CMB-A.

Note: We also update our FX assumptions with Rmb-HKD at 1.13 (vs 1.15 prior).

图表 56: Valuation table
Pricing as of 15 Jan 2019

	Ticker	Currency	Current price	12-m TP	Rating	Target 19E P/PPOP	Upside/ downside (%)	Implied P/B		P/B		P/E		P/PPOP		ROE		ROA	
H-share (HKD)								2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
ICBC (H)	1398.HK	HK$	5.70	7.3	Buy	4.0	28%	1.03	0.93	0.80	0.73	5.9	5.5	3.4	3.1	14.2%	13.9%	1.12%	1.11%
BOC (H)	3988.HK	HK$	3.43	4.0	Neutral	3.0	17%	0.68	0.63	0.58	0.54	5.1	4.9	2.8	2.6	11.5%	11.5%	0.86%	0.84%
CCB (H)	0939.HK	HK$	6.60	9.1	Buy	4.0	38%	1.07	0.97	0.78	0.70	5.6	5.2	3.1	2.9	14.4%	14.0%	1.14%	1.16%
ABC (H)	1288.HK	HK$	3.51	4.6	Neutral	3.5	31%	0.90	0.82	0.69	0.62	5.2	4.8	2.8	2.7	14.3%	13.6%	0.94%	0.95%
BoCom (H)	3328.HK	HK$	6.44	6.1	Sell	3.0	-5%	0.63	0.58	0.67	0.62	5.9	5.7	3.5	3.2	11.5%	11.3%	0.76%	0.75%
CMB (H)	3968.HK	HK$	30.85	41.9	Buy*	5.0	36%	1.85	1.63	1.36	1.20	8.2	7.4	4.1	3.7	16.8%	17.1%	1.27%	1.30%
CEB (H)	6818.HK	HK$	3.49	4.1	Neutral	2.5	17%	0.67	0.62	0.57	0.53	5.0	4.7	2.3	2.1	11.5%	10.9%	0.74%	0.69%
PSBC	1658.HK	HK$	4.22	5.4	Neutral	3.5	28%	0.91	0.82	0.71	0.64	5.5	5.0	2.9	2.7	13.7%	13.4%	0.59%	0.59%
CQRCB	3618.HK	HK$	4.40	5.4	Neutral	2.5	23%	0.67	0.59	0.55	0.48	4.2	3.9	2.2	2.1	13.7%	13.2%	1.01%	1.03%
A-share (Rmb)																			
ICBC (A)	601398.SS	Rmb	5.23	6.4	Buy	4.0	22%	1.02	0.93	0.83	0.76	6.1	5.7	3.5	3.2	14.2%	13.9%	1.12%	1.11%
BOC (A)	601988.SS	Rmb	3.52	3.5	Neutral	3.0	-1%	0.67	0.62	0.67	0.62	6.0	5.6	3.2	3.0	11.5%	11.5%	0.86%	0.84%
CCB (A)	601939.SS	Rmb	6.38	8.0	Buy	4.0	25%	1.06	0.96	0.85	0.77	6.1	5.7	3.4	3.2	14.4%	14.0%	1.14%	1.16%
ABC (A)	601288.SS	Rmb	3.53	4.1	Neutral	3.5	16%	0.91	0.82	0.78	0.71	5.9	5.5	3.2	3.0	14.3%	13.6%	0.94%	0.95%
BoCom (A)	601328.SS	Rmb	5.95	5.4	Sell	3.0	-9%	0.63	0.58	0.70	0.64	6.2	5.9	3.6	3.3	11.5%	11.3%	0.76%	0.75%
CMB (A)	600036.SS	Rmb	26.80	37.1	Buy	5.0	38%	1.85	1.63	1.34	1.18	8.1	7.2	4.0	3.6	16.8%	17.1%	1.27%	1.30%
CEB (A)	601818.SS	Rmb	3.90	3.6	Sell	2.5	-8%	0.67	0.61	0.72	0.66	6.3	6.0	2.9	2.7	11.5%	10.9%	0.74%	0.69%
Industrial	601166.SS	Rmb	15.43	22.3	Buy*	3.5	45%	1.05	0.94	0.73	0.65	4.9	4.6	2.8	2.4	15.8%	15.0%	1.00%	1.00%
Hua Xia	600015.SS	Rmb	7.45	7.9	Neutral	2.5	6%	0.56	0.52	0.53	0.49	5.9	5.7	2.6	2.4	10.1%	9.0%	0.76%	0.72%
BONB	002142.SZ	Rmb	16.56	18.3	Neutral	4.5	11%	1.40	1.21	1.27	1.10	7.6	6.7	4.5	4.1	17.8%	17.6%	1.03%	1.11%
BONJ	601009.SS	Rmb	6.54	7.4	Neutral	3.0	13%	0.80	0.70	0.71	0.62	4.8	4.4	2.9	2.7	15.8%	15.2%	0.96%	0.95%

*denotes names on Conviction List

资料来源：Datastream, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 57: EPS estimates vs previous

Unit: Rmb	Old EPS			New EPS		
	2018E	2019E	2020E	2018E	2019E	2020E
ICBC	0.85	0.91	0.98	0.85	0.92	0.99
CCB	1.05	1.13	1.22	1.04	1.12	1.20
BOC	0.60	0.64	0.67	0.59	0.62	0.65
ABC	0.63	0.64	0.68	0.62	0.65	0.68
BoCom	0.98	1.03	1.07	0.96	1.01	1.04
PSBC	0.67	0.74	0.85	0.69	0.75	0.80
CMB	3.32	3.91	4.45	3.31	3.69	4.11
CEB	0.62	0.65	0.69	0.62	0.65	0.68
Industrial	3.24	3.61	4.14	3.16	3.38	3.85
Hua Xia	1.57	1.63	1.71	1.45	1.31	1.36
BONB	2.23	2.72	3.12	2.18	2.48	2.82
BONJ	1.29	1.49	1.73	1.35	1.48	1.63
CQRCB	0.95	1.08	1.22	0.93	1.01	1.10

资料来源：Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 58: Estimates vs consensus
As of 15 Jan 2019

vs consensus	Revenue			NPAT		
	2018E	2019E	2020E	2018E	2019E	2020E
ICBC	-2.0%	-2.2%	-1.4%	0.8%	0.8%	0.3%
CCB	-0.1%	0.1%	1.0%	1.3%	1.5%	0.2%
BOC	-0.7%	-1.3%	-1.0%	-1.8%	-2.7%	-4.5%
ABC	0.8%	-0.8%	-1.9%	1.2%	0.3%	-4.2%
BoCom	-4.8%	-5.0%	-7.2%	0.3%	-1.5%	-4.7%
PSBC	1.2%	-2.6%	-5.1%	0.4%	-4.2%	-9.5%
CMB	1.7%	3.0%	4.6%	4.0%	2.0%	0.7%
CEB	0.0%	-1.0%	-2.6%	-1.1%	-3.3%	-6.0%
Industrial	0.0%	5.2%	7.8%	7.2%	6.4%	10.4%
Hua Xia	-3.1%	-1.8%	-3.0%	-3.2%	-4.5%	-5.8%
BONB	1.0%	0.1%	-4.9%	-1.5%	-4.8%	-9.6%
BONJ	-0.2%	2.6%	2.2%	3.3%	-2.4%	-7.6%
CQRCB	-4.2%	-1.6%	-2.2%	-1.0%	0.2%	0.5%
Big-4 Avg	-1.0%	-1.1%	-0.5%	0.1%	-0.1%	-1.3%
Sector Avg	-0.8%	-0.4%	-1.1%	0.8%	-0.9%	-3.1%

资料来源：Bloomberg, Goldman Sachs Global Investment Research, Gao Hua Securities Research

图表 59: Summary Valuation and risks
as of 15 Jan 2019

Ticker	Bank	PCY	Close Price	TP	Rating	Methodology	Risk
H-share banks							
1398.HK	ICBC (H)	HK$	5.70	7.3	Buy	19E P/PPOP	Failure of Fintech transformation and therefore surpassed by other banks or Fintech companies; worse-than-expected NPLs; slower-than-expected NIM expansion resulting in a drag in bottom line
3988.HK	BOC (H)	HK$	3.43	4.0	Neutral	19E P/PPOP	Upside: operation cost reduction and efficiency improvement. Downside: worse-than-expected NPLs, significant downturn in the overseas market
0939.HK	CCB (H)	HK$	6.60	9.1	Buy	19E P/PPOP	1) Policy tightening and economic slowdown, 2) weaker-than-expected asset quality and thus higher-than-expected credit costs.
1288.HK	ABC (H)	HK$	3.51	4.6	Neutral	19E P/PPOP	Weaker/stronger-than-expected funding cost control; worse/better-than-expected NPLs; slower/faster-than-expected NIM expansion
3328.HK	BoCom (H)	HK$	6.44	6.1	Sell	19E P/PPOP	Lower-than-expected funding cost; better-than-expected asset quality; higher operating efficiency with lower CIR
3968.HK	CMB (H)	HK$	30.85	41.9	Buy*	19E P/PPOP	1) With one of the highest off-balance sheet Wealth Management Products as a percentage of deposits in our China Banks coverage, CMB could be susceptible to over tightening on any WMP issuance; 2) Weaker-than-expected asset quality and
6818.HK	CEB (H)	HK$	3.49	4.1	Neutral	19E P/PPOP	Upside: better-than expected net interest margin and faster deposit growth; stronger capital position. Downside: worse-than-expected asset quality and slower fee income growth
1658.HK	PSBC	HK$	4.22	5.4	Neutral	19E P/PPOP	Faster-/slower-than-expected A share listing;□tighter-/looser-than-expected interbank liquidity; more/less product-side innovation for revenue diversification.
3618.HK	CQRCB	HK$	4.40	5.4	Neutral	19E P/PPOP	Upside: better-than expected net interest margin and asset quality. Downside: worse-than-expected NPLs; surprise slowdown of Chongqing economy
A-share banks							
601398.SS	ICBC (A)	Rmb	5.23	6.4	Buy	19E P/PPOP	Failure of Fintech transformation and therefore surpassed by other banks or Fintech companies; worse-than-expected NPLs; slower-than-expected NIM expansion resulting in a drag in bottom line
601988.SS	BOC (A)	Rmb	3.52	3.5	Neutral	19E P/PPOP	Upside: operation cost reduction and efficiency improvement. Downside: worse-than-expected NPLs, significant downturn in the overseas market
601939.SS	CCB (A)	Rmb	6.38	8.0	Buy	19E P/PPOP	1) Policy tightening and economic slowdown, 2) weaker-than-expected asset quality and thus higher-than-expected credit costs.
601288.SS	ABC (A)	Rmb	3.53	4.1	Neutral	19E P/PPOP	Weaker/stronger-than-expected funding cost control; worse/better-than-expected NPLs; slower/faster-than-expected NIM expansion
601328.SS	BoCom (A)	Rmb	5.95	5.4	Sell	19E P/PPOP	Lower-than-expected funding cost; better-than-expected asset quality; higher operating efficiency with lower CIR
600036.SS	CMB (A)	Rmb	26.80	37.1	Buy	19E P/PPOP	1) With one of the highest off-balance sheet Wealth Management Products as a percentage of deposits in our China Banks coverage, CMB could be susceptible to over tightening on any WMP issuance; 2) Weaker-than-expected asset quality and
601818.SS	CEB (A)	Rmb	3.90	3.6	Sell	19E P/PPOP	Upside: better-than expected net interest margin and faster deposit growth; stronger capital position.
601166.SS	Industrial	Rmb	15.43	22.3	Buy*	19E P/PPOP	China macro hard landing; accelerated deposit rate deregulation; further tightening on interbank business;□higher than expected interbank rates; slower than expected asset growth; worse than expected NPL.
600015.SS	Hua Xia	Rmb	7.45	7.9	Neutral	19E P/PPOP	Upside: Better-than-expected asset growth, asset quality and franchise improvement Downside: Macro slowdown, further deterioration in asset quality.
002142.SZ	BONB	Rmb	16.56	18.3	Neutral	19E P/PPOP	Upside: Capital replenishment; Downside: macro slowdown in Ningbo area, worse-than-expected asset quality.
601009.SS	BONJ	Rmb	6.54	7.4	Neutral	19E P/PPOP	Upside: Faster-than-expected NIM expansion; Downside: macro slowdown in Nanjing area, worse-than-expected asset quality.

*denotes names on Conviction List

资料来源：Goldman Sachs Global Investment Research, Gao Hua Securities Research

CMB (3968.HK): Add to CL on faster-than-peer PPOP growth in 2019E

Source of opportunity

We add CMB-H to regional Conviction List on its faster-than-peer PPOP growth going into 2019E (11%, vs 9%/7% average of the covered banks/big-4 banks) on the back of solid loan growth (12%), continuous NIM expansion (+2bps), and stable fee growth (13%) in 2019. We expect CMB to continue enjoying a valuation premium over peers on its best-in-class retail strength. We believe quality, as measured by our CAMELOT scores, becomes more valuable during a downcycle (loosening cycle) where banks without an edge would face a combination of margin compression and asset quality deterioration. Our P/PPOP-based 12-m target price is HKD41.9, implying 36% upside, among the highest in our China Banks coverage.

Catalysts

1) Less political pressure in lending towards SMEs/private companies vs SOE bank peers. As a joint-stock bank (JSB), CMB has traditionally employed a market-oriented approach in investing and lending, and has strategically focused on retail banking which has higher ROE and better asset quality vs. corporate banking. With the recent policy bias towards SMEs/private companies, we see JSBs under less political pressure to meet specific lending targets vs SOE banks. In particular, we expect CMB to maintain its focus on retail banking and high lending standard, which should help the bank to deliver quality growth into 2019/20 with stable asset quality (NPL ratio -14bp in 2019E, vs flat for the sector) and NIM (+2bp in 2019E, vs -1bp for big 4 banks).

2) Active transformation of its bank wealth management business. Despite the challenging transition with lower fee income, CMB actively lowered its WMP balance by Rmb390bn in 1H18 (vs +359bn at ICBC), as a part of the bank’s effort to reform its wealth management business. As the earliest mover into real asset management business, we expect CMB to be the best prepared when the transition period of the new AM rule ends in 2020.

Valuation

Our new 12-m target price of HKD41.9 for CMB-H is derived from 2019E P/PPOP, with our target multiple of 5.0x (see pages 25 for details), which implies a 1.63x FY19E P/B multiple. We believe the valuation is attractive with CMB-H currently trading at 1.18 x FY19E P/B.

Key risks

1) With one of the highest off-balance sheet Wealth Management Products as a percentage of deposits in our China Banks coverage, CMB could be susceptible to over tightening on any WMP issuance; and 2) weaker-than-expected asset quality and thus higher-than-expected credit costs.

Impact on related securities

We maintain a Buy rating on CMB-A (600036.SS) with our new 12-m PPOP-based target price of Rmb37.1 (based on a 5.0x 2019E PPOP multiple see pages 25 for details), implying 38% upside.

图表 60: One page company financials

Profit model (Rmb mn)	12/17	12/18E	12/19E	12/20E
Net interest income	144,852.0	158,361.1	172,600.2	187,004.9
Non-interest income	76,045.0	89,297.7	98,573.2	110,551.0
Operating revenue	220,897.0	247,658.9	271,173.4	297,555.9
Non-interest expense	(70,431.0)	(79,473.6)	(85,235.6)	(92,039.9)
Preprovision operating profit	150,466.0	168,185.2	185,937.8	205,516.0
Total provision charge	(59,926.0)	(57,868.3)	(62,920.0)	(68,351.3)
Associates	140.0	(59.1)	(68.0)	(78.2)
Pretax profit	90,680.0	110,257.8	122,949.9	137,086.6
Tax	(20,042.0)	(26,329.4)	(29,360.3)	(32,736.1)
Minorities	--	--	--	--
Net profit	70,150.0	83,502.9	92,971.5	103,664.9
Dividends	(21,185.0)	(25,050.9)	(27,891.5)	(31,099.5)
Dividends payout (%)	30.2	30.0	30.0	30.0

Earnings growth drivers (%)	12/17	12/18E	12/19E	12/20E
Net interest margin	2.44	2.51	2.53	2.52
Provision charge/total loans	1.75	1.54	1.50	1.47
YoY Growth (%)				
Customer deposits	6.9	7.7	10.9	9.6
Loans	8.3	10.0	11.6	10.7
Net interest income	7.6	9.3	9.0	8.3
Fee income	5.2	10.8	13.0	12.6
Non-interest income	1.2	17.4	10.4	12.2
Operating revenue	5.3	12.1	9.5	9.7
Operating expenses	(8.1)	(12.8)	(7.3)	(8.0)
Preprovision operating profit	4.1	11.8	10.6	10.5
Provision charges	(7.0)	(6.1)	8.7	8.6
Pretax profit	14.8	21.6	11.5	11.5
Net profit	13.0	19.0	11.3	11.5
EPS	13.2	18.8	11.5	11.5
DPS	13.5	18.2	11.3	11.5

Market dimensions	12/17	12/18E	12/19E	12/20E
No of branches	1,819.0	1,819.0	1,819.0	1,819.0
No of staff (000)	70.5	70.5	70.5	70.5
Revenues/staff (US$)	463,832.0	531,212.1	563,651.3	624,887.2
Net profit/staff (US$)	147,298.6	179,108.3	193,247.3	217,703.2

DuPont analysis (%)	12/17	12/18E	12/19E	12/20E
ROE	15.9	16.9	17.2	17.0
x leverage	7.2	7.5	7.5	7.7
=ROA	1.15	1.27	1.30	1.31

% of assets	12/17	12/18E	12/19E	12/20E
Net interest income	2.37	2.42	2.41	2.36
Fee income	1.05	1.08	1.12	1.14
Non-interest income	1.24	1.36	1.37	1.40
Operating revenue	3.61	3.78	3.78	3.76
Operating expenses	1.15	1.21	1.19	1.16
Preprovision operating profit	2.46	2.57	2.59	2.60
Loan loss provisions	0.98	0.86	0.86	0.84
Pretax profits	1.48	1.68	1.71	1.73
Taxes	0.33	0.40	0.41	0.41

Balance sheet (Rmb mn)	12/17	12/18E	12/19E	12/20E
Gross loans	3,565,044.0	3,943,756.8	4,405,153.0	4,879,563.1
NPLs	57,393.0	54,562.9	54,477.8	55,415.9
Loan loss reserves	150,432.0	188,460.2	215,721.9	242,457.2
Total interest earning assets	6,093,483.0	6,513,844.0	7,127,742.6	7,714,938.6
Other non-interest earning assets	204,155.0	289,133.8	412,485.6	582,756.3
Total assets	6,297,638.0	6,802,977.8	7,540,228.2	8,297,694.9
Customer deposits	4,064,345.0	4,378,017.6	4,853,557.1	5,318,310.5
Total interest-bearing liabilities	5,613,132.0	6,011,453.5	6,639,806.8	7,274,586.1
Total equity	483,392.0	508,732.9	576,653.5	652,427.0

CAMEL ratios (%)	12/17	12/18E	12/19E	12/20E
C: Tier 1 capital ratio	13.0	13.4	13.5	13.8
C: Equity/loans	14.1	13.5	13.7	14.0
C: Equity/assets	7.6	7.4	7.6	7.8
A: NPL ratio	1.6	1.4	1.2	1.1
A: Loan loss reserves/NPLs	262.1	345.4	396.0	437.5
E: Net interest margin	2.44	2.51	2.53	2.52
E: Non int inc/oper revenues	34.43	36.06	36.35	37.15
E: Cost-income ratio	31.9	32.1	31.4	30.9
E: ROAA	1.15	1.27	1.30	1.31
L: Loan/deposit ratio	84.0	85.8	86.3	87.2

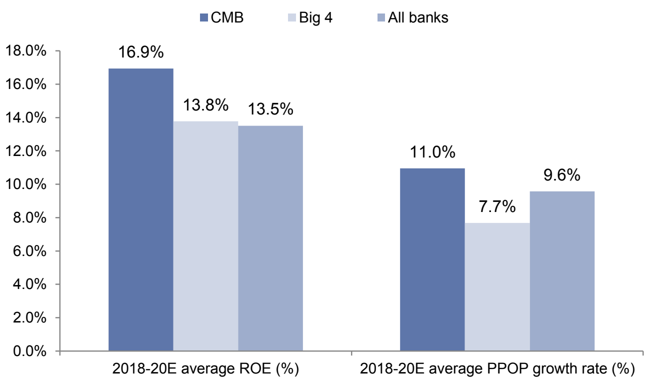
Loan portfolio (%)	12/17	12/18E	12/19E	12/20E
Commercial & corporate	49.9	49.4	48.4	46.8
Mortgages/home loans	23.4	23.2	23.3	23.6
Consumer	50.1	50.6	51.6	53.2

Valuation (current price)	12/17	12/18E	12/19E	12/20E
P/E basic (X)	7.6	8.0	7.2	6.4
P/B (X)	1.13	1.33	1.17	1.03
P/PPOP (X)	4.5	4.0	3.6	3.3
Dividend yield (%)	3.9	3.7	4.2	4.6
EPS, basic (Rmb)	2.78	3.31	3.69	4.11
EPS, fully-diluted (Rmb)	2.78	3.31	3.69	4.11
EPS, basic growth (%)	13.0	19.0	11.3	11.5
EPS, fully diluted growth (%)	13.0	19.0	11.3	11.5
BVPS (Rmb)	19.04	20.04	22.73	25.74
DPS (Rmb)	0.84	0.99	1.11	1.23

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

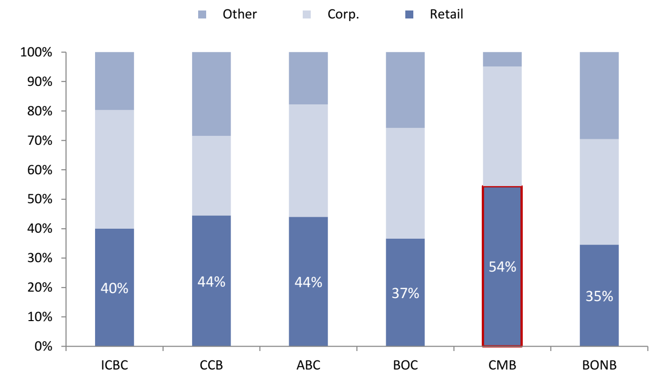
资料来源：Company data, Goldman Sachs Global Investment Research

图表 61: We expect CMB to continue to deliver above-peer PPOP growth and ROE going forward...



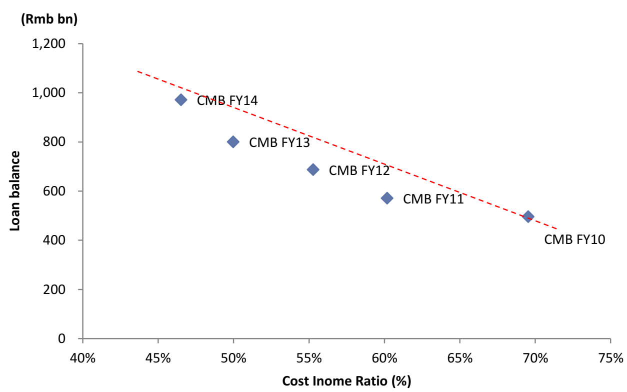
资料来源： Goldman Sachs Global Investment Research

图表 62: ...on the back of its superior retail franchise
PBT by segment, 1H18



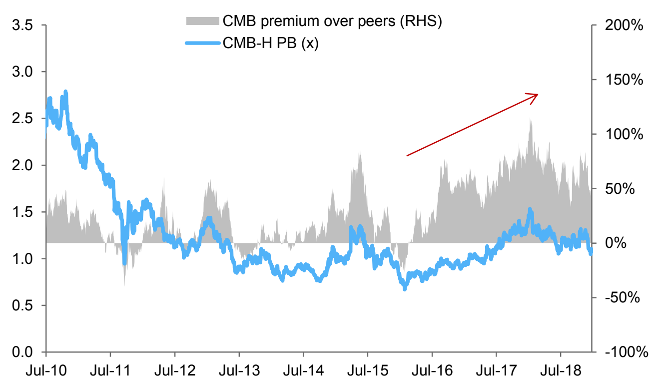
资料来源： Company data

图表 63: CMB’s retail banking business became much more profitable when it amassed scale in early 2010s



资料来源： Company data, Goldman Sachs Global Investment Research

图表 64: But such strength is only getting recognized gradually by the market since last 2 years
CMB’s PB premium vs peers



资料来源： Datastream

CCB (939.HK): Off CL on relatively lack of growth catalysts but maintain Buy on solid asset quality

We take CCB off our Conviction List for the lack of catalyst in the near term in the current down cycle due to its already big size (2nd biggest bank, taking up 12% of total banking asset) and high exposure to mortgage - the growth could be dragged down by slow property sales. We still maintain Buy rating for CCB with 2019E P/PPOP derived TP of HKD 9.1/RMB 8.0 for H/A-share implying 38%/25% upside. Since we added CCB-H to CL on Jan 17, 2018, it marginally underperformed H-share banks by 3ppt despite strong fundamentals as most of its peers that traded on lower multiples seemed to have received more valuation support under a weak market environment.

Current view

1. We still like the bank given its good management and governance reflected by:
   - ☐ High ROE of 14% for 2019E the highest among Big Four China banks and benign asset quality with NPL ratio of 1.43% for 2019E the second lowest in Big four.
   - ☐ The strongest capital with the highest Tier-1 CAR among big four banks at 13.9%.
   - ☐ Its loan loss reserve ratio is also the second highest among Big Four at 195%, which makes it well-cushioned for potential pick up of NPLs.
2. However, we are also aware that as one of the biggest bank in China, CCB could face pressure on asset origination and out performance from some smaller peers during the down cycle. In particular, CCB is the biggest mortgage bank with 20% of mortgage within its asset portfolio as of 1H18. Though we still believe mortgage to be one of the safest asset for banks, CCB could face pressure to grow the mortgage portfolio as fast as before given the property market slowdown.
3. In addition, as one of the biggest SOE banks, we think CCB could face more political pressure to lend to low yield infrastructure projects or SMEs/private companies in order to support economy growth.

Valuation

Our new 12-m target price of HKD9.1/RMB 8.0 for CCB’s H/A-share is derived from 2019E P/PPOP. We kept the multiple for H-share at 4.0x unchanged but lower down the A-share multiple by 0.5x to 4.0x as well (see CAMELOT section). This implies 0.97x/0.96x FY19E P/B multiple for H/A-share.

Key risks

1) Property market hard landing which could hurt the asset quality of CCB’s mortgage portfolio. 2) Weaker-than-expected asset quality and thus higher-than-expected credit costs; and 3) political pressure to support economy pressure by lending to unqualified SMEs.

图表 65: One page company financials

Profit model (Rmb mn)	12/17	12/18E	12/19E	12/20E
Net interest income	452,456.0	493,936.4	531,684.5	570,554.2
Non-interest income	141,575.0	149,982.3	160,947.4	171,452.5
Operating revenue	594,031.0	643,918.6	692,631.8	742,006.7
Non-interest expense	(167,043.0)	(178,709.8)	(189,926.7)	(205,019.3)
Preprovision operating profit	426,988.0	465,208.8	502,705.1	536,987.4
Total provision charge	(127,362.0)	(140,064.6)	(149,245.2)	(156,041.3)
Associates	161.0	296.0	296.0	296.0
Pretax profit	299,787.0	325,440.2	353,755.9	381,242.1
Tax	(56,172.0)	(60,598.7)	(68,814.3)	(76,248.4)
Minorities	--	--	--	--
Net profit	242,264.0	260,355.4	280,535.6	300,667.7
Dividends	(72,753.2)	(78,106.6)	(84,160.7)	(90,200.3)
Dividends payout (%)	30.0	29.6	29.6	29.6

Earnings growth drivers (%)	12/17	12/18E	12/19E	12/20E
Net interest margin	2.14	2.19	2.20	2.20
Provision charge/total loans	1.01	1.02	0.99	0.94
YoY Growth (%)				
Customer deposits	5.8	(100.0)	NM	NM
Loans	9.5	9.4	10.0	9.8
Net interest income	8.3	9.2	7.6	7.3
Fee income	(0.6)	3.4	5.8	4.8
Non-interest income	(0.3)	5.9	7.3	6.5
Operating revenue	6.1	8.4	7.6	7.1
Operating expenses	2.6	(7.0)	(6.3)	(7.9)
Preprovision operating profit	10.0	9.0	8.1	6.8
Provision charges	37.7	8.0	6.9	4.8
Pretax profit	1.6	8.6	8.7	7.8
Net profit	4.7	7.5	7.8	7.2
EPS	4.7	7.5	7.8	7.2
DPS	4.7	7.4	7.8	7.2

Market dimensions	12/17	12/18E	12/19E	12/20E
No of branches	14,920.0	14,920.0	14,920.0	14,920.0
No of staff (000)	352.6	352.6	352.6	352.6
Revenues/staff (US$)	249,241.7	275,985.2	287,677.9	311,373.4
Net profit/staff (US$)	101,648.4	111,589.0	116,517.7	126,171.2

DuPont analysis (%)	12/17	12/18E	12/19E	12/20E
ROE	15.3	15.2	14.7	14.2
x leverage	7.3	7.5	7.8	8.1
=ROA	1.12	1.14	1.16	1.16

% of assets	12/17	12/18E	12/19E	12/20E
Net interest income	2.10	2.17	2.19	2.20
Fee income	0.55	0.53	0.53	0.52
Non-interest income	0.66	0.66	0.66	0.66
Operating revenue	2.76	2.83	2.85	2.86
Operating expenses	0.78	0.78	0.78	0.79
Preprovision operating profit	1.98	2.04	2.07	2.07
Loan loss provisions	0.57	0.59	0.59	0.57
Pretax profits	1.39	1.43	1.46	1.47
Taxes	0.26	0.27	0.28	0.29

Balance sheet (Rmb mn)	12/17	12/18E	12/19E	12/20E
Gross loans	12,903,441.0	14,176,413.7	15,604,124.7	17,146,605.4
NPLs	192,291.0	206,186.4	222,454.9	246,420.0
Loan loss reserves	328,968.0	419,642.8	478,551.0	534,827.0
Total interest earning assets	18,464,719.0	19,963,229.3	21,437,737.7	22,923,942.4
Other non-interest earning assets	3,659,664.0	3,462,579.4	3,663,489.0	3,909,847.6
Total assets	22,124,383.0	23,425,808.6	25,101,226.7	26,833,790.0
Customer deposits	16,363,754.0	17,345,579.2	18,421,005.2	19,526,265.5
Total interest-bearing liabilities	19,302,480.0	20,373,784.1	21,744,757.2	23,204,704.7
Total equity	1,716,191.0	1,898,269.4	2,100,698.4	2,317,205.4

CAMEL ratios (%)	12/17	12/18E	12/19E	12/20E
C: Tier 1 capital ratio	13.7	13.8	13.8	13.8
C: Equity/loans	12.9	13.1	13.3	13.4
C: Equity/assets	7.3	7.7	8.0	8.3
A: NPL ratio	1.5	1.5	1.4	1.4
A: Loan loss reserves/NPLs	171.1	203.5	215.1	217.0
E: Net interest margin	2.14	2.19	2.20	2.20
E: Non int inc/oper revenues	23.83	23.29	23.24	23.11
E: Cost-income ratio	27.7	27.6	27.4	27.6
E: ROAA	1.12	1.14	1.16	1.16
L: Loan/deposit ratio	76.8	79.3	82.1	85.1

Loan portfolio (%)	12/17	12/18E	12/19E	12/20E
Commercial & corporate	58.8	57.3	55.4	53.7
Mortgages/home loans	28.1	29.2	30.6	31.8
Consumer	40.3	41.9	43.8	45.6

Valuation (current price)	12/17	12/18E	12/19E	12/20E
P/E basic (X)	5.8	5.5	5.1	4.7
P/B (X)	0.86	0.79	0.71	0.64
P/PPOP (X)	3.3	3.1	2.8	2.6
Dividend yield (%)	5.2	5.5	5.9	6.3
EPS, basic (Rmb)	0.97	1.06	1.14	1.22
EPS, fully-diluted (Rmb)	0.97	1.04	1.12	1.20
EPS, basic growth (%)	4.7	9.0	7.6	7.1
EPS, fully diluted growth (%)	4.7	7.5	7.8	7.2
BVPS (Rmb)	6.48	7.21	8.02	8.89
DPS (Rmb)	0.29	0.31	0.34	0.36

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

资料来源：Company data, Goldman Sachs Global Investment Research

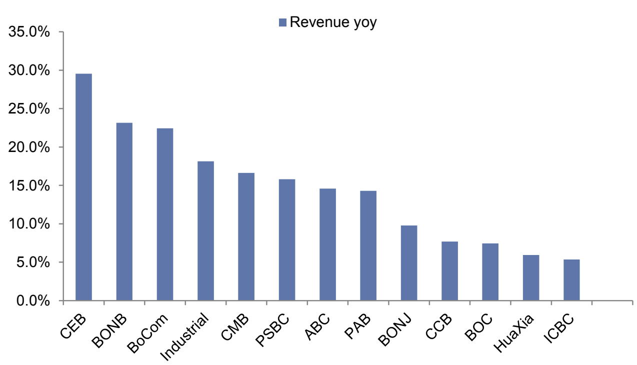
3Q18 results wrap up and chartbook

NIM expansion continued into 3Q18 at +6.5bp/+3.6bp qoq on average across the sector (excl. CQRCB/big 4 banks), as asset repricing was more than enough to offset the higher funding costs, especially for selected smaller banks (BONB +18.9bp, BoCom +18.5bp, and CEB +15.3bp etc). However, we do expect further NIM expansion to be limited amid targeted yet marginal loosening. In particular, as SME loans are usually priced at premium to benchmark rates and with regulators encouraging banks to provide more funding to SMEs at stable/cheaper cost.

Asset quality remained benign with NPL ratio lower by c.1bp qoq on average for all banks, and risk buffer coming in higher - on average, NPL coverage increased by 2.9ppt and loan provision ratio increased by 1.6bp qoq for our covered banks in 3Q18. According to our A-share listco sample (c.3,000 companies), implied NPL ratio was stable at 3.8% in 3Q18 (vs 4.0% /3.6% at 1H18/YE17), but is expected to rise to 4.1% on marginally weaker profitability.

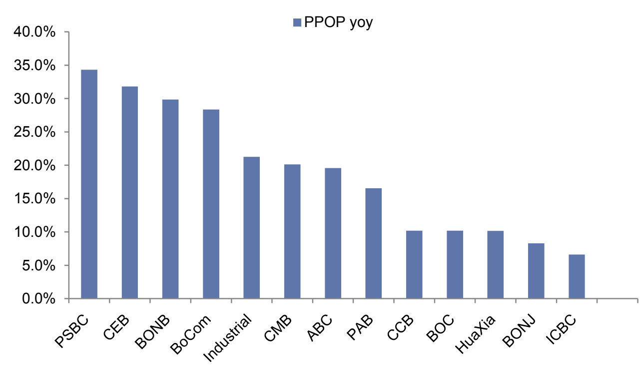
Stable loan growth of 14.4% yoy for our covered banks, or 8.8% for the big 4 banks, was faster than the overall asset growth of 7.2% yoy.

图表 66: Small and mid size banks are seeing faster revenue growth in 3Q18......
as of 3Q18



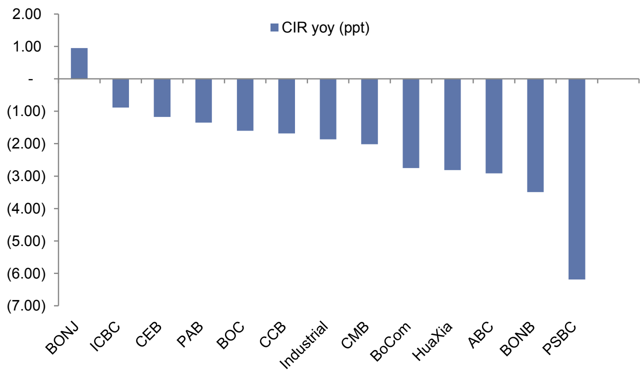
资料来源：company reports

图表 67: ...while the trend is similar for PPOP growth
as of 3Q18



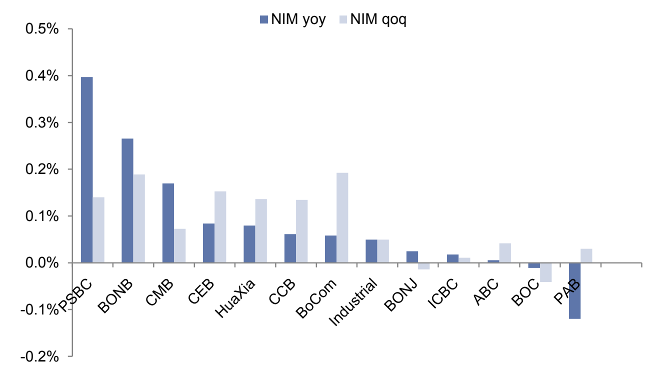
资料来源：Company reports

图表 68: We see sector-wise efficiency improvement, especially for PSBC



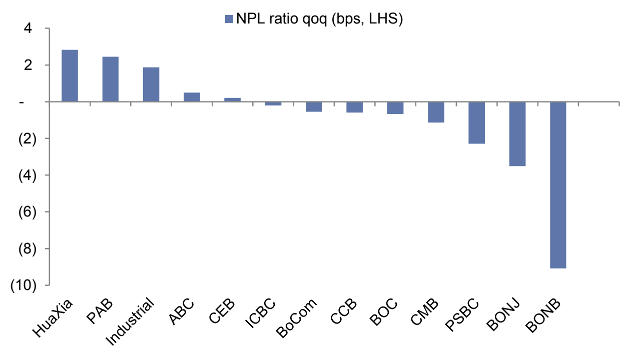
资料来源：company reports

图表 69: NIM expansion trend continued in 3Q18
as of 3Q18



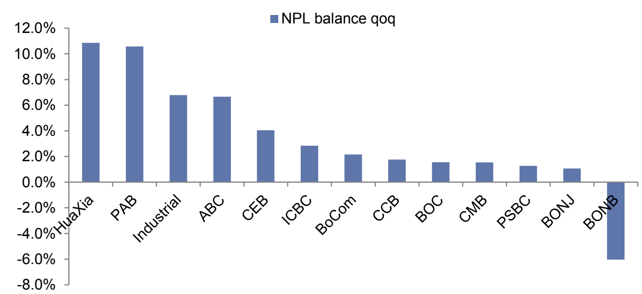
资料来源：Company reports

图表 70: We see the most asset quality improvement for BONB...
as of 3Q18



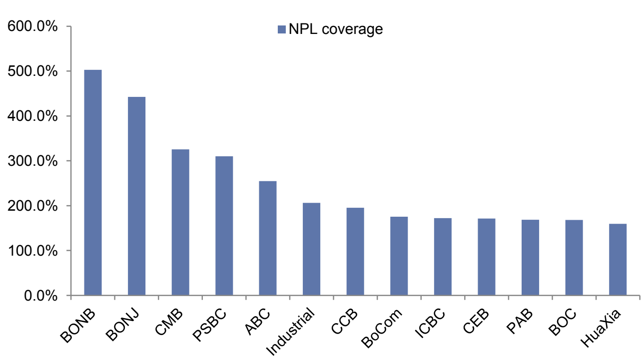
资料来源：Company reports

图表 71: ...and it’s the only bank having the NPL balance declined...
as of 3Q18



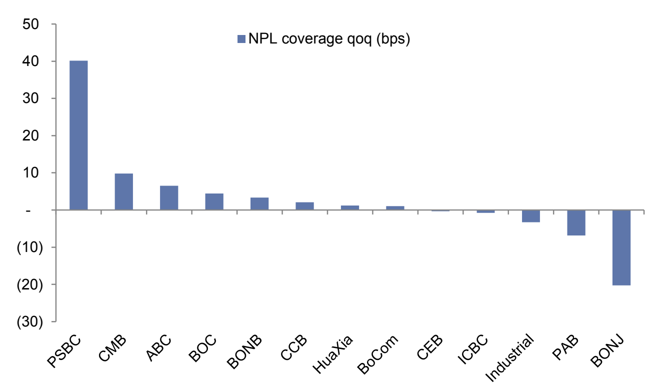
资料来源：company reports

图表 72: BONB and BONJ continued to maintain the highest NPL coverage ratio



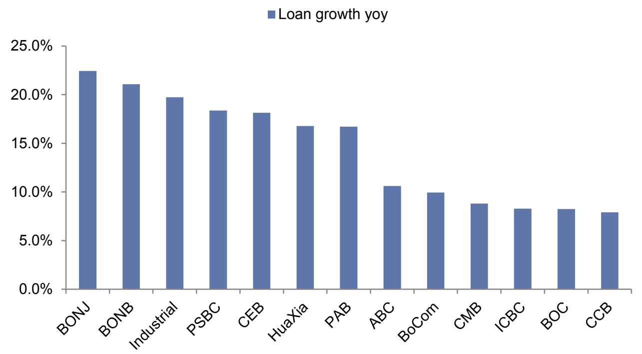
资料来源：Company reports

图表 73: Most of the big banks improved their NPL coverage
as of 3Q18



资料来源：Company reports

图表 74: Smaller banks grew their loan book faster during the quarter

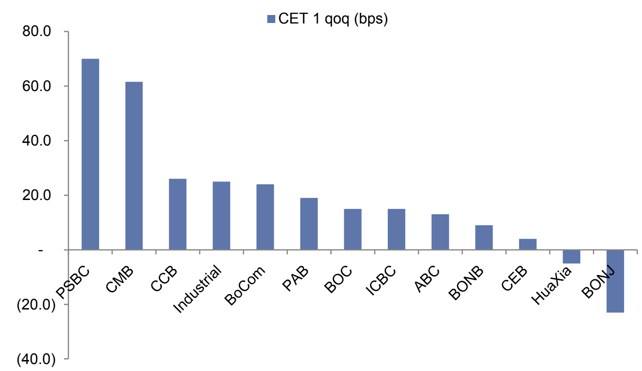


资料来源：company reports

图表 75: ...while big banks’ total asset growth is largely on par with smaller banks

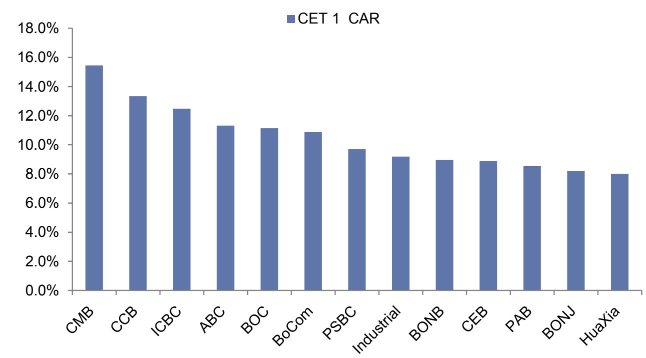
资料来源：company reports

图表 76: Most banks improved their CET 1, especially PSBC and CMB...except for Huaxia and BONJ
as of 3Q18



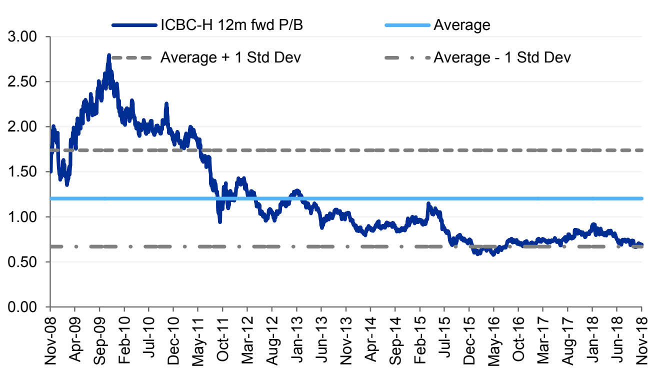
资料来源：Company reports

图表 77: Capital ratio is still at healthy level to support banks’ growth



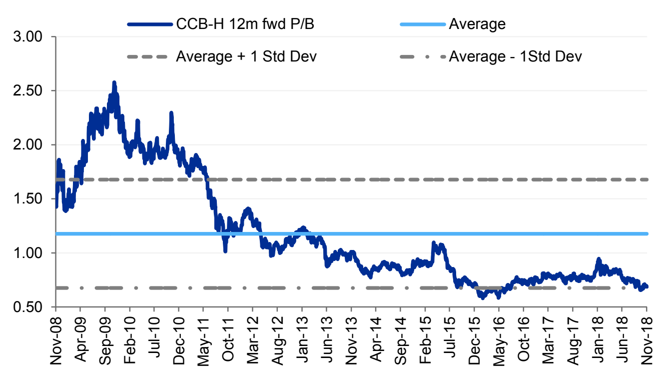
资料来源：Company reports

图表 78: ICBC-H PB history



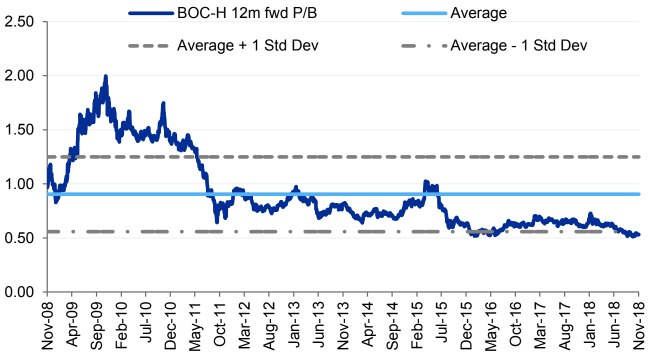
资料来源：Datastream

图表 79: CCB-H PB history



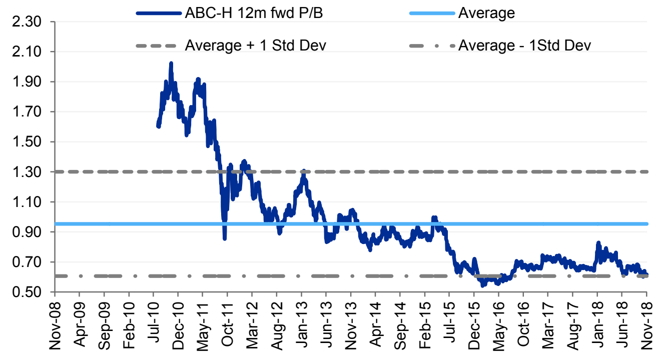
资料来源：Datastream

图表 80: BOC-H PB history



资料来源：Datastream

图表 81: ABC-H PB history



资料来源：Datastream

图表 82: 3Q18 results review

Loan growth yoy (%)	3Q17	4Q17	1Q18	2Q18	3Q18
ICBC	9.1%	9.0%	7.3%	7.7%	8.3%
CCB	10.8%	9.8%	8.1%	7.6%	7.9%
BOC	9.4%	9.3%	7.4%	7.1%	8.2%
ABC	10.7%	10.3%	10.2%	10.1%	10.6%
BoCom	9.7%	8.6%	8.3%	9.7%	9.9%
PSBC	0.0%	20.5%	21.5%	19.9%	18.4%
CMB	14.5%	9.3%	8.2%	9.5%	8.8%
CEB	14.8%	13.2%	11.7%	10.8%	18.1%
Industrial	20.0%	16.9%	16.0%	17.1%	19.7%
Hua Xia	12.2%	14.6%	18.1%	17.4%	16.8%
PAB	15.1%	15.5%	14.5%	13.5%	16.7%
BONB	13.6%	14.4%	14.8%	16.4%	21.1%
BONJ	19.8%	17.2%	17.4%	18.3%	22.4%
CQRCB	11.1%	12.6%	12.3%	11.9%	
Sector Avg	12.2%	12.9%	12.6%	12.6%	14.4%

NIM qoq (bp)	3Q17	4Q17	1Q18	2Q18	3Q18
ICBC	3	5	-5	1	1
CCB	6	4	3	-14	13
BOC	-1	-2	-4	9	-4
ABC	6	6	-4	-6	4
BoCom	1	1	-13	-2	19
PSBC	12	5	2	18	14
CMB	0	5	2	3	7
CEB	-2	10	-36	19	15
Industrial	6	-15	5	10	5
Hua Xia	1	-8	3	0	14
PAB	0	-13	9	-1	-22
BONB	7	-15	-2	25	19
BONJ	-6	1	11	-9	-1
CQRCB	10	0	5	-125	
Sector Avg	3	-1	-2	-5	7

Net fee income growth yoy (%)	3Q17	4Q17	1Q18	2Q18	3Q18
ICBC	-3%	2%	2%	5%	11%
CCB	2%	-8%	-2%	6%	8%
BOC	0%	-7%	0%	-4%	-2%
ABC	-29%	-17%	-8%	19%	19%
BoCom	18%	26%	-4%	4%	9%
PSBC	32%	-23%	14%	2%	11%
CMB	27%	26%	2%	15%	6%
CEB	3%	5%	13%	16%	24%
Industrial	3%	8%	3%	17%	20%
Hua Xia	24%	19%	12%	-12%	-12%
PAB	7%	27%	5%	24%	-22%
BONB	-10%	37%	-9%	-20%	3%
BONJ	42%	69%	16%	19%	18%
CQRCB	17%	25%	-4%	-3%	
Sector Avg	10%	14%	3%	6%	7%

PPOP growth yoy (%)	3Q17	4Q17	1Q18	2Q18	3Q18
ICBC	9%	13%	10%	7%	7%
CCB	11%	15%	4%	10%	10%
BOC	8%	10%	-4%	8%	10%
ABC	5%	17%	14%	19%	20%
BoCom	1%	-2%	-4%	6%	28%
PSBC	34%	25%	37%	48%	34%
CMB	7%	8%	3%	17%	20%
CEB	-9%	-11%	7%	20%	32%
Industrial	-14%	-5%	2%	13%	21%
Hua Xia	-2%	13%	1%	-3%	10%
PAB	-12%	-24%	-7%	5%	17%
BONB	3%	16%	-4%	18%	30%
BONJ	-5%	17%	7%	10%	8%
CQRCB	29%	19%	27%	16%	
Sector Avg	5%	8%	6%	14%	19%

LLR/NPL (%)	3Q17	4Q17	1Q18	2Q18	3Q18
ICBC	148	154	174	173	172
CCB	163	171	189	193	195
BOC	154	159	167	164	168
ABC	194	208	239	248	255
BoCom	151	153	171	174	176
PSBC	312	325	352	270	310
CMB	235	262	296	316	326
CEB	154	158	176	172	171
Industrial	220	212	209	210	206
Hua Xia	160	157	159	158	160
PAB	152	151	173	176	169
BONB	430	493	499	499	503
BONJ	459	463	465	463	443
CQRCB	435	431	334	339	
Sector Avg	241	250	257	254	250

Tier 1 CAR (%)	3Q17	4Q17	1Q18	2Q18	3Q18
ICBC	13.4	13.3	13.1	12.8	12.9
CCB	13.0	13.7	13.7	13.7	13.9
BOC	12.0	12.0	11.8	11.8	12.0
ABC	11.2	11.3	11.1	11.8	11.9
BoCom	11.8	11.9	11.8	11.7	11.9
PSBC	8.7	8.6	8.9	9.0	9.7
CMB	12.7	13.0	12.9	12.6	12.8
CEB	9.8	10.6	10.3	9.8	9.8
Industrial	9.4	9.7	9.7	9.5	9.8
Hua Xia	9.4	9.4	9.6	9.1	9.0
PAB	9.2	9.2	9.1	9.2	9.4
BONB	9.5	9.4	9.4	9.6	9.7
BONJ	9.3	9.4	9.4	9.7	9.5
CQRCB	10.5	10.4	10.7	10.6	
Sector Avg	10.7	10.8	10.8	10.8	10.9

NPAT growth yoy (%)	3Q17	4Q17	1Q18	2Q18	3Q18
ICBC	3%	5%	4%	6%	6%
CCB	1%	14%	5%	7%	7%
BOC	0%	-13%	5%	5%	6%
ABC	5%	11%	5%	8%	9%
BoCom	4%	8%	4%	5%	7%
PSBC	22%	39%	20%	25%	2%
CMB	16%	14%	14%	15%	16%
CEB	6%	5%	5%	8%	14%
Industrial	6%	3%	5%	8%	10%
Hua Xia	-8%	-8%	1%	3%	2%
PAB	3%	4%	6%	7%	7%
BONB	18%	34%	19%	20%	24%
BONJ	17%	17%	18%	17%	12%
CQRCB	11%	20%	5%	5%	
Sector Avg	7%	11%	8%	10%	9%

Credit cost (%)	3Q17	4Q17	1Q18	2Q18	3Q18
ICBC	0.77%	1.01%	1.07%	1.03%	0.80%
CCB	0.80%	1.18%	1.06%	0.84%	0.95%
BOC	0.85%	1.41%	0.56%	0.45%	0.92%
ABC	1.01%	0.99%	1.22%	1.10%	1.28%
BoCom	0.62%	0.74%	0.58%	0.70%	1.12%
PSBC	0.65%	1.17%	0.93%	1.43%	1.21%
CMB	1.23%	1.81%	1.59%	1.72%	1.35%
CEB	0.84%	1.25%	1.31%	1.40%	1.48%
Industrial	1.19%	2.34%	0.93%	1.64%	1.53%
Hua Xia	1.32%	1.41%	1.21%	0.91%	1.38%
PAB	2.21%	2.37%	2.41%	2.57%	2.36%
BONB	1.46%	2.49%	1.75%	1.56%	1.48%
BONJ	1.57%	1.30%	1.22%	1.12%	1.51%
CQRCB	1.31%	1.19%	1.70%	1.76%	
Sector Avg	1.13%	1.48%	1.25%	1.30%	1.34%

NPL formation (%)	3Q17	4Q17	1Q18	2Q18	3Q18
ICBC	0.58	0.65	0.78	1.03	0.78
CCB	0.61	0.67	0.41	0.57	0.76
BOC	0.68	0.98	1.16	0.58	0.61
ABC	0.61	0.53	(0.57)	0.54	0.77
BoCom	0.58	0.63	(0.70)	0.45	1.02
PSBC	0.07	0.31	0.18	1.33	0.19
CMB	0.59	0.49	0.03	0.50	0.62
CEB	0.67	0.92	0.05	1.68	1.15
Industrial	(0.08)	3.34	(0.12)	1.85	(0.25)
Hua Xia	1.04	1.41	0.83	0.83	1.21
PAB	3.38	1.90	0.90	4.12	2.78
BONB	0.30	0.61	0.09	0.46	0.32
BONJ	0.89	1.02	0.58	0.40	1.06
CQRCB	0.61	1.25	3.20	0.72	
Sector Avg	0.75	1.05	0.49	1.07	0.85

资料来源：Company data

高华证券感谢高盛分析师陆天，CFA、李雯、赵成希和宿家瑞在本报告中的贡献。

信息披露附录

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本人，杨硕, Ph.D，在此申明，本报告所表述的所有观点准确反映了本人对上述公司或其证券的个人看法。此外，本人薪金的任何部分不曾与，不与，也将不会与本报告中的具体推荐意见或观点直接或间接相关。

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投资摘要部分通过将一只股票的主要指标与其行业和市场相比较来评价该股的投资环境。所描述的四个主要指标包括增长、回报、估值倍数和波动性。增长、回报和估值倍数都是运用数种方法综合计算而成，以确定该股在地区研究行业内所处的百分位排名。

每项指标的准确计算方式可能随着财务年度、行业和所属地区的不同而有所变化，但标准方法如下:

增长是下一年预测与当前年度预测的综合比较，如每股盈利、EBITDA 和收入等。 回报是各项资本回报指标一年预测的加总，如CROCI、平均运用资本回报率和净资产回报率。 估值倍数根据一年预期估值比率综合计算，如市盈率、股息收益率、EV/FCF、EV/EBITDA、EV/DACF、市净率。 波动性根据12个月的历史波动性计算并经股息调整。

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在我们的全球覆盖范围中，我们使用并购框架来分析股票，综合考虑定性和定量因素（各行业和地区可能会有所不同）以计入某些公司被收购的可能性。然后我们按照从1到3对公司进行并购评分，其中1分代表公司成为并购标的的概率较高(30%-50%)，2分代表概率为中等(15%-30%)，3分代表概率较低(0%-15%)。对于评分为1或2的公司，我们按照研究部统一标准将并购因素体现在我们的目标价格当中。并购评分为3被认为意义不大，因此不予体现在我们的目标价格当中，分析师在研究报告中可以予以讨论或不予讨论。

Quantum

Quantum是提供具体财务报表数据历史、预测和比率的高盛专有数据库，它可以用于对单一公司的深入分析，或在不同行业和市场的公司之间进行比较。

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GS SUSTAIN是一项侧重于通过发现优质行业领先企业而实现长期超额收益的全球投资策略。GS SUSTAIN 50关注名单列出了我们认为凭借出色的资本回报、具有可持续性的竞争优势和对ESG（环境、社会和企业治理）风险的有效管理而有望在长期内相对于全球同业表现出色的行业领军企业。候选企业主要基于对企业在这三方面表现的综合量化分析筛选而出。

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杨硕, Ph.D：中国金融。唐伟城, CFA：A股券商、中国券商。

A股券商：China Galaxy Securities Co. (A)、China Merchants Securities Co. (A)、CITIC Securities Co.(A)、Everbright Securities Co. (A)、GF Securities Co. (A)、Guotai Junan Securities Co. (A)、Haitong Securities Co. (A)、Huatai Securities Co. (A)、Orient Securities Co. (A)。

中国券商：China Galaxy Securities Co. (H)、China International Capital Corp.、China Merchants Securities Co. (H)、China Renaissance Holdings、CITIC Securities Co. (H)、CSC Financial Co.、Everbright Securities Co. (H)、GF Securities Co.(H)、Guotai Junan Securities Co. (H)、Haitong Securities Co. (H)、Huatai Securities Co. (H)、Orient Securities Co. (H)。

中国金融：Agricultural Bank of China (A)、Agricultural Bank of China (H)、Bank of China (A)、Bank of China (H)、Bank of Communications (A)、Bank of Communications (H)、Bank of Nanjing、Bank of Ningbo、Cango Inc.、China CITIC Bank (A)、China CITIC Bank (H)、China Construction Bank (A)、China Construction Bank (H)、China Everbright Bank (A)、China Everbright Bank (H)、China Merchants Bank (A)、China Merchants Bank (H)、Chongqing Rural Commercial Bank、Hua Xia Bank、ICBC (A)、ICBC (H)、Industrial Bank、LexinFintech Holdings、Ping An Bank Co.、Postal Savings Bank of China Co.、Shanghai Pudong Development Bank、VCredit Holdings。

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与公司有关的法定披露

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高盛高华在过去12个月中曾从下述公司获得投资银行服务报酬： Bank of Communications (A) (Rmb5.96)、Bank of Communications (H) (HK$6.43)、China Everbright Bank (A) (Rmb3.92)、China Everbright Bank (H) (HK$3.50)、Ping An Bank Co. (Rmb10.48)

高盛高华在今后3个月中预计将从下述公司获得或寻求获得投资银行服务报酬： Bank of Communications (A) (Rmb5.96)、Bank of Communications (H) (HK$6.43)、Bank of Ningbo (Rmb16.58)、China Everbright Bank (A) (Rmb3.92)、China Everbright Bank (H) (HK$3.50)、Hua Xia Bank (Rmb7.43)、Industrial Bank (Rmb15.47)、Ping An Bank Co. (Rmb10.48)

高盛高华在过去12个月中与下述公司存在投资银行客户关系： Bank of Communications (A) (Rmb5.96)、Bank of Communications (H) (HK$6.43)、China Everbright Bank (A) (Rmb3.92)、China Everbright Bank (H) (HK$3.50)、Ping An Bank Co. (Rmb10.48)

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