

April 22, 2015

Outperform
Unchanged

以量补价

民生银行 (1988 HK)

Market Data: Apr, 21

Closing Price (HK\$)	11.24
Price Target (HK\$)	12.41
HSCEI	14,531
HSCCI	5,382
52-week High/Low (HK\$)	11.40/6.73
Market Cap (USD Mn)	48,773
Market Cap (HK\$ Mn)	377,907
Shares Outstanding (Mn)	34,231
Exchange Rate (RMB-HK\$)	1.27

Price Performance Chart:



Source: Bloomberg

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Related Reports

"CHINA MINSHENG BANKING-H
(1988 HK)—Survival of the fittest"
Mar 31, 2015

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Net interest income (Rmbm)	83,033	92,136	99,057	106,219	116,634
YOY (%)	7.62	10.96	7.51	7.23	9.80
Net income (Rmbm)	42,278	44,546	45,908	48,737	53,223
YOY (%)	12.55	5.36	3.06	6.16	9.20
EPS (Rmb)	1.49	1.30	1.34	1.43	1.56
Diluted EPS (Rmb)	1.49	1.30	1.34	1.43	1.56
BVPS (Rmb)	6.97	7.03	8.28	9.70	11.26
ROAE (%)	23.44	20.35	17.56	15.87	14.87
NPL ratio (%)	0.85	1.17	1.39	1.57	1.71
CAR (%)	12.52	10.69	12.64	13.23	13.87
PE (x)	6.03	6.90	6.69	6.30	5.77
PB (x)	1.29	1.28	1.07	0.93	0.80

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

以量补价。民生银行周二公布一季报业绩。持续的货币宽松推动贷款同比增长15%。降息导致净息差同比收窄 25 个基点至 2.37%，净利息收入和净手续费收入同比增速分别达到 9%和 28%。净利润达到 134 亿元，基本每股收益 0.39 元，同比增长 5.5%，符合我们的预期。在经济下滑背景下，公司不良率较 2014 年末上升 0.05 个百分点至 1.22%。拨备覆盖率下滑 1 个百分点至 181%。核心一级资本充足率和总资本充足率由 2014 年末的 8.58%和 10.69%上升至 8.8%和 10.81%。

适者生存。由于既不具备大行的广泛网点，也不具备招行中信那样的集团北京，吸存和客户基础一直是民生的软肋，这也促使民生最早进入小微贷款和非标投资等高风险高收益领域，在当前宽松政策持续升级、影子银行监管趋于温和的背景下，民生受益更为显著。从中长期来看，在利率市场化和金融脱媒的背景下，两类银行有望脱颖而出：一类是存款客户依赖度更高从而存款更稳定且融资成本较低的银行，比如农业银行和重庆农村商业银行，这类银行在流动性从紧和资产质量风险不断累积的情况下表现更佳。另一类是贷款议价能力强从而转嫁融资成本能力强的银行比如民生银行，这类银行在流动性宽松且资产质量改善的环境下表现更佳。

维持增持评级。我们维持公司 2015 -2017 年 EPS 为 1.34、1.43 元和 1.56 元，对应同比增速 3%、6%和 9%。目前公司估值对应 1.07 倍 2015 年 PB，接近行业平均 1.05 倍的水平，民生港股相对 A 股折价 19%，高于 12%的平均折价水平。基于市场情绪回暖推动行业估值中枢上移，我们上调 2015 年目标 PB 至 1.2 倍，上调目标价至 12.41 港币，对应 10%上升空间，维持增持评级。

Investment highlights :

Results in line. China Minsheng Bank released 1Q2015 results yesterday. Amid continuous liquidity easing and loose PBoC window guidance, total loans reported 15% YoY growth. Net interest margin declined by 25bps YoY to 2.37% due to interest rate cut. Net interest income rose 9% YoY, while fees and commission income grew 28% YoY due to booming wealth management business. Net profit arrived at Rmb13.4bn and basic EPS reached Rmb0.39, representing 5.5% YoY, in line with our expectation. Amid decelerating economic growth, the bank's non-performing loans increased to Rmb23bn at end-2014 (+Rmb2bn vs end-2014), and its NPL ratio increased to 1.22% (+0.05ppts vs end-2014). Its coverage ratio decreased to 181% (-1ppts YoY). Core tier-one capital adequacy ratio and total CAR increased from 8.58% and 10.69% at end-2014 to 8.80% and 10.81%.

Survival of the fittest. Minsheng has long experienced high funding costs as it has neither a diversified branch network like big banks nor support from a large conglomerate unlike China Merchants Bank (3968:HK) and China CITIC Bank (998:HK). This forced it to be more aggressive in SME loans and non-standardized investments. Given current loose monetary policy and improving loan demand, Minsheng will benefit more due to its market-oriented strategy and micro-loans focus. Looking forward, we believe two kinds of banks would better survive the ongoing interest rate liberalisation and financial disintermediation. One is those with strong funding capability (such as Agricultural Bank of China (1288:HK) or Chongqing Rural Commercial Bank (3618:HK)), and the other is those with stronger pricing power and risk management experience, such as Minsheng. And we expect the company's closer ties with the large insurer as likely to result in better access to funding and a broader customer base.

Maintain Outperform. We maintain our EPS forecast at Rmb1.34 in 15E (+3% YoY), Rmb1.43 in 16E (+6% YoY) and Rmb1.56 in 17E (+9% YoY). Currently Minsheng stock is trading at 1.07x 15E PB, as compared to the sector average of 1.05x. CMBC's H share is trading at 19% discount to A peer, while the sector's average discount is 12%. Given the uplift in market sentiment, we revise up our target 15E PB to 1.2x and revise up our target price from HK\$10.60 to HK\$12.41. With 10% upside, we maintain our Outperform recommendation.

Figure 1: Valuation table

Company	Code	Rating	Target price (HK\$)	Trading PE			Trading PB		
				13A	14A	15E	13A	14A	15E
CRCB	3618 HK	BUY	5.74	8.16	7.16	6.47	1.35	1.14	1.01
BOCOM	3328 HK	BUY	8.28	7.57	7.16	7.03	1.12	0.96	0.87
CMBC	1988 HK	O-PF	12.41	6.03	6.87	6.69	1.29	1.28	1.07
BOC	3988 HK	O-PF	5.23	7.78	7.19	7.04	1.32	1.17	1.06
ABC	1288 HK	O-PF	4.19	6.98	6.47	6.31	1.38	1.16	1.03
ICBC	1398 HK	Neutral	5.12	7.46	7.01	6.64	1.54	1.34	1.18
CCB	939 HK	Neutral	5.6	7.23	6.72	6.32	1.46	1.21	1.07
CITIC	998 HK	U-PF	5.53	6.75	6.50	6.48	1.17	1.00	0.89
CMB	3968 HK	U-PF	16.72	8.37	8.55	7.69	1.83	1.49	1.29

Source: Company data, SWS Research

APPENDIX

Figure 1: Forecast Income Statement

Rmbm	2007	2008	2009	2010	2011	2012	2013	2014	2015(E)	2016(E)	2017(E)
Interest Income	39,927	56,331	58,436	70,720	117,281	151,887	182,154	199,052	221,629	248,538	274,105
Interest expense	(17,490)	(25,931)	(21,201)	(24,903)	(52,460)	(74,734)	(99,121)	(106,916)	(122,572)	(142,318)	(157,471)
Net interest income	22,437	30,400	37,235	45,817	64,821	77,153	83,033	92,136	99,057	106,219	116,634
Fee and commission income	2,665	4,755	5,006	8,753	15,991	22,091	33,061	42,293	48,637	53,525	59,814
Fee and commission expense	(274)	(294)	(342)	(464)	(890)	(1,568)	(3,105)	(4,054)	(4,662)	(5,131)	(5,733)
Net fee and commission income	2,391	4,461	4,664	8,289	15,101	20,523	29,956	38,239	43,975	48,394	54,081
NOPLAT	24,828	34,861	41,899	54,106	79,922	97,676	112,989	130,375	143,032	154,614	170,714
Other operating income	389	(114)	(448)	(139)	1,078	5,185	3,113	4,632	2,000	1,000	1,001
Operating income	25,217	34,747	41,451	53,967	81,000	102,861	116,102	135,007	145,032	155,614	171,715
Operating expense	(11,705)	(14,901)	(17,737)	(21,625)	(29,333)	(35,064)	(37,958)	(45,077)	(49,601)	(53,220)	(58,727)
Business tax and surcharges	(2,047)	(2,916)	(2,802)	(3,827)	(6,116)	(7,825)	(8,004)	(9,005)	(11,898)	(13,244)	(14,636)
Operating profit	11,465	16,930	20,912	28,515	45,551	59,972	70,140	80,925	83,533	89,150	98,353
Net non-operating income	13	76	51	(35)	-	-	-	-	(100)	(100)	(99)
Operating profit before provisions	11,478	17,006	20,963	28,480	45,551	59,972	70,140	80,925	83,433	89,050	98,254
Provision for impairment losses	(2,265)	(6,518)	(5,307)	(5,504)	(8,376)	(9,320)	(12,989)	(21,132)	(22,354)	(24,151)	(27,368)
Profit before tax	9,212	10,488	15,656	22,976	37,175	50,652	57,151	59,793	61,079	64,899	70,886
Income tax	(2,877)	(2,595)	(3,548)	(5,288)	(8,732)	(12,344)	(13,869)	(14,226)	(14,048)	(14,927)	(16,304)
Net profit	6,335	7,893	12,108	17,688	28,443	38,308	43,282	45,567	47,031	49,972	54,582
Minority interest	-	(8)	(4)	(107)	(523)	(745)	(1,004)	(1,021)	(1,123)	(1,235)	(1,359)
Net profit attributable to equity holders of the bank	6,335	7,885	12,104	17,581	27,920	37,563	42,278	44,546	45,908	48,737	53,223

Source : Company data, SWS Research

Figure2: Forecast Balance Sheet

Rmbm	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Assets											
Cash and Balance with central bank	110,281	184,778	226,054	266,835	332,805	420,418	433,802	471,632	584,333	642,767	707,043
Interbank	88,932	67,156	134,863	274,847	411,103	1,048,905	767,335	927,756	914,356	917,100	901,522
Loans and advances to customers	547,296	646,475	867,738	1,037,723	1,178,285	1,351,512	1,539,447	1,774,159	1,987,058	2,205,634	2,448,254
Investments	156,502	133,659	156,366	180,818	256,967	318,329	389,265	690,219	793,752	952,502	1,143,003
Non interest-bearing assets	15,826	22,282	41,371	63,514	49,904	72,837	96,361	151,370	87,337	96,286	106,119
Total	918,837	1,054,350	1,426,392	1,823,737	2,229,064	3,212,001	3,226,210	4,015,136	4,366,836	4,814,289	5,305,941
Liabilities											
Interbank	100,204	155,227	166,579	250,688	374,120	982,732	720,079	1,124,602	1,179,046	1,299,858	1,432,604
Deposits from customers	671,219	785,786	1,127,938	1,416,939	1,644,738	1,926,194	2,146,689	2,433,810	2,677,191	2,944,910	3,239,401
Debts issued	33,920	33,999	23,060	21,496	31,030	74,969	91,968	129,279	129,279	129,279	129,279
Trading and Derivative liabilities					787	1,335	1,883	2,558	2,558	2,558	2,558
Non interest-bearing liabilities	63,307	24,666	19,921	29,357	44,279	58,227	61,304	77,110	87,337	96,286	106,119
Total	868,650	999,678	1,337,498	1,718,480	2,094,954	3,043,457	3,021,923	3,767,359	4,075,410	4,472,891	4,909,961
Shareholders' equity											
Share capital	14,479	18,823	22,262	26,715	26,715	28,366	28,366	34,153	34,153	34,153	34,153
Capital reserve	22,980	18,064	38,181	37,787	38,360	45,714	49,234	49,949	49,949	49,949	49,949
Surplus reserve	2,200	2,983	4,184	5,903	8,647	12,330	16,456	17,077	21,532	26,122	30,996
General reserve	5,800	8,001	10,904	13,822	16,740	39,480	42,487	49,344	56,230	63,541	71,524
Retained earnings	4,728	6,009	12,503	19,881	39,245	37,615	64,023	90,019	120,825	157,660	198,026
Others					(110)	(428)	(2,854)	(400)			
Total shareholders' equity	50,187	53,880	88,034	104,108	129,597	163,077	197,712	240,142	282,688	331,425	384,648
Minority Interests	-	792	860	1,149	4,513	5,467	6,575	7,614	8,737	9,973	11,331
Total shareholders' equity and liabilities	918,837	1,054,350	1,426,392	1,823,737	2,229,064	3,212,001	3,226,210	4,015,115	4,366,836	4,814,289	5,305,941

Source : Company data, SWS Research

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