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SPDB (600000 CH)

FY21&1Q22 review: still waiting for the turning point

SPDB reported weak but in-line 2021&1Q22 results. In FY21, revenue dropped 2.75% YoY to RMB 191bn (NII -1.9% YoY, Fee&commission income -14.2% YoY). Net profit dropped 9.2% YoY to RMB 52.5bn primarily due to high operating expense. NPL ratio improved 12bps YoY to 1.61% and NIM compressed 19 bps YoY to 1.83%. Maintain HOLD on SPDB and trim target price from RMB9.34 to RMB9.00 as we roll over valuation basis to 2022 and cut FY22E earnings.

- **Results positives on FY21 results.** 1) Asset quality improved. NPL ratio dropped 12 bps YoY to 1.61%, driven by 2.08% drop on NPL balance. In addition, SML ratio dropped from 2.58% to 2.17% with 11.42% YoY decline on SML balance. More detailed, only the asset quality on agriculture, property, utility is deteriorating, defaults on other industries remains stable. 2) Deposit cost dropped 9 bps YoY to 2.01% because of optimized deposit structure. The bank holds more current-deposit, and cut the cost on term-deposit.
- **Results negatives on FY21 results.** 1) At the end of 2021, estimated 40% of SPDB's total loan is lend to borrowers in Yangtze River Delta area. The lockdown in Shanghai will weaken borrowers' solvency. 2) On provision perspective, not well prepared for headwind. Allowance to NPL and allowance to total loan ratio were 143.96% and 2.31%, dropped 8.81 ppt and 33 bps YoY respectively. 3) NIM compressed 19 bps YoY primarily due to lower loan rate. 4) Increasing staff cost and depreciation & amortization expense lifted CIR to 26.17%, up 2.39 ppt YoY.
- **Stock catalyst:** Downside is limit because of low valuation, but re-rating needs the support from fundamental improvement, which has not come yet.
- **Maintain OVERWEIGHT on banking sector but HOLD on SPDB (600000 CH).** We cut FY22E and FY23E earnings to reflect the weak economy and Shanghai lockdown. Roll over to FY22 and trim target price from RMB9.34 to RMB9.00. Our TP implies 0.44x 2022E and 0.41x 2023E P/B. The stock is trading at 0.39x/0.37x FY22/23E P/B, almost equivalent to -2SD of 3-yr historical mean (0.51x). But we think weak fundamentals cannot support a re-rating. Expect turning point of fundamental in mid-2023.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	196,384	190,982	208,257	229,682	254,202
Net profit (RMB mn)	58,325	53,003	57,487	61,997	68,194
EPS (RMB)	1.88	1.62	1.78	1.93	2.14
Consensus EPS (RMB)	1.88	1.62	1.92	2.08	2.25
P/B (x)	0.51	0.45	0.39	0.37	0.34
Dividend yield	5.22%	4.82%	5.45%	5.90%	6.50%
ROE	10.81%	8.75%	8.98%	9.10%	9.40%
NPL ratio	1.73%	1.61%	1.65%	1.60%	1.55%
Provision coverage	153%	144%	126%	125%	132%

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	**RMB9.00**
(Previous TP	RMB9.34)
Up/Downside	**+12%**
Current Price	**RMB8.03**

China Banking Sector

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Stock Data

Mkt Cap (HK$ mn)	235,698
Avg 3 mths t/o (HK$ mn)	259.08
52w High/Low (HK$)	10.43/7.52
Total Issued Shares (mn)	29,352

Source: Bloomberg

Shareholding Structure

Shanghai International	21.6%
China Mobile	18.2%

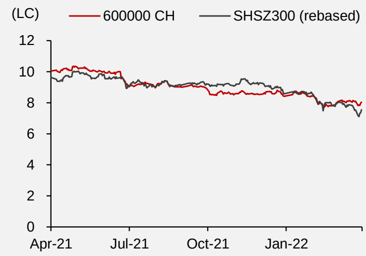
Source: Company report

Share Performance

	Absolute	Relative
1-mth	2.7%	5.7%
3-mth	-4.5%	8.5%
6-mth	-10.2%	9.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KMPG

Recent Reports

1. China Banking – Looking for the safe harbour (link)
2. China Banking – 4Q21 Quarterly Review (link)
3. China Banking Sector – High provision banks will outperform (link)

Figure 1: SPDB's 2021 results summary

GROWTH (RMB mn)	2020	2021	YoY
Revenue	196,384	190,982	-2.8%
Interest income	138,581	135,958	-1.9%
Fee income	33,946	29,134	-14.2%
Operating profits	66,736	59,205	-11.3%
Net profits	58,325	53,003	-9.1%
Gross Loan	4,533,973	4,786,040	5.6%
Deposit	4,122,407	4,463,608	8.3%
ASSET QUALITY	**2020**	**2021**	**YoY**
NPL ratio	1.73%	1.61%	-12 bps
Allowance to total loan	2.64%	2.31%	-33 bps
Provision coverage	153%	144%	9 ppt
CAPITAL ADEQUACY	**2020**	**2021**	**YoY**
CET-1 CAR	9.51%	9.40%	-11 bps
Tier-1 CAR	11.54%	11.29%	-25 bps
Overall CAR	14.64%	14.01%	-63 bps
Payout ratio	25.50%	25.26%	-24 bps
PROFITABILITY	**2020**	**2021**	**YoY**
NIM	2.02%	1.83%	-19 bps
CIR	23.78%	26.17%	2.39 pct
ROE	10.81%	8.75%	-206 bps
ROA	0.79%	0.67%	-12 bps

Source: Company data, CMBIGM

Figure 2: Forecast revisions

	New			Old		Diff	
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY22E	FY23E
Revenue	208,257	229,682	254,202	208,790	236,890	-0.26%	-3.04%
Net profit	57,487	61,997	68,194	62,796	77,606	-8.45%	-20.11%
Gross loan balance	5,144,993	5,659,492	6,338,631	5,564,080	6,176,130	-7.53%	-8.37%
Dividend payout	12,846	13,898	15,310	15,557	19,372	-17.43%	-28.26%
NPL ratio	1.65%	1.60%	1.55%	1.61%	1.60%	4 bps	-
Provision coverage	126%	125%	132%	170%	179%	-44 ppt	-54 ppt
NIM	1.81%	1.85%	1.88%	1.72%	1.77%	+9 bps	+8 bps

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net interest income	138,581	135,958	143,805	159,169	177,717
Net fee&commission income	33,946	29,134	32,435	35,679	38,561
Others	23,857	25,890	32,016	34,835	37,923
Operating income	196,384	190,982	208,257	229,682	254,202
Operating expense	-129,648	-131,777	-141,026	-157,174	-174,445
PPOP	146,283	137,536	152,947	172,342	194,676
Provision taken	-79,547	-78,331	-85,716	-99,833	-114,919
Operating profit	66,736	59,205	67,231	72,508	79,756
Non-operating income	-54	-134	-147	-162	-178
Pre-tax profit	66,682	59,071	67,084	72,346	79,578
Income tax expense	-7,689	-5,305	-8,721	-9,405	-10,345
Minority interests	668	763	875	944	1,038
Net profit	58,325	53,003	57,487	61,997	68,194

Balance Sheet

YE 31 Dec (RMB bn)	FY20A	FY21A	FY22E	FY23E	FY24E
Due from central banks	484	416	446	482	530
Interbank assets	386	434	471	511	556
Investments	2,403	2,353	2,478	2,574	2,687
Gross loan	4,534	4,786	5,145	5,659	6,339
Provision balance	119	110	107	113	130
Net loan	4,430	4,691	5,042	5,546	6,212
Other assets	203	222	236	247	268
Total assets	7,950	8,137	8,695	9,383	10,276
Due to central banks	274	236	243	251	256
Interbank liabilities	1,366	1,107	1,062	1,126	1,203
Customer deposits	4,122	4,464	4,884	5,322	5,905
Debt securities issued	1,141	1,317	1,431	1,545	1,700
Other liabilities	385	294	308	325	344
Total liabilities	7,304	7,459	7,973	8,618	9,461
Shareholders' equity	638	674	713	757	805
Minority interest	8	8	9	9	10
Total equity	646	678	722	766	815

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income mix					
Net interest income	71%	71%	69%	69%	70%
Net fee income	17%	15%	16%	16%	15%
Others	12%	14%	15%	15%	15%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Growth YOY					
Net interest income	-4.1%	-1.9%	5.8%	10.7%	11.7%
Net fee&commission	37.0%	-14.2%	11.3%	10.0%	8.1%
Operating income	3.0%	-2.8%	9.0%	10.3%	10.7%
PPOP	1.2%	-6.0%	11.2%	12.7%	13.0%
Net profit	-1.0%	-9.1%	8.5%	7.8%	10.0%
Gross loans	12.6%	5.6%	7.5%	10.0%	12.0%
Customer deposits	12.6%	8.3%	9.4%	9.0%	11.0%
Efficiency					
CIR	23.78%	26.17%	24.78%	23.22%	21.71%
Asset quality					
NPL ratio	1.73%	1.62%	1.65%	1.60%	1.55%
Provision coverage	152%	143%	126%	125%	132%
Allowance to total loan	2.63%	2.30%	2.09%	2.00%	2.04%
Capital adequacy					
CET-1 CAR	9.51%	9.40%	9.55%	9.14%	8.65%
Tier-1 CAR	11.54%	11.29%	11.46%	10.97%	10.38%
Total CAR	14.64%	14.01%	14.46%	14.22%	13.85%
Profitability					
NIM	2.02%	1.83%	1.81%	1.85%	1.88%
ROE	10.73%	9.76%	8.98%	9.10%	9.40%
ROA	0.79%	0.66%	0.68%	0.69%	0.69%
RORWA	1.07%	0.94%	0.94%	0.93%	0.91%
Per share					
EPS (RMB)	1.88	1.62	1.78	1.93	2.14
DPS (RMB)	0.48	0.41	0.44	0.47	0.52
BVPS (RMB)	18.00	19.12	20.46	21.94	23.60

Source: Company data, CMBIGM estimates

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