

Company Report: HSBC Holdings (00005 HK)

公司报告: 汇丰控股 (00005 HK)

Richard Cao 曹柱

(86755) 2397 6870

caozhu013592@gtjas.com

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Fundamentals Still Trending Up, Maintain "Accumulate"

基本面仍向好，维持“收集”

- **The Company's net profit attributable to ordinary shareholders increased by 30.2% YoY in FY18.** In FY18, the Company's reported revenue was USD 53.8 bn, up 4.5% YoY, notably driven by a rise in deposit revenue across the Company's global businesses, primarily in Asia, as it benefited from wider margins and grew its balances. The Company's reported operating expenses were USD 34.7 bn, down 0.6% YoY. Reported profit before tax ("PBT") was USD 19.9 bn, up 15.9% YoY. In FY18, the Company's net profit attributable to ordinary shareholders was USD 12.6 bn, up 30.2% YoY.
- As a whole, the global economic outlook is not as bright as previously expected. However, despite the rising downside risks, the global economy has still maintained a recovering trend in general. Looking ahead, the expected recovering global economy is projected to continue to support the Company's earnings growth. However, considering that the global economic outlook is not as bright as previously expected, we have revised down our forecast for net profit attributable to ordinary shareholders for FY19/ FY20 by 5.6%/ 5.1%, respectively. We expect EPS for FY19/ FY20/ FY21 to grow YoY by 9.7%/ 9.8%/ 9.5% to USD 0.695/ USD 0.763/ USD 0.836, respectively. **We maintain our TP of HKD 79.68 for the Company, equivalent to 14.6x FY19 PER, 13.3x FY20 PER, 1.2 x FY19 PBR and 1.2x FY20 PBR. We maintain our "Accumulate" rating for the Company.**
- **公司 2018 年归属母公司普通股股东的净利润同比增长 30.2%。** 2018 年，公司实现列帐基准收入 538 亿美元，同比增长 4.5%，主要原因是净息差扩大和结余增加，推动各项环球业务的存款增长，增幅主要来自亚洲。列帐基准营业支出为 347 亿美元，同比下降 0.6%。列帐基准税前利润为 199 亿美元，同比增长 15.9%。2018 年，公司归属母公司普通股股东净利润达 126 亿美元，同比增长 30.2%。
- 整体上，全球经济前景不如之前预期乐观。然而，尽管下行风险上升，全球经济整体上仍保持着复苏趋势。展望未来，预期世界经济的复苏预计将继续支持公司业绩增长。但是，考虑到全球经济前景不如之前预期乐观，我们将对归属母公司普通股股东的净利润 2019/2020 年预测分别下调 5.6%、5.1%。我们预计公司 2019/2020/2021 年的每股盈利分别为 0.695 美元、0.763 美元和 0.836 美元，分别同比上涨 9.7%、9.8%和 9.5%。**我们维持对公司 79.68 港元的目标价，对应 14.6 倍 2019 年市盈率 and 13.3 倍 2020 年市盈率，1.2 倍 2019 年市净率和 1.2 倍 2020 年市净率。我们维持对公司的“收集”投资评级。**

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$79.68

Revised from 原目标价:

HK\$79.68

Share price 股价:

HK\$64.250

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 %	(2.4)	0.9	(15.8)
Rel. % to HS Index 相对恒指变动 %	(3.4)	(7.4)	(7.9)
Avg. Share price(HK\$) 平均股价 (港元)	65.3	65.0	70.0

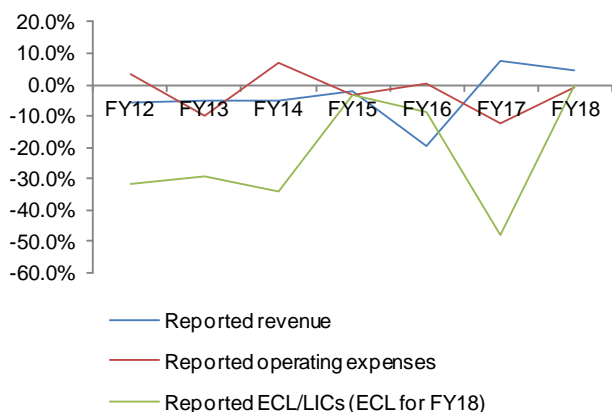
Source: Bloomberg, Guotai Junan International.

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	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2017A	51,445	9,683	0.485	637.2	17.0	8.417	1.0	0.510	6.2	5.9
2018A	53,780	12,608	0.634	30.7	12.9	8.202	1.0	0.510	6.2	7.6
2019F	56,614	13,907	0.695	9.7	11.8	8.370	1.0	0.510	6.2	8.4
2020F	59,444	15,291	0.763	9.8	10.7	8.615	1.0	0.510	6.2	9.0
2021F	62,345	16,766	0.836	9.5	9.8	8.932	0.9	0.510	6.2	9.5
Shares in issue (m) 总股数 (m)				20,376.6		Major shareholder 大股东		Ping An Asset Management 7.0%		
Market cap. (HK\$ m) 市值 (HK\$ m)				1,309,196.6		Free float (%) 自由流通比率 (%)		100.0		
3 month average vol. 3 个月平均成交股数 ('000)				19,746.1		FY19 CET-1 Ratio (%) FY19 一级资本比率(%)		14.1		
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				78.700 / 60.350		FY19 NPL Ratio (%) FY19 不良贷款率 (%)		1.3		

Source: the Company, Guotai Junan International.

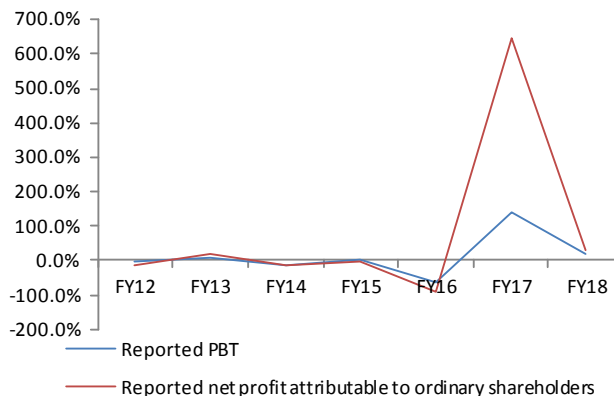
HSBC Holdings' (the "Company") net profit attributable to ordinary shareholders increased by 30.2% YoY in FY18. In FY18, the Company's reported revenue was USD 53.8 bn, up 4.5% YoY, notably driven by a rise in deposit revenue across the Company's global businesses, primarily in Asia, as it benefited from wider margins and grew its balances. These increases were partly offset by lower revenue in Corporate Centre. The Company's reported operating expenses and reported ECL/LICs were USD 34.7 bn and USD 1.8 bn, down 0.6% YoY and 0.1% YoY, respectively. The YoY decrease in reported operating expenses was mainly because higher costs, including investments made to grow the business and enhance its digital capabilities which were more than offset by net favourable movements in significant items, mainly the non-recurrence of costs to achieve expenditure in 2017. Reported profit before tax ("PBT") was USD 19.9 bn, up 15.9% YoY. In FY18, the Company's net profit attributable to ordinary shareholders was USD 12.6 bn, up 30.2% YoY.

Exhibit 1: HSBC YoY growth of reported revenue, reported operating expenses and reported ECL/LICs



Source: the Company.

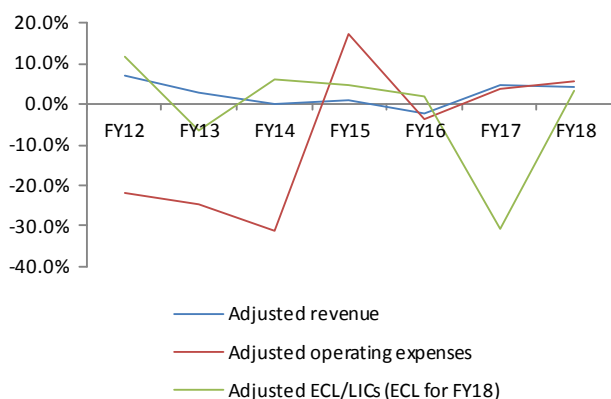
Exhibit 2: HSBC YoY growth of reported PBT and net profit attributable to ordinary shareholders



Source: the Company.

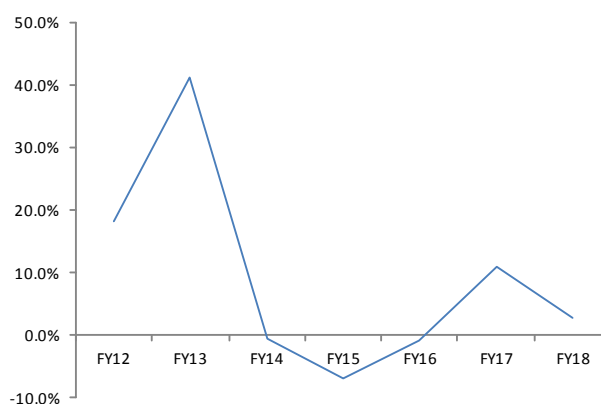
Adjusted PBT increased by 2.8% YoY in FY18. In FY18, the Company recorded adjusted revenue of USD 53.9 bn, up 4.4% YoY, reflecting strong revenue growth in the Company's major global businesses. Excluding the effects of currency translation and movements in significant items, the Company recorded adjusted operating expenses of USD 33.0 bn, up 5.6% YoY. Adjusted ECL/LICs of USD 1.8 bn included charges in RBWM (USD 1.2 bn), notably against unsecured lending balances in Mexico, the UK and Asia. In the UK, ECL also included charges related to the current economic uncertainty. Adjusted ECL/LICs increased by 3.2% YoY. Adjusted PBT of USD 18.3 bn increased by 3.6% YoY, excluding the effects of currency translation and movements in significant items, which mainly reflected strong revenue growth from the Company's global businesses.

Exhibit 3: HSBC YoY growth of adjusted revenue, adjusted operating expenses and adjusted LICs (ECL)



Source: the Company.

Exhibit 4: HSBC YoY growth of adjusted PBT



Source: the Company.

The Company has made progresses in its eight strategic priorities in 2018 and has expressed to remain committed to share buybacks. In order to get the organization growing again and create value for shareholders, the Company outlined eight strategic priorities in June 2018. Those priorities focus on delivering growth from areas of strength – particularly from the Company's Asia franchise. The Company is committed to redeploying capital to higher-return businesses, and the turnaround of its US business. But they also aim to fundamentally change some elements of the Company so it can compete in the long term. In 2018, the Company made encouraging progress against seven of its eight strategic priorities. The Company has accelerated growth from Asia and its international network. The Company has established the UK ring-fenced bank, grown its UK customer base and increased its UK market share. The Company has also delivered more sustainable financing and has continued to be a leading player in helping companies to transition into a low carbon economy. The Company has made progress in the US turnaround. The Company has improved capital efficiency, largely on the back of revenue growth. Its technology investment is improving customer service and making it more competitive. In 2018, the Company's return on average tangible equity rose by 1.8 pts to 8.6%, which is an encouraging first step towards meeting its return on tangible equity target of more than 11% by 2020, and maintained the dividend at USD 0.51. The Company returned a total of USD 2 bn to shareholders through share buybacks in 2018, and has expressed to remain committed to share buybacks, subject to regulatory approval.

Global economic outlook is not as bright as previously expected, but the global economy is expected to still maintain a recovering trend in general. In 2018, the global economy generally continued to grow, but growth momentum slowed down and the synchronization of economic growth declined in general. Affected by global trade friction and changes in the financial environment, economic downside risks have increased. Growth in major developed economies has slowed, and economic performance has diverged. The U.S. economy grew strongly but is showing signs of slowing. Growth momentum in the euro zone continued to slow. China's economy has maintained overall stability, but downside risks are also rising. According to IMF's forecast in January 2019, considering global expansion has weakened, global growth is forecasted to be 3.5% in 2019, revised down 0.2 pts from the forecast in October 2018, and forecasts for developed economies, emerging market economies and developing countries have all been revised down. In the near future, the following factors are projected to still disturb the world economy: 1) trade friction and policy uncertainty remain significant risks; 2) against the backdrop of escalating trade friction and uncertainties in global financial conditions, the vulnerability of economies is likely to be magnified; and 3) as the risks of economic downturn increase, policy response of some economies face certain challenges. As a whole, the global economic outlook is not as bright as previously expected. However, despite the rising downside risks, the global economy still maintains a recovering trend in general, and IMF's forecast for economic growth in 2019 is essentially unchanged from the average of previous years.

We expect EPS for FY19/ FY20/ FY21 to grow YoY by 9.7%/ 9.8%/ 9.5% to USD 0.695/ USD 0.763/ USD 0.836, respectively. Looking ahead, expected recovering global economy is projected to continue to support the Company's earnings growth. However, considering that the global economic outlook is not as bright as previously expected, we have revised down our forecasts for net profit attributable to ordinary shareholders for FY19/ FY20 by 5.6%/ 5.1%, respectively. We expect net profit attributable to ordinary shareholders for FY19/ FY20/ FY21 to grow YoY by 10.3%/ 10.0%/ 9.6% to USD 13.9 bn/USD 15.3 bn/USD 16.8 bn, respectively. Correspondingly, considering the influence from the change of outstanding shares, we expect EPS for FY19/ FY20/ FY21 to grow YoY by 9.7%/ 9.8%/ 9.5% to USD 0.695/ USD 0.763/ USD 0.836, respectively.

Exhibit 5: Earnings adjustment

USD mn	FY19F			FY20F			FY21F
	Old	New	Chg %	Old	New	Chg %	New
Net interest income	33,259	32,440	(2.5)	35,222	34,354	(2.5)	36,312
Non-interest income	25,053	24,173	(3.5)	26,040	25,090	(3.6)	26,033
Operating income	58,312	56,614	(2.9)	61,261	59,444	(3.0)	62,345
Operating expense	(36,222)	(35,387)	(2.3)	(36,874)	(36,024)	(2.3)	(36,672)
PPOP	22,090	21,227	(3.9)	24,387	23,421	(4.0)	25,673
Impairment losses	(2,556)	(2,120)	(17.0)	(3,067)	(2,438)	(20.5)	(2,707)
NPBT	22,176	21,764	(1.9)	24,014	23,746	(1.1)	25,841
NPAT	14,732	13,907	(5.6)	16,106	15,291	(5.1)	16,766
Basic EPS (USD)	0.724	0.695	(4.0)	0.785	0.763	(2.8)	0.836

Source: the Company, Guotai Junan International.

We maintain our "Accumulate" rating and maintain our TP of HKD 79.68 for the Company. Our target price for the Company is derived from a combination of the Gordon Growth Model and Sum-of-the-parts (SOTP) model, which is the average of the two. First, we assume cost equity of 9.7% and perpetual growth rate of 4.6%, and the Gordon Growth Model shows the target price is HKD 79.27. Second, the Sum-of-the-parts (SOTP) model values the Company at HK\$ 80.08. We value the Company based on its major geographical segments in Europe, Asia, the Middle East and North Africa, North America, and Latin America. Therefore, we set a TP of HKD 79.68 for the Company, equivalent to 14.6x FY19 PER, 13.3x FY20 PER, 1.2 x FY19 PBR and 1.2x FY20 PBR. We maintain our "Accumulate" rating for the Company.

Exhibit 6: TP derived by Gordon growth model

Gordon growth model			
COE: cost of equity	9.7%		
FY19 ROE	8.4%		
FY19 Payout ratio	73.4%	Perpetual growth	4.6%
FY19 BVPS, HKD	65.62	FY19 Target P/B	1.2
Target Price, HKD	79.27	FY19 Target P/E	14.5

Source: the Company, Guotai Junan International.

Exhibit 7: TP derived by Sum-of-the-parts model

Sum of the parts model, SOTP						
	Europe	Asia	Middle East	North America	Latin America	Group
FY19 PBT, USD mn	446	18,317	1,603	823	576	21,764
FY19 EPS, USD	0.014	0.585	0.051	0.026	0.018	0.695
Target P/E (X)	10.0	14.7	15.0	13.0	19.6	
Target Value per share (HKD)	1.12	67.44	6.02	2.68	2.83	80.08
Group Target Price, HKD	80.08					
FY19 Target P/B (X)	1.2					
FY19 Target P/E (X)	14.7					

Source: the Company, Guotai Junan International.

Risk factors

- Economic conditions aren't in line with our expectations.
- The negative impacts from global trade friction and geopolitical conflict are beyond our expectations.
- The U.S. Fed's interest rate hike isn't in line with our expectations.
- Tightening China regulatory stance would slow offshore RMB market development.
- Regulatory developments may affect the Company's business model and profitability.

Exhibit 8: 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	5.88	6.4	6.0	5.6	5.2	0.9	0.8	0.7	0.7	13.8	5.1	1.1	2,270,591
China Construction Bank-H	939 HK	HKD	6.89	6.2	5.7	5.3	4.9	0.8	0.8	0.7	0.6	14.1	5.3	1.1	1,733,901
Agricultural Bank Of China-H	1288 HK	HKD	3.70	5.5	5.2	5.0	4.6	0.7	0.7	0.6	0.6	13.7	5.6	0.9	1,489,581
Bank Of China Ltd-H	3988 HK	HKD	3.61	5.6	5.1	4.9	4.6	0.6	0.6	0.5	0.5	11.8	6.0	0.9	1,224,983
Bank Of Communications Co-H	3328 HK	HKD	6.53	6.2	5.8	5.5	5.1	0.7	0.6	0.6	0.5	11.0	5.3	0.8	517,437
Postal Savings Bank Of Chi-H	1658 HK	HKD	4.71	6.9	6.0	5.5	4.9	0.8	0.8	0.7	0.6	12.9	3.6	0.6	381,655
China Merchants Bank-H	3968 HK	HKD	35.25	11.0	9.5	8.5	7.5	1.7	1.5	1.3	1.2	16.4	3.2	1.2	903,424
China Citic Bank Corp Ltd-H	998 HK	HKD	5.12	5.1	4.9	4.7	4.2	0.6	0.5	0.5	0.5	11.2	6.1	0.8	327,950
China Minsheng Banking-H	1988 HK	HKD	5.94	4.6	4.1	4.1	4.0	0.6	0.5	0.5	0.4	13.0	3.7	0.9	314,496
China Everbright Bank Co L-H	6818 HK	HKD	3.85	5.2	5.3	5.0	4.7	0.6	0.6	0.5	0.5	11.2	5.7	0.8	242,703
Bank Of Jinzhou Co Ltd-H	416 HK	HKD	7.00	5.6	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	54,471
Bank Of Qingdao Co Ltd-H	3866 HK	HKD	6.78	11.6	n.a.	n.a.	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	38,258
Harbin Bank Co Ltd-H	6138 HK	HKD	1.92	3.5	3.6	3.5	3.5	0.4	0.4	0.4	0.3	11.4	3.3	0.9	21,112
Huishang Bank Corp Ltd-H	3698 HK	HKD	3.39	4.7	4.0	3.8	3.5	0.7	0.5	0.5	0.4	14.1	2.0	0.9	41,205
Chongqing Rural Commercial-H	3618 HK	HKD	4.85	4.5	4.4	4.2	3.9	0.6	0.6	0.5	0.5	14.0	4.9	1.0	48,500
Shengjing Bank Co Ltd-H	2066 HK	HKD	4.13	2.4	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	23,940
Bank Of Chongqing Co Ltd-H	1963 HK	HKD	5.15	3.7	3.7	3.7	3.7	0.5	0.5	0.4	0.4	13.0	3.6	0.9	16,104
Bank Of Zhengzhou Co Ltd-H	6196 HK	HKD	3.65	4.3	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	39,025
China Zheshang Bank Co Ltd-H	2016 HK	HKD	4.20	6.0	n.a.	n.a.	n.a.	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	78,619
Bank Of Tianjin Co Ltd-H	1578 HK	HKD	4.64	5.5	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	28,167
Jilin Jiutai Rural Commerc-H	6122 HK	HKD	3.83	9.8	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15,262
Zhongyuan Bank Co Ltd-H	1216 HK	HKD	2.30	9.5	n.a.	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	46,173
Bank Of Gansu Co Ltd-H	2139 HK	HKD	2.19	3.9	n.a.	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22,053
Jiangxi Bank Co Ltd-H	1916 HK	HKD	6.82	8.8	n.a.	n.a.	n.a.	1.1	n.a.	n.a.	n.a.	11.7	n.a.	0.9	41,086
Bank Of Jiujiang Co Ltd-H	6190 HK	HKD	10.60	n.a.	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25,518
Simple Average				6.1	5.2	4.9	4.6	0.8	0.7	0.6	0.5	12.9	4.5	0.9	
Weighted Average				6.4	5.9	5.5	5.1	0.8	0.8	0.7	0.6	13.5	5.1	1.0	
HK - Listed other banks															
Hsbc Holdings Plc	5 HK	HKD	64.25	17.2	13.0	11.3	10.8	1.0	1.0	1.0	1.0	7.6	6.2	0.5	1,288,294
Standard Chartered Plc	2888 HK	HKD	63.10	34.5	43.1	10.0	8.9	0.6	0.6	0.6	0.5	1.3	2.7	0.2	208,835
Boc Hong Kong Holdings Ltd	2388 HK	HKD	32.25	11.0	10.6	10.2	9.6	1.4	1.3	1.2	1.1	12.8	4.5	1.2	340,972
Hang Seng Bank Ltd	11 HK	HKD	188.50	18.4	14.9	14.5	13.9	2.5	2.3	2.2	2.1	16.1	4.3	1.6	360,382
Bank Of East Asia	23 HK	HKD	27.25	8.5	13.2	13.0	12.3	0.8	0.8	0.8	0.8	6.4	4.7	0.8	77,540
Dah Sing Banking Group Ltd	2356 HK	HKD	15.02	9.6	7.9	7.4	7.1	0.8	0.8	0.7	0.7	10.0	3.4	1.2	21,113
Simple Average				16.5	17.1	11.1	10.4	1.2	1.1	1.1	1.0	9.1	4.3	0.9	
Weighted Average				17.7	15.6	11.6	11.0	1.2	1.2	1.2	1.1	9.1	5.2	0.8	
China A-share listed banks															
Ind & Comm Bk Of China-A	601398 CH	CNY	5.59	7.1	6.7	6.3	5.8	1.0	0.9	0.8	0.7	13.7	4.6	1.1	2,270,605
China Construction Bank-A	601939 CH	CNY	6.91	7.2	6.7	6.2	5.8	1.0	0.9	0.8	0.7	14.1	4.5	1.1	1,733,912
Agricultural Bank Of China-A	601288 CH	CNY	3.69	6.4	6.2	5.8	5.4	0.9	0.8	0.7	0.7	13.6	4.9	0.9	1,489,591
Bank Of China Ltd-A	601988 CH	CNY	3.75	6.7	6.2	5.9	5.5	0.8	0.7	0.7	0.6	11.9	5.0	0.9	1,224,991
Bank Of Communications Co-A	601328 CH	CNY	6.30	6.9	6.5	6.1	5.8	0.8	0.7	0.7	0.6	10.8	4.7	0.8	517,440
China Merchants Bank-A	600036 CH	CNY	30.78	11.1	9.7	8.6	7.5	1.7	1.5	1.3	1.2	16.3	3.1	1.2	903,430
China Citic Bank Corp Ltd-A	601998 CH	CNY	6.33	7.3	7.0	6.6	6.1	0.8	0.8	0.7	0.7	11.2	4.1	0.8	327,952
China Minsheng Banking-A	600016 CH	CNY	6.40	5.7	5.3	5.1	4.9	0.7	0.7	0.6	0.6	13.0	2.7	0.9	314,498
Shanghai Pudong Devel Bank-A	600000 CH	CNY	11.50	6.3	6.2	6.0	5.6	0.9	0.8	0.7	0.6	12.5	2.1	0.9	394,240
Industrial Bank Co Ltd -A	601166 CH	CNY	17.90	6.5	6.2	5.8	5.3	1.0	0.8	0.7	0.7	14.0	3.8	0.9	434,311
China Everbright Bank Co-A	601818 CH	CNY	4.17	6.5	6.6	6.2	5.8	0.8	0.7	0.7	0.6	11.5	4.3	0.8	242,704
Huaxia Bank Co Ltd-A	600015 CH	CNY	8.14	5.5	5.3	5.2	4.9	0.7	0.6	0.5	0.5	11.7	2.9	0.8	146,288
Ping An Bank Co Ltd-A	000001 CH	CNY	12.30	9.5	8.8	7.9	7.0	1.0	1.0	0.9	0.8	11.3	1.5	0.7	246,666
Bank Of Beijing Co Ltd -A	601169 CH	CNY	6.30	6.4	6.6	6.1	5.7	0.8	0.8	0.7	0.6	11.4	4.1	0.8	155,572
Bank Of Ningbo Co Ltd -A	002142 CH	CNY	19.15	10.6	8.9	7.5	6.3	1.9	1.6	1.4	1.2	18.6	2.3	1.0	116,496
Bank Of Nanjing Co Ltd -A	601009 CH	CNY	7.80	7.2	6.3	5.7	5.4	1.2	1.0	0.9	0.8	16.8	4.1	0.9	77,273
Bank Of Shanghai Co Ltd-A	601229 CH	CNY	12.05	8.6	7.3	6.4	5.4	1.0	0.9	0.8	0.7	12.5	3.2	1.0	153,800

Bank Of Jiangsu Co Ltd-A	600919 CH	CNY	7.11	6.9	6.5	5.8	5.1	0.9	0.8	0.7	0.6	11.3	2.8	0.7	95,866
Bank Of Hangzhou Co Ltd-A	600926 CH	CNY	8.49	9.6	8.4	7.1	5.9	1.0	0.9	0.8	0.7	10.9	2.6	0.6	50,870
Bank Of Guiyang Co Ltd-A	601997 CH	CNY	13.00	6.6	5.8	5.1	4.4	1.2	1.0	0.9	0.7	19.1	2.9	1.1	34,900
Jiangsu Jiangyin Rural Com-A	002807 CH	CNY	6.29	13.8	13.1	12.8	n.a.	1.2	1.1	1.1	n.a.	8.1	1.4	0.7	12,984
Wuxi Rural Commercial Bank-A	600908 CH	CNY	6.41	11.9	10.9	9.9	9.0	1.3	1.2	1.1	1.0	11.3	2.8	0.8	13,837
Jiangsu Changshu Rural Com-A	601128 CH	CNY	7.86	13.8	11.5	9.7	8.0	1.7	1.5	1.3	1.2	13.4	2.6	1.0	20,772
Jiangsu Wujiang Rural Comm-A	603323 CH	CNY	7.79	15.6	13.8	12.2	11.1	1.3	1.2	1.2	1.1	9.1	1.5	0.5	13,175
Jiangsu Zhangjiagang Rura -A	002839 CH	CNY	6.89	16.0	15.0	13.8	12.5	1.5	1.4	1.3	1.2	9.7	1.6	0.8	14,545
Simple Average				8.8	8.1	7.4	6.4	1.1	1.0	0.9	0.8	12.7	3.2	0.9	
Weighted Average				7.3	6.8	6.4	5.8	1.0	0.9	0.8	0.7	13.3	4.2	1.0	

USA - Listed banks

Citigroup Inc	C US	USD	61.90	n.a.	9.3	8.2	7.2	0.9	0.8	0.8	0.7	9.3	3.0	1.0	1,137,265
Bank Of America Corp	BAC US	USD	28.55	17.5	10.8	9.9	8.9	1.2	1.1	1.1	1.0	10.9	2.2	1.2	2,164,669
Jpmorgan Chase & Co	JPM US	USD	102.97	16.2	11.4	10.5	9.8	1.5	1.5	1.4	1.3	13.3	2.8	1.3	2,646,583
Wells Fargo & Co	WFC US	USD	49.68	12.0	11.5	10.0	8.7	1.3	1.3	1.3	1.2	11.7	3.6	1.2	1,774,197
Us Bancorp	USB US	USD	50.68	14.4	12.2	11.7	11.0	1.9	1.8	1.7	1.6	15.4	2.9	1.5	636,636
Bank Of New York Mellon Corp	BK US	USD	51.23	13.7	12.6	12.1	11.1	1.4	1.3	1.3	1.2	10.9	2.2	1.2	383,990
Morgan Stanley	MS US	USD	41.17	13.1	8.6	8.4	7.6	1.1	1.0	0.9	0.9	11.7	2.8	1.0	552,247
Goldman Sachs Group Inc	GS US	USD	192.77	21.0	7.5	8.0	7.3	1.0	0.9	0.9	0.8	13.2	1.9	1.1	579,374
Simple Average				15.4	10.5	9.8	9.0	1.3	1.2	1.2	1.1	12.1	2.7	1.2	
Weighted Average				15.6	10.8	9.9	9.0	1.3	1.2	1.2	1.1	12.0	2.7	1.2	

Europe - Listed banks

Deutsche Bank Ag-Registered	DBK GR	EUR	7.69	n.a.	n.a.	13.6	9.2	0.3	0.3	0.3	0.2	0.4	1.6	0.0	139,872
Commerzbank Ag	CBK GR	EUR	6.70	55.8	9.7	8.8	6.6	0.3	0.3	0.3	0.3	3.0	0.0	0.2	73,808
Bnp Paribas	BNP FP	EUR	42.69	7.1	7.4	7.4	6.7	0.6	0.6	0.5	0.5	7.7	7.7	0.4	469,778
Societe Generale Sa	GLE FP	EUR	25.65	8.8	6.0	6.3	5.9	0.3	0.3	0.4	0.4	5.7	7.9	0.3	182,387
Credit Agricole Sa	ACA FP	EUR	10.58	9.4	7.6	8.0	7.5	0.6	0.6	0.5	0.5	7.4	7.3	0.3	266,964
Royal Bank Of Scotland Group	RBS LN	GBp	259.20	41.1	19.2	9.3	8.2	0.7	0.8	0.8	0.7	3.9	0.0	0.3	321,005
Barclays Plc	BARC LN	GBp	159.94	n.a.	17.0	7.2	6.5	0.5	0.5	0.5	0.5	2.6	4.3	0.2	281,711
Lloyds Banking Group Plc	LLOY LN	GBp	61.92	14.1	11.3	8.0	7.9	1.0	1.0	1.0	0.9	8.9	6.2	0.5	453,740
Simple Average				22.7	11.2	8.6	7.3	0.5	0.5	0.5	0.5	4.9	4.4	0.3	
Weighted Average				17.6	11.4	8.2	7.3	0.6	0.6	0.6	0.6	5.9	5.1	0.3	

Singapore - Listed banks

Dbz Group Holdings Ltd	DBS SP	SGD	25.06	14.6	11.6	10.6	9.7	1.4	1.3	1.3	1.2	11.6	5.1	1.0	370,125
Oversea-Chinese Banking Corp	OCBC SP	SGD	11.05	11.3	10.4	9.8	9.3	1.2	1.1	1.1	1.0	11.2	1.8	1.0	270,996
United Overseas Bank Ltd	UOB SP	SGD	24.91	12.5	10.5	9.9	9.3	1.2	1.2	1.1	1.0	11.4	4.1	1.1	239,550
Simple Average				12.8	10.8	10.1	9.4	1.3	1.2	1.1	1.1	11.4	3.6	1.0	
Weighted Average				13.0	10.9	10.2	9.5	1.3	1.2	1.2	1.1	11.4	3.8	1.0	

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
USD m, year ended 31 Dec	2017A	2018A	2019F	2020F	2021F	USD m, year ended 31 Dec	2017A	2018A	2019F	2020F	2021F
Net interest income	28,176	30,489	32,440	34,354	36,312	Cash and balances at central banks	180,624	162,843	175,870	188,181	199,472
Net fee income	12,811	12,620	12,809	13,091	13,458	Loans, net	962,964	981,696	1,025,872	1,059,726	1,092,578
Other non-interest income	10,458	10,671	11,364	11,999	12,575	Loans, interbank	90,393	72,167	74,549	76,860	79,165
Total non-interest income	23,269	23,291	24,173	25,090	26,033	Financial investments	389,076	407,433	419,656	432,246	444,781
Total operating income	51,445	53,780	56,614	59,444	62,345	Other assets	898,714	933,985	949,153	972,731	998,370
Total operating expense	(34,884)	(34,659)	(35,387)	(36,024)	(36,672)	Total Assets	2,521,771	2,558,124	2,645,100	2,729,743	2,814,365
PPOP	16,561	19,121	21,227	23,421	25,673	Customer Deposits	1,364,462	1,362,643	1,407,610	1,452,654	1,497,686
Provision loss	(1,769)	(1,767)	(2,120)	(2,438)	(2,707)	Deposits by banks	69,922	56,331	58,190	59,994	61,794
Operating profit	14,792	17,354	19,107	20,982	22,966	Trading liabilities	184,361	84,431	87,217	89,921	92,619
Other profits	2,375	2,536	2,658	2,764	2,875	Other liabilities	705,155	860,470	893,289	922,394	949,970
Profit before tax	17,167	19,890	21,764	23,746	25,841	Total Liabilities	2,323,900	2,363,875	2,446,306	2,524,962	2,602,068
Income tax	(5,288)	(4,865)	(5,323)	(5,808)	(6,321)	Total Shareholders' Equity	190,250	186,253	189,949	195,019	201,555
Profit after tax	11,879	15,025	16,441	17,938	19,520	Minority Interest	7,621	7,996	8,845	9,762	10,743
Non-controlling interest	(1,081)	(1,298)	(1,415)	(1,528)	(1,635)	Total Equity	197,871	194,249	198,794	204,781	212,297
Shareholders' profit / loss	10,798	13,727	15,026	16,410	17,885	Financial Ratios					
Other equity instruments' net profit	(1,115)	(1,119)	(1,119)	(1,119)	(1,119)		2017A	2018A	2019F	2020F	2021F
Common shareholders' net profit	9,683	12,608	13,907	15,291	16,766	EPS (\$), basic	0.485	0.634	0.695	0.763	0.836
(reported)						BVPS (\$)	8.417	8.202	8.370	8.615	8.932
EPS (\$), basic	0.485	0.634	0.695	0.763	0.836	DPS (\$)	0.510	0.510	0.510	0.510	0.510
EPS (\$), diluted	0.482	0.631	0.692	0.760	0.833	Growth (%)					
Cash Flow Statement						Net interest income	(5.5)	8.2	6.4	5.9	5.7
USD m, year ended 31 Dec	2017A	2018A	2019F	2020F	2021F	Non-interest income	28.2	0.1	3.8	3.8	3.8
Profit before tax	17,167	19,890	21,764	23,746	25,841	Operating expense	(12.4)	(0.6)	2.1	1.8	1.8
Adjustments for non-cash items	(19,394)	9,941	16,900	17,576	18,279	PPOP	103.0	15.5	11.0	10.3	9.6
Change in operating assets	(169,039)	(71,322)	(83,622)	(81,182)	(81,053)	Net profit	645.4	30.2	10.3	10.0	9.6
Change in operating liabilities	163,908	50,799	77,616	74,226	73,030	EPS, basic	637.2	30.7	9.7	9.8	9.5
Dividends received from associates	740	910	957	1,006	1,054	Efficiency and liquidity (%)					
Contributions paid to defined benefit plans	(685)	(332)	(509)	(420)	(464)	Cost-to-income	67.8	64.4	62.5	60.6	58.8
Tax paid	(3,175)	(3,417)	(5,323)	(5,808)	(6,321)	Loan-to-deposit	70.6	72.0	72.9	73.0	73.0
Cash from operating activities	(10,478)	6,469	27,783	29,144	30,366	Income contribution (%)					
Net proceeds from financial investments	61,088	(13,097)	(12,223)	(12,590)	(12,535)	Net interest income	54.8	56.7	57.3	57.8	58.2
Net proceeds from others	4,469	(3,244)	(3,354)	(3,462)	(3,569)	Non-interest income	45.2	43.3	42.7	42.2	41.8
Cash from investing activities	65,557	(16,341)	(15,577)	(16,051)	(16,104)	Profitability and Valuation					
Net cash from financing liabilities and equity	(1,445)	(6,019)	4,815	4,430	4,076	ROE (%)	5.9	7.6	8.4	9.0	9.5
Dividends paid	(9,005)	(10,762)	(9,853)	(9,907)	(9,958)	ROA (%)	0.5	0.6	0.6	0.7	0.7
Cash from financing activities	(10,450)	(16,781)	(5,038)	(5,477)	(5,882)	Dividend yield (%)	6.2	6.2	6.2	6.2	6.2
Net changes in cash	44,629	(26,653)	7,168	7,616	8,380	PE (x)	17.0	12.9	11.8	10.7	9.8
Cash at beg of year	274,550	337,412	301,082	303,411	304,253	PB (x)	1.0	1.0	1.0	1.0	0.9
FX adjustments	18,233	(9,677)	(4,839)	(6,774)	(3,387)	CAR (%)					
Cash at end of year	337,412	301,082	303,411	304,253	309,246	CET-1 ratio	14.5	14.0	14.1	14.2	14.3
						CAR	20.9	20.0	20.1	20.2	20.3
						Asset Quality (USD m, year ended 31 Dec)					
						NPL	15,470	13,321	14,092	14,787	15,485
						NPL ratio %	1.46	1.25	1.27	1.29	1.31
						LLR/NPL %	48.38	64.84	64.98	65.64	66.44
						LLR/Total loan %	0.71	0.81	0.83	0.85	0.87

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.

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 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