



Rating
Hold

Asia
China

Banking / Finance
Banks

Company
**Huishang Bank
Alert**

Reuters
3698.HK

Bloomberg
3698 HK

Exchange
HKG

Ticker
3698

Date
27 March 2015

Results

Price at 27 Mar 2015 (HKD)	3.43
Price target - 12mth (HKD)	3.69
52-week range (HKD)	3.57 - 3.24
HANG SENG INDEX	24,486

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Stock data

Market cap (HKDm)	37,901
Market cap (USDm)	4,888
Shares outstanding (m)	11,049.8

Source: Deutsche Bank

FY14 results beat on light credit cost; Maintain Hold

Results beat, but with light credit cost and weaker capital position

Huishang Bank (Huishang) unveiled FY14 net profit of Rmb5.67bn, up 15.2% yoy, which was 3.6% ahead of our estimates. While the PPOP growth was as strong as 25.7% yoy in 2014, we believe the quality of the results is not solid, given its light credit cost of 47bps for 2H14, compared with the NPL formation rate of 78bps during the same period. Reflecting its fast asset expansion of 8.4% hoh and 25.7% yoy, the bank's reported core tier 1 ratio, tier 1 ratio and total CAR significantly declined by 93bps, 92bps and 127bps hoh to 11.50%, 11.51%, and 13.41% respectively. We maintain Hold on the bank with TP of HK\$3.69.

FY14 – Running the number

For the full year, Huishang delivered PPOP of Rmb8.5bn, up 25.7% yoy, with credit cost of 47bps. Net interest income grew by 19% yoy, with NIM of 2.74%, up 11bps yoy, as the rising asset yield of 36bps yoy to 5.53% offset the increase in funding cost of 33bps. Net fee income increased by 59% yoy in FY14 to account for 6.7% of gross revenue (FY13: 5.3%), primarily driven by the custodian and fiduciary service. In addition, the bank reported trading and investment gain of Rmb 319mn, compared with net loss of Rmb 90mn for 2013, leading to non-interest income up by 133% yoy. With revenue growth of 25.3% and OpEx growth of 24.5%, the CIR was largely stable at 33.1%.

Weaker asset quality with falling provision coverage ratio

Asset quality deteriorated with NPL balance up by 29.4% hoh and 73.8% yoy to 0.83% as of end-2014 (1H14: 0.67%). Reflecting the NPL write off of Rmb 427mn in 2H14, we estimate the NPL formation rate stood at 78bps in 2H14, compared with 41bps in 1H14. Despite the weakening asset quality, the bank charged credit cost of 47bps in 2H14, leading to falling provision-to-loan ratio of 2.13% (1H14: 2.16%) and NPL coverage ratio of 255% (1H14: 324%).

Fast growth in non-standardized assets with relatively small exposure

During the second half of 2014, Huishang has aggressively grown its proprietary investment in non-standardized assets to 6.8% of total assets from 2.9% as of 1H14. The exposure is relatively small compared with other mid-small banks, such as BOCQ (19.5% of total assets), CNCB (15.5%), PAB (11.3%) and CMB (7.7%). As the end of 2014, the bank set aside provisions of Rmb219mn against these non-standardized assets, equivalent to 0.67% of the total exposure.

Deutsche Bank AG/Hong Kong

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