

Company Report

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

Shengjing Bank (2066 HK)

Solid results with in-line earnings growth in FY14

■ NPAT reported at RMB5.4bn in FY14, up 11.1% YoY and 0.8% ahead of our estimates and is expected to grow 5.6%/4.9% YoY in FY15/16E.

■ Asset quality remained benign with flattish NPL ratio, in sharp contrast to fast deterioration for the industry. SMLs/overdue loans dropped 31.3%/47.2% YoY as of end FY14.

■ Credit cost hiked to 0.62% in 2H14, lifting LLR to 1.70% in 4Q from 1.50% in 3Q. We see further catch up in credit cost to meet the minimum requirement for LLR by end FY16E.

Strong PPOP and higher credit cost lead to in-line NPAT

FY14 NPAT reported at RMB5.4bn, up 11.1% YoY and slightly ahead of our estimates. PPOP grew strongly by 23.7% YoY in FY14, mainly driven by the strong fee income growth of 77.7% YoY and stable net interest income of 26.2% YoY. 2H14 NPAT growth slowed to 7.3% YoY from 15.9% in 1H14 largely due to higher credit cost of 0.62% in 2H from 0.55% in 1H14 as well as easing fee income growth.

Positives: (1) NIM expanded 2bps HoH to 2.33% in 2H14 as asset yield rose faster than funding cost in 2H; (2) total loans (+18.9% YoY vs 13.6% for industry) and total deposits (+20.2% YoY vs 9.1% for industry) grew at a much faster pace than peers average in 2H14; (3) CIR dropped 3.18% HoH to 27.2% in 2H14; (4) asset quality remains healthy with flattish NPL ratio despite RMB50mn increase (+7.8% HoH) in NPL balance with zero NPL write-off in 2H14; SMLs/overdue loans dropped 31.3%/47.2% YoY in FY14 with reducing SML ratio and overdue ratio in 2H14; (5) payout ratio increased to 22.0% in FY14 from 7.6% in FY13.

Negatives: (1) Fee income growth moderated to 35.3% YoY in 2H from 151.6% in 1H14; (2) credit cost climbed to 0.62% in 2H14 from 0.55% in 1H, dragging down the bottom line growth but lifting LLR to 1.70% by end FY14. We expect its credit cost to remain at a higher level of 0.77%/0.81% in FY15/16E in order to meet the minimum requirement of 2.50% for LLR by end FY16E.

Catalyst & valuation

Shengjing Bank is now trading at 0.85x FY15E P/B and 6.36x FY15E P/E as of 25 March 2015 close.

Financials

RMB mn	FY12	FY13	FY14E	FY15E	FY16E
Revenue	6,908	8,905	10,939	13,054	14,602
Growth (%)	27.6%	28.9%	22.8%	19.3%	11.9%
Net profit	3,496	4,866	5,360	5,659	5,935
Growth (%)	33.9%	39.2%	10.2%	5.6%	4.9%
EPS (RMB)	0.95	1.31	1.22	0.98	1.02
DPS (RMB)	0.00	0.10	0.18	0.20	0.20
P/E (x)	6.56	4.72	5.09	6.36	6.06
P/B (x)	1.61	1.21	0.96	0.85	0.77
ROE (%)	27.3%	27.6%	18.3%	14.2%	13.3%

Note: Closing price as of 25 Mar 2015.

Sources: Bloomberg, Company data, CMS (HK) research.

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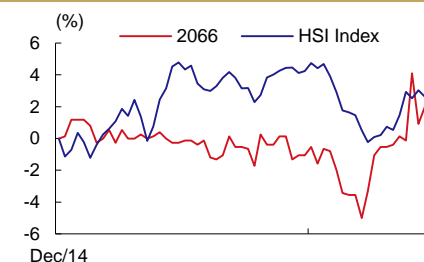
WHAT'S NEW

N.A.

NEUTRAL

Previous	NEUTRAL
Price	HKD7.69
12-month Target Price (Potential downside)	HKD7.54 (-2.0%)
Previous	HKD7.54

Price Performance



Source: Bigdata

%	1m	6m	12m
2066 HK	3.8	2.4	2.4
HSI	(1.4)	2.0	11.7

Bank	
Hang Seng Index	24528
HSCEI	11969

Key Data	
52-week range (HKD)	7.06-8.18
Market cap (USD bn)	5.7
Avg. daily volume (mn)	1.6
BVPS (RMB)	7.27

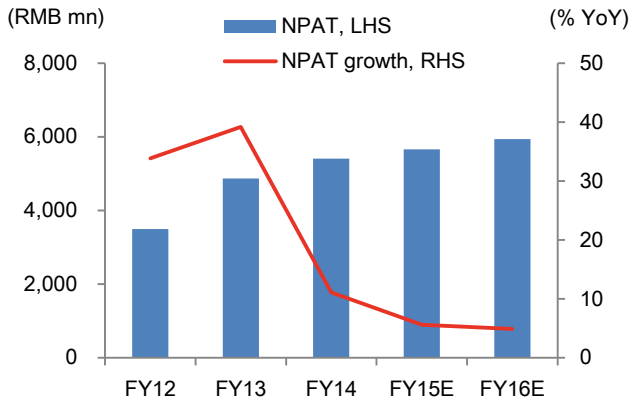
Shareholdings Structure	
Shenyang Hengxin	8.28%
Huibao International	6.90%
Xinhu Zhongbao	5.18%
No. of shares outstanding (bn)	5.6
Free float	31.36%

Related Research

1. Shengjing Bank (2066 HK) - Less pressure from asset quality but from lower LLR (NEUTRAL) 2015/03/06

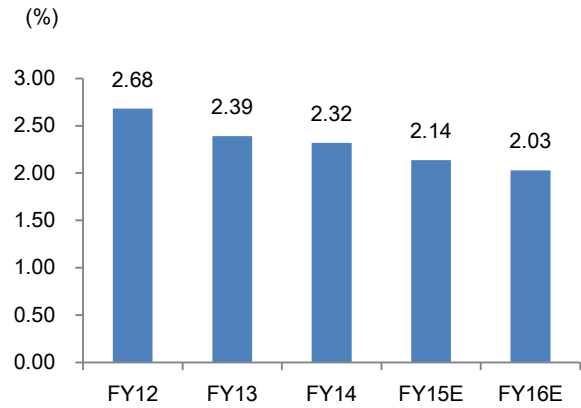
Focus charts

Figure 1: Net profit



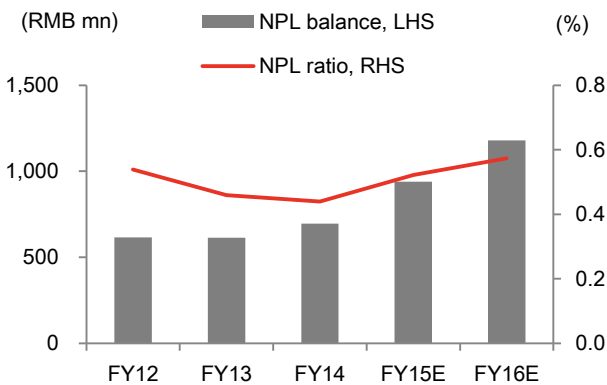
Sources: Company data, CMS (HK) research.

Figure 2: NIM



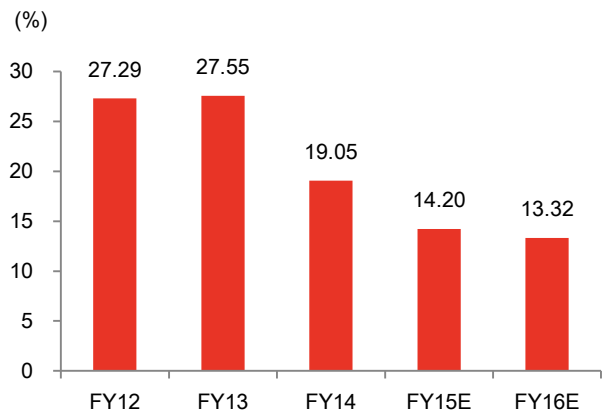
Sources: Company data, CMS (HK) research.

Figure 3: NPL balance and ratio



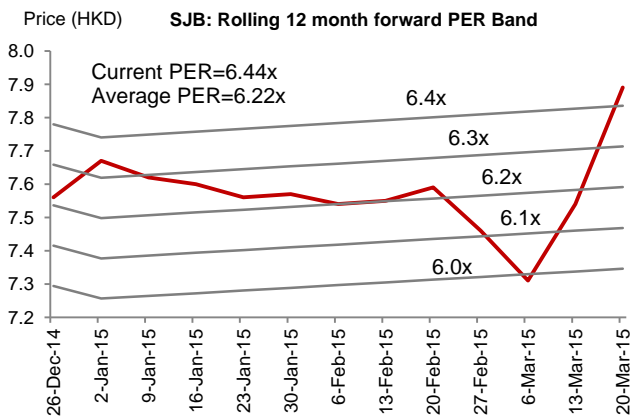
Sources: Company data, CMS (HK) research.

Figure 4: ROE



Sources: Company data, CMS (HK) research.

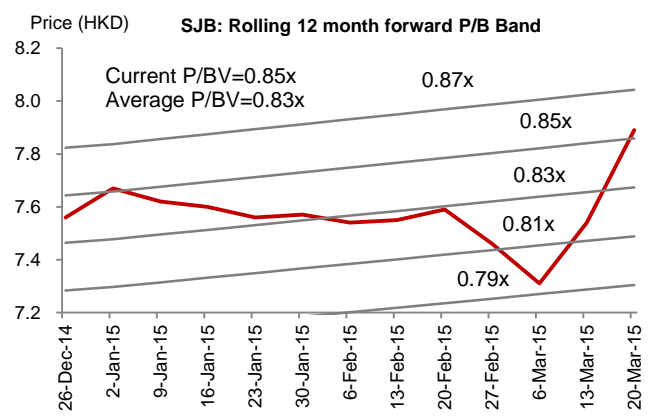
Figure 5: P/E Band



Note: Closing price as of 20 Mar 2015.

Sources: Bloomberg, Company data, CMS (HK) research.

Figure 6: P/B Band



Note: Closing price as of 20 Mar 2015.

Sources: Bloomberg, Company data, CMS (HK) research.

Figure 7: 2014 results table

P&L (RMB mn)	1H13	2H13	1H14	2H14	2H14 h-h	2H14 y-y	2013	2014	2014 y-y
Interest Income	8,311	9,727	11,876	13,539	14.0%	39.2%	18,038	25,415	40.9%
Interest Expense	(4,678)	(5,516)	(7,256)	(8,257)	13.8%	49.7%	(10,194)	(15,514)	52.2%
Net Interest Income	3,633	4,211	4,620	5,282	14.3%	25.4%	7,844	9,901	26.2%
Dealing gain/loss - Trading income	1	(3)	6	(7)	na	137.7%	(2)	(2)	-7.8%
Dealing gain/loss - Investment securities	93	115	(112)	(1)	-99.4%	na	208	(112)	na
Net fee and commission income	281	489	706	662	-6.3%	35.3%	770	1,368	77.7%
Others	11	74	19	30	53.8%	-59.8%	86	49	-42.4%
Non-Interest Income	386	676	620	684	10.3%	1.2%	1,062	1,304	22.8%
Operating Income	4,019	4,887	5,240	5,965	13.9%	22.1%	8,906	11,205	25.8%
Operating Expenses	(1,145)	(1,301)	(1,591)	(1,621)	1.9%	24.6%	(2,446)	(3,212)	31.3%
PPOP	2,874	3,586	3,649	4,344	19.1%	21.1%	6,460	7,993	23.7%
Provisions	(143)	(29)	(369)	(565)	53.1%	1848.7%	(172)	(934)	443.6%
Including: loan loss provisions	(139)	(47)	(386)	(475)	23.3%	905.5%	(186)	(861)	361.9%
Associated Companies	22	(2)	2	0	na	na	20	2	-88.1%
Pre-tax Profits	2,753	3,555	3,282	3,779	15.1%	6.3%	6,308	7,061	11.9%
Taxes	(592)	(827)	(777)	(861)	10.8%	4.0%	(1,419)	(1,637)	15.4%
Net Profit	2,162	2,727	2,506	2,918	16.5%	7.0%	4,889	5,424	10.9%
Minority interest	11	13	12	7	-43.2%	-46.4%	23	19	-18.8%
PROFITS attributable to shareholders	2,151	2,715	2,494	2,911	16.8%	7.3%	4,866	5,405	11.1%

Balance Sheet Items (RMB mn)	1H13	2H13	1H14	2H14	2H14 h-h	2H14 y-y	2013	2014	2014 y-y
Total assets	na	355,432	449,127	503,371	12.1%	41.6%	355,432	503,371	41.6%
Gross loans	na	133,437	147,745	158,644	7.4%	18.9%	133,437	158,644	18.9%
Loan loss provisions	na	1,879	2,222	2,698	21.4%	43.6%	1,879	2,698	43.6%
NPLs	na	613	646	696	7.8%	13.6%	613	696	13.6%
Total deposits	na	262,913	295,934	315,944	6.8%	20.2%	262,913	315,944	20.2%
Shareholder's equity	16,425	21,055	25,175	35,700	41.8%	69.6%	21,055	35,700	69.6%
Per share data (RMB)									
Issued shares (mn)	3,696	4,096	4,396	5,646	28.4%	37.8%	4,096	5,646	37.8%
BVPS	4.44	5.14	5.73	6.32	10.4%	23.0%	5.14	6.32	23.0%
EPS	0.58	0.73	0.59	0.66	11.9%	-9.6%	1.31	1.25	-4.6%
DPS	0.00	0.10	0.00	0.28	na	175.0%	0.10	0.28	175.0%
PPOP	0.78	0.97	0.87	0.88	0.9%	-9.4%	1.75	1.75	0.0%

Ratios (%)	1H13	2H13	1H14	2H14	2H14 h-h	2H14 y-y	2013	2014	2014 y-y
1. CIR	28.5%	26.6%	30.4%	27.2%	-3.18pp	0.56pp	27.5%	28.7%	1.20pp
2. Effective tax rate	21.5%	23.3%	23.7%	22.8%	-0.88pp	-0.50pp	22.5%	23.2%	0.69pp
3. ROA	na	na	1.25%	1.23%	-0.02pp	na	1.46%	1.26%	-0.20pp
4. ROE	na	na	21.58%	19.13%	-2.44pp	na	27.55%	19.05%	-8.50pp
5. Customer LDR	na	50.75%	49.93%	50.21%	0.29pp	-0.54pp	50.75%	50.21%	-0.54pp
6. NPL ratio	na	0.46%	0.44%	0.44%	0bps	-2bps	0.46%	0.44%	-2bps
7. Loan loss coverage	na	306.16%	344.61%	387.42%	42.81pp	81.26pp	306.16%	387.42%	81.26pp
8. Loan-loss provision ratio	na	1.41%	1.50%	1.70%	20bps	29bps	1.41%	1.70%	29bps
9. NIM	2.33%	2.45%	2.31%	2.33%	2bps	-12bps	2.39%	2.32%	-7bps
10. Credit cost	na	na	0.55%	0.62%	7bps	na	0.15%	0.59%	44bps
11. Non-interest income as % total income	9.60%	13.83%	11.83%	11.46%	-0.37pp	-2.37pp	11.92%	11.63%	-0.29pp
12. Fee income as % total income	6.99%	10.01%	13.48%	11.10%	-2.38pp	1.08pp	8.65%	12.21%	3.57pp
13. Core Tier 1 CAR	na	10.07%	9.77%	11.04%	1.27pp	0.97pp	10.07%	11.04%	0.97pp
14. Tier 1 CAR	na	10.07%	9.77%	11.04%	1.27pp	0.97pp	10.07%	11.04%	0.97pp
15. CAR	na	11.17%	11.61%	12.65%	1.04pp	1.48pp	11.17%	12.65%	1.48pp

Sources: Company data, CMS (HK) research.

Financial Summary

Statement of financial position

RMB mn	FY12	FY13	FY14E	FY15E	FY16E
Cash & balance with central banks	53,692	65,238	68,500	71,925	75,521
Due from banks& financial institutions	65,276	62,294	67,901	81,481	89,629
Customer Loans & Advances	112,271	131,558	152,834	176,358	200,488
Financial assets at fair value through profit or loss	301	0	0	0	0
Financial assets held under resale agreements	8,930	15,706	14,820	29,641	33,441
Financial investments	66,671	73,782	114,587	195,813	242,499
Property and equipment	2,418	2,522	3,027	3,632	4,359
Deferred tax assets	176	238	155	170	187
Interest in associates	267	287	0	0	0
Other assets	3,240	3,806	48,968	21,568	7,754
Total assets	313,242	355,432	470,792	580,588	653,878
Deposits from banks and other financial institutions	38,554	41,327	61,991	74,389	85,548
Placements from banks and other financial institutions	5,620	1,190	1,666	2,166	2,426
Deposits from customers	207,987	262,913	305,213	346,946	389,458
Financial assets sold under repurchase agreements	40,773	20,919	52,299	94,138	103,551
Income tax payable	264	424	381	419	629
Debt securities issued	2,100	900	3,100	10,100	10,100
Other liabilities	3,286	6,289	8,175	9,810	14,715
Total liabilities	298,584	333,962	432,825	537,968	606,427
Share Capital	3,696	4,096	5,797	5,797	5,797
Reserves	10,570	16,959	31,731	36,357	41,161
Shareholder's funds	14,266	21,055	37,528	42,154	46,957
Minority interests	392	415	440	466	493
Total equity	14,658	21,470	37,968	42,620	47,451

Growth rate (% YoY)

	FY12	FY13	FY14E	FY15E	FY16E
Net interest income	26.9%	15.6%	21.7%	16.1%	9.9%
Non-interest income	79.7%	755.6%	31.0%	41.2%	22.9%
Operating income	27.6%	28.9%	22.8%	19.3%	11.9%
Operating expense	16.8%	21.2%	36.3%	32.6%	20.8%
PPOP	32.7%	32.1%	17.8%	13.5%	7.3%
Provisions	-3.1%	-60.2%	316.7%	78.1%	21.1%
Pre-tax profit	36.9%	40.7%	9.6%	6.8%	4.9%
After-tax profit	34.3%	39.3%	10.1%	5.6%	4.9%
NP to Parents	33.9%	39.2%	10.2%	5.6%	4.9%
Gross loans	16.0%	16.9%	16.4%	15.9%	14.2%
Total assets	41.6%	13.5%	32.5%	23.3%	12.6%
RWA	30.9%	38.6%	37.2%	31.3%	14.3%
Customer deposits	21.3%	26.4%	16.1%	13.7%	12.3%
Total liabilities	42.3%	11.8%	29.6%	24.3%	12.7%

Note: Closing price as of 25 Mar 2015.

Sources: Bloomberg, Company data, CMS (HK) research.

Statement of comprehensive income

RMB mn	FY12	FY13	FY14E	FY15E	FY16E
Interest income	13,835	18,038	25,162	29,052	31,712
Interest expense	(7,051)	(10,194)	(15,613)	(17,961)	(19,522)
Net interest income	6,784	7,844	9,550	11,091	12,189
Net fees and commissions	112	770	1,252	1,811	2,270
Trading related profits	(30)	206	44	47	26
Other operating revenue	41	85	94	105	116
Non-interest income	124	1,061	1,390	1,963	2,413
Operating income	6,908	8,905	10,939	13,054	14,602
Operating expense	(2,017)	(2,445)	(3,332)	(4,417)	(5,337)
PPOP	4,891	6,460	7,607	8,637	9,265
Provisions	(432)	(172)	(716)	(1,275)	(1,544)
Pre-tax Profit	4,483	6,308	6,913	7,386	7,747
Taxes	(974)	(1,419)	(1,528)	(1,699)	(1,782)
After-tax Profit	3,509	4,889	5,385	5,687	5,965
NCI	13	23	26	28	30
NP to Parents	3,496	4,866	5,360	5,659	5,935

Ratios

	FY12	FY13	FY14E	FY15E	FY16E
NIM	2.68%	2.39%	2.28%	2.14%	2.03%
Net interest spread	2.52%	2.17%	1.76%	1.36%	0.87%
Asset yield	5.47%	5.50%	5.84%	5.46%	5.15%
Funding cost	2.95%	3.33%	4.08%	4.10%	4.28%
Effective tax rate	21.72%	22.50%	22.10%	23.00%	23.00%
Cost-to-income ratio	29.20%	27.46%	30.46%	33.84%	36.55%
Non-interest income/operating income	1.80%	11.91%	12.70%	15.04%	16.52%
LDR	54.87%	50.75%	50.91%	51.90%	52.80%
NPL ratio	0.54%	0.46%	0.47%	0.52%	0.57%
Coverage ratio	302.38%	306.51%	350.04%	393.57%	436.12%
Allowance/total loans	1.63%	1.40%	1.64%	2.06%	2.50%
Credit cost	0.33%	0.15%	0.51%	0.77%	0.81%
Payout ratio	0.00%	7.61%	20.00%	20.00%	20.00%
ROA	1.31%	1.46%	1.30%	1.08%	0.97%
ROE	27.29%	27.55%	18.30%	14.20%	13.32%
Core tier-1 CAR	n.a.	10.07%	12.96%	11.08%	10.79%
Tier-1 CAR	9.39%	10.07%	12.96%	11.08%	10.79%
Total CAR	11.92%	11.17%	14.70%	14.38%	13.95%

Per share ratios & Valuations

	FY12	FY13	FY14E	FY15E	FY16E
BVPS (RMB)	3.86	5.14	6.47	7.27	8.10
EPS (RMB)	0.95	1.31	1.22	0.98	1.02
DPS (RMB)	0.00	0.10	0.18	0.20	0.20
P/E (x)	6.56	4.72	5.09	6.36	6.06
P/B (x)	1.61	1.21	0.96	0.85	0.77
Dividend yield (%)	0.00	1.61	2.98	3.15	3.30

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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