

Bank of Shanghai (601229 CH)

FY21 review: results in line, gratifying optimization on deposit strategy

Bank of Shanghai reported in-line FY21 results. Operating income increased 10.8% YoY to RMB 56.2bn (NII +11.1% YoY, fee & commission income +61.3% YoY). PPOP grew 7.0% YoY to RMB 45.3bn. Net profit grew 5.54% YoY to RMB 22bn. Slowing down in profit growth is primarily due to more operating expense in 2021. NPL ratio increased 3bps YoY to 1.25% and NIM compressed 8 bps YoY to 1.78%. Maintain BUY on BoSH and trim target price from RMB9.04 to RMB8.68 as we roll over valuation basis to 2022.

- **Results positives.** 1) Deposit cost declined 8 bps YoY to 2.07% in FY21. In 2021, the bank optimized its deposit strategy, cut 21 bps on corporate term deposit cost and improved current to total deposit ratio from 36.82% to 38.00%. The increasing balance of current deposit and declining cost on corporate term deposit are the two drivers on deposit cost optimization. 2) 61.3% YoY growth on fee & commission income driven by growing fund distribution business. In FY21, distribution income grew 126% YoY, because of growing WMP distribution and fund distribution. 3) Asset quality in retail business is improving. Retail loan NPL ratio declined 35 bps YoY to 0.77%. In breakdown, NPL ratio of consumer loan, mortgage, retail SME and credit card loan dropped 41 bps, 5 bps, 24 bps and 9 bps respectively.
- **Results negatives.** 1) NIM compressed. In 2021, because of LPR drop and regulators' guidance on support real economy, lending rate dropped 34 bps. More specifically, corporate lending rate dropped 25 bps to support real economy and retail lending rate dropped 65 bps due to cautious issuance of consumer loan. 2) 2.59 ppt increase on CIR due to fast growing operating expense. In FY21, operating expense grew 25.9% YoY while revenue only grew 10.8% YoY. The fast growing expense is caused by low base in FY20 and increasing administration cost. 3) NPL ratio increased 3 bps YoY to 1.25%. The increasing NPL ratio is caused by 24 bps increased NPL ratio of corporate loan, primarily due to property defaults.
- **Stock catalyst:** key catalyst is investors' demand on safe havens. In addition, declining deposit cost will lead to a more resilient NIM in FY22.
- **Maintain OVERWEIGHT on banking sector and BUY on BoSH (601229 CH).** We roll over valuation basis to YE22 and trim target price from RMB 9.04 to RMB 8.68 accordingly. Our TP implies 0.60x 2022E and 0.55x 2023E P/B. The stock is trading at 0.45x/0.41x FY22/23E P/B, almost equivalent to -2SD of 3-yr historical mean (0.60x P/B).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	50,746	56,229	60,481	67,278	77,844
Net profit (RMB mn)	20,885	22,042	24,708	27,854	31,330
EPS (RMB)	1.40	1.48	1.67	1.89	2.13
Consensus EPS (RMB)	1.40	1.48	1.70	1.90	2.10
P/B (x)	0.62	0.55	0.45	0.41	0.37
Dividend yield	5.38%	5.61%	7.22%	8.18%	9.24%
ROE	12.09%	11.82%	12.21%	12.60%	12.93%
NPL ratio	1.22%	1.25%	1.30%	1.25%	1.23%
Provision coverage	321%	301%	283%	286%	280%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB8.68
(Previous TP	RMB9.04)
Up/Downside	+34%
Current Price	RMB6.46

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	93,906
Avg 3 mths t/o (RMB mn)	222.51
52w High/Low (RMB)	8.68/6.32
Total Issued Shares (mn)	14,207

Source: Bloomberg

Shareholding Structure

Shanghai Lianhe Investment	14.68%
SIPG	8.3%
Banco Santander	6.54%

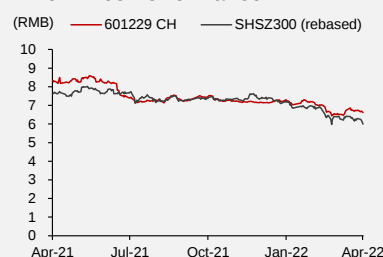
Source: Company report

Share Performance

	Absolute	Relative
1-mth	1.7%	6.6%
3-mth	-8.9%	8.0%
6-mth	-10.6%	7.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Recent Reports

1. China Banking – 4Q21 Quarterly Review ([link](#))
2. China Banking Sector – High provision banks will outperform ([link](#))
3. China Financials Weekly – Deposit rate cuts to support NIM ([link](#))

Figure 1: BoSH's 2021 results summary

GROWTH (RMB mn)	2020	2021	YoY
Revenue	50,746	56,229	10.81%
Interest income	36,393	40,437	11.11%
Fee income	5,608	9,044	61.27%
Operating profits	22,321	23,558	5.55%
Net profits	20,885	22,042	5.54%
Gross Loan	1,101,531	1,227,071	11.40%
Deposit	1,315,724	1,472,964	11.95%
ASSET QUALITY	2020	2021	YoY
NPL ratio	1.22%	1.25%	3 bps
Allowance to total loan	3.91%	3.75%	-16 bps
Provision coverage	321%	301%	-20 ppt
CAPITAL ADEQUACY	2020	2021	YoY
CET-1 CAR	9.34%	8.96%	-38 bps
Tier-1 CAR	11.59%	10.96%	-62 bps
Overall CAR	13.98%	13.18%	-80bps
Payout ratio	28.64%	27.06%	-1.58 ppt
PROFITABILITY	2020	2021	YoY
NIM	1.82%	1.74%	-7 bps
CIR	18.93%	21.51%	2.58 ppt
ROE	12.09%	11.82%	-27 bps
ROA	0.89%	0.86%	-3 bps

Source: Company data, CMBIGM

Figure 2: Forecast revisions

RMB mn	New			Old		Diff	
	FY21E	FY22E	FY23E	FY21E	FY22E	FY21E	FY22E
Revenue	60,481	67,278	77,844	61,216	68,803	-1.20%	-2.22%
Net profit	24,708	27,854	31,330	24,512	28,112	0.80%	-0.92%
Gross loan balance	1,386,590	1,559,914	1,762,703	1,452,156	1,653,927	-4.52%	-5.68%
Dividend payout	6,627	7,508	8,481	7,103	8,098	-6.70%	-7.28%
NPL ratio	1.30%	1.25%	1.23%	1.20%	1.18%	10 bps	7 bps
Provision coverage	283%	286%	280%	310%	307%	-27 ppt	-21 ppt
NIM	1.69%	1.70%	1.74%	1.68%	1.69%	1 bps	1 bps

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net interest income	36,393	40,437	43,902	49,189	58,090
Net fee&commission income	5,608	9,044	9,217	9,982	10,818
Others	8,745	6,748	7,361	8,107	8,936
Operating income	50,746	56,229	60,481	67,278	77,844
Operating expense	-28,425	-32,671	-34,125	-37,563	-44,416
PPOP	40,596	43,524	47,085	52,897	62,522
Provision taken	-18,275	-19,966	-20,729	-23,182	-29,095
Operating profit	22,321	23,558	26,355	29,715	33,428
Non-operating income	89	-4	110	120	130
Pre-tax profit	22,410	23,554	26,465	29,835	33,558
Income tax expense	-1,495	-1,474	-1,720	-1,939	-2,181
Minority interests	30	38	37	42	47
Net profit	20,885	22,042	24,708	27,854	31,330

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income mix					
Net interest income	72%	72%	73%	73%	75%
Net fee income	11%	16%	15%	15%	14%
Others	17%	12%	12%	12%	11%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	14.6%	11.1%	8.6%	12.0%	18.1%
Net fee&commission	9.5%	61.3%	1.9%	8.3%	8.4%
Operating income	1.9%	10.8%	7.6%	11.2%	15.7%
PPOP	3.1%	7.2%	8.2%	12.3%	18.2%
Net profit	2.9%	5.5%	12.1%	12.7%	12.5%
Gross loans	12.8%	11.4%	13.0%	12.5%	13.0%
Customer deposits	9.3%	12.0%	12.1%	11.8%	12.3%

Efficiency

CIR

18.93% 21.51% 21.07% 20.30% 18.60%

Balance Sheet

YE 31 Dec (RMB bn)	FY20A	FY21A	FY22E	FY23E	FY24E
Due from central banks	144	144	159	176	195
Interbank assets	203	212	233	255	279
Investments	1003	1052	1163	1296	1447
Gross loan	1102	1227	1387	1560	1763
Provision balance	43	46	51	56	61
Net loan	1062	1184	1339	1507	1705
Other assets	50	61	67	69	72
Total assets	2462	2653	2961	3303	3699
	0	0	0	0	0
Due to central banks	127	31	37	45	54
Interbank liabilities	510	527	593	651	715
Customer deposits	1316	1473	1651	1846	2074
Debt securities issued	190	274	275	276	277
Other liabilities	120	135	171	228	293
Total liabilities	2271	2447	2737	3059	3432
	0	0	0	0	0
Shareholders' equity	190	205	223	243	266
Minority interest	1	1	1	1	1
Total equity	191	206	224	244	266

Asset quality

NPL ratio	1.22%	1.25%	1.30%	1.25%	1.23%
Provision coverage	321%	301%	283%	286%	280%
Allowance to total loan	3.91%	3.75%	3.67%	3.58%	3.44%

Capital adequacy

CET-1 CAR	9.34%	8.96%	8.88%	8.70%	8.51%
Tier-1 CAR	11.59%	10.96%	10.66%	10.28%	9.91%
Total CAR	13.98%	13.18%	12.56%	11.97%	11.41%

Profitability

NIM	1.82%	1.74%	1.69%	1.70%	1.74%
ROE	12.09%	11.82%	12.21%	12.60%	12.93%
ROA	0.89%	0.86%	0.88%	0.89%	0.89%
RORWA	1.24%	1.17%	1.16%	1.17%	1.17%

Per share

EPS (RMB)	1.40	1.48	1.67	1.89	2.13
DPS (RMB)	0.40	0.40	0.47	0.53	0.60
BVPS (RMB)	12.00	13.01	14.28	15.69	17.28

Source: Company data, CMBIGM estimates

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