



Company Report: BOC Hong Kong (02388 HK)

公司报告: 中银香港 (02388 HK)

Richard Cao 曹柱

(86755) 2397 6870

caozhu013592@gjas.com

12 April 2018

Operating Environment Outlook Expected to remain positive, Maintain "Buy"

经营环境前景预计仍有利, 维持“买入”

- The Company's 2017 reported net profit attributable to ordinary shareholders declined by 44.0% YoY to HK\$ 31.1 bn, primarily attributable to the high comparison base from one-off gains of the sale of NCB in 2016. The Company's net profit attributable to ordinary shareholders from continued operations increased by 15.9% YoY to HK\$ 28.5 bn.
- Operating environment outlook is expected to remain positive for the Company. In 2018, the positive outlook of the Hong Kong economy is expected to continue to drive the Company's loans to grow at a relatively good level and the expected rise in overall interest rate level in Hong Kong is projected to continue to contribute to the Company's NIM expansion. RMB internationalization, the Belt and Road Initiative and the development of ASEAN business are all expected to continue to support the Company's development.
- We forecast the Company's EPS for FY18/FY19/FY20 to be HK\$ 3.134/HK\$ 3.487/HK\$ 3.858, up 6.7% YoY/11.3% YoY/10.6% YoY, respectively. We maintain our "Buy" rating for the Company. Meanwhile, we maintain our target price for the Company at HK\$ 47.52, equivalent to 15.2x FY18 PER, 13.6x FY19 PER, 1.9x FY18 PBR and 1.8x FY19 PBR.
- 公司 2017 年报告的归母净利润同比下滑 44.0%至 31.1 十亿港元, 主要是由于 2016 年出售南商行的一次性收益导致的基数较高。公司来自持续经营业务的归母净利润同比增长了 15.9%至 28.5 十亿港元。
- 经营环境前景预计仍有利于公司。2018 年, 香港经济前景向好预计将继续拉动公司的贷款较好的增长, 香港整体利率水平的预期上升预计将继续贡献公司的息差扩张。人民币国际化、一带一路战略、东南亚业务的发展预计将继续支撑公司的发展。
- 我们预计公司的 2018/2019/2020 年每股盈利为 3.134 港元、3.487 港元和 3.858 港元, 分别同比上涨 6.7%、11.3%和 10.6%。我们维持对公司的“买入”投资评级。同时, 我们维持对公司 47.52 港元的目标价, 对应 15.2 倍 2018 年市盈率和 13.6 倍 2019 年市盈率, 1.9 倍 2018 年市净率和 1.8 倍 2019 年市净率。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$47.52

Revised from 原目标价:

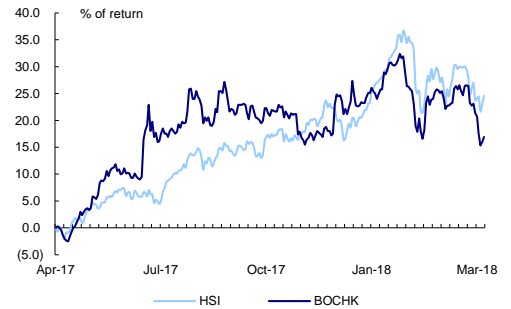
HK\$47.52

Share price 股价:

HK\$37.350

Stock performance

股价表现



| Change in Share Price | 1 M | 3 M | 1 Y |
|----------------------------------|-------|-------|-------|
| 股价变动 | 1 个月 | 3 个月 | 1 年 |
| Abs. % 绝对变动 % | (5.1) | (7.0) | 16.8 |
| Rel. % to HS Index 相对恒指变动 % | (2.7) | (4.5) | (7.7) |
| Avg. share price(HK\$) 平均股价 (港元) | 38.9 | 39.4 | 37.2 |

Source: Bloomberg, Guotai Junan International.

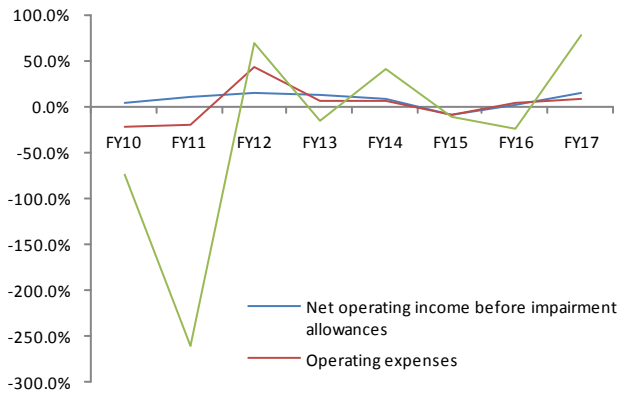
| Year End | Turnover | Net Profit | EPS | EPS | PER | BPS | PBR | DPS | Yield | ROE |
|----------|----------|------------|--------|--------|------|--------|-----|--------|-------|--------|
| 年结 | 收入 | 股东净利 | 每股净利 | 每股净利变动 | 市盈率 | 每股净资产 | 市净率 | 每股股息 | 股息率 | 净资产收益率 |
| 12/31 | (HK\$ m) | (HK\$ m) | (HK\$) | (Δ %) | (x) | (HK\$) | (x) | (HK\$) | (%) | (%) |
| 2016A | 53,129 | 55,503 | 5.250 | 107.1 | 7.1 | 21.248 | 1.8 | 1.880 | 5.0 | 26.6 |
| 2017A | 66,490 | 31,070 | 2.939 | (44.0) | 12.7 | 22.959 | 1.6 | 1.398 | 3.7 | 13.3 |
| 2018F | 74,902 | 33,137 | 3.134 | 6.7 | 11.9 | 24.695 | 1.5 | 1.491 | 4.0 | 13.2 |
| 2019F | 83,366 | 36,869 | 3.487 | 11.3 | 10.7 | 26.691 | 1.4 | 1.659 | 4.4 | 13.6 |
| 2020F | 92,418 | 40,790 | 3.858 | 10.6 | 9.7 | 28.890 | 1.3 | 1.835 | 4.9 | 14.0 |

| | | | |
|--|-----------------|---------------------------------|-----------|
| Shares in issue (m) 总股数 (m) | 10,572.8 | Major shareholder 大股东 | BOC 66.2% |
| Market cap. (HK\$ m) 市值 (HK\$ m) | 394,893.3 | Free float (%) 自由流通比率 (%) | 33.8 |
| 3 month average vol. 3 个月平均成交股数 ('000) | 12,425.4 | FY18 CET-1 Ratio FY18 普通股一级资本比率 | 16.0 |
| 52 Weeks high/low (HK\$) 52 周高/低 | 42.150 / 30.325 | FY18 NPL Ratio FY18 不良贷款率 (%) | 0.2 |

Source: the Company, Guotai Junan International.

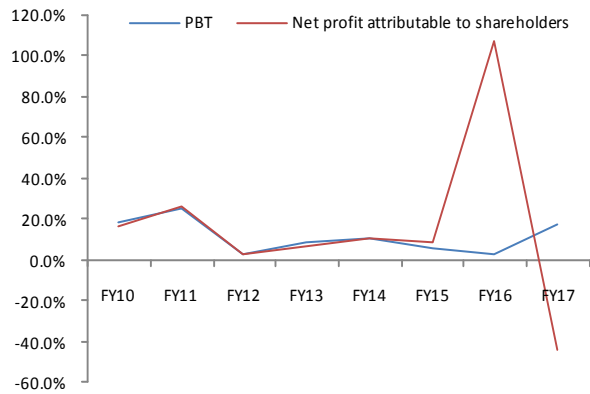
The Company's 2017 reported net profit attributable to ordinary shareholders declined by 44.0% YoY to HK\$ 31.1 bn, primarily attributable to the high comparison base from one-off gains of the sale of NCB in 2016. The Company's net profit attributable to ordinary shareholders from continued operations increased by 15.9% YoY to HK\$ 28.5 bn. All indicators we set forth in the following are from continued business. In 2017, the Company recorded net operating income before impairment allowances of HK\$ 48.8 bn, up 14.5% YoY. The Company's operating expenses and net charge of impairment allowances achieved HK\$ 13.7 bn and HK\$ 1.1 bn, up 9.5% YoY and 79.0% YoY, respectively. PBT increased by 17.7% YoY to HK\$ 35.3 bn. ROE reached 13.3%.

Exhibit 1: BOCHK YoY growth of revenue before impairment allowances, operating expenses and net charge of impairment allowances



Source: the Company, Guotai Junan International.
Note: the data for FY15, FY16 and FY17 doesn't include discontinued operations.

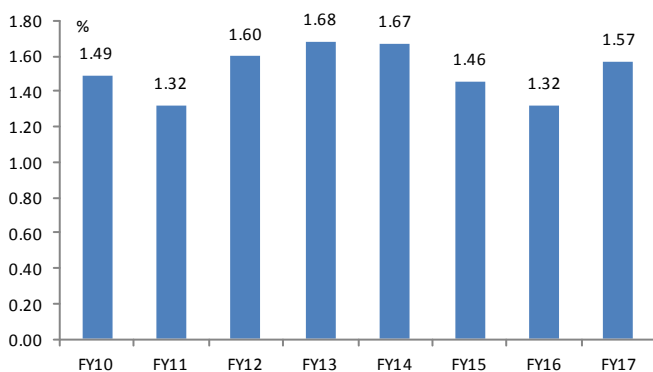
Exhibit 2: BOCHK YoY growth of PBT and net profit attributable to shareholders



Source: the Company, Guotai Junan International.
Note: the data for FY15, FY16 and FY17 PBT doesn't include discontinued operations.

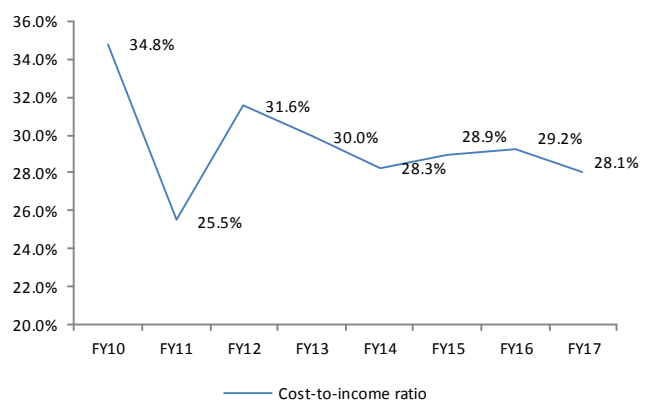
The Company's NIM increased by 14 bps YoY to 1.57%, leading to an increase in net interest income for continuing operations of 33.4% YoY to HK\$ 34.7 bn. The rise in net interest margin was primarily due to the rise in market interest rates. The Company's non-interest income achieved HKD 14.1 bn, down 15.1% YoY. Other key operating ratios remained at a relatively low level. Cost-to-income ratio for continuing operations decreased by 1.27 pts YoY to 28.10%, while the classified or impaired loan ratio remained low and was 0.18%.

Exhibit 3: BOCHK NIM



Source: the Company, Guotai Junan International.

Exhibit 4: BOCHK cost-to-income ratio



Source: the Company, Guotai Junan International.

Capturing opportunities arising from national strategic initiatives, the Company has accelerated its regional business development. The Company has completed the disposal of the equity stake in Chiyu Bank, as well as a series of acquisitions including subsidiaries and branches in Thailand, Indonesia, Cambodia, the Philippines and Vietnam. BOCHK has already expanded its business footprint in Southeast Asia to seven countries, making substantial progress in its regional expansion strategy. The Company capitalized on the important national initiatives of the Belt and Road, the "Going Global" strategy of mainland enterprises and RMB internationalization, through which the Company realized collaborative synergies and promoted the growth of the lending and deposit-taking businesses of its Southeast Asia institutions. The asset quality of the Company's Southeast Asia institutions stood at a stronger level compared with their respective domestic market averages.

The Hong Kong economy is expected to maintain a positive outlook and the overall interest rate level in Hong Kong is projected to continue to rise in the near future. The Hong Kong economy has continued to recover in 2017. Under the background of the U.S. interest rate hike, the overall interest rate level in Hong Kong rose in 2017. In the near future, the Chinese economy is expected to realize mid-to-high speed growth, having entered a stage of high quality development rather than high-speed expansion. Main economies in the world are projected to continue to synchronously recover in 2018. Therefore, the Hong Kong economy is expected to maintain a positive outlook and satisfactory performance in 2018. Meanwhile, the shrinkage of the U.S. Fed's balance sheet and the U.S. Fed's interest rate hike are also projected to continue in the near future, which will make the overall interest rate level in Hong Kong go upwards further in the near future.

Revise up our net profit forecasts for FY18/FY19. In 2018, the positive outlook of the Hong Kong economy is expected to continue to drive the Company's loans to grow at a relatively good level and the expected rise in overall interest rate level in Hong Kong is projected to continue to contribute to the Company's NIM expansion. RMB internationalization, the Belt and Road Initiative and the development of ASEAN business are all expected to continue to support the Company's development. Considering the good operating environment outlook, we revise up the Company's net profit attributable to ordinary shareholders for FY18/FY19 by 0.6% and 0.7% to HK\$ 33,137 mn and HK\$ 36,869 mn, respectively, and forecast the Company's net profit attributable to ordinary shareholders for FY20 to increase by 10.6% YoY to HK\$ 40,790 mn. We forecast the Company's EPS for FY18/FY19/FY20 to be HK\$ 3.134/HK\$ 3.487/HK\$ 3.858, up 6.7% YoY/11.3% YoY/10.6% YoY, respectively.

Exhibit 5: Earnings adjustment

| HKD mn | FY18F | | | FY19F | | | FY20F |
|---------------------|----------|----------|-------|----------|----------|-------|----------|
| | Old | New | Chg % | Old | New | Chg % | New |
| Net interest income | 40,276 | 40,287 | 0.0 | 45,210 | 45,091 | (0.3) | 50,015 |
| Net fee income | 11,843 | 12,322 | 4.0 | 12,553 | 13,308 | 6.0 | 14,439 |
| Operating expense | (16,225) | (15,364) | (5.3) | (17,972) | (17,037) | (5.2) | (18,791) |
| PPOP | 40,348 | 40,045 | (0.8) | 44,780 | 44,496 | (0.6) | 49,175 |
| Impairment losses | (689) | (1,085) | 57.4 | (738) | (1,091) | 47.8 | (1,097) |
| NPBT | 33,873 | 40,270 | 18.9 | 37,581 | 44,754 | 19.1 | 41,704 |
| NPAT | 32,951 | 33,137 | 0.6 | 36,604 | 36,869 | 0.7 | 40,790 |
| EPS (HK\$) | 3.117 | 3.134 | 0.6 | 3.462 | 3.487 | 0.7 | 3.858 |

Source: the Company, Guotai Junan International.

Maintain our "Buy" rating for the Company and our TP of HK\$ 47.52. We expect the Company to benefit from the following factors: 1) the expected positive outlook of the China economy and the Hong Kong economy, 2) prospective development of businesses in the ASEAN region, 3) the promotion of the Belt and Road Initiative, 4) the U.S. Fed's interest rate hike and shrinkage of balance sheet, and 5) RMB internationalization. Therefore, we maintain our "Buy" rating for the Company. Meanwhile, we maintain our target price for the Company at HK\$ 47.52, equivalent to 15.2x FY18 PER, 13.6x FY19 PER, 1.9x FY18 PBR and 1.8x FY19 PBR.

Risk factors

- The economic conditions aren't in line with our expectations.
- A tightening China regulatory stance would slow offshore RMB market development and limit investment options for RMB deposits.
- Regulatory developments may affect the Company's business model and profitability.

Exhibit 6: Peers Comparison

| Company | Stock Code | Currency | Last Price | PE (fiscal year) | | | | PB (fiscal year) | | | | ROE(%) | D/Y(%) | ROA(%) | Market Cap |
|-----------------------------------|------------|----------|------------|------------------|------|------|------|------------------|------|------|------|--------|--------|--------|------------|
| | | | | 17A | 18F | 19F | 20F | 17A | 18F | 19F | 20F | | | | |
| HK - Listed mainland banks | | | | | | | | | | | | | | | |
| Ind & Comm Bk Of China-H | 1398 HK | HKD | 6.85 | 7.5 | 6.4 | 5.8 | 5.2 | 1.0 | 0.9 | 0.8 | 0.7 | 14.0 | 4.7 | 1.1 | 2,695,634 |
| China Construction Bank-H | 939 HK | HKD | 8.13 | 7.3 | 6.2 | 5.7 | 5.1 | 1.0 | 0.9 | 0.8 | 0.7 | 14.3 | 4.9 | 1.1 | 2,049,845 |
| Agricultural Bank Of China-H | 1288 HK | HKD | 4.51 | 6.7 | 5.8 | 5.3 | 4.8 | 0.9 | 0.8 | 0.7 | 0.6 | 14.0 | 5.3 | 0.9 | 1,603,922 |
| Bank Of China Ltd-H | 3988 HK | HKD | 4.24 | 6.6 | 5.5 | 5.1 | 4.5 | 0.7 | 0.6 | 0.6 | 0.5 | 12.0 | 5.5 | 0.9 | 1,399,547 |
| Bank Of Communications Co-H | 3328 HK | HKD | 6.34 | 6.0 | 5.3 | 5.0 | 4.6 | 0.7 | 0.6 | 0.5 | 0.5 | 10.9 | 5.7 | 0.8 | 529,819 |
| Postal Savings Bank Of Chi-H | 1658 HK | HKD | 5.20 | 7.6 | 6.6 | 5.8 | 4.8 | 0.9 | 0.8 | 0.7 | 0.7 | 12.3 | 3.1 | 0.6 | 421,359 |
| China Merchants Bank-H | 3968 HK | HKD | 34.25 | 10.7 | 8.7 | 7.6 | 6.5 | 1.6 | 1.3 | 1.2 | 1.1 | 16.6 | 3.5 | 1.2 | 942,756 |
| China Citic Bank Corp Ltd-H | 998 HK | HKD | 5.65 | 5.8 | 5.1 | 4.7 | 4.1 | 0.6 | 0.5 | 0.5 | 0.5 | 11.3 | 5.0 | 0.7 | 366,043 |
| China Minsheng Banking-H | 1988 HK | HKD | 7.58 | 4.9 | 4.4 | 4.2 | 3.7 | 0.6 | 0.5 | 0.5 | 0.4 | 12.8 | 4.0 | 0.8 | 350,763 |
| China Everbright Bank Co L-H | 6818 HK | HKD | 3.94 | 5.3 | 5.2 | 4.8 | 4.5 | 0.6 | 0.6 | 0.5 | 0.5 | 11.5 | 4.4 | 0.7 | 256,783 |
| Bank Of Jinzhou Co Ltd-H | 416 HK | HKD | 7.37 | 4.8 | n.a. | n.a. | n.a. | 0.7 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 49,981 |
| Bank Of Qingdao Co Ltd-H | 3866 HK | HKD | 6.62 | 12.2 | n.a. | n.a. | n.a. | 0.9 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 26,869 |
| Harbin Bank Co Ltd-H | 6138 HK | HKD | 2.18 | 3.9 | 3.2 | 2.9 | n.a. | 0.5 | 0.4 | 0.4 | n.a. | 13.4 | 8.0 | 0.9 | 23,970 |
| Huishang Bank Corp Ltd-H | 3698 HK | HKD | 3.79 | 4.8 | 4.2 | 3.8 | 3.2 | 0.6 | 0.6 | 0.5 | 0.4 | 14.3 | 4.0 | 1.0 | 41,879 |
| Chongqing Rural Commercial-H | 3618 HK | HKD | 6.32 | 5.8 | 5.0 | 4.5 | 3.7 | 0.8 | 0.7 | 0.6 | 0.6 | 14.8 | 4.5 | 1.1 | 63,200 |
| Shengjing Bank Co Ltd-H | 2066 HK | HKD | 5.50 | 3.6 | n.a. | n.a. | n.a. | 0.5 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 31,882 |
| Bank Of Chongqing Co Ltd-H | 1963 HK | HKD | 6.25 | 4.5 | 3.8 | 3.6 | 4.0 | 0.6 | 0.5 | 0.5 | 0.4 | 14.4 | 6.9 | 1.0 | 19,544 |
| Bank Of Zhengzhou Co Ltd-H | 6196 HK | HKD | 4.00 | 4.3 | n.a. | n.a. | n.a. | 0.6 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 21,288 |
| China Zheshang Bank Co Ltd-H | 2016 HK | HKD | 4.54 | 6.4 | 4.9 | 4.5 | n.a. | 0.8 | 0.8 | 0.7 | n.a. | 16.8 | 7.2 | 0.8 | 84,983 |
| Bank Of Tianjin Co Ltd-H | 1578 HK | HKD | 4.57 | 6.1 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 27,742 |
| Jilin Jiutai Rural Commerc-H | 6122 HK | HKD | 4.76 | 12.9 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 18,968 |
| Zhongyuan Bank Co Ltd-H | 1216 HK | HKD | 2.45 | 10.1 | n.a. | n.a. | n.a. | 0.9 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 49,184 |
| Bank Of Gansu Co Ltd-H | 2139 HK | HKD | 2.79 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 28,095 |
| Simple Average | | | | 6.7 | 5.4 | 4.9 | 4.5 | 0.8 | 0.7 | 0.6 | 0.6 | 13.5 | 5.1 | 0.9 | |
| Weighted Average | | | | 7.2 | 6.1 | 5.6 | 5.0 | 0.9 | 0.8 | 0.7 | 0.7 | 13.6 | 4.8 | 1.0 | |
| HK - Listed other banks | | | | | | | | | | | | | | | |
| Hsbc Holdings Plc | 5 HK | HKD | 75.25 | 20.1 | 13.4 | 12.7 | 11.9 | 1.2 | 1.1 | 1.1 | 1.1 | 8.3 | 5.4 | 0.6 | 1,511,957 |
| Standard Chartered Plc | 2888 HK | HKD | 80.75 | 44.1 | 14.0 | 11.6 | 9.7 | 0.7 | 0.7 | 0.7 | 0.7 | 5.1 | 2.4 | 0.4 | 266,639 |
| Boc Hong Kong Holdings Ltd | 2388 HK | HKD | 37.35 | 12.7 | 12.1 | 11.0 | 10.2 | 1.6 | 1.5 | 1.4 | 1.3 | 13.0 | 4.0 | 1.2 | 394,893 |
| Hang Seng Bank Ltd | 11 HK | HKD | 188.70 | 18.4 | 16.6 | 15.1 | 14.2 | 2.5 | 2.3 | 2.2 | 2.1 | 14.1 | 3.9 | 1.4 | 360,765 |
| Bank Of East Asia | 23 HK | HKD | 32.50 | 10.1 | 16.2 | 14.6 | 13.3 | 1.0 | 0.9 | 0.9 | 0.9 | 5.8 | 2.9 | 0.7 | 91,234 |
| Dah Sing Banking Group Ltd | 2356 HK | HKD | 17.26 | 11.1 | 8.9 | 8.4 | 8.2 | 1.0 | 0.9 | 0.8 | 0.8 | 10.4 | 2.9 | 1.2 | 24,239 |
| Simple Average | | | | 19.4 | 13.5 | 12.2 | 11.3 | 1.3 | 1.3 | 1.2 | 1.1 | 9.4 | 3.6 | 0.9 | |
| Weighted Average | | | | 20.8 | 13.7 | 12.7 | 11.8 | 1.4 | 1.3 | 1.3 | 1.2 | 9.4 | 4.6 | 0.8 | |
| China A-share listed banks | | | | | | | | | | | | | | | |
| Ind & Comm Bk Of China-A | 601398 CH | CNY | 6.24 | 7.9 | 7.3 | 6.8 | 6.2 | 1.1 | 1.0 | 0.9 | 0.8 | 13.7 | 4.1 | 1.1 | 2,695,617 |
| China Construction Bank-A | 601939 CH | CNY | 7.95 | 8.3 | 7.6 | 7.0 | 6.3 | 1.2 | 1.0 | 0.9 | 0.9 | 14.1 | 3.9 | 1.1 | 2,049,831 |
| Agricultural Bank Of China-A | 601288 CH | CNY | 3.99 | 6.9 | 6.4 | 5.9 | 5.4 | 1.0 | 0.9 | 0.8 | 0.7 | 13.8 | 4.6 | 0.9 | 1,603,911 |
| Bank Of China Ltd-A | 601988 CH | CNY | 3.97 | 7.1 | 6.5 | 6.0 | 5.4 | 0.8 | 0.8 | 0.7 | 0.6 | 11.8 | 4.7 | 0.9 | 1,399,538 |
| Bank Of Communications Co-A | 601328 CH | CNY | 6.28 | 6.9 | 6.5 | 6.1 | 5.7 | 0.8 | 0.7 | 0.6 | 0.6 | 10.8 | 4.7 | 0.8 | 529,816 |
| China Merchants Bank-A | 600036 CH | CNY | 30.49 | 11.0 | 9.7 | 8.5 | 7.1 | 1.7 | 1.5 | 1.3 | 1.2 | 15.8 | 3.1 | 1.2 | 942,750 |
| China Citic Bank Corp Ltd-A | 601998 CH | CNY | 6.63 | 7.9 | 7.5 | 7.1 | 6.1 | 0.9 | 0.8 | 0.7 | 0.7 | 10.6 | 3.4 | 0.7 | 366,041 |
| China Minsheng Banking-A | 600016 CH | CNY | 8.08 | 6.0 | 5.9 | 5.7 | 5.3 | 0.8 | 0.7 | 0.7 | 0.6 | 12.8 | 2.9 | 0.8 | 350,760 |
| Shanghai Pudong Devel Bank-A | 600000 CH | CNY | 11.91 | 6.5 | 6.0 | 5.5 | 6.1 | 0.8 | 0.8 | 0.7 | n.a. | 13.2 | 2.7 | 0.8 | 436,586 |
| Industrial Bank Co Ltd -A | 601166 CH | CNY | 16.73 | 6.0 | 5.7 | 5.2 | n.a. | 0.9 | 0.8 | 0.7 | n.a. | 14.4 | 3.9 | 0.9 | 434,049 |
| China Everbright Bank Co-A | 601818 CH | CNY | 4.16 | 6.5 | 6.6 | 6.3 | 5.8 | 0.8 | 0.7 | 0.7 | 0.6 | 11.2 | 3.9 | 0.8 | 256,782 |
| Huaxia Bank Co Ltd-A | 600015 CH | CNY | 9.03 | 5.9 | 5.6 | 5.3 | n.a. | 0.8 | 0.7 | 0.6 | n.a. | 11.9 | 3.2 | 0.6 | 144,606 |
| Ping An Bank Co Ltd-A | 000001 CH | CNY | 11.83 | 9.1 | 8.4 | 7.5 | 6.7 | 1.0 | 0.9 | 0.8 | 0.7 | 10.9 | 1.3 | 0.7 | 253,679 |
| Bank Of Beijing Co Ltd -A | 601169 CH | CNY | 6.98 | 6.9 | 6.7 | 6.1 | n.a. | 0.9 | 0.8 | 0.8 | n.a. | 12.8 | 3.3 | 0.8 | 184,306 |
| Bank Of Ningbo Co Ltd -A | 002142 CH | CNY | 19.41 | 10.8 | 9.3 | 7.6 | 5.9 | 2.0 | 1.6 | 1.4 | 1.2 | 17.8 | 2.2 | 1.0 | 122,894 |
| Bank Of Nanjing Co Ltd -A | 601009 CH | CNY | 8.69 | 7.7 | 7.0 | 6.1 | n.a. | 1.2 | 1.1 | 0.9 | n.a. | 14.3 | 3.0 | 0.8 | 92,055 |
| Bank Of Shanghai Co Ltd-A | 601229 CH | CNY | 15.02 | 7.6 | 7.2 | 6.8 | n.a. | 0.9 | 0.8 | 0.7 | n.a. | 11.8 | 2.7 | 0.8 | 146,422 |
| Bank Of Jiangsu Co Ltd-A | 600919 CH | CNY | 7.37 | 7.2 | 6.6 | 6.2 | n.a. | 0.9 | 0.8 | 0.7 | n.a. | 13.4 | 2.7 | 0.7 | 106,257 |
| Bank Of Hangzhou Co Ltd-A | 600926 CH | CNY | 11.45 | 9.4 | 8.4 | n.a. | n.a. | 1.0 | 0.9 | n.a. | n.a. | 11.2 | 1.5 | 0.6 | 52,400 |

| | | | | | | | | | | | | | | | |
|------------------------------|-----------|-----|-------|------|------|------|------|-----|-----|-----|------|------|------|------|--------|
| Bank Of Guiyang Co Ltd-A | 601997 CH | CNY | 14.95 | 7.8 | 6.4 | 5.2 | n.a. | 1.4 | 1.2 | 1.0 | n.a. | 19.5 | 2.3 | 1.0 | 42,916 |
| Jiangsu Jiangyin Rural Com-A | 002807 CH | CNY | 7.21 | 15.8 | 14.7 | 13.1 | n.a. | 1.4 | 1.3 | 1.3 | n.a. | n.a. | n.a. | n.a. | 15,914 |
| Wuxi Rural Commercial Bank-A | 600908 CH | CNY | 7.20 | 13.3 | 12.0 | 10.5 | 8.9 | 1.4 | 1.3 | 1.3 | 1.1 | 11.5 | 2.4 | 0.8 | 16,618 |
| Jiangsu Changshu Rural Com-A | 601128 CH | CNY | 7.08 | 12.4 | 10.7 | 9.0 | 7.4 | 1.5 | 1.3 | 1.2 | 1.0 | 13.1 | 2.5 | 1.0 | 19,653 |
| Jiangsu Wujiang Rural Comm-A | 603323 CH | CNY | 7.87 | 12.5 | 11.4 | 11.4 | n.a. | 1.0 | 1.0 | 1.0 | n.a. | n.a. | n.a. | n.a. | 14,233 |
| Jiangsu Zhangjiagang Rura -A | 002839 CH | CNY | 8.45 | 19.7 | 18.8 | 16.6 | n.a. | 1.8 | 1.7 | 1.6 | n.a. | 9.6 | 1.1 | 0.8 | 19,075 |
| Simple Average | | | | 9.1 | 8.4 | 7.6 | 6.3 | 1.1 | 1.0 | 0.9 | 0.8 | 13.0 | 3.0 | 0.9 | |
| Weighted Average | | | | 7.8 | 7.2 | 6.6 | 6.0 | 1.1 | 0.9 | 0.8 | 0.8 | 13.3 | 3.9 | 1.0 | |

USA - Listed banks

| | | | | | | | | | | | | | | | |
|------------------------------|--------|-----|--------|------|------|------|------|-----|-----|-----|-----|------|-----|-----|-----------|
| Citigroup Inc | C US | USD | 70.51 | n.a. | 11.0 | 9.6 | 8.2 | 1.0 | 0.9 | 0.9 | 0.8 | 8.6 | 2.1 | 0.9 | 1,417,113 |
| Bank Of America Corp | BAC US | USD | 30.48 | 18.7 | 12.2 | 10.6 | 9.4 | 1.3 | 1.2 | 1.1 | 1.1 | 10.3 | 2.0 | 1.1 | 2,446,219 |
| Jpmorgan Chase & Co | JPM US | USD | 112.51 | 17.7 | 12.7 | 11.5 | 10.2 | 1.7 | 1.6 | 1.5 | 1.4 | 13.2 | 2.2 | 1.2 | 3,012,018 |
| Wells Fargo & Co | WFC US | USD | 52.62 | 12.7 | 11.1 | 9.9 | 9.1 | 1.4 | 1.3 | 1.3 | 1.2 | 12.2 | 3.1 | 1.3 | 2,014,102 |
| Us Bancorp | USB US | USD | 51.08 | 14.5 | 12.6 | 11.7 | 10.9 | 1.9 | 1.8 | 1.7 | 1.6 | 14.3 | 2.5 | 1.5 | 661,930 |
| Bank Of New York Mellon Corp | BK US | USD | 51.38 | 13.7 | 12.7 | 11.5 | 10.8 | 1.4 | 1.3 | 1.2 | 1.2 | 10.6 | 2.0 | 1.1 | 406,366 |
| Morgan Stanley | MS US | USD | 54.14 | 17.2 | 11.9 | 10.8 | 10.1 | 1.4 | 1.3 | 1.2 | 1.2 | 11.1 | 2.0 | 0.9 | 753,907 |
| Goldman Sachs Group Inc | GS US | USD | 256.57 | 28.0 | 11.8 | 10.7 | 9.7 | 1.4 | 1.3 | 1.2 | 1.1 | 11.5 | 1.2 | 0.9 | 792,782 |
| Simple Average | | | | 17.5 | 12.0 | 10.8 | 9.8 | 1.4 | 1.4 | 1.3 | 1.2 | 11.5 | 2.1 | 1.1 | |
| Weighted Average | | | | 17.4 | 12.0 | 10.7 | 9.6 | 1.4 | 1.4 | 1.3 | 1.2 | 11.6 | 2.2 | 1.1 | |

Europe - Listed banks

| | | | | | | | | | | | | | | | |
|------------------------------|---------|-----|--------|------|------|------|-----|-----|-----|-----|-----|------|-----|-----|---------|
| Deutsche Bank Ag-Registered | DBK GR | EUR | 11.53 | n.a. | 11.5 | 8.5 | 7.2 | 0.4 | 0.4 | 0.4 | 0.4 | 2.7 | 2.6 | 0.1 | 231,361 |
| Commerzbank Ag | CBK GR | EUR | 10.79 | 90.0 | 14.7 | 10.8 | 8.1 | 0.5 | 0.5 | 0.5 | 0.4 | 3.1 | 1.3 | 0.2 | 131,198 |
| Bnp Paribas | BNP FP | EUR | 60.99 | 10.1 | 9.7 | 8.8 | 7.8 | 0.8 | 0.8 | 0.8 | 0.7 | 8.0 | 5.0 | 0.4 | 739,795 |
| Societe Generale Sa | GLE FP | EUR | 43.93 | 15.0 | 9.3 | 8.4 | 7.6 | 0.6 | 0.7 | 0.7 | 0.6 | 7.4 | 5.3 | 0.7 | 344,466 |
| Credit Agricole Sa | ACA FP | EUR | 13.23 | 11.8 | 10.3 | 9.3 | 8.3 | 0.7 | 0.7 | 0.7 | 0.7 | 6.5 | 5.2 | 0.2 | 365,312 |
| Royal Bank Of Scotland Group | RBS LN | GBp | 264.50 | 42.0 | 10.4 | 9.4 | 8.5 | 0.7 | 0.8 | 0.8 | 0.8 | 7.4 | 2.3 | 0.4 | 353,365 |
| Barclays Plc | BARC LN | GBp | 214.15 | n.a. | 10.5 | 9.1 | 8.4 | 0.7 | 0.7 | 0.6 | 0.6 | 5.9 | 3.0 | 0.3 | 407,966 |
| Lloyds Banking Group Plc | LLOY LN | GBp | 67.19 | 15.3 | 9.0 | 9.0 | 8.3 | 1.1 | 1.1 | 1.0 | 1.0 | 12.2 | 5.7 | 0.6 | 539,739 |
| Simple Average | | | | 30.7 | 10.7 | 9.2 | 8.0 | 0.7 | 0.7 | 0.7 | 0.6 | 6.7 | 3.8 | 0.4 | |
| Weighted Average | | | | 20.9 | 10.1 | 9.0 | 8.0 | 0.7 | 0.8 | 0.7 | 0.7 | 7.5 | 4.3 | 0.4 | |

Singapore - Listed banks

| | | | | | | | | | | | | | | | |
|------------------------------|---------|-----|-------|------|------|------|------|-----|-----|-----|-----|------|-----|-----|---------|
| Dbs Group Holdings Ltd | DBS SP | SGD | 28.07 | 16.4 | 12.6 | 11.1 | 10.2 | 1.5 | 1.5 | 1.4 | 1.3 | 12.0 | 4.3 | 1.1 | 431,576 |
| Oversea-Chinese Banking Corp | OCBC SP | SGD | 12.96 | 13.3 | 11.7 | 10.6 | 9.8 | 1.4 | 1.3 | 1.2 | 1.1 | 11.9 | 3.3 | 1.1 | 325,064 |
| United Overseas Bank Ltd | UOB SP | SGD | 27.98 | 14.1 | 12.0 | 10.8 | 9.8 | 1.4 | 1.3 | 1.2 | 1.1 | 10.7 | 3.5 | 1.0 | 278,708 |
| Simple Average | | | | 14.6 | 12.1 | 10.8 | 10.0 | 1.4 | 1.4 | 1.3 | 1.2 | 11.5 | 3.7 | 1.1 | |
| Weighted Average | | | | 14.8 | 12.1 | 10.9 | 10.0 | 1.4 | 1.4 | 1.3 | 1.2 | 11.6 | 3.8 | 1.1 | |

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

| Income Statement | | | | | | Balance Sheet | | | | | |
|---------------------------------------|----------|----------|----------|----------|----------|--------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Year end 31 Dec (HKD m) | 2016A | 2017A | 2018F | 2019F | 2020F | Year end 31 Dec (HKD m) | 2016A | 2017A | 2018F | 2019F | 2020F |
| Net interest income | 25,428 | 34,708 | 40,287 | 45,091 | 50,015 | Cash & cash equivalents | 229,073 | 364,205 | 404,268 | 436,609 | 471,538 |
| Net fee income | 10,541 | 11,516 | 12,322 | 13,308 | 14,439 | Placements with banks/Fis | 70,392 | 59,056 | 65,552 | 70,796 | 76,460 |
| Other non interest income | 17,160 | 20,266 | 22,293 | 24,968 | 27,964 | HKSARG Certificates of indebtedness | 123,390 | 146,200 | 161,551 | 176,091 | 191,939 |
| Total non-interest income | 27,701 | 31,782 | 34,615 | 38,276 | 42,403 | Investment | 659,523 | 711,366 | 782,503 | 858,405 | 937,379 |
| Operating income | 53,129 | 66,490 | 74,902 | 83,366 | 92,418 | Loans | 992,137 | 1,189,609 | 1,307,380 | 1,431,581 | 1,563,287 |
| Net insurance Bs/Cs | (11,375) | (17,721) | (19,493) | (21,832) | (24,452) | Other assets | 253,266 | 175,317 | 190,341 | 206,589 | 224,068 |
| Operating expense | (12,213) | (13,703) | (15,364) | (17,037) | (18,791) | Total Assets | 2,327,781 | 2,645,753 | 2,911,595 | 3,180,072 | 3,464,670 |
| PPOP | 29,541 | 35,066 | 40,045 | 44,496 | 49,175 | Customer deposits | 1,504,076 | 1,771,513 | 1,943,350 | 2,124,081 | 2,315,249 |
| Provision loss | (578) | (1,076) | (1,085) | (1,091) | (1,097) | Deposits and balances from banks/Fis | 192,413 | 223,074 | 249,843 | 279,824 | 313,403 |
| Operating profit | 28,963 | 33,990 | 38,960 | 43,405 | 48,078 | HKSARG currency notes | 123,390 | 146,200 | 161,551 | 176,091 | 191,939 |
| Other profits | 489 | 1,272 | 1,310 | 1,349 | 1,389 | Other liabilities | 277,342 | 257,622 | 290,967 | 312,895 | 333,449 |
| Profit before tax | 29,452 | 35,262 | 40,270 | 44,754 | 49,467 | Total Liabilities | 2,097,221 | 2,398,409 | 2,645,710 | 2,892,891 | 3,154,040 |
| Income tax | (4,622) | (6,048) | (6,320) | (7,023) | (7,763) | Total Shareholders' Equity | 224,653 | 242,739 | 261,095 | 282,200 | 305,450 |
| Profit after tax | 24,830 | 29,214 | 33,950 | 37,731 | 41,704 | Minority Interest | 5,907 | 4,605 | 4,789 | 4,981 | 5,180 |
| Net profit from discontinued business | 31,493 | 2,623 | 0 | 0 | 0 | Total Equity | 230,560 | 247,344 | 265,884 | 287,180 | 310,630 |
| Non-controlling interest | (820) | (767) | (813) | (862) | (914) | | | | | | |
| Shareholders' profit / loss | 55,503 | 31,070 | 33,137 | 36,869 | 40,790 | | | | | | |
| Basic EPS | 5.250 | 2.939 | 3.134 | 3.487 | 3.858 | | | | | | |

| Cash Flow Statement | | | | | | Financial Ratios | | | | | |
|---|----------|----------|----------|----------|----------|--|--------|--------|--------|--------|--------|
| Year end 31 Dec (HKD m) | 2016A | 2017A | 2018F | 2019F | 2020F | | 2016A | 2017A | 2018F | 2019F | 2020F |
| Operating cash before taxation | (68,686) | 138,522 | 6,314 | 9,639 | 14,318 | EPS(HK\$) | 5.250 | 2.939 | 3.134 | 3.487 | 3.858 |
| Hong Kong profits tax paid | (4,497) | (4,703) | (4,914) | (5,461) | (6,037) | BVPS(HK\$) | 21.248 | 22.959 | 24.695 | 26.691 | 28.890 |
| Overseas profits tax paid | (434) | (383) | (445) | (495) | (547) | DPS(HK\$) | 1.880 | 1.398 | 1.491 | 1.659 | 1.835 |
| Cash from operating activities | (73,617) | 133,436 | 954 | 3,683 | 7,735 | Growth (%) | | | | | |
| Additions of PPE | (1,501) | (1,523) | (1,614) | (1,711) | (1,814) | Net interest income | (1.2) | 36.5 | 16.1 | 11.9 | 10.9 |
| Additions of IPs | (6) | (13) | (14) | (16) | (17) | Net fee income | (8.1) | 9.2 | 7.0 | 8.0 | 8.5 |
| Proceeds from disposal of PPE | 2 | 13 | 16 | 19 | 22 | Non-interest income | (0.6) | 14.7 | 8.9 | 10.6 | 10.8 |
| Proceeds from disposal of IPs | 0 | 2 | 2 | 3 | 3 | Operating income | (0.9) | 25.1 | 12.7 | 11.3 | 10.9 |
| Dividend received from A&J | 2 | 2 | 2 | 3 | 3 | PPOP | 1.5 | 18.7 | 14.2 | 11.1 | 10.5 |
| Acquisition of entities | (4,076) | (6,618) | (7,942) | (9,530) | (11,436) | Net profit | 107.1 | (44.0) | 6.7 | 11.3 | 10.6 |
| Cash from disposal of discontinued operations | 26,992 | 810 | 972 | 1,166 | 1,400 | EPS | 107.1 | (44.0) | 6.7 | 11.3 | 10.6 |
| Cash from investing activities | 21,413 | (7,327) | (8,792) | (10,551) | (12,661) | Efficiency and liquidity (%) | | | | | |
| Dividend paid to shareholders | (20,448) | (13,375) | (14,188) | (15,786) | (17,465) | Cost-to-income | 23.0 | 20.6 | 20.5 | 20.4 | 20.3 |
| Dividend paid to non-controlling interests | (139) | (152) | (161) | (171) | (181) | Loan-to-deposit | 66.0 | 67.2 | 67.3 | 67.4 | 67.5 |
| Repayment of subordinated liabilities | 0 | (16) | 0 | 0 | 0 | Income contribution (%) | | | | | |
| Interest paid for subordinated liabilities | (476) | (595) | (594) | (593) | (592) | Net interest income | 47.9 | 52.2 | 53.8 | 54.1 | 54.1 |
| Cash from financing activities | (21,063) | (14,138) | (14,943) | (16,549) | (18,238) | Non-interest income | 52.1 | 47.8 | 46.2 | 45.9 | 45.9 |
| Net changes in cash | (73,267) | 111,971 | (22,781) | (23,418) | (23,164) | Profitability and Valuation | | | | | |
| Cash at beg of year | 313,095 | 249,574 | 377,944 | 365,163 | 351,745 | ROE(%) | 26.6 | 13.3 | 13.2 | 13.6 | 14.0 |
| FX adjustments | 1,132 | 16,399 | 10,000 | 10,000 | 10,000 | ROA(%) | 2.4 | 1.2 | 1.2 | 1.2 | 1.2 |
| Cash at end of year | 240,960 | 377,944 | 365,163 | 351,745 | 338,581 | Dividend yield(%) | 5.0 | 3.7 | 4.0 | 4.4 | 4.9 |
| | | | | | | PE(x) | 7.1 | 12.7 | 11.9 | 10.7 | 9.7 |
| | | | | | | PB(x) | 1.8 | 1.6 | 1.5 | 1.4 | 1.3 |
| | | | | | | CAR (%) | | | | | |
| | | | | | | CET-1 ratio | 17.6 | 16.5 | 16.0 | 15.5 | 15.0 |
| | | | | | | CAR | 22.4 | 20.4 | 19.9 | 19.4 | 18.9 |
| | | | | | | Asset Quality (HKD m, year ended 31 Dec) | | | | | |
| | | | | | | NPLs | 1,946 | 2,079 | 2,138 | 2,204 | 2,256 |
| | | | | | | NPLs ratio (%) | 0.20 | 0.18 | 0.17 | 0.16 | 0.15 |
| | | | | | | LLR / NPLs (%) | 160.5 | 196.4 | 241.7 | 284.1 | 326.1 |
| | | | | | | LLR / Loans (%) | 0.32 | 0.36 | 0.41 | 0.45 | 0.49 |

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating | | Definition |
|------------|----|---|
| Buy | 买入 | Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable. |
| Accumulate | 收集 | Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable. |
| Neutral | 中性 | Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral. |
| Reduce | 减持 | Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable. |
| Sell | 卖出 | Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable. |

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating | | Definition |
|--------------|------|--|
| Outperform | 跑赢大市 | Relative Performance > 5%; or the fundamental outlook of the sector is favorable. |
| Neutral | 中性 | Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral. |
| Underperform | 跑输大市 | Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable. |

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for GREENLAND BROAD (01253 HK), KAISA GROUP (01638 HK), GUOTAI JUNAN I (01788 HK), BINHAI INVESTMENT (02886 HK), GFI MSCI A I (03156 HK), ZHENRO PPT (06158 HK), LINK HOLDINGS (08237 HK), MR CSI300 ETF-R (CNY) (83127 HK), GFI MSCI A I-R (CNY) (83156 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2018 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk