

## Company Report

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

### Minsheng (1988 HK)

**FY14 results missed on credit cost hike given highest gross NPL formation among peers; reiterate SELL**

■ Minsheng reported below consensus results with FY14 NPAT at RMB44.5bn, merely up 5.4% YoY. In light of the lingering headwinds, we expect bottom line growth to reduce to 1.8%/2.4% YoY in FY15/16E.

■ Asset quality rapidly deteriorated with dual-increase in NPLs and NPL ratio and gross NPL formation jumped to 1.95% in 4Q14.

■ Fee income growth picked up to 49.6% YoY in 4Q, but was largely offset by higher operating expenses as staff costs hiked. Higher credit cost of 1.79% in 4Q14 dragged down bottom line growth.

**FY14 NPAT missed; asset quality deterioration quickened**

4Q14 NPAT reported at RMB7.8bn, down 13.3% YoY. Despite the stable net interest income growth and the pick-up in fee income growth, PPOP growth eased to 13.1% YoY due to higher operating expenses. Credit cost hiked 40bps QoQ to 1.79%, dragging earnings growth to negative.

**Negatives:** (1) Asset quality further deteriorated. NPL balance increased 16.6% QoQ while NPL ratio rose 13bps QoQ to 1.17% in 4Q, despite of significant write-off. NPL ratio of SME loans jumped 48bps HoH to 1.17%. SML balance and overdue loans surged 76.2% and 81.9% YoY, indicating mounting pressure on asset quality ahead; (2) credit cost further hiked 40bps QoQ to 1.79%. We expect it to stay at elevated levels in FY15/16E given rising NPLs and lower coverage level of 182.20% in 4Q; (3) operating expenses increased 20.5% YoY given rising staff costs; (4) NIM compressed 6bps QoQ to 2.53%; (5) full-year DPS dropped 28.3% YoY to RMB0.185 in 2014, representing a dividend payout ratio of 14.1%, down from 20.8% in 2013; (6) capital base weakened with core T1 CAR/T1 CAR/total CAR dropped 0.15pp/0.15pp/0.26pp QoQ to 8.58%/8.59%/10.69%, marginally above the regulatory requirements by end of 2018.

**Positives:** (1) Fee incomes growth picked up in 4Q14, up 49.6% YoY; (2) total loans and total deposits grew rapidly by 15.1% and 13.4% YoY.

#### Catalysts & valuation

Further deterioration in asset quality and larger-than-expected NIM compression could drag down its share price. Minsheng is now trading at 0.98x FY15E P/B and 6.03x FY15E P/E and we see more downside risks as compared to the historical average of 0.82x P/B.

#### Financials

RMB mn	FY12	FY13	FY14E	FY15E	FY16E
Revenue	102,861	116,102	129,617	136,649	147,149
Growth (%)	25.1%	12.9%	11.6%	5.4%	7.7%
Net profit	37,563	42,278	44,546	45,359	46,442
Growth (%)	34.5%	12.6%	5.4%	1.8%	2.4%
EPS (RMB)	1.34	1.24	1.30	1.27	1.30
DPS (RMB)	0.30	0.26	0.26	0.25	0.26
P/E (x)	5.72	6.18	5.87	6.03	5.90
P/B (x)	1.33	1.10	1.11	0.98	0.86
ROE (%)	25.7%	23.4%	20.6%	17.6%	15.5%

Note: Closing price as of 30 Mar 2015.

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

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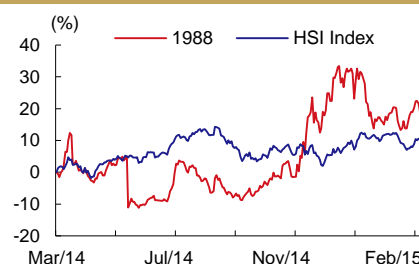
#### WHAT'S NEW

N.A.

### SELL

Previous	SELL
Price	HKD9.49
12-month Target Price (Potential downside)	HKD7.85 (-17.3%)
Previous	HKD7.85

#### Price Performance



Source: Bigdata

%	1m	6m	12m
1988 HK	(2.3)	28.8	47.6
HSI	(1.4)	3.4	12.1

#### Bank

Hang Seng Index	24855
HSCEI	12307

#### Key Data

52-week range (HKD)	6.73-10.7
Market cap (USD bn)	51.4
Avg. daily volume (mn)	53.88
BVPS (RMB)	7.85

#### Shareholdings Structure

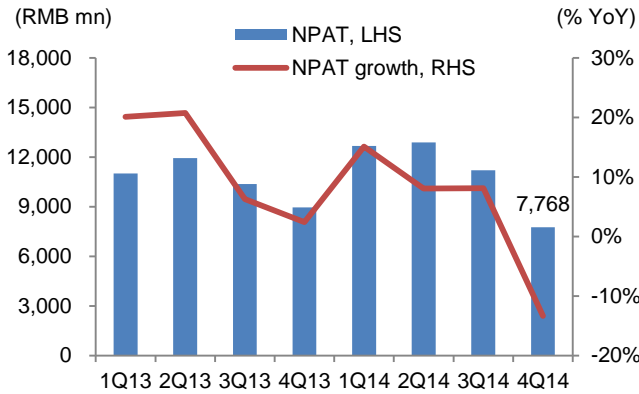
HKSCC Nominees Limited	20.19%
Anbang Life Insurance Inc.	
— Steady Investment Portfolio	4.97%
New Hope Investment Co., Ltd.	4.69%
No. of shares outstanding	34.2bn
Free float	85.7%

#### Related Research

1. Minsheng (1988 HK) - Troubled times for management, shareholders and operating environment; Reiterate SELL (SELL) 2015/03/17
2. Minsheng (1988 HK) - 2014 result flash: NPAT missed on credit cost hike in 4Q14; reiterate SELL (SELL) 2015/02/13

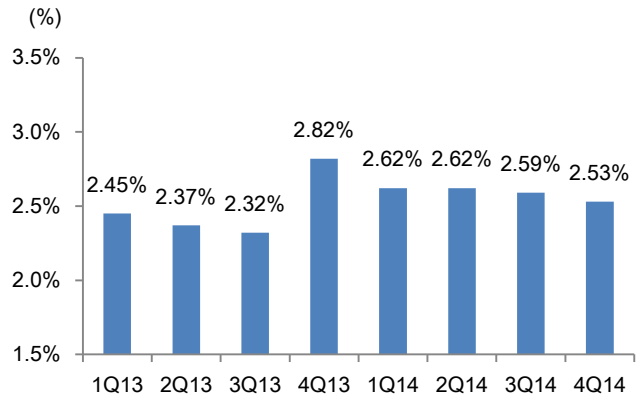
Focus charts

Figure 1: Quarterly NPAT & YoY growth



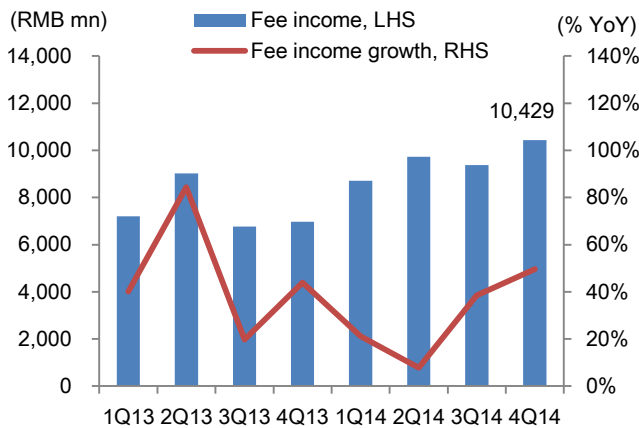
Sources: Company data, CMS (HK) research.

Figure 2: Quarterly NIM trend



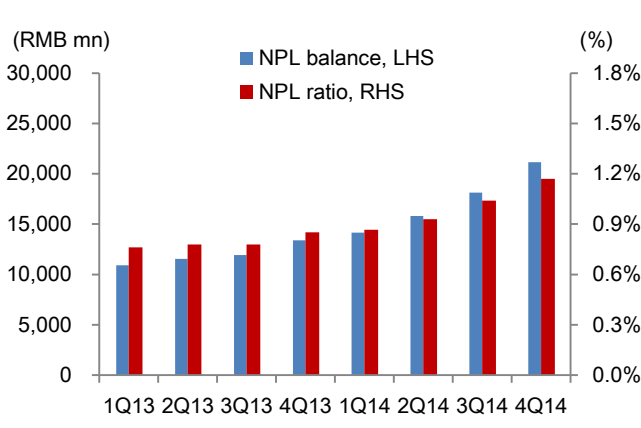
Sources: Company data, CMS (HK) research.

Figure 3: Fee income & YoY growth



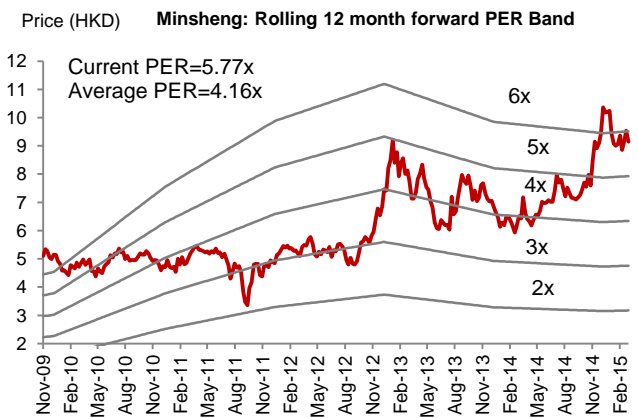
Sources: Company data, CMS (HK) research.

Figure 4: NPL balance & ratio



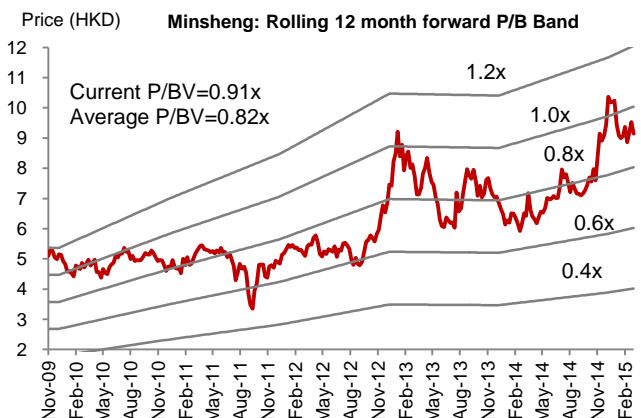
Sources: Company data, CMS (HK) research.

Figure 5: P/E Band



Note: Closing price as of 27 Mar 2015.  
Sources: Bloomberg, Company data, CMS (HK) research.

Figure 6: P/B Band



Note: Closing price as of 27 Mar 2015.  
Sources: Bloomberg, Company data, CMS (HK) research.

Figure 7: 2014 results table

P&L (RMB mn)	4Q13	3Q14	4Q14	4Q14 q-q	4Q14 y-y	2H13	2H14	2H14 h-h	2H14 y-y	2013	2014	2014 y-y
Interest Income	47,232	51,024	53,850	5.5%	14.0%	93,136	104,874	11.4%	12.6%	182,154	199,052	9.3%
Interest Expense	(24,788)	(27,219)	(29,119)	7.0%	17.5%	(50,667)	(56,338)	11.4%	11.2%	(99,121)	(106,916)	7.9%
<b>Net Interest Income (NII)</b>	<b>22,444</b>	<b>23,805</b>	<b>24,731</b>	<b>3.9%</b>	<b>10.2%</b>	<b>42,469</b>	<b>48,536</b>	<b>11.3%</b>	<b>14.3%</b>	<b>83,033</b>	<b>92,136</b>	<b>11.0%</b>
<b>Non-Interest Income</b>	<b>7,683</b>	<b>10,982</b>	<b>10,360</b>	<b>-5.7%</b>	<b>34.8%</b>	<b>15,141</b>	<b>21,519</b>	<b>0.8%</b>	<b>42.1%</b>	<b>33,069</b>	<b>42,871</b>	<b>29.6%</b>
Dealing gain/loss - FX	406	219	(264)	na	na	767	229	20.5%	-70.1%	(125)	419	na
Dealing gain/loss - investment securities	1	1,019	136	-86.7%	na	376	881	-63.0%	134.3%	2,605	3,261	25.2%
<b>Net fee and commission income</b>	<b>6,969</b>	<b>9,372</b>	<b>10,429</b>	<b>11.3%</b>	<b>49.6%</b>	<b>13,734</b>	<b>19,801</b>	<b>7.4%</b>	<b>44.2%</b>	<b>29,956</b>	<b>38,239</b>	<b>27.7%</b>
Others	307	372	59	-84.1%	-80.8%	264	608	76.7%	130.3%	633	952	50.4%
<b>Operating Income</b>	<b>30,127</b>	<b>34,787</b>	<b>35,091</b>	<b>0.9%</b>	<b>16.5%</b>	<b>57,610</b>	<b>70,055</b>	<b>7.9%</b>	<b>21.6%</b>	<b>116,102</b>	<b>135,007</b>	<b>16.3%</b>
Operating Expenses	(13,700)	(13,992)	(16,507)	18.0%	20.5%	(25,236)	(30,745)	31.7%	21.8%	(45,962)	(54,082)	17.7%
<b>Pre-provision Profits</b>	<b>16,427</b>	<b>20,795</b>	<b>18,584</b>	<b>-10.6%</b>	<b>13.1%</b>	<b>32,374</b>	<b>39,310</b>	<b>-5.5%</b>	<b>21.4%</b>	<b>70,140</b>	<b>80,925</b>	<b>15.4%</b>
Provisions	(4,267)	(5,961)	(7,953)	33.4%	86.4%	(6,217)	(13,914)	92.8%	123.8%	(12,989)	(21,132)	62.7%
Incl: loan loss provisions	na	na	na	na	na	(6,145)	(13,123)	92.8%	113.6%	(12,947)	(19,928)	53.9%
<b>Pre-tax Profits</b>	<b>12,069</b>	<b>14,952</b>	<b>10,444</b>	<b>-30.1%</b>	<b>-13.5%</b>	<b>26,157</b>	<b>25,396</b>	<b>-26.2%</b>	<b>-2.9%</b>	<b>57,151</b>	<b>59,793</b>	<b>4.6%</b>
Taxes	(2,896)	(3,613)	(2,307)	-36.1%	-20.3%	(6,369)	(5,920)	-28.7%	-7.0%	(13,869)	(14,226)	2.6%
<b>Net Profit</b>	<b>9,173</b>	<b>11,339</b>	<b>8,137</b>	<b>-28.2%</b>	<b>-11.3%</b>	<b>19,788</b>	<b>19,476</b>	<b>-25.4%</b>	<b>-1.6%</b>	<b>43,282</b>	<b>45,567</b>	<b>5.3%</b>
Minority interest	209	131	369	181.7%	76.6%	455	500	-4.0%	9.9%	1,004	1,021	1.7%
<b>Profits attributable to shareholders</b>	<b>8,964</b>	<b>11,208</b>	<b>7,768</b>	<b>-30.7%</b>	<b>-13.3%</b>	<b>19,333</b>	<b>18,976</b>	<b>-25.8%</b>	<b>-1.8%</b>	<b>42,278</b>	<b>44,546</b>	<b>5.4%</b>

Balance Sheet (RMB mn)	4Q13	3Q14	4Q14	4Q14 q-q	4Q14 y-y	2H13	2H14E	2H14 h-h	2H14 y-y	2013	2014	2014 y-y
Total Assets	3,226,210	3,769,341	4,015,136	6.5%	24.5%	3,226,210	4,015,136	12.4%	24.5%	3,226,210	4,015,136	24.5%
Gross Loans	1,574,263	1,750,969	1,812,666	3.5%	15.1%	1,574,263	1,812,666	6.9%	15.1%	1,574,263	1,812,666	15.1%
Non-performing loans	13,404	18,124	21,134	16.6%	57.7%	13,404	21,134	33.6%	57.7%	13,404	21,134	57.7%
Loan loss reserves	34,816	36,241	38,507	6.3%	10.6%	34,816	38,507	12.8%	10.6%	34,816	38,507	10.6%
Total deposits	2,146,689	2,397,690	2,433,810	1.5%	13.4%	2,146,689	2,433,810	0.5%	13.4%	2,146,689	2,433,810	13.4%
Shareholder's equity	197,712	233,577	240,142	2.8%	21.5%	197,712	240,142	8.1%	21.5%	197,712	240,142	21.5%
<b>Per share data (RMB)</b>												
Issued shares (mn)	28,366	34,040	34,153	0.3%	20.4%	28,366	34,153	0.3%	20.4%	28,366	34,153	20.4%
BVPS	6.97	6.86	7.03	2.5%	0.9%	6.97	7.03	7.7%	0.9%	6.97	7.03	0.9%
EPS	0.27	0.33	0.23	-30.3%	-14.8%	0.57	0.56	-25.3%	-1.8%	1.24	1.31	5.6%
DPS	0.10	0.00	0.11	na	10.0%	0.10	0.11	46.7%	10.0%	0.26	0.19	-28.3%
PPOP	0.58	0.61	0.54	-10.9%	-6.0%	1.14	1.15	-5.9%	0.9%	2.47	2.37	-4.2%

Ratios (%)	4Q13	3Q14	4Q14	4Q14 q-q	4Q14 y-y	2H13	2H14E	2H14 h-h	2H14 y-y	2013	2014	2014 y-y
<b>1. CIR</b>	45.47%	40.22%	47.04%	6.82pp	1.57pp	43.80%	43.89%	7.96pp	0.08pp	39.59%	40.06%	0.47pp
<b>2. Effective tax rate</b>	24.00%	24.16%	22.09%	-2.07pp	-1.91pp	24.35%	23.31%	-0.84pp	-1.04pp	24.27%	23.79%	-0.48pp
<b>3. ROA</b>	1.12%	1.24%	0.84%	-0.40pp	-0.29pp	1.19%	1.03%	-0.51pp	-0.17pp	1.34%	1.26%	-0.09pp
<b>4. ROE</b>	18.50%	19.67%	13.12%	-6.55pp	-5.38pp	20.20%	16.42%	-7.94pp	-3.78pp	23.44%	20.35%	-3.09pp
<b>5. Customer LDR</b>	73.33%	73.03%	74.48%	1.45pp	1.14pp	73.33%	74.48%	4.40pp	1.14pp	73.33%	74.48%	1.14pp
<b>6. NPL ratio</b>	0.85%	1.04%	1.17%	13bps	32bps	0.85%	1.17%	24bps	32bps	0.85%	1.17%	32bps
<b>7. Loan loss coverage</b>	259.74%	199.96%	182.20%	-17.76pp	-77.54pp	259.74%	182.20%	-33.67pp	-77.54pp	259.74%	182.20%	-77.54pp
<b>8. Loan-loss provision ratio</b>	2.21%	2.07%	2.12%	5bps	-9bps	2.21%	2.12%	11bps	-9bps	2.21%	2.12%	-9bps
<b>9. NIM</b>	2.82%	2.59%	2.53%	-6bps	-29bps	2.57%	2.56%	-6bps	-1bps	2.49%	2.59%	10bps
<b>10. Credit cost</b>	1.10%	1.38%	1.79%	40bps	69bps	0.80%	1.50%	66bps	69bps	0.88%	1.18%	30bps
<b>11. Non-interest income as % total income</b>	25.50%	31.57%	29.52%	-2.05pp	4.02pp	26.28%	30.72%	-2.16pp	4.44pp	28.48%	31.75%	3.27pp
<b>12. Fee income as % total income</b>	23.13%	26.94%	29.72%	2.78pp	6.59pp	23.84%	28.26%	-0.12pp	4.43pp	25.80%	28.32%	2.52pp
<b>13. Core Tier 1 CAR</b>	8.72%	8.73%	8.58%	-0.15pp	-0.14pp	8.72%	8.58%	-0.18pp	-0.14pp	8.72%	8.58%	-0.14pp
<b>14. Tier 1 CAR</b>	8.72%	8.74%	8.59%	-0.15pp	-0.13pp	8.72%	8.59%	-0.18pp	-0.13pp	8.72%	8.59%	-0.13pp
<b>15. CAR</b>	10.69%	10.95%	10.69%	-0.26pp	0.00pp	10.69%	10.69%	-0.36pp	0.00pp	10.69%	10.69%	0.00pp

Sources: Company data, CMS (HK) research.

## Financial Summary

### Statement of financial position

RMB mn	FY12	FY13	FY14E	FY15E	FY16E
Cash and balances with other banks	242,651	98,044	102,946	108,094	113,498
Deposits with central banks	413,928	424,643	445,875	468,169	491,577
Due from other banks	80,082	108,026	113,427	119,099	125,054
Customer Loans and Advances	1,351,512	1,539,447	1,733,119	1,923,411	2,108,444
Investments	317,095	387,279	437,419	496,301	565,495
Fixed assets	13,631	24,102	26,512	29,163	32,080
Deferred tax assets	8,817	10,683	11,751	12,926	14,219
Securities under resale agreements	732,662	570,424	285,212	199,648	179,684
Derivatives	1,234	1,986	2,185	2,403	2,643
Other assets	50,389	61,576	249,879	335,598	326,602
<b>Total assets</b>	<b>3,212,001</b>	<b>3,226,210</b>	<b>3,408,326</b>	<b>3,694,812</b>	<b>3,959,296</b>
Due to central banks	331	405	486	583	700
Due to other banks	849,066	655,107	556,841	501,157	476,099
Customer Deposits	1,926,194	2,146,689	2,418,589	2,673,194	2,924,444
Accruals and other payables	58,227	61,839	64,931	68,177	71,586
Debt securities issued	74,969	91,968	90,934	138,934	136,934
Securities under repurchase agreements	133,335	64,567	32,284	22,598	20,339
Derivatives	1,335	1,348	1,416	1,487	1,561
<b>Total liabilities</b>	<b>3,043,457</b>	<b>3,021,923</b>	<b>3,165,480</b>	<b>3,406,130</b>	<b>3,631,662</b>
Share Capital	28,366	28,366	34,153	35,679	35,797
Reserves	134,711	169,346	201,131	244,308	281,837
<b>Shareholder's funds</b>	<b>163,077</b>	<b>197,712</b>	<b>235,284</b>	<b>279,987</b>	<b>317,634</b>
Minority interests	5,467	6,575	7,561	8,695	10,000
<b>Total equity</b>	<b>168,544</b>	<b>204,287</b>	<b>242,846</b>	<b>288,682</b>	<b>327,633</b>

### Growth rate (% YoY)

	FY12	FY13	FY14E	FY15E	FY16E
Net interest income	19.0%	7.6%	5.8%	-1.4%	4.2%
Non-interest income	48.0%	28.6%	26.4%	19.8%	13.6%
<b>Operating income</b>	<b>25.1%</b>	<b>12.9%</b>	<b>11.6%</b>	<b>5.4%</b>	<b>7.7%</b>
Operating expense	17.0%	7.2%	11.6%	9.0%	10.0%
<b>PPOP</b>	<b>31.7%</b>	<b>17.0%</b>	<b>11.7%</b>	<b>3.1%</b>	<b>6.1%</b>
Provisions	11.3%	39.4%	39.4%	5.6%	1.8%
<b>Pre-tax profit</b>	<b>36.3%</b>	<b>12.8%</b>	<b>5.4%</b>	<b>2.3%</b>	<b>7.4%</b>
<b>After-tax profit</b>	<b>34.7%</b>	<b>13.0%</b>	<b>5.8%</b>	<b>2.3%</b>	<b>2.9%</b>
<b>NP to Parents</b>	<b>34.5%</b>	<b>12.6%</b>	<b>5.4%</b>	<b>1.8%</b>	<b>2.4%</b>

	FY12	FY13	FY14E	FY15E	FY16E
Gross loans	14.9%	13.7%	12.5%	11.1%	9.9%
<b>Total assets</b>	<b>44.1%</b>	<b>0.4%</b>	<b>5.6%</b>	<b>8.4%</b>	<b>7.2%</b>
RWA	26.1%	15.1%	16.5%	13.2%	11.0%
Customer deposits	17.1%	11.4%	12.7%	10.5%	9.4%
<b>Total liabilities</b>	<b>45.3%</b>	<b>-0.7%</b>	<b>4.8%</b>	<b>7.6%</b>	<b>6.6%</b>

Note: Closing price as of 30 Mar 2015.

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

### Statement of comprehensive income

RMB mn	FY12	FY13	FY14E	FY15E	FY16E
Interest income	151,887	182,154	190,433	193,556	207,320
Interest expense	(74,734)	(99,121)	(102,602)	(106,948)	(117,034)
<b>Net interest income</b>	<b>77,153</b>	<b>83,033</b>	<b>87,831</b>	<b>86,608</b>	<b>90,286</b>
Net fees and commissions	20,523	29,956	36,529	42,850	49,294
Trading related profits	509	(25)	550	415	454
Other operating revenue	4,676	3,138	4,707	6,776	7,114
<b>Non-interest income</b>	<b>25,708</b>	<b>33,069</b>	<b>41,786</b>	<b>50,041</b>	<b>56,863</b>
<b>Operating income</b>	<b>102,861</b>	<b>116,102</b>	<b>129,617</b>	<b>136,649</b>	<b>147,149</b>
Operating expense	(42,889)	(45,962)	(51,281)	(55,913)	(61,488)
<b>PPOP</b>	<b>59,972</b>	<b>70,140</b>	<b>78,336</b>	<b>80,735</b>	<b>85,661</b>
Provisions	(9,320)	(12,989)	(18,110)	(19,117)	(19,468)
<b>Pre-tax Profit</b>	<b>50,652</b>	<b>57,151</b>	<b>60,226</b>	<b>61,618</b>	<b>66,193</b>
Taxes	(12,344)	(13,869)	(14,454)	(14,788)	(15,886)
<b>After-tax Profit</b>	<b>38,308</b>	<b>43,282</b>	<b>45,772</b>	<b>46,830</b>	<b>50,307</b>
Dividend for preference share	0	0	0	0	(2,100)
NCI	745	1,004	1,226	1,471	1,765
<b>NP to Parents</b>	<b>37,563</b>	<b>42,278</b>	<b>44,546</b>	<b>45,359</b>	<b>46,442</b>

### Ratios

	FY12	FY13	FY14E	FY15E	FY16E
NIM	2.94%	2.49%	2.54%	2.30%	2.19%
Net interest spread	2.75%	2.30%	2.32%	1.95%	1.74%
Asset yield	5.79%	5.46%	5.52%	5.13%	5.02%
Funding cost	3.04%	3.16%	3.20%	3.18%	3.28%
Effective tax rate	24.37%	24.27%	24.00%	24.00%	24.00%
Cost-to-income ratio	41.70%	39.59%	39.56%	40.92%	41.79%
Non-interest income/operating income	24.99%	28.48%	32.24%	36.62%	38.64%
LDR	71.88%	73.33%	73.22%	73.60%	73.95%
NPL ratio	0.76%	0.85%	1.17%	1.48%	1.71%
Coverage ratio	314.53%	259.74%	181.77%	151.68%	146.84%
Allowance/total loans	2.39%	2.21%	2.13%	2.24%	2.51%
Credit cost	0.64%	0.88%	1.08%	1.02%	0.94%
Payout ratio	22.39%	20.81%	20.00%	20.00%	20.00%
ROA	1.41%	1.34%	1.38%	1.32%	1.26%
ROE	25.67%	23.44%	20.58%	17.61%	15.54%
Core tier-1 CAR	n.a.	8.72%	8.92%	9.37%	9.59%
Tier-1 CAR	8.13%	8.72%	8.92%	10.35%	10.48%
Total CAR	10.75%	10.69%	10.52%	11.78%	11.87%

### Per share ratios & Valuations

	FY12	FY13	FY14E	FY15E	FY16E
BVPS (RMB)	5.75	6.97	6.89	7.85	8.87
EPS (RMB)	1.34	1.24	1.30	1.27	1.30
DPS (RMB)	0.30	0.26	0.26	0.25	0.26
P/E (x)	5.72	6.18	5.87	6.03	5.90
P/B (x)	1.33	1.10	1.11	0.98	0.86
Dividend yield (%)	3.92	3.37	3.41	3.32	3.39

## 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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