

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

PSBC (1658 HK)

Positive outlook; Maintain BUY

- Steady performance in 3Q22; NIM under pressure
- Positive outlook for PSBC and the sector
- Maintain BUY

Steady performance in 3Q22 and 2022E

Shareholders' net profit of PSBC rose by 14.48% yoy in 3Q22. NIM was 2.23% in 3Q22, compared with 2.27% in 1H22 (or 2.37% in 3Q21), consistent with the policy of reducing real financing cost of enterprises and LPR cuts. As of end-3Q22, the aggregate NPL ratio was 0.83%, equal to the 0.83% at end-1H22, and the allowance to NPL ratio was kept at around ~404%, vs. ~409% at end-1H22. The net fee and commission income maintained fast growth, up by 40.3% yoy in 3Q22. The Company's overall business performance in 3Q22 was stable, although NIM might be under pressure in next few quarters. Some banks (such as Industrial Bank, CITIC Bank, and Ping An Bank) posted their preliminary 2022 results. In general, they achieved steady asset quality and profit growth in the 4Q22 (Fig. 2). We expect resilient results for PSBC in 4Q22.

Positive outlook for PSBC and the sector

In December, the Politburo meeting emphasized that "stability is the top priority and progress should be made in stability", and urged to do a good job in "stabilizing growth, stabilizing employment, and stabilizing prices". As households saving rate rose significantly in 2022, much higher than the median level during 2013 and 2019, strong willingness to spend has its solid foothold. Meanwhile, accommodative policies on property, infrastructure and manufacturing should underpin business cycle to normalize. The potentially stabilized economic conditions might continue to support the re-rating of the banking sector in long term view. PSBC (Fig. 3 and Fig. 9) has strong focus on retail banking and mortgage loans, meaning it might benefit more from aforementioned policies compared with some other mega banks.

Maintain BUY

PSBC is trading at ~5.3x 23E P/E, or 0.63x 23E PB. Maintain BUY for PSBC on its resilient 3Q22 performance and its positive outlook. PSBC proposed non-public issuance of A shares, which shall not exceed RMB45 billion, and will be fully used to replenish the core tier 1 capital of the Bank. The Company's EPS might be slightly diluted by ~5% after the issuance. Maintain TP at HKD6.50, equal to ~0.83x 23E P/B (~15% premium to its past 5-yr average P/B). **Key catalysts:** better-than-expected asset quality, NIM expansion; **key downside risks:** worse-than-expected asset quality, NIM pressure.

Financials

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Operating income	286,537	319,107	343,535	371,704	402,203
Net profit attributable to equity holders	64,199	76,170	84,752	94,094	104,176
EPS (RMB)	0.71	0.78	0.82	0.88	0.97
BVPS (RMB)	6.25	6.89	7.06	7.38	7.76
P/E (x)	6.6	6.0	5.7	5.3	4.8
P/B (x)	0.75	0.68	0.66	0.63	0.60
ROE (%)	11.84	11.86	11.75	12.15	12.80
Dividend yield (%)	4.5	5.3	5.7	6.1	6.8

Sources: Company data, CMS (HK) estimates; Note: share price is as of Feb. 7, 2023

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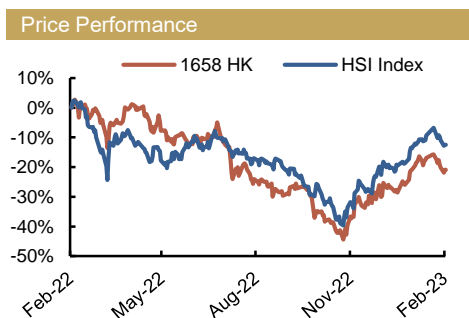
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WHAT'S NEW

Company update

BUY

Previous	BUY
Price (Feb. 7, 2023)	HKD5.18
12-month Target Price (Potential up/downside)	HKD6.50(+25%)
Previous	HKD6.50



Source: Wind

%	1m	6m	12m
1658 HK	(19.2)	(36.7)	(30.2)
HSI	(12.0)	(21.2)	(38.7)

Sector: Bank	
Hang Seng Index (Feb. 7, 2023)	21,299
HSCEI (Feb. 7, 2023)	7,232
Key Data	
52-week range (HKD)	3.58-6.82
Market cap (HKD mn)	429,335
Avg. daily volume (mn)	52.9

Shareholding Structure	
China Post Group	67.38%
HKSCC Nominees Limited	21.48%
China Life	2.36%
China Telecom	1.21%
No. of shares outstanding (mn)	92,384
Free float	7.57%

Sources: Bloomberg, Wind, Company data

Related Research

1. PSBC (1658 HK) - Stable asset quality; Maintain BUY (BUY) (Oct. 27, 2022)
2. PSBC (1658 HK) - Resilient 1H22 performance (BUY) (Aug. 23, 2022)
3. PSBC (1658 HK) - Steady profitability in 1Q22 (BUY) (May 3, 2022)

Focus charts

Figure 1: PSBC key 3Q22 results review

Profitability (%)	3Q22	3Q21	
PPOP growth YoY	4.03	11.93	
Shareholders' net profit growth YoY	14.48	22.07	
Return on average total assets (annualized)	0.76	0.74	
Shareholders' return on weighted average equity (annualized)	13.90	13.68	
Net interest spread	2.21	2.30	
Net interest margin	2.23	2.37	
Net fee and commission income to operating income ratio	9.19	7.06	
Cost to income ratio	n.a.	53.21	

Asset quality (%)	End-3Q22	End-1H22	qoq
Balance of NPL (RMB million)	58,899	57,888	1.7%
Aggregate NPL ratio	0.83	0.83	
Corporate loan NPL ratio	n.a.	0.56	
Real estate sector	n.a.	1.01	
Personal loan NPL ratio	n.a.	1.11	
Personal mortgage loan	n.a.	0.52	
NPL formation ratio	0.77	0.77	
Allowance to NPL	404.47	409.25	
Allowance to total loans ratio	3.36	3.40	
Balance of special mention loan	39,128	35,351	10.7%
Special mention loan ratio	0.55	0.51	

Operating performance (in RMB mn)	3Q22	3Q21	yoy
Net interest income	205,441	200,890	2.3%
Net fee and commission income	23,639	16,849	40.3%

Sources: Company data, CMS (HK)

Figure 2: Preliminary 2022 results of major banks

(RMB mn)		(Growth of) NP attributable to shareholders			
Ticker	Company	3Q22	2022	3Q22 yoy	2022 yoy
600036.SH	CMB	106,922	138,012	14%	15%
601166.SH	Industrial Bank	71,808	91,377	12%	11%
601998.SH	China CITIC Bank	47,103	62,103	13%	12%
600919.SH	Jiangsu Bank	20,489	25,494	31%	29%
000001.SZ	Ping An Bank	36,659	45,516	26%	25%

Ticker	Company	Provision coverage ratio (%)			NPL ratio (%)		
		End-2022	End-3Q22	End-2021	End-2022	End-3Q22	End-2021
600036.SH	CMB	450.79	455.67	483.87	0.96	0.95	0.91
601166.SH	Industrial Bank	236.44	251.99	268.73	1.09	1.10	1.10
601998.SH	China CITIC Bank	201.33	201.88	180.07	1.27	1.27	1.39
600919.SH	Jiangsu Bank	362.07	360.05	307.72	0.94	0.96	1.08
000001.SZ	Ping An Bank	290.28	290.27	288.42	1.05	1.03	1.02

Sources: Wind, Company data, CMS (HK)

Figure 3: Distribution of loans and NPLs of PSBC (1H22)

RMB mn	Loan	NPL	NPL ratio	Sector Loans/ Total Loans	Sector NPLs/ Total NPLs
Domestic Corporate	2,518,981	14,134	0.56%	36.0%	24.4%
<i>Transportation, storage and postal services</i>	755,276	2,373	0.32%	10.8%	4.1%
<i>Manufacturing</i>	385,832	3,581	0.93%	5.5%	6.2%
<i>Financial services</i>	252,203	0	0.00%	3.6%	0.0%
<i>Production and supply of electricity, heat, gas and water</i>	246,186	206	0.08%	3.5%	0.4%
<i>Wholesale & retail</i>	162,285	3,089	1.91%	2.3%	5.3%
<i>Construction</i>	151,746	678	0.45%	2.2%	1.2%
<i>Mining</i>	69,936	9	0.01%	1.0%	0.0%
<i>Real estate</i>	177,817	1,793	1.01%	3%	3.1%
<i>Water, environment and public utility management</i>	116,370	178	0.15%	1.7%	0.3%
<i>Leasing & commercial services</i>	134,747	902	0.67%	1.9%	1.6%
<i>Other corporate loans</i>	66,583	1,325	1.99%	1.0%	2.3%
Personal	3,952,229	43,754	1.11%	56.5%	75.6%
<i>Residential mortgages</i>	2,229,393	11,640	0.52%	31.9%	20.1%
<i>Personal consumption loans</i>	469,782	10,606	2.27%	6.7%	18.3%
<i>Personal business loans</i>	1,078,499	18,336	1.71%	15.4%	31.7%
<i>Credit card overdraft</i>	174,555	3,172	1.82%	2.5%	5.5%
Discounted bills	519,854	0	0.00%	7.4%	0.0%
Total	6,991,064	57,888	0.83%		

Sources: Company data, CMS (HK)

Figure 4: Inclusive small and micro enterprise (SME) loans of PSBC

PSBC	2020	2021	1H22	3Q22	3Q22 YTD
Balance of inclusive SME loans (RMB mn)	801,247	960,602	1,092,905	> RMB 1.15 tr.	> 20%
Inclusive SME loans / Total loans (%)	14.0	14.9	15.6	> 16	
NPL ratio of Inclusive SME loans (%)	n.a.	n.a.	n.a.	n.a.	
Average rate of Inclusive SME loans (%)	5.51	5.19	4.92	n.a.	

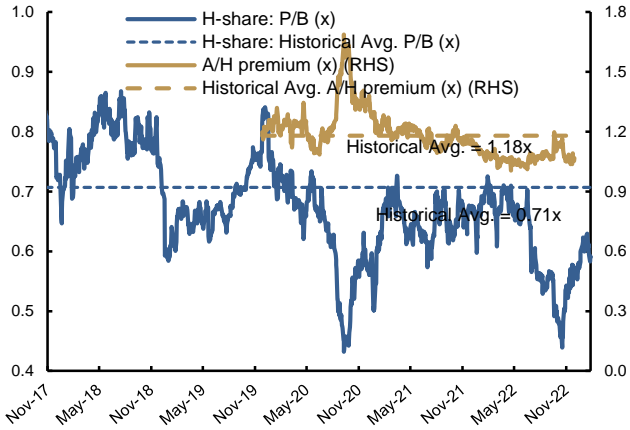
Sources: Company data, CMS (HK)

Figure 5: Credit card business – scale and asset quality of PSBC

PSBC	2020	2021	1H22	1H22 YTD
Balance of credit card overdraft (RMB mn)	144,641	174,869	174,555	-0.2%
Credit card business NPL ratio (%)	1.83	1.66	1.82	
Credit card NPL / Total NPL (%)	5.26	5.50	5.48	
Credit card loans / Total loans (%)	2.5	2.7	2.5	

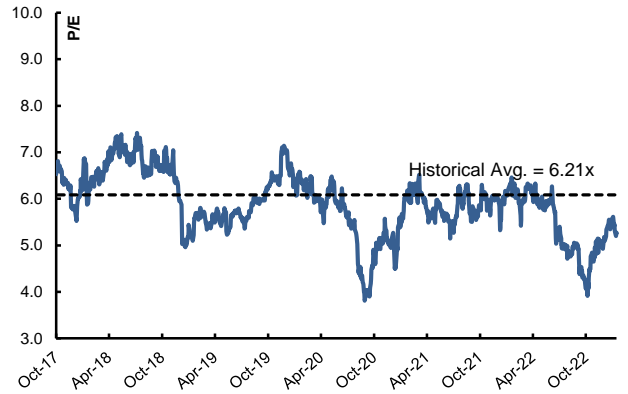
Sources: Company data, CMS (HK)

Figure 6: P/B valuation and A/H premium of PSBC



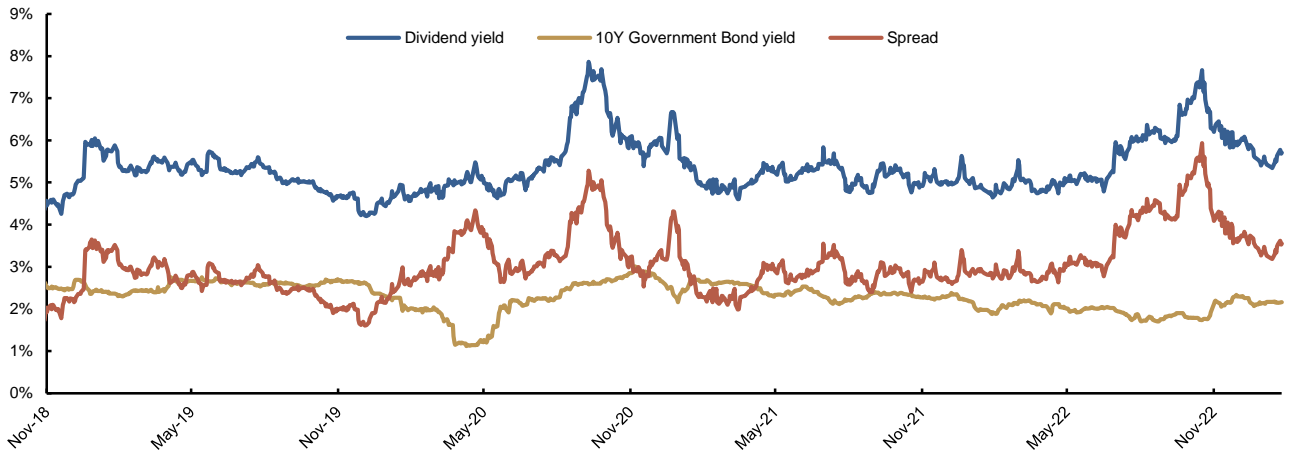
Sources: Wind, Company data, CMS (HK) estimates

Figure 7: P/E valuation of PSBC



Sources: Wind, Company data, CMS (HK) estimates

Figure 8: Dividend yield valuation of PSBC



Sources: Wind, Company data, CMS (HK) estimates

Figure 9: Property-related loans: selected banks*

	PSBC						ICBC						ABC					
	As % of total loans			NPL ratio			As % of total loans			NPL ratio			As % of total loans			NPL ratio		
	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22
Real estate loans	1.6%	2.2%	2.5%	0.02%	0.02%	1.01%	3.8%	3.4%	3.2%	2.32%	4.79%	5.47%	5.3%	4.8%	4.5%	1.78%	3.39%	3.97%
Construction loans	1.9%	1.9%	2.2%	0.35%	0.48%	0.45%	1.4%	1.5%	1.8%	3.31%	1.77%	1.87%	1.5%	1.7%	2.1%	1.26%	2.25%	2.14%
<i>Subtotal:</i>	3.6%	4.0%	4.7%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	5.2%	4.9%	4.9%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	6.7%	6.5%	6.6%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Residential mortgages	33.6%	33.6%	31.9%	0.47%	0.44%	0.52%	30.8%	30.8%	28.9%	0.28%	0.24%	0.31%	30.8%	30.6%	28.5%	0.38%	0.36%	0.36%

	BOCOM						CCB						BOC Mainland					
	As % of total loans			NPL ratio			As % of total loans			NPL ratio			As % of total loans			NPL ratio		
	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22
Real estate loans	6.0%	6.4%	7.0%	1.35%	1.25%	1.90%	4.1%	3.9%	3.8%	1.31%	1.85%	2.98%	4.5%	4.4%	4.3%	4.68%	5.05%	5.67%
Construction loans	2.3%	2.4%	2.7%	2.71%	0.95%	1.11%	2.3%	2.4%	2.6%	1.77%	1.86%	2.08%	1.5%	1.7%	1.9%	1.74%	1.28%	0.90%
<i>Subtotal:</i>	8.3%	8.8%	9.7%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	6.4%	6.3%	6.4%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	6.1%	6.1%	6.3%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Residential mortgages	22.1%	22.7%	21.6%	0.37%	0.34%	0.37%	34.8%	34.0%	31.9%	0.19%	0.20%	0.25%	28.1%	27.5%	25.7%	0.32%	0.27%	0.36%

	CMB						CITIC						Minsheng Bank					
	As % of total loans			NPL ratio			As % of total loans			NPL ratio			As % of total loans			NPL ratio		
	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22
Real estate loans	7.8%	7.2%	6.7%	0.30%	1.41%	2.82%	6.4%	5.9%	5.8%	3.35%	3.63%	2.89%	11.4%	8.9%	8.5%	0.69%	2.66%	2.99%
Construction loans	2.1%	2.2%	2.1%	0.86%	0.47%	0.60%	2.2%	2.2%	2.1%	5.84%	6.49%	2.69%	2.8%	2.8%	2.9%	1.21%	1.32%	1.32%
<i>Subtotal:</i>	9.8%	9.4%	8.8%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	8.7%	8.0%	7.9%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	14.2%	11.7%	11.5%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Residential mortgages	25.3%	24.7%	23.4%	0.29%	0.28%	0.27%	20.5%	20.0%	19.6%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	13.4%	14.7%	14.1%	0.22%	0.26%	0.33%

	CEB Bank						PA Bank						Zheshang Bank					
	As % of total loans			NPL ratio			As % of total loans			NPL ratio			As % of total loans			NPL ratio		
	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22
Real estate loans	7.5%	6.0%	5.3%	0.73%	1.23%	2.56%	10.2%	9.4%	9.2%	0.21%	0.22%	0.77%	13.8%	12.5%	12.1%	0.09%	0.62%	0.90%
Construction loans	3.6%	4.0%	4.1%	0.96%	1.63%	0.88%	1.6%	1.6%	1.4%	1.13%	0.08%	0.71%	4.4%	4.3%	4.0%	1.19%	1.33%	0.98%
<i>Subtotal:</i>	11.0%	10.0%	9.5%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	11.8%	11.0%	10.7%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	18.2%	16.8%	16.0%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Residential mortgages	16.4%	17.1%	16.7%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	19.8%	21.4%	21.2%	0.31%	0.34%	0.30%	6.3%	6.7%	6.6%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>

	Bohai Bank						Industrial Bank						Shanghai Pudong Development Bank					
	As % of total loans			NPL ratio			As % of total loans			NPL ratio			As % of total loans			NPL ratio		
	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22	2020	2021	1H22
Real estate loans	12.6%	7.9%	8.8%	2.13%	3.71%	2.73%	8.0%	7.6%	7.0%	0.92%	1.08%	2.15%	7.6%	6.9%	6.7%	2.07%	2.75%	3.83%
Construction loans	2.9%	2.8%	2.7%	1.09%	3.73%	3.15%	3.4%	3.4%	3.5%	1.48%	1.07%	0.96%	3.5%	3.5%	3.3%	1.62%	1.49%	1.84%
<i>Subtotal:</i>	15.5%	10.7%	11.5%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	11.4%	11.0%	10.5%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	11.2%	10.4%	10.0%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Residential mortgages	18.9%	20.0%	19.0%	0.30%	0.43%	0.54%	26.6%	25.3%	23.2%	0.53%	0.49%	0.51%	18.7%	18.9%	18.3%	0.34%	0.40%	0.52%

Sources: Company data, CMS (HK); Note: *Incomplete statistics based on available figures

Valuation comparison

Company	Ticker	Rating	Price Local ccy	TP (HKD)	Mkt Cap (USD mn)	P/E(x)		P/B(x)		ROE (%)		Dividend Yield (%)	
						2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
HK Listed Peers													
Postal Savings Bank of China	1658 HK	BUY	5.18	6.50	63,228	5.7	5.3	0.66	0.63	11.8	12.1	5.7	6.1
Industrial and Commercial Bank of China	1398 HK	BUY	4.05	5.40	216,142	3.7	3.6	0.41	0.38	11.6	11.1	8.3	8.7
Bank of Communications	3328 HK	BUY	4.80	5.85	49,539	3.8	3.6	0.39	0.38	10.7	10.7	8.5	8.9
Agricultural Bank of China	1288 HK	HOLD	2.77	2.90	147,894	3.6	3.5	0.39	0.36	11.2	10.9	8.8	9.3
China Construction Bank *	939 HK	NR	5.0	n.a.	160,758	3.4	3.3	0.40	0.37	12.0	11.7	8.8	9.3
Bank of China *	3988 HK	NR	3.0	n.a.	131,244	3.5	3.3	0.37	0.34	10.7	10.5	8.9	8.7
China CITIC Bank *	998 HK	NR	3.8	n.a.	31,976	2.8	2.6	0.29	0.27	10.9	10.6	9.7	10.3
China Minsheng Bank *	1988 HK	NR	2.9	n.a.	21,122	3.6	3.6	0.22	0.20	5.8	5.6	7.6	7.9
China Everbright Bank *	6818 HK	NR	2.5	n.a.	22,381	2.8	2.6	0.27	0.25	10.4	9.7	10.5	10.9
Arithmetic Average						3.7	3.5	0.38	0.35	10.6	10.3	8.5	8.9
Weighted Average						3.7	3.5	0.40	0.38	11.2	11.0	8.5	8.8
China A-share Listed Peers *													
Industrial and Commercial Bank of China	601398 CH	NR	4.3	n.a.	216,140	4.3	4.1	0.48	0.45	11.6	11.4	7.1	7.5
Agricultural Bank of China	601288 CH	NR	2.9	n.a.	147,893	4.2	3.9	0.46	0.42	11.1	10.9	7.5	7.9
Bank of Communications	601328 CH	NR	4.9	n.a.	49,539	4.1	4.0	0.42	0.39	10.0	9.6	7.6	7.9
Postal Savings Bank of China	601658 CH	NR	4.7	n.a.	63,334	5.2	4.5	0.62	0.55	11.6	12.1	6.0	6.8
China Construction Bank	601939 CH	NR	5.6	n.a.	160,757	4.5	4.2	0.51	0.47	12.0	11.6	6.8	7.2
Bank of China	601988 CH	NR	3.2	n.a.	131,243	4.4	4.1	0.46	0.42	10.7	10.5	7.2	7.5
China CITIC Bank	601998 CH	NR	5.0	n.a.	31,976	4.3	4.0	0.44	0.42	10.9	10.6	6.3	6.8
China Minsheng Bank	600016 CH	NR	3.4	n.a.	21,122	5.0	4.8	0.30	0.28	6.1	6.0	5.6	5.7
Industrial Bank	601166 CH	NR	17.2	n.a.	52,711	4.0	3.5	0.54	0.48	13.9	14.0	6.9	7.6
China Everbright Bank	601818 CH	NR	3.0	n.a.	22,381	4.0	3.7	0.39	0.36	10.0	9.7	7.3	7.7
Shanghai Pudong Development Bank	600000 CH	NR	7.2	n.a.	31,349	4.4	4.4	0.36	0.34	8.0	7.5	5.3	5.4
Ping An Bank	000001 CH	NR	14.2	n.a.	40,651	6.4	5.3	0.76	0.67	12.0	12.9	2.0	2.5
Huaxia Bank	600015 CH	NR	5.2	n.a.	12,091	3.7	3.4	0.31	0.29	8.9	8.8	7.0	6.6
Bank of Beijing	601169 CH	NR	4.3	n.a.	13,225	3.9	3.6	0.39	0.36	9.2	10.0	7.5	7.9
Bank of Shanghai	601229 CH	NR	5.9	n.a.	12,407	3.9	3.6	0.41	0.37	11.2	11.2	7.8	8.4
Bank of Ningbo	002142 CH	NR	31.5	n.a.	31,300	9.2	7.7	1.38	1.19	15.5	16.3	1.9	2.3
Arithmetic Average						4.7	4.3	0.51	0.47	10.8	10.8	6.2	6.6
Weighted Average						4.6	4.2	0.51	0.47	11.3	11.2	6.6	7.0

Company	Ticker	Rating	Price Local ccy	TP (HKD)	Mkt Cap (USD mn)	P/E(x)		P/B(x)		ROE (%)		Dividend Yield (%)	
						2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Global Peers *													
HSBC	HSBA LN	NR	605.0	n.a.	145,562	8.9	7.2	0.86	0.82	8.2	11.8	4.2	7.2
Standard Chartered	STAN LN	NR	682.6	n.a.	23,808	8.0	7.1	0.55	0.51	7.1	7.3	2.0	2.5
Barclays	BARC LN	NR	188.8	n.a.	36,125	5.6	5.8	0.55	0.51	8.4	8.7	3.8	4.8
Hang Seng Bank	11 HK	NR	124.1	n.a.	30,545	23.5	12.9	1.33	1.29	6.4	10.0	2.8	4.9
Bank of East Asia	23 HK	NR	10.0	n.a.	3,441	10.0	6.0	0.28	0.27	2.9	4.6	6.9	7.3
BOC Hong Kong	2388 HK	NR	26.3	n.a.	35,697	9.8	7.7	0.90	0.86	9.2	11.2	5.2	6.6
Bank of America	BAC US	NR	36.8	n.a.	294,042	11.7	10.7	1.21	1.12	10.5	10.9	2.3	2.5
J.P. Morgan Chase & Co.	JPM US	NR	143.7	n.a.	421,355	12.3	11.1	1.61	1.48	13.3	13.8	2.8	2.9
Wells Fargo	WFC US	NR	48.1	n.a.	184,521	11.2	10.1	1.15	1.06	7.9	10.8	2.3	2.8
Deutsche Bank	DBK GR	NR	11.4	n.a.	25,753	6.7	6.4	0.39	0.37	6.5	6.4	2.6	3.8
BNP Paribas	BNP FP	NR	62.3	n.a.	82,558	7.7	7.8	0.68	0.64	9.5	8.1	6.5	6.5
Average						10.5	8.4	0.87	0.81	8.2	9.4	3.7	4.7

Sources: Company data, Bloomberg, CMS (HK) estimates; Note: Share prices are as of Feb. 7, 2023; * forecast is based on Bloomberg consensus

Financial Summary

Balance Sheet

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Cash and deposits with the central bank	1,219,862	1,189,458	1,242,518	1,260,003	1,327,091
Deposits with banks and other financial institutions	43,682	90,782	116,107	139,328	167,194
Placements with banks and other financial institutions	248,396	280,093	336,112	403,334	484,001
Derivative financial assets	11,140	6,053	6,658	7,324	8,057
Financial assets held under resale agreements	259,956	265,229	291,752	320,927	353,020
Loans and advances to customers	5,512,361	6,237,199	6,999,431	7,815,522	8,740,188
Investment instruments	3,914,650	4,348,620	4,696,510	5,072,230	5,478,009
Property and equipment	48,706	54,669	57,402	60,273	63,286
Deferred tax assets	53,217	56,319	61,951	68,146	74,961
Other assets	41,293	59,451	62,424	65,545	68,822
Total assets	11,353,263	12,587,873	13,870,865	15,212,632	16,764,628
Borrowings from central bank	25,288	17,316	18,182	19,091	20,045
Deposits from banks and other financial institutions	85,912	154,809	232,214	278,656	334,387
Placements from banks and other financial institutions	30,743	42,565	51,078	61,294	73,552
Derivative financial liabilities	9,632	5,176	6,624	7,144	6,315
Financial assets sold under repurchase agreements	25,134	34,643	39,839	45,815	52,688
Customer deposits	10,358,029	11,354,073	12,413,619	13,601,520	14,978,665
Debt securities issued	57,974	81,426	101,783	111,961	123,157
Other liabilities	87,621	102,316	117,663	135,313	155,610
Total liabilities	10,680,333	11,792,324	12,981,002	14,260,794	15,744,420
Share capital	86,979	92,384	99,162	99,162	99,162
Other equity instruments including preference shares	127,858	157,855	187,852	217,852	247,852
Reserves and retained earnings	456,962	543,852	600,988	632,516	670,391
Shareholders' equity	671,799	794,091	888,002	949,530	1,017,405
Non-controlling interests	1,131	1,458	1,861	2,308	2,803
Total equity	672,930	795,549	889,863	951,838	1,020,208

Cashflow Statement

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Net cash from operating activities	161,772	109,557	276,748	265,871	342,907
Net cash from investing activities	(122,075)	(182,917)	(240,229)	(211,166)	(278,828)
Net cash from financing activities	16,747	52,263	(8,275)	(21,790)	(24,171)
Net (decrease)/increase in cash and cash equivalents	56,444	(21,097)	28,244	32,915	39,907
Effect of foreign exchange rate changes	(1,266)	(665)	0	0	0
Cash and cash equivalents at end of the year	335,526	313,764	342,008	374,923	414,830

Sources: Company data, CMS (HK) estimates

Profit & Loss Statement

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Interest income	416,252	451,567	475,627	502,478	532,294
Interest expense	(162,874)	(182,185)	(200,196)	(216,916)	(235,971)
Net interest income	253,378	269,382	275,431	285,562	296,323
Fee and commission income	32,746	42,383	52,166	64,317	75,281
Fee and commission expense	(16,251)	(20,376)	(20,866)	(21,546)	(20,702)
Net gain on financial investments	19,180	26,367	31,805	38,371	46,302
Other operating income, net	(2,516)	1,351	5,000	5,000	5,000
Operating income	286,537	319,107	343,535	371,704	402,203
Operating expenses	(167,984)	(190,995)	(207,812)	(223,742)	(240,905)
Impairment losses	(50,417)	(46,658)	(45,133)	(47,386)	(49,946)
Profit before tax	68,136	81,454	90,590	100,576	111,353
Income tax expenses	(3,818)	(4,922)	(5,435)	(6,035)	(6,681)
Net profit	64,318	76,532	85,154	94,541	104,671
Attributable to:					
Equity holders	64,199	76,170	84,752	94,094	104,176
Of which:					
Ordinary shareholders	61,615	70,894	78,543	86,953	96,103

Financial Ratios

	2020A	2021A	2022E	2023E	2024E
EPS for ordinary shares (RMB)	0.71	0.78	0.82	0.88	0.97
BVPS for ordinary shares (RMB)	6.25	6.89	7.06	7.38	7.76
Return on avg. total assets (%)	0.60	0.64	0.64	0.65	0.65
Return on weighted average equity for ord. shareholders (%)	11.84	11.86	11.75	12.15	12.80
Net interest spread (%)	2.36	2.30	2.21	2.10	1.99
Net interest margin (%)	2.42	2.36	2.22	2.11	2.01
Non-performing loans ratio (%)	0.88	0.82	0.84	0.83	0.82
Allowance to NPL (%)	408.06	418.61	419.14	419.82	424.43
Allowance to total loans ratio (%)	3.60	3.43	3.50	3.50	3.50
Core tier 1 capital adequacy ratio (%)	9.60	9.92	9.69	9.24	8.82
Capital adequacy ratio (%)	13.88	14.78	14.59	14.21	13.81

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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