



Company Report: Bank of Gansu (02139 HK)

公司报告: 甘肃银行 (02139 HK)

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Earnings Expected to Recover, "Buy"

盈利预计将恢复, “买入”

- **The Company's shareholders' net profit decreased by 28.7% YoY to RMB366.2 mn in 1H2020.** In 1H2020, NIM narrowed 32 bps YoY to 1.78%. Net interest income was RMB2,487.8 mn, down 13.4% YoY, mainly due to the impact of COVID-19 pandemic and decrease in LPR. Non-interest income decreased by 23.4% YoY to RMB755.5 mn, of which net fee and commission income increased by 64.6% YoY. Impairment losses decreased by 17.5% YoY to RMB1,889.8 mn. As of the end of 1H2020, the Company's NPL ratio was 2.32%, down 0.13 ppts compared with the end of 2019. NPL coverage ratio declined by 4.67 ppts compared with the end of 2019 to 131.20%.
- The Company intends to issue additional shares: (1) Non-public issuance of no more than 3.75 bn domestic shares, and (2) Non-public issuance of no more than 1.25 bn H shares. **If successfully fulfilled, the Company's share capital will be enlarged by around 50.0% based on the current share capital of 10.07 bn, which is expected to strengthen its capital base by a large margin.**
- We expect Gansu province's economy to continue to develop at a relatively fast pace, which will contribute to the Company's development. We project the Company's earnings will recover by a large margin in our forecast period. We expect EPS for FY20/ FY21/ FY22 to grow YoY by 43.1%/ 34.4%/ 87.9% to RMB0.072/ RMB0.097/ RMB0.183, respectively. **We initiate coverage of the Company with a TP of HK\$1.52, equivalent to 18.5x FY20 PER, 13.8x FY21 PER, 7.3x FY22 PER, 0.64x FY20 PBR, 0.61x FY21 PBR and 0.58x FY22 PBR. Meanwhile, we initiate coverage with "Buy" rating.**
- 公司 2020 年上半年股东净利润同比下滑 28.7%至 366.2 百万元人民币。2020 年上半年, 净息差同比收缩 32 个基点至 1.78%。主要由于新冠疫情及 LPR 下滑的影响, 净利息收入达 2,487.8 百万元人民币, 同比下滑 13.4%。非利息收入同比下降 23.4%至 755.5 百万元人民币, 其中, 净手续费佣金收入同比增长 64.6%。减值损失同比下降 17.5%至 1,889.8 百万元人民币。截至 2020 年上半年末, 公司不良贷款率为 2.32%, 比 2019 年末下滑 0.13 个百分点。不良贷款拨备覆盖率达 131.20%, 比 2019 年末下滑 4.67 个百分点。
- 公司拟增发新股: (1)非公开发行不超过 37.5 亿股内资股; (2)非公开发行不超过 12.5 亿股 H 股。**若成功实现, 公司股本将在现有 100.7 亿股股本的基础上, 扩大约 50.0%, 预计将大幅增强公司的资本基础。**
- 我们预计甘肃省经济将继续以相对较快的速度发展, 这将有助于公司的发展。在我们预测期内, 我们预计公司盈利将大幅恢复。我们预计 2020/2021/2022 年的每股盈利分别为 0.072 元人民币、0.097 元人民币和 0.183 元人民币, 分别同比上涨 43.1%、34.4%和 87.9%。**我们首次给予公司 1.52 港元的目标价, 对应 18.5 倍 2020 年市盈率、13.8 倍 2021 年市盈率和 7.3 倍 2022 年市盈率, 0.64 倍 2020 年市净率、0.61 倍 2021 年市净率和 0.58 倍 2022 年市净率。同时, 我们首次给予公司“买入”投资评级。**

Rating:

Buy
Initial

评级:

买入 (首次覆盖)

6-18m TP 目标价:

HK\$1.52

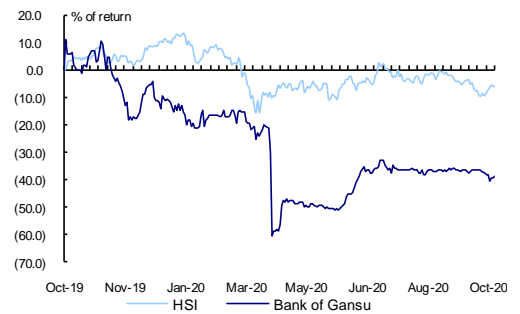
Revised from 原目标价:

Share price 股价:

HK\$1.010

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 %	(2.9)	(8.2)	(38.8)
Rel. % to HS Index 相对恒指变动 %	(1.5)	(0.2)	(32.7)
Avg. share price (HK\$) 平均股价 (港元)	1.0	1.0	1.2

Source: Bloomberg, Guotai Junan International.

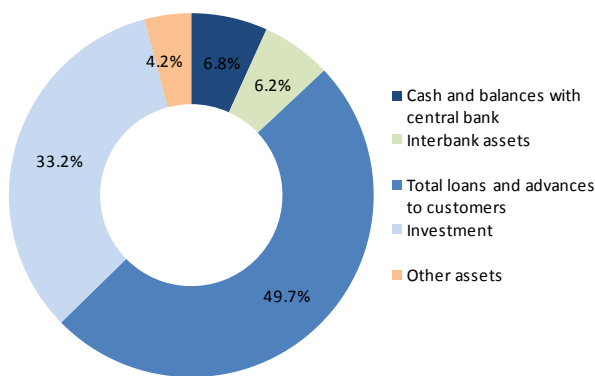
Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(△%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	8,872	3,435	0.345	(22.6)	2.6	2.504	0.4	0.102	11.5	8.9
2019A	7,233	509	0.051	(85.4)	17.9	2.449	0.4	0.000	0.0	2.0
2020F	6,467	789	0.072	43.1	12.3	2.103	0.4	0.010	1.2	2.8
2021F	7,069	1,465	0.097	34.4	9.2	2.181	0.4	0.019	2.2	4.5
2022F	7,946	2,753	0.183	87.9	4.9	2.327	0.4	0.037	4.1	8.1
Shares in issue (m) 总股数 (m)				10,069.8	Major shareholder 大股东	Gansu State-owned Assets Investment				16.2%
Market cap. (HK\$ m) 市值 (HK\$ m)				10,170.5	Free float (%) 自由流通比率 (%)					83.8
3 month average vol. 3 个月平均成交股数 ('000)				7,567.5	FY20F Core Tier-1 CAR FY20 年核心一级资本充足率					12.1%
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				1.850 / 0.580	FY20F NPL ratio FY20 年不良贷款率 (%)					2.3

Source: the Company, Guotai Junan International.

Company introduction

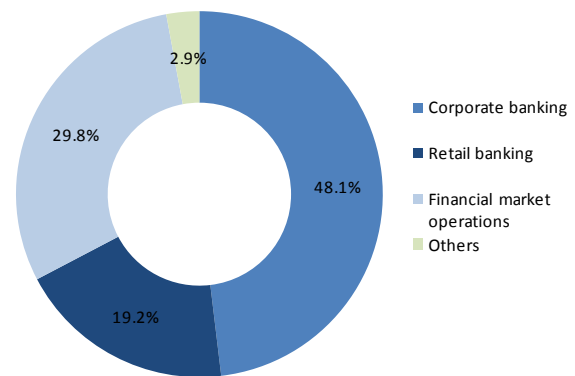
Bank of Gansu (the "Company") is the only provincial city commercial bank in Gansu province of China. The company has coverage of Gansu province's business network layout. As of June 30, 2020, the Company had 1 head office operational department, 12 branches, 190 sub-branches, 6 micro-to-small sub-branches and 3 community sub-branches. The Company's branch network covered all of Gansu's cities and prefectures and approximately 95% of its counties and districts. In addition, relying on the strong support of the provincial government of Gansu province, the company and the provincial government organs, institutions and state-owned and private enterprises to establish a long-term business relations of cooperation. As of the end of 1H2020, the Company's total assets reached RMB338,718.8 mn, of which, total loans and advances to customers were RMB168,236.6 mn, accounting for 49.7% in total assets. The Company operates three principal lines of business: corporate banking, retail banking and financial market operations. In 1H2020, operating income for corporate banking, retail banking and financial market operations accounted for 48.1%, 19.2% and 29.8% in total operating income, respectively.

Exhibit 1: Bank of Gansu total assets structure as of the end of 1H2020



Source: the Company.

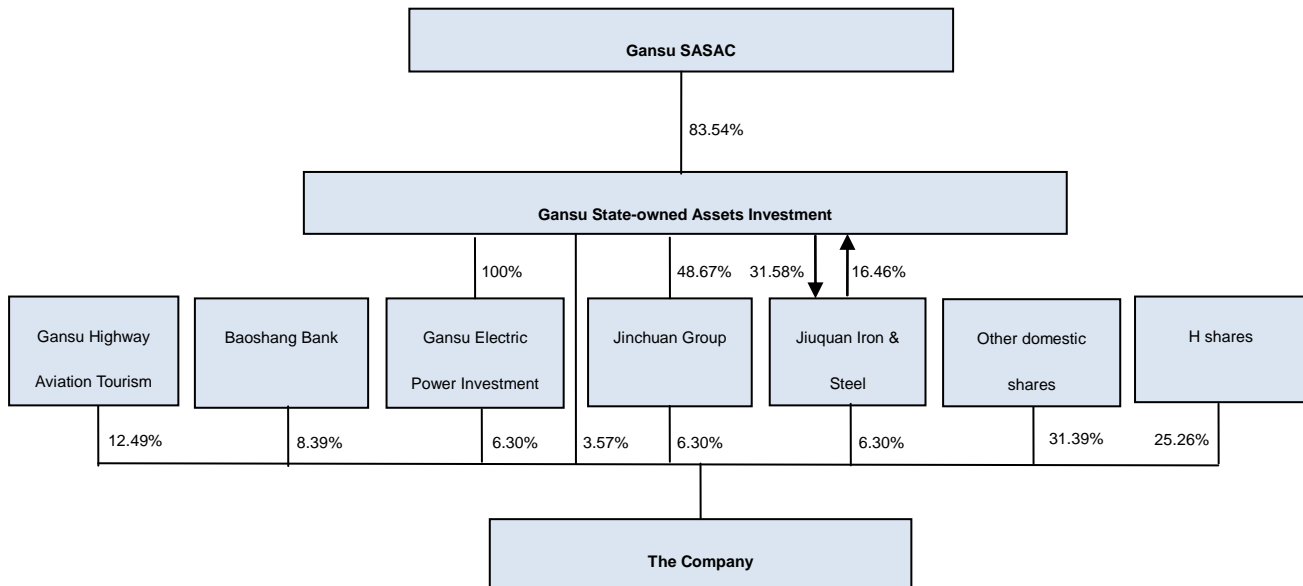
Exhibit 2: Bank of Gansu operating income structure in 1H2020



Source: the Company.

As of the end of 1H2020, Gansu State-owned Assets Investment which was controlled by Gansu SASAC held 16.16% of the total shares of the Company and was the Company's substantial shareholder. As of the end of 1H2020, the Company's top six shareholders were Gansu Highway Aviation Tourism, Baoshang Bank (Based on the Company's 2020 Interim Report published on 24 September 2020, Shares held by Baoshang Bank will be taken over by Mengshang Bank, relevant change procedures of which are being handled), Gansu Electric Power Investment, Jinchuan Group, Jiuquan Iron & Steel, and Gansu State-owned Assets Investment, which combinedly held 43.35% of the total shares. Gansu State-owned Assets Investment directly held 3.57% of the total shares of the Company. Gansu SASAC and Jiuquan Iron & Steel held 83.54% and 16.46% equity interest in Gansu State-owned Assets Investment, respectively, while Gansu State-owned Assets Investment in turn held 31.58% equity interest in Jiuquan Iron & Steel. Gansu State-owned Assets Investment also held 100% of the equity interest in Gansu Electric Power Investment and 48.67% of the equity interest in Jinchuan Group. Therefore, Gansu Electric Power Investment and Jinchuan Group are controlled corporations of Gansu State-owned Assets Investment. Pursuant to the SFO, Gansu State-owned Assets Investment is deemed to be interested in the Shares held by Gansu Electric Power Investment and Jinchuan Group, and therefore Gansu State-owned Assets Investment held 16.16% of the total shares of the Company in total and was the Company's substantial shareholder.

Exhibit 3: Bank of Gansu shareholding structure as of the end of 1H2020

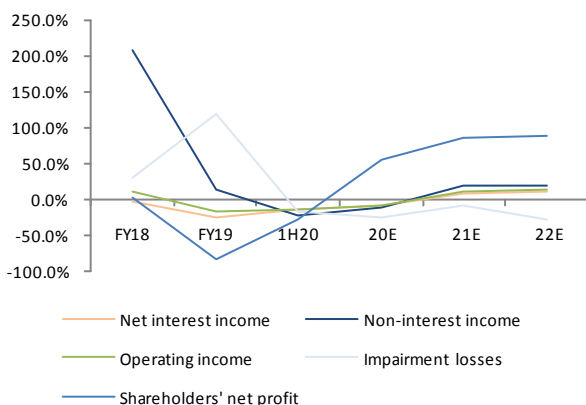


Source: the Company.

1H2020 results comments

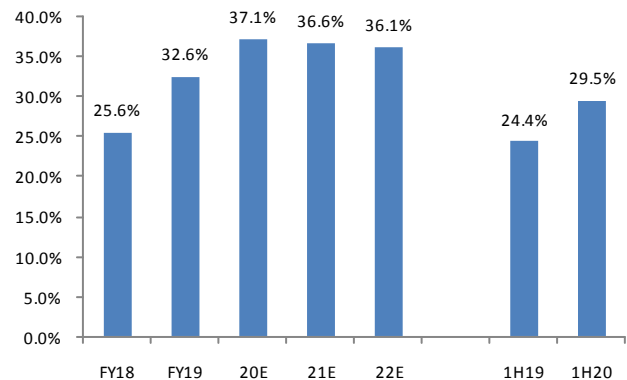
The Company's shareholders' net profit decreased by 28.7% YoY in 1H2020. In 1H2020, primarily due to the fall of the yield of loans and advances to customers as a result of the impact of COVID-19 pandemic and decrease in LPR, NIM narrowed 32 bps YoY to 1.78%. Net interest income was RMB2,487.8 mn, down 13.4% YoY, mainly due to the impact of COVID-19 pandemic and decrease in LPR. Non-interest income decreased by 23.4% YoY to RMB755.5 mn, of which net fee and commission income increased by 64.6% YoY. The decrease of non-interest income was mainly due to the significant decline of net trading gains. The significant increase of net fee and commission income mainly came from the increase of settlement and clearing fees. The Company's operating expenses amounted to RMB958.2 mn, up 1.8% YoY, which was mainly due to increase in premises and equipment expenses, general management and administrative expenses and business tax and surcharges. In 1H2020, the Company's impairment losses decreased by 17.5% YoY to RMB1,889.8 mn. On the whole, the Company's shareholders' net profit was RMB366.2 mn, down 28.7% YoY, and the Company's basic EPS was RMB0.0364, down 28.7% YoY. The Company's asset quality improved, NPL ratio was 2.32% as of the end of 1H2020, down 0.13 ppts compared with the end of 2019. The decrease of NPL ratio was mainly due to the significant decline of NPL ratio of fixed asset loans in corporate loans. NPL coverage ratio declined by 4.67 ppts compared with the end of 2019 to 131.20%.

Exhibit 4: Bank of Gansu YoY growth of operating income, net interest income, net fee income, impairment losses and shareholders' net profit

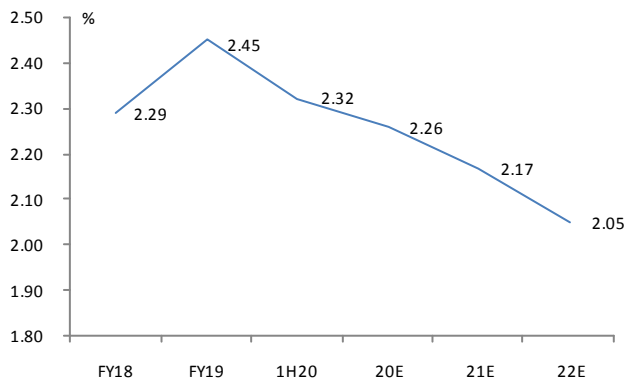


Source: the Company, Guotai Junan International.

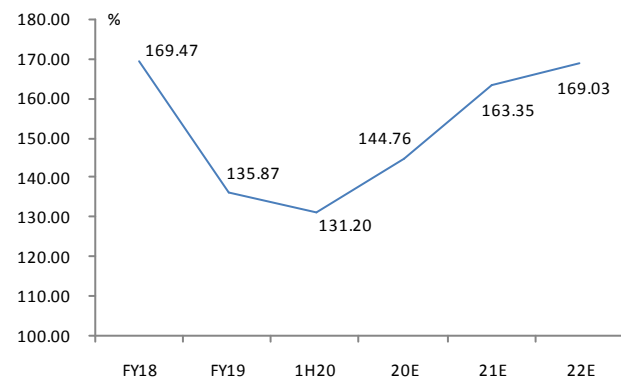
Exhibit 5: Bank of Gansu cost-to-income ratio



Source: the Company, Guotai Junan International.

Exhibit 6: Bank of Gansu NPL ratio


Source: the Company, Guotai Junan International.

Exhibit 7: Bank of Gansu NPL coverage ratio


Source: the Company, Guotai Junan International.

Planned non-public issuance

The Company intends to issue additional shares. The Company intends to replenish core tier 1 capital through issuance of additional shares: (1) Non-public issuance of Domestic Shares. The Company intends to issue no more than 3.75 bn domestic shares to no more than 10 eligible domestic institutional investors. The actual issue number of shares to be issued is to be determined by regulatory authorities; and (2) Non-public issuance of H Shares. The Company intends to issue no more than 1.25 bn H shares to no more than 10 investors who are eligible to subscribe for the H shares of the Company. The actual number of issued shares is to be determined with reference to the approval of the issuance plan by relevant regulatory authorities, market conditions and the actual situation of the Company. At the meeting of the Board convened on March 30, 2020, the proposals on non-public issuance of domestic shares and H shares were approved, and the proposals were considered and approved at the extraordinary general meeting, the 2020 first domestic shareholders class meeting and the 2020 first H shareholders class meeting convened on June 3, 2020. Up to now, the Company has not issued any additional domestic shares or H shares, and the issuance of additional shares is still in the process of preparation.

The planned issuance of additional shares is expected to strengthen its capital base by a large margin if successfully fulfilled. If the Company can finally issue all additional domestic shares and H shares as planned, the Company's share capital will be enlarged by around 50.0% based on the current share capital of 10.07 bn. Based on the Company's announcement published on March 30, 2020, the planned issued additional shares' par value is RMB1.00. Considering the planned issued additional shares' par value, and the Company's stock price range before March 30, 2020, we expect the Company will have net proceeds of around RMB6.4 bn through issuance of additional shares. We expect the Company's capital base will be strengthened by a large margin if the issuance of additional shares can be successfully fulfilled, which is expected to contribute to its future development and expansion, enhance its resilience to shocks, shore up market confidence and optimize its equity structure. We have taken the issuance of additional shares into our forecast model for the Company assuming to finish before the end of this year in this report.

Industry dynamics

We expect Gansu province's economy to continue to develop at a relatively fast pace. In 1H2020, Gansu province sped up the resumption of production and normal life while maintaining ongoing COVID-19 response, and made remarkable achievement. In 1H2020, Gansu's GDP was RMB410.19 bn, representing a YoY increase of 1.5%. By industries, the primary industry increased by RMB28.97 bn or 5.8 YoY; the secondary industry increased by RMB134.09 bn or 1.8% YoY; and the tertiary industry increased by RMB247.13 bn or 0.9% YoY. Given that COVID-19 is well controlled, China is leading the global recovery, which is expected to continue in the near future. Thanks to effective control measures and orderly resumption of work and production, China's economy managed to grow more strongly than expected with a V-shape recovery. Against the backdrop that Chinese government promotes economic growth through "domestic and international cycles", we expect China's economy will continue to develop steadily in both the near term and long term. Gansu province is an important energy and raw material industrial base for China and a main Northwest province under the strategy of "Belt and Road Initiative". Driven by PRC government policies such as the China Western Development Strategy and the "Belt and Road" initiative, we expect Gansu province's economy to continue to develop at a relatively fast pace.

The Chinese banking sector's net profit in 2020 is expected to decline YoY to a certain extent. In 2H20, we expect that loans will remain the main financing channel that the government supports economic growth, and will still grow at a relatively fast pace. We expect that inter-bank assets and investment will record stable growth. Overall, we expect YoY growth of the banking sector's balance of total loans and total assets to be 13.1% and 10.5% as at the end of 2020, respectively. Given that we expect China's liquidity conditions will remain in the rest of 2020, and China's central government aims to decrease comprehensive financing cost, we forecast market average interest rates to further decline to a certain extent. Meanwhile, the promotion of LPR reform will further form downward pressure on the banking sector's NIM. Therefore, we expect the NIM of the banking sector to decrease YoY to a certain extent to around 2.04% in 2020. In 2H20, under the background of the effective control of COVID-19 and the steady recovery of economic growth in China, we expect that part of the fee and commission income affected by COVID-19 in the early stage will be restored steadily. We project the banking sector's net fee and commission income to still record relatively stable growth on the whole in 2020. We expect banks to continue to strengthen their control on costs in order to increase net profit. Although given the negative impact of COVID-19 on the global and Chinese economy, the asset quality of the banking sector is expected to decline to a certain extent, we project downward pressure to still be in control. In 2H20, provisioning for banks is expected to remain at a high level given NPL ratio of banks is still under increasing pressure. All things considered, we expect that the banking sector's YoY growth of net profit to be around -10.2% in 2020.

The profitability before provision of the eight mainland banks under our coverage was still healthy in 1H2020. In 1H2020, shareholders' net profit of the eight mainland banks under our coverage decreased by 10.1%, and the increase of impairment losses was one of the main reasons for the decrease. Excluding the impact from impairment losses, profit before provision of the eight mainland banks under our coverage increased by 5.0%, which shows the profitability before provision of the eight mainland banks under our coverage was still healthy in 1H2020. By the type of banks, the big four banks (ICBC (01398 HK), CCB (00939 HK), ABC (01288 HK) and BOC (03988 HK))'s profit before provision increased by 4.4% YoY, the joint-stock commercial banks (CMB (03968 HK) and China CITIC BANK (00998 HK))'s profit before provision increased by 9.0% YoY, and the city commercial banks (Huishang Bank (03698 HK) and Bank of Gansu (02139 HK))'s profit before provision increased by 2.8% YoY.

Earnings forecasts

We project the Company's asset quality will improve to a certain extent and the Company's risk resistance capacity will also increase to a certain extent in our forecast period. In the context of the outbreak of COVID-19 and the downtrend of global economic growth, fluctuations of the real economy are expected to have a great impact on the operation and solvency lender's in China, which will be transmitted to the Chinese banking sector. The asset quality of the Company is expected to continue to face downward pressure. As COVID-19 is well controlled in China, economy is expected to continue to recover, liquidity conditions are projected to remain, financing support to small and micro enterprises and private enterprises continues to advance, we expect downward pressure of the Company's asset quality to still be in control. In addition, China's central government has expressed that the policy of deferred-repayment of principal and interest on loans to medium-sized, small and micro-sized enterprises will be extended until the end of March 2021, inclusive loans to small and micro-sized enterprises will be extended to the full length, and loans to other enterprises with difficulties will be extended through negotiation, which is projected to also mitigate the increase of the Company's NPL ratio in the near future. Moreover, the Company has significantly strengthened the disposal of NPL since 2018, which was also a main contributor for the Company's asset quality improvement in 1H2020. We expect the Company will prudently operate its business in the future and continue to maintain a relatively high level of disposal of NPL in order to effectively defuse the NPL risks. Meanwhile, we project the Company will also continue to maintain a relatively high level of provisioning for NPL and enhance NPL coverage level to increase its risk resistance capacity. On the whole, in our forecast period, we project the Company's asset quality will improve to a certain extent and the Company's risk resistance capacity will also increase to a certain extent. We expect NPL ratio for FY20/ FY21/ FY22 to decline YoY by 0.19 ppts/ 0.09 ppts/ 0.12 ppts to 2.26%/ 2.17%/ 2.05%, respectively, and NPL coverage ratio for FY20/ FY21/ FY22 to increase YoY by 8.89 ppts/ 18.59 ppts/ 5.67 ppts to 144.76%/ 163.35%/ 169.03%, respectively.

Exhibit 8: Bank of Gansu breakdown of loan amount and NPL ratio by industry

	As of the end of 1H2020					As of the end of FY19		
	Loan RMB mn	% of %	Chg %	NPL %	Chg %	Loan RMB mn	% of %	NPL %
Corporate loans								
Manufacturing	21,310.3	12.3	0.0	3.30	(0.31)	21,036.0	12.3	3.61
Wholesale and retail	15,991.2	9.2	(1.2)	4.11	(0.51)	17,757.9	10.4	4.62
Real estate	13,732.3	7.9	(0.8)	0.33	0.33	14,860.1	8.7	0.00
Construction	11,255.6	6.5	0.4	2.98	1.81	10,461.0	6.1	1.17
Leasing and business services	11,058.8	6.3	1.1	0.27	0.12	8,815.5	5.2	0.15
Agriculture, forestry, animal husbandry and fishing	7,756.1	4.5	0.0	4.03	0.64	7,605.1	4.5	3.39
Mining	5,831.1	3.3	(1.0)	0.28	(4.65)	7,279.4	4.3	4.93
Transportation, storage and postal services	4,083.4	2.3	0.4	0.62	0.28	3,247.8	1.9	0.34
Water, environment and public facility management	3,103.9	1.8	0.0	0.01	0.01	3,078.7	1.8	0.00
Electricity, heating power, gas and water production and supply	3,137.6	1.8	(0.3)	0.00	(11.37)	3,512.3	2.1	11.37
Financial	2,996.5	1.7	(0.1)	0.00	0.00	2,996.5	1.8	0.00
Culture, sports and entertainment	2,904.9	1.7	0.0	0.77	0.26	2,914.5	1.7	0.51
Accommodation and catering	2,555.3	1.5	(0.1)	2.74	1.15	2,666.9	1.6	1.59
Health and social services	2,140.2	1.2	0.1	0.33	0.07	1,876.5	1.1	0.26
Education	1,576.3	0.9	0.0	0.00	0.00	1,591.8	0.9	0.00
Scientific research, technical service and geological prospecting	1,302.3	0.8	0.3	1.54	1.54	913.1	0.5	0.00
Residents and other services	612.2	0.4	0.1	0.18	(0.02)	555.1	0.3	0.20
Information transmission, computer service and software	131.1	0.1	0.0	7.53	4.64	103.8	0.1	2.89
Public administration, social security and social organizations	22.0	0.0	0.0	0.00	0.00	20.0	0.0	0.00
Retail loans	36,186.3	20.9	0.8	4.90	0.89	34,265.5	20.1	4.01
Discounted bills	25,835.4	14.9	0.3	0.00	0.00	24,891.7	14.6	0.00
Total amount	173,522.8	100.0	0.0	2.32	(0.13)	170,449.	100.0	2.45

Source: the Company.

Exhibit 9: Bank of Gansu NPL disposal amount and impairment losses

RMB mn	FY17	FY18	FY19	1H2020
NPL disposal amount	0.0	824.8	4,204.1	1,979.5
YoY	n.a.	n.a.	409.7%	7.0%
Impairment losses	1,523.0	1,962.4	4,312.0	1,889.8
YoY	(39.2%)	28.8%	119.7%	(17.5%)

Source: the Company.

We expect EPS for FY20/ FY21/ FY22 to grow YoY by 43.1%/ 34.4%/ 87.9% to RMB0.072/ RMB0.097/ RMB0.183, respectively. We expect Gansu province's economy to continue to develop at a relatively fast pace, which will drive the banking sector in Gansu province to continue to grow steadily and contribute to the Company's development. The Company intends to issue additional shares, which is expected to strengthen its capital base by a large margin and contribute to the Company's future business expansion and earnings. In 2H20, we expect the Company's interest-earning assets will continue to grow steadily and contribute to the growth of its net interest income. However, we project the Company's NIM to continue to trend down in 2H20, which will negatively impact its net interest income. We expect the Company's net fee and commission income will continue to grow quickly in 2H20. As the Company's NPL coverage ratio is still relatively low, we expect the Company's impairment losses will remain at a relatively high level to enhance its NPL coverage level. However, as we expect the Company's asset quality will improve to a certain extent in 2H20, we project the Company's impairment losses will decline to a certain extent, and the negative impact of impairment losses on earnings will also mitigate to a certain extent. On the whole, we expect the Company's shareholders' net profit for FY20/ FY21/ FY22 will grow by 54.9%/ 85.8%/ 87.9% to RMB789 mn/ RMB1,465 mn/ RMB2,753 mn, respectively. The forecasted significant earnings recovery in our forecast period mainly comes from our expected decreasing impairment losses given that we project the Company's asset quality will improve to a certain extent. Considering the influence from the expected enlarged share capital after the projected issuance of additional shares, we expect EPS for FY20/ FY21/ FY22 to grow YoY by 43.1%/ 34.4%/ 87.9% to RMB0.072/ RMB0.097/ RMB0.183, respectively.

Exhibit 10: Bank of Gansu main financial indicators forecast

	FY20F		FY21F		FY22F	
	RMB mn	Chg %	RMB mn	Chg %	RMB mn	Chg %
Net interest income	4,762	(9.9)	5,073	6.5	5,589	10.2
Net fee income	413	62.9	465	12.7	527	13.3
Operating income	6,467	(10.6)	7,069	9.3	7,946	12.4
Operating expense	(2,401)	1.9	(2,589)	7.8	(2,871)	10.9
PPOP	4,066	(16.6)	4,480	10.2	5,075	13.3
Impairment losses	(3,191)	(26.0)	(2,857)	(10.5)	(2,030)	(28.9)
NPBT	876	55.1	1,624	85.3	3,047	87.6
Shareholders' profit	789	54.9	1,465	85.8	2,753	87.9
EPS (RMB)	0.072	43.1	0.097	34.4	0.183	87.9

Source: the Company, Guotai Junan International.

We initiate coverage of the Company with a TP of HK\$1.52 and "Buy" rating. As at 28 September 2020, the 2020 PER and PBR of the Company stood at 12.7x and 0.4x, respectively, while the 2020 weighted average PER and PBR of mainland banks listed in Hong Kong stood at 4.8x and 0.5x, respectively. We expect Gansu province's economy to continue to develop at a relatively fast pace, which will contribute to the Company's development. The Company intends to issue additional shares, which is expected to strengthen its capital base by a large margin if successfully fulfilled. We project the Company's earnings will recover by a large margin in our forecast period. We project the Company's asset quality will improve to a certain extent and the Company's risk resistance capacity will also increase to a certain extent in our forecast period. Therefore, we expect the Company's valuations will improve in the near future. We initiate coverage of the Company with a TP of HK\$1.52, equivalent to 18.5x FY20 PER, 13.8x FY21 PER, 7.3x FY22 PER, 0.64x FY20 PBR, 0.61x FY21 PBR and 0.58x FY22 PBR. Meanwhile, we initiate the Company with "Buy" rating.

Risk factors

- Global economic conditions aren't in line with our expectations.
- The negative impacts from COVID-19 are beyond our expectations.
- The negative impacts from global trade friction and geopolitical conflict are beyond our expectations.
- The tension between China and the US intensifies.
- The interest rate decline brings downward pressure on the interest margin of the banking sector.
- Regulatory developments may affect the Company's business model and profitability.

Exhibit 11: Peers Comparison

Company	Stock Code	Currency	Last Price	PE (fiscal year)				PB (fiscal year)				ROE (%)	D/Y (%)	ROA (%)	Market Cap
				19A	20F	21F	22F	19A	20F	21F	22F				
HK - Listed mainland banks															
Ind & Comm Bk Of China-H	1398 HK	HKD	4.01	4.1	4.4	4.1	3.9	0.5	0.5	0.4	0.4	11.2	7.1	0.9	1,876,163
China Construction Bank-H	939 HK	HKD	5.02	4.2	4.5	4.2	3.9	0.5	0.5	0.4	0.4	11.3	7.0	1.0	1,274,892
Agricultural Bank Of China-H	1288 HK	HKD	2.42	3.6	3.9	3.7	3.4	0.4	0.4	0.4	0.3	10.5	8.0	0.8	1,242,591
Bank Of China Ltd-H	3988 HK	HKD	2.39	3.5	3.7	3.6	3.4	0.4	0.3	0.3	0.3	9.6	8.6	0.8	980,839
Bank Of Communications Co-H	3328 HK	HKD	3.79	3.3	3.7	3.5	3.2	0.3	0.3	0.3	0.3	9.5	8.6	0.7	338,851
Postal Savings Bank Of Chi-H	1658 HK	HKD	3.16	3.9	4.2	3.8	3.3	0.5	0.4	0.4	0.4	11.0	7.3	0.6	412,966
China Merchants Bank-H	3968 HK	HKD	37.15	9.0	8.9	7.9	6.9	1.5	1.3	1.1	1.0	15.2	3.7	1.2	1,032,104
China Citic Bank Corp Ltd-H	998 HK	HKD	2.97	2.8	3.0	2.8	2.6	0.3	0.3	0.2	0.2	9.3	8.4	0.6	243,494
China Minsheng Banking Cor-H	1988 HK	HKD	3.94	2.8	3.0	2.9	2.7	0.3	0.3	0.3	0.3	10.5	9.0	0.7	249,740
China Everbright Bank Co L-H	6818 HK	HKD	2.51	3.3	3.6	3.3	2.9	0.4	0.3	0.3	0.3	9.7	8.4	0.6	200,020
Bank Of Jinzhou Co Ltd-H	416 HK	HKD	3.05	n.a.	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	23,734
Bank Of Qingdao Co Ltd-H	3866 HK	HKD	4.55	10.3	n.a.	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	24,192
Harbin Bank Co Ltd-H	6138 HK	HKD	0.97	2.7	n.a.	n.a.	n.a.	0.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10,666
Huishang Bank Corp Ltd-H	3698 HK	HKD	2.54	2.9	2.9	2.7	2.4	0.4	0.3	0.3	0.3	12.6	6.5	0.9	30,873
Chongqing Rural Commercial-H	3618 HK	HKD	2.88	2.7	3.2	2.9	2.7	0.3	0.3	0.3	0.3	10.2	7.7	0.9	58,588
Shengjing Bank Co Ltd-H	2066 HK	HKD	6.93	6.8	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	60,961
Bank Of Chongqing Co Ltd-H	1963 HK	HKD	4.08	2.9	2.6	2.3	2.1	0.4	0.3	0.3	0.3	13.4	7.4	0.9	12,758
Bank Of Zhengzhou Co Ltd-H	6196 HK	HKD	1.76	3.3	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	24,021
China Zheshang Bank Co Ltd-H	2016 HK	HKD	3.80	4.9	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	99,114
Bank Of Tianjin Co Ltd-H	1578 HK	HKD	3.22	3.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19,547
Jilin Jiutai Rural Commerc-H	6122 HK	HKD	2.48	8.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10,895
Zhongyuan Bank Co Ltd-H	1216 HK	HKD	1.08	6.0	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	21,681
Bank Of Gansu Co Ltd-H	2139 HK	HKD	1.01	17.6	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10,170
Jiangxi Bank Co Ltd-H	1916 HK	HKD	3.23	8.4	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19,458
Bank Of Jiujiang Co Ltd-H	6190 HK	HKD	10.96	12.7	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	26,385
Simple Average				5.6	4.0	3.7	3.3	0.5	0.4	0.4	0.4	11.1	7.5	0.8	
Weighted Average				4.5	4.7	4.3	4.0	0.6	0.5	0.5	0.4	11.2	7.2	0.9	
HK - Listed other banks															
Hsbc Holdings Plc	5 HK	HKD	31.45	13.4	18.7	10.2	7.3	0.5	0.5	0.5	0.5	2.4	2.1	0.2	640,560
Standard Chartered Plc	2888 HK	HKD	37.85	8.5	14.6	8.1	5.8	0.4	0.3	0.3	0.3	2.1	2.0	0.2	119,461
Boc Hong Kong Holdings Ltd	2388 HK	HKD	21.25	6.7	8.1	7.8	7.2	0.7	0.8	0.7	0.7	9.8	5.9	0.9	224,672
Hang Seng Bank Ltd	11 HK	HKD	117.30	9.0	12.8	12.1	11.3	1.3	1.3	1.3	1.2	10.3	4.8	1.0	224,259
Bank Of East Asia Ltd	23 HK	HKD	14.44	16.2	15.9	11.5	9.2	0.4	0.4	0.4	0.4	2.7	3.1	0.3	42,116
Dah Sing Banking Group Ltd	2356 HK	HKD	6.80	4.3	5.9	5.3	5.0	0.4	0.3	0.3	0.3	6.2	5.0	0.7	9,559
Simple Average				9.7	12.6	9.2	7.6	0.6	0.6	0.6	0.6	5.6	3.8	0.6	
Weighted Average				11.0	15.2	9.9	7.9	0.7	0.7	0.6	0.6	5.1	3.3	0.5	
China A-share listed banks															
Ind & Comm Bk Of China-A	601398 CH	CNY	4.91	5.7	6.1	5.8	5.4	0.7	0.7	0.6	0.6	11.1	5.0	0.9	1,876,151
China Construction Bank-A	601939 CH	CNY	6.14	5.8	6.1	5.8	5.4	0.7	0.7	0.6	0.6	11.6	4.9	1.0	1,274,884
Agricultural Bank Of China-A	601288 CH	CNY	3.17	5.4	5.7	5.4	5.0	0.6	0.6	0.5	0.5	11.0	5.5	0.8	1,242,583
Bank Of China Ltd-A	601988 CH	CNY	3.21	5.3	5.5	5.3	5.0	0.6	0.5	0.5	0.5	9.9	5.7	0.8	980,832
Bank Of Communications Co-A	601328 CH	CNY	4.55	4.6	4.9	4.7	4.4	0.5	0.5	0.4	0.4	9.6	6.2	0.7	338,849
China Merchants Bank-A	600036 CH	CNY	36.18	10.0	9.9	8.8	7.7	1.6	1.4	1.3	1.1	15.1	3.3	1.2	1,032,098
China Citic Bank Corp Ltd-A	601998 CH	CNY	5.07	5.3	5.7	5.3	4.7	0.6	0.5	0.5	0.4	9.7	4.4	0.6	243,493
China Minsheng Banking-A	600016 CH	CNY	5.30	4.3	4.6	4.2	3.9	0.4	0.5	0.4	0.4	10.6	5.8	0.8	249,739
Shanghai Pudong Devel Bank-A	600000 CH	CNY	9.42	4.8	5.2	4.9	4.3	0.6	0.5	0.5	0.4	10.1	4.5	0.7	319,171
Industrial Bank Co Ltd -A	601166 CH	CNY	16.17	5.2	5.6	5.1	4.5	0.7	0.6	0.6	0.5	11.6	4.5	0.8	387,764
China Everbright Bank Co-A	601818 CH	CNY	3.66	5.4	5.7	5.1	4.5	0.6	0.6	0.5	0.5	10.0	5.3	0.7	200,018
Huaxia Bank Co Ltd-A	600015 CH	CNY	6.16	4.5	4.5	4.3	4.1	0.5	0.4	0.4	0.4	9.4	4.3	0.7	109,414
Ping An Bank Co Ltd-A	000001 CH	CNY	15.18	9.9	11.1	9.8	8.5	1.1	1.0	0.9	0.8	8.9	1.3	0.7	340,047
Bank Of Beijing Co Ltd -A	601169 CH	CNY	4.70	4.8	5.1	4.9	4.5	0.5	0.5	0.4	0.4	9.8	6.0	0.7	114,709
Bank Of Ningbo Co Ltd -A	002142 CH	CNY	31.48	13.1	12.1	10.3	8.1	2.1	1.8	1.6	1.4	15.4	1.7	1.1	218,323
Bank Of Nanjing Co Ltd -A	601009 CH	CNY	7.90	5.6	5.9	5.4	4.6	0.9	0.8	0.7	0.7	14.3	5.0	0.9	91,257
Bank Of Shanghai Co Ltd-A	601229 CH	CNY	8.15	6.0	5.6	5.1	4.5	0.7	0.7	0.6	0.6	11.9	5.4	0.9	133,653

Bank Of Jiangsu Co Ltd-A	600919 CH	CNY	6.11	5.2	4.8	4.4	3.9	0.6	0.6	0.5	0.5	11.6	4.7	0.7	81,424
Bank Of Hangzhou Co Ltd-A	600926 CH	CNY	11.72	9.8	9.5	8.3	7.0	1.1	1.1	1.0	0.9	11.3	3.3	0.7	80,229
Bank Of Guiyang Co Ltd-A	601997 CH	CNY	7.78	4.5	4.0	3.7	3.3	0.7	0.6	0.6	0.5	15.2	5.1	1.1	28,900
Jiangsu Jiangyin Rural Com-A	002807 CH	CNY	4.16	8.4	8.3	7.4	6.3	0.8	0.7	0.7	0.6	9.1	3.7	0.8	10,430
Wuxi Rural Commercial Bank-A	600908 CH	CNY	5.58	8.2	7.6	6.9	6.1	0.9	0.8	0.7	0.7	11.3	3.9	0.8	11,905
Jiangsu Changshu Rural Com-A	601128 CH	CNY	7.82	11.3	11.4	9.9	8.5	1.3	1.2	1.1	1.0	10.8	2.7	1.0	24,742
Jiangsu Wujiang Rural Comm-A	603323 CH	CNY	4.61	9.0	8.2	7.4	6.7	0.7	0.7	0.6	0.6	8.5	4.3	0.8	9,595
Jiangsu Zhangjiagang Rura -A	002839 CH	CNY	5.89	11.1	10.8	9.8	8.4	1.0	1.0	0.9	0.8	9.2	2.2	0.8	12,290
Simple Average				6.9	7.0	6.3	5.6	0.8	0.8	0.7	0.6	11.1	4.4	0.8	
Weighted Average				6.3	6.5	6.1	5.5	0.8	0.7	0.7	0.6	11.4	4.7	0.9	

USA - Listed banks

Citigroup Inc	C US	USD	44.72	5.5	13.3	7.3	5.4	0.5	0.5	0.5	0.5	4.0	4.6	0.4	721,533
Bank Of America Corp	BAC US	USD	25.24	9.1	15.2	12.0	9.4	0.9	0.9	0.8	0.8	6.1	2.9	0.6	1,694,784
Jpmorgan Chase & Co	JPM US	USD	101.78	9.5	16.3	11.6	9.6	1.3	1.3	1.2	1.2	8.2	3.5	0.7	2,403,935
Wells Fargo & Co	WFC US	USD	25.30	6.2	10.2	12.6	7.5	0.6	0.6	0.6	0.6	0.4	4.7	0.1	807,838
Us Bancorp	USB US	USD	39.50	9.5	14.3	13.5	9.9	1.3	1.3	1.2	1.2	8.8	4.3	0.8	461,135
Bank Of New York Mellon Corp	BK US	USD	37.18	8.2	9.6	9.6	8.7	0.9	0.8	0.8	0.7	8.7	3.3	0.9	255,257
Morgan Stanley	MS US	USD	49.00	9.3	9.2	9.7	8.5	1.1	1.0	0.9	0.9	10.5	2.9	0.9	686,363
Goldman Sachs Group Inc	GS US	USD	207.98	9.8	11.3	9.0	7.7	0.9	0.9	0.8	0.8	6.9	2.4	0.6	577,827
Simple Average				8.4	24.6	10.7	8.4	1.0	0.9	0.9	0.8	6.7	3.6	0.6	
Weighted Average				8.6	24.1	11.1	8.7	1.0	1.0	0.9	0.9	6.7	3.5	0.6	

Europe - Listed banks

Deutsche Bank Ag-Registered	DBK GR	EUR	7.96	n.a.	n.a.	24.5	9.5	0.3	0.3	0.3	0.3	(1.3)	0.0	(0.1)	150,359
Commerzbank Ag	CBK GR	EUR	4.76	9.3	n.a.	30.5	8.3	0.2	0.2	0.2	0.2	(0.8)	0.2	0.0	54,481
Bnp Paribas	BNP FP	EUR	33.89	5.5	7.4	7.4	5.9	0.4	0.4	0.4	0.4	5.6	6.2	0.3	387,014
Societe Generale Sa	GLE FP	EUR	12.69	4.2	n.a.	8.7	4.7	0.2	0.2	0.2	0.2	(0.7)	1.8	(0.1)	98,934
Credit Agricole Sa	ACA FP	EUR	7.80	5.3	8.4	8.2	6.3	0.4	0.4	0.4	0.4	4.8	4.1	0.2	205,804
Barclays Plc	BARC LN	GBp	108.08	7.6	25.5	8.4	5.2	0.3	0.3	0.3	0.3	1.1	1.6	0.0	188,159
Lloyds Banking Group Plc	LLOY LN	GBp	28.64	8.2	31.5	8.2	5.7	0.5	0.5	0.5	0.4	1.2	1.7	0.0	203,398
Simple Average				6.7	18.2	13.7	6.5	0.3	0.3	0.3	0.3	1.0	2.2	0.0	
Weighted Average				6.3	16.0	10.9	6.3	0.4	0.4	0.4	0.3	2.6	3.2	0.1	

Singapore - Listed banks

Dbz Group Holdings Ltd	DBS SP	SGD	21.09	8.4	12.1	10.6	8.9	1.1	1.1	1.0	0.9	8.9	4.2	0.7	306,231
Oversea-Chinese Banking Corp	OCBC SP	SGD	8.60	7.7	11.5	9.8	8.0	0.8	0.8	0.8	0.7	7.1	4.0	0.7	219,776
United Overseas Bank Ltd	UOB SP	SGD	19.47	7.6	11.5	10.6	8.3	0.9	0.8	0.8	0.8	7.4	4.1	0.7	185,717
Simple Average				7.9	11.7	10.3	8.4	0.9	0.9	0.9	0.8	7.8	4.1	0.7	
Weighted Average				8.0	11.8	10.3	8.5	0.9	0.9	0.9	0.8	7.9	4.1	0.7	

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
RMB m, year ended 31 Dec	2018A	2019A	2020F	2021F	2022F	RMB m, year ended 31 Dec	2018A	2019A	2020F	2021F	2022F
Interest income	15,327	14,380	14,287	15,348	17,048	Cash and balances with central bank	31,537	25,274	23,621	26,420	29,801
Interest expense	(8,199)	(9,092)	(9,525)	(10,276)	(11,459)	Interbank assets	32,452	20,232	21,913	24,194	26,979
Net interest income	7,128	5,288	4,762	5,073	5,589	Loans and advances, net	154,634	164,767	175,724	194,438	217,285
Fee and commission income	363	358	455	512	580	Investment	102,876	113,509	117,141	130,261	146,283
Fee and commission expense	(197)	(104)	(42)	(47)	(53)	Other assets	7,124	11,263	14,108	16,760	20,783
Net fee and commission income	166	253	413	465	527	Total Assets	328,622	335,044	352,506	392,073	441,131
Other net income	1,578	1,692	1,292	1,532	1,831	Interbank liabilities	30,531	19,910	12,183	12,672	13,940
Non-interest income	1,744	1,945	1,705	1,997	2,357	Deposits from customers	210,723	236,869	262,450	293,551	331,125
Total operating income	8,872	7,233	6,467	7,069	7,946	Debt securities issued	41,577	39,459	37,131	40,547	45,088
Operating expenses	(2,271)	(2,357)	(2,401)	(2,589)	(2,871)	Other liabilities	20,544	14,117	9,018	12,404	15,870
PPOP	6,601	4,877	4,066	4,480	5,075	Total Liabilities	303,375	310,355	320,782	359,173	406,024
Impairment losses	(1,962)	(4,312)	(3,191)	(2,857)	(2,030)	Total Shareholders' Equity	25,216	24,657	31,688	32,860	35,062
Operating profit	4,639	565	875	1,623	3,045	Minority Interest	31	32	36	40	44
Income from associates	(1)	(0)	1	1	1	Total Equity	25,248	24,689	31,724	32,900	35,106
Profit before tax	4,638	565	876	1,624	3,047						
Income tax	(1,198)	(53)	(83)	(154)	(288)						
Profit after tax	3,440	511	793	1,470	2,759						
Non-controlling interest	(4)	(2)	(5)	(5)	(6)						
Shareholders' profit / loss	3,435	509	789	1,465	2,753						
EPS (RMB)	0.345	0.051	0.072	0.097	0.183						

Cash Flow Statement					
RMB m, year ended 31 Dec	2018A	2019A	2020F	2021F	2022F
Profit before income tax	4,638	565	876	1,624	3,047
Adjustments for non-cash items	(269)	3,044	2,038	1,625	665
Change in operating assets	(42,640)	(5,929)	(13,028)	(25,560)	(32,385)
Change in operating liabilities	31,059	9,361	12,755	34,975	42,310
Net operating CF before tax	(7,212)	7,039	2,640	12,663	13,636
Tax paid	(1,324)	(490)	(760)	(1,409)	(2,643)
Cash from operating activities	(8,536)	6,550	1,880	11,255	10,993
Net proceeds from financial investments	2,970	(14,379)	(3,632)	(13,120)	(16,022)
Interest received	3,538	2,973	3,068	3,411	3,831
Net proceeds from others	(1,598)	(262)	(801)	(887)	(650)
Cash from investing activities	4,910	(11,668)	(1,366)	(10,596)	(12,841)
Net cash from additional shares	0	0	6,400	0	0
Net cash from financing L&E	22,786	(2,712)	(2,328)	3,416	4,541
Interest paid	(1,087)	(1,137)	(1,228)	(1,355)	(1,490)
Dividends paid	(2)	(1,014)	(3)	(159)	(295)
Others	(145)	6	4	5	6
Cash from financing activities	21,552	(4,858)	2,846	1,907	2,762
Net changes in cash	17,926	(9,976)	3,360	2,566	914
Cash at beg of year	17,221	35,147	25,171	28,532	31,098
Cash at end of year	35,147	25,171	28,532	31,098	32,012

Financial Ratios					
	2018A	2019A	2020F	2021F	2022F
EPS,RMB	0.345	0.051	0.072	0.097	0.183
BVPS,RMB	2.504	2.449	2.103	2.181	2.327
DPS,RMB	0.102	0.000	0.010	0.019	0.037
Growth (%)					
Net interest income	(4.8)	(25.8)	(9.9)	6.5	10.2
Non-interest income	207.4	11.5	(12.4)	17.1	18.1
Operating income	10.2	(18.5)	(10.6)	9.3	12.4
PPOP	10.0	(26.1)	(16.6)	10.2	13.3
Net profit	2.3	(85.2)	54.9	85.8	87.9
EPS growth (%)	(22.6)	(85.4)	43.1	34.4	87.9
Efficiency and liquidity (%)					
Cost-to-income	25.6	32.6	37.1	36.6	36.1
Loan-to-deposit	73.4	69.6	67.0	66.2	65.6
Income contribution (%)					
Net interest income	80.3	73.1	73.6	71.8	70.3
Non-interest income	19.7	26.9	26.4	28.2	29.7
Profitability and Valuation					
ROE (%)	8.9	2.0	2.8	4.5	8.1
ROA (%)	1.1	0.2	0.2	0.4	0.7
Dividend yield (%)	11.5	0.0	1.2	2.2	4.1
PE (x)	2.6	17.9	12.3	9.2	4.9
PB (x)	0.4	0.4	0.4	0.4	0.4
CAR (%)					
CAR TIER-1	11.0	9.9	12.1	11.5	11.4
CAR	13.6	11.8	12.6	12.0	11.9
Asset Quality (RMB m, year ended 31 Dec)					
NPL	3,689	4,182	4,106	4,374	4,614
NPL ratio (%)	2.29	2.45	2.26	2.17	2.05
LLR/NPL (%)	169.47	135.87	144.76	163.35	169.03
LLR/Total loan (%)	3.89	3.33	3.27	3.54	3.47

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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