



Company Report: HSBC Holdings (00005 HK)

公司报告: 汇丰控股 (00005 HK)

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Earnings Outlook is Still Bright, Maintain "Accumulate"

盈利前景仍明朗，维持“收集”

- The Company's net profit attributable to ordinary shareholders increased by 11.2% YoY in 1-3Q18.** In 1-3Q18, the Company's reported revenue was USD 41.8 bn, up 5.0% YoY, notably driven by a rise in deposit revenue across the Company's global businesses, primarily in Asia, as the Company benefited from wider margins and its increased balances. The Company's reported operating expenses was USD 25.5 bn, up 2.1% YoY. Reported profit before tax ("PBT") was USD 16.6 bn, up 11.9% YoY. In 1-3Q18, the Company's net profit attributable to ordinary shareholders was USD 11.1 bn, up 11.2% YoY.
- Looking ahead, expected steady growth of the global economy is projected to continue to drive the Company's earnings growth. Meanwhile, the U.S. Fed's interest rate hike and shrinkage of balance sheet are expected to continue to contribute to the Company's expansion of NIM. Given that the Company's capital base is still strong and the restructuring has been well promoted in the past few years, its financial targets of eight strategic priorities are expected to be fulfilled. Therefore, we project the Company's earnings to perform well in our forecast period. We expect EPS for FY18/ FY19/ FY20 to grow YoY by 39.6%/ 6.9%/ 8.5% to USD 0.677/ USD 0.724/ USD 0.785, respectively. **We revise down our TP to HKD 79.68 for the Company, equivalent to 15.0x FY18 PER, 14.0x FY19 PER, 1.2 x FY18 PBR and 1.2x FY19 PBR. We maintain our "Accumulate" rating for the Company.**
- 公司 2018 年前三季度归属母公司普通股股东的净利润同比增长 11.2%。2018 年前三季度，主要由于净息差扩大和结余增加，推动公司全球业务的存款收入全线上升（增长主要来自亚洲），公司实现列账基准收入 418 亿美元，同比增长 5.0%。列账基准营业支出为 255 亿美元，同比增加 2.1%。列账基准税前利润为 166 亿美元，同比增长 11.9%。2018 年前三季度，公司归属母公司普通股股东净利润达 111 亿美元，同比增长 11.2%。
- 展望未来，预期世界经济的平稳增长预计将会拉动公司的盈利增长。同时，美联储缩表与加息预计将继续有助于公司的净息差扩张。在公司的资本基础仍强劲以及在过去几年公司的结构重组得到了很好的推动的背景下，预计其八项优先战略的财务目标可以实现。因此，我们预计公司的盈利在我们的预测期间将会表现良好。我们预计公司 2018/2019/2020 年的每股盈利分别为 0.677 美元、0.724 美元和 0.785 美元，分别同比上涨 39.6%、6.9% 和 8.5%。我们下调公司的目标价至 79.68 港元，对应 15.0 倍 2018 年市盈率率和 14.0 倍 2019 年市盈率率，1.2 倍 2018 年市净率和 1.2 倍 2019 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:

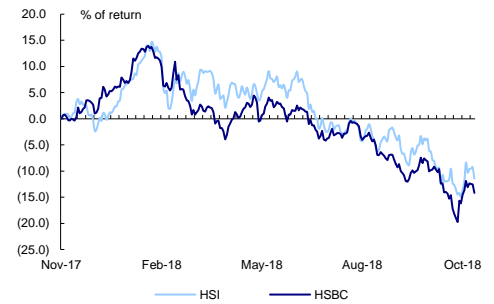
HK\$93.23

Share price 股价:

HK\$64.650

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 %	(4.4)	(11.9)	(14.8)
Rel. % to HS Index 相对恒指变动 %	(2.3)	(1.4)	(2.6)
Avg. share price (HK\$) 平均股价 (港元)	64.5	67.4	74.8

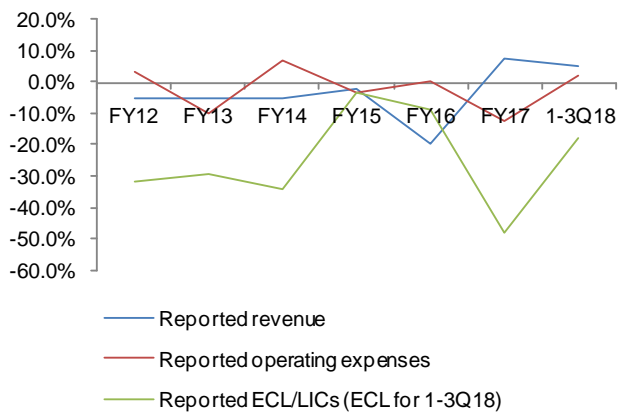
Source: Bloomberg, Guotai Junan International.

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\$)	(%)	(%)
2016A	47,966	1,299	0.066	(89.9)	126.8	7.967	1.0	0.510	6.1	0.8
2017A	51,445	9,683	0.485	637.2	17.1	8.425	1.0	0.510	6.2	5.9
2018F	55,075	13,609	0.677	39.6	12.2	8.448	1.0	0.510	6.2	8.0
2019F	58,312	14,732	0.724	6.9	11.4	8.591	1.0	0.510	6.2	8.5
2020F	61,261	16,106	0.785	8.5	10.5	8.795	0.9	0.510	6.2	9.0
Shares in issue (m) 总股数 (m)				20,253.1	Major shareholder 大股东				Ping An Asset Management	7.0%
Market cap. (HK\$ m) 市值 (HK\$ m)				1,309,360.6	Free float (%) 自由流通比率 (%)					100.0
3 month average vol. 3 个月平均成交股数 ('000)				22,948.1	FY18 Net gearing (%) FY18 净负债/股东资金 (%)					14.3
52 Weeks high/low (HK\$) 52 周高/低				86.000 / 60.350	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)					1.5

Source: the Company, Guotai Junan International.

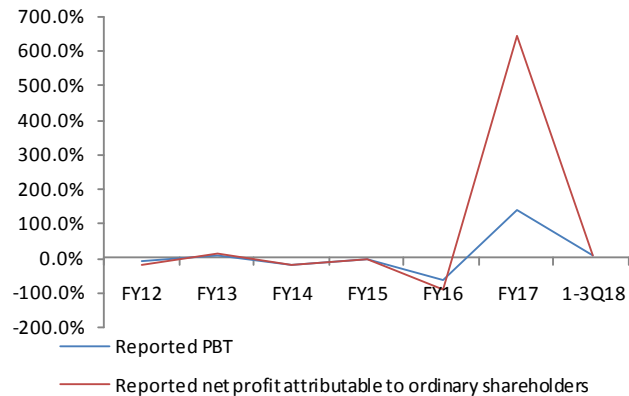
HSBC Holdings' (the "Company") net profit attributable to ordinary shareholders increased by 11.2% YoY in 1-3Q18. In 1-3Q18, the Company's reported revenue was USD 41.8 bn, up 5.0% YoY, notably driven by a rise in deposit revenue across the Company's global businesses, primarily in Asia, as the Company benefited from wider margins and its increased balances. These increases were partly offset by lower revenue in the Corporate Centre. The Company's reported operating expenses and reported ECL/LICs were USD 25.5 bn and USD 0.9 bn, up 2.1% YoY and down 17.7% YoY, respectively. The YoY increase in reported operating expenses primarily reflected the Company's investments to grow the business and enhance its digital capabilities, and the effects of foreign currency translation differences partly offset by a favourable movement in significant items. Reported profit before tax ("PBT") was USD 16.6 bn, up 11.9% YoY. In 1-3Q18, the Company's net profit attributable to ordinary shareholders was USD 11.1 bn, up 11.2% YoY.

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



Source: the Company.

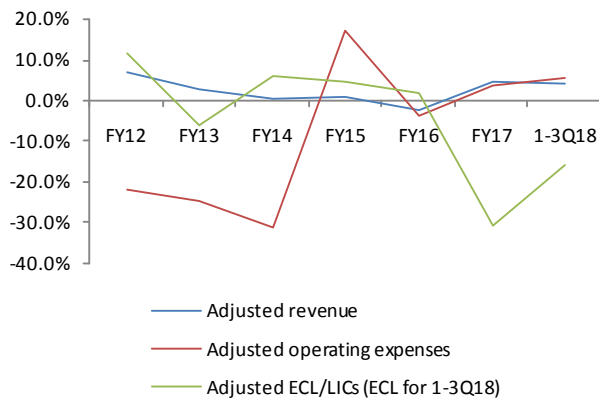
Figure-1: Exhibit 2: HSBC YoY growth of reported PBT and net profit attributable to ordinary shareholders



Source: the Company.

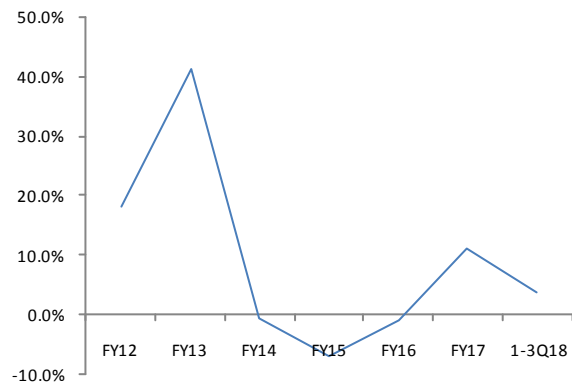
Adjusted PBT increased by 3.6% YoY in 1-3Q18. In 1-3Q18, the Company recorded adjusted revenue of USD 41.4 bn, up 4.3% YoY, reflecting strong revenue growth in all the Company's global businesses. Excluding the effects of currency translation and movements in significant items, the Company recorded adjusted operating expenses of USD 24.1 bn, up 5.8% YoY. Adjusted ECL/LICs of USD 0.9 bn mainly related to charges in RBWM (USD 0.8 bn), notably in Mexico against the Company's unsecured lending balances, and in the UK and Hong Kong, also against unsecured lending. Adjusted ECL/LICs decreased by 15.8% 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.

We expect that the Company's financial targets of eight strategic priorities could be fulfilled. In June 2018, the Company announced eight strategic priorities between 1H18 to 2020: 1) to accelerate growth from the Company's Asian franchise; 2) complete establishment of a UK ring-fenced bank, grow mortgage market share, grow commercial customer base, and improve customer service; 3) gain market share and deliver growth from the Company's international network; 4) turn around the

Company's US business; 5) improve capital efficiency, and redeploy capital into higher-return businesses; 6) create capacity for increasing investments in growth and technology through efficiency gains; 7) enhance customer centricity and customer service through investments in technology; and 8) simplify the organization and invest in future skills. Through executing the above-mentioned eight strategic priorities, the Company plans to reach the following financial targets: 1) ROTE more than 11% by 2020; 2) positive adjusted jaws; 3) sustain dividends through long-term earnings capacity of the businesses; and 4) share buy-backs subject to regulatory approval. As at the end of 3Q18, the Company's CET 1 ratio was still strong and achieved 14.3%. Meanwhile, the Company has successfully restructured itself in the past few years. Therefore, we think that the Company can fulfill its financial targets of eight strategic priorities and deliver sustainable growth and relatively good dividend payout level. Meanwhile, future possible share buybacks are expected to also support the Company's valuation.

We expect the global economy to continue to recover on the whole in the rest of 2018 and 2019 despite rising downside risks. In 1H18, global growth shed some momentum registered in 2H17, and the expansion became less synchronized across countries. Activity moderated more than expected in some large advanced economies from its strong pace last year, while emerging markets and developing economy groups continued to expand at broadly the same pace as in 2017. Downside risks to global growth, such as rising trade barriers and a reversal of capital flows to emerging market economies with weaker fundamentals and higher political risk has risen in the past few months of 2018 in the context of elevated policy uncertainty. According to IMF's forecast in October 2018, global growth for 2018-2019 is projected to remain steady at its 2017 level, but its pace has been less vigorous than projected in April and has become less balanced; global growth is expected to be 3.7% for 2018-2019, which is 0.2 pts lower than its forecasts in April for both years. In the near future, the following factors are projected to still disturb the world economy: 1) the U.S. Fed's interest rate hike and shrinkage of balance sheet; and 2) aggravation of trade friction and geopolitical conflict. Overall, we expect the global economy to continue to grow steadily in the rest of 2018 and 2019 despite the rising downside risks.

We expect EPS for FY18/ FY19/ FY20 to grow YoY by 39.6%/ 6.9%/ 8.5% to USD 0.677/ USD 0.724/ USD 0.785, respectively. Looking ahead, expected steady growth of the global economy is projected to continue to drive the Company's earnings growth. Meanwhile, the U.S. Fed's interest rate hike and shrinkage of balance sheet are expected to continue to contribute to the Company's expansion of NIM. Given that the Company's capital base is still strong and restructuring was well promoted over the past few years, its financial targets of eight strategic priorities are expected to be fulfilled. Therefore, we project the Company's earnings to perform well in our forecast period. Based on our new assumptions for the Company, we revise up our forecast for net profit attributable to ordinary shareholders for FY18/ FY19/ FY20 by 7.0%/ 4.3%/ 5.4%. We expect net profit attributable to ordinary shareholders for FY18/ FY19/ FY20 to grow YoY by 40.5%/ 8.2%/ 9.3%, respectively. Correspondingly, considering the influence from the change of outstanding shares, we expect EPS for FY17/ FY18/ FY19 to grow YoY by 39.6%/ 6.9%/ 8.5% to USD 0.677/ USD 0.724/ USD 0.785, respectively.

Exhibit 5: Earnings adjustment

USD mn	FY18F			FY19F			FY20F		
	Old	New	Chg %	Old	New	Chg %	Old	New	Chg %
Net interest income	30,289	30,853	1.9	31,652	33,259	5.1	32,760	35,222	7.5
Non-interest income	24,843	24,223	(2.5)	26,199	25,053	(4.4)	27,370	26,040	(4.9)
Operating income	55,132	55,075	(0.1)	57,852	58,312	0.8	60,130	61,261	1.9
Operating expense	(35,547)	(35,477)	(0.2)	(36,293)	(36,222)	(0.2)	(36,947)	(36,874)	(0.2)
PPOP	19,585	19,598	0.1	21,558	22,090	2.5	23,184	24,387	5.2
Impairment losses	(1,822)	(1,504)	(17.5)	(1,877)	(2,556)	36.2	(1,933)	(3,067)	58.7
NPBT	20,191	20,664	2.3	22,157	22,176	0.1	23,776	24,014	1.0
NPAT	12,713	13,609	7.0	14,124	14,732	4.3	15,275	16,106	5.4
Basic EPS (USD)	0.635	0.677	6.6	0.699	0.724	3.5	0.75	0.785	4.7

Source: the Company, Guotai Junan International.

We maintain our "Accumulate" rating and revise down our TP for the Company to HKD 79.68. 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 9.3% and perpetual growth rate of 4.5%, and the Gordon Growth Model shows the target price is HKD 79.36. Second, the Sum-of-the-parts (SOTP) model values the Company at HK\$ 80.01. 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 15.0x FY18 PER, 14.0x FY19 PER, 1.2 x

FY18 PBR and 1.2x FY19 PBR. We maintain our "Accumulate" rating for the Company.

Exhibit 6: TP derived by Gordon growth model

Gordon growth model			
COE: cost of equity	9.3%		
FY18 ROE	8.0%		
FY18 Payout ratio	76.0%	Perpetual growth	4.5%
FY18 BVPS, HKD	66.23	FY18 Target P/B	1.2
Target Price, HKD	79.36	FY18 Target P/E	15.0

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
FY18 PBT, USD mn	632	16,333	1,354	1,805	541	20,664
FY18 EPS, USD	0.021	0.535	0.044	0.059	0.018	0.677
Target P/E (X)	14.0	15.0	16.0	14.0	20.0	
Target Value per share (HKD)	2.27	62.91	5.56	6.49	2.78	80.01
Group Target Price, HKD	80.01					
FY18 Target P/B (X)	1.2					
FY18 Target P/E (X)	15.1					

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.
- 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	5.34	5.9	5.6	5.2	4.8	0.8	0.7	0.7	0.6	13.9	5.4	1.1	2,088,997
China Construction Bank-H	939 HK	HKD	6.43	5.8	5.5	5.0	4.6	0.8	0.8	0.7	0.6	14.3	5.5	1.1	1,618,536
Agricultural Bank Of China-H	1288 HK	HKD	3.50	5.2	5.1	4.8	4.3	0.7	0.7	0.6	0.6	13.8	5.8	0.9	1,420,735
Bank Of China Ltd-H	3988 HK	HKD	3.35	5.2	4.9	4.6	4.2	0.6	0.6	0.5	0.5	12.0	6.3	0.9	1,132,827
Bank Of Communications Co-H	3328 HK	HKD	5.95	5.7	5.6	5.2	4.8	0.6	0.6	0.5	0.5	10.7	5.5	0.8	464,873
Postal Savings Bank Of Chi-H	1658 HK	HKD	4.78	7.0	6.3	5.5	4.9	0.8	0.8	0.7	0.6	13.1	3.4	0.6	387,326
China Merchants Bank-H	3968 HK	HKD	31.75	9.9	8.9	7.8	6.9	1.5	1.4	1.2	1.1	16.4	3.4	1.2	810,638
China Citic Bank Corp Ltd-H	998 HK	HKD	4.85	4.8	4.8	4.5	4.0	0.5	0.5	0.5	0.4	11.2	5.9	0.8	290,533
China Minsheng Banking-H	1988 HK	HKD	5.70	4.4	4.0	3.9	3.6	0.5	0.5	0.5	0.4	13.0	3.4	0.9	294,400
China Everbright Bank Co L-H	6818 HK	HKD	3.40	4.6	4.9	4.6	4.2	0.5	0.5	0.5	0.5	11.3	6.1	0.8	215,385
Bank Of Jinzhou Co Ltd-H	416 HK	HKD	8.43	5.5	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	57,169
Bank Of Qingdao Co Ltd-H	3866 HK	HKD	6.30	11.6	n.a.	n.a.	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25,570
Harbin Bank Co Ltd-H	6138 HK	HKD	1.88	3.4	3.6	3.5	3.4	0.4	0.4	0.3	0.3	11.4	3.3	0.9	20,672
Huishang Bank Corp Ltd-H	3698 HK	HKD	3.38	4.7	4.3	4.1	3.7	0.7	0.6	0.5	0.4	13.9	2.5	0.9	41,083
Chongqing Rural Commercial-H	3618 HK	HKD	4.37	4.0	4.0	3.8	3.5	0.6	0.5	0.5	0.4	14.1	5.4	1.0	43,700
Shengjing Bank Co Ltd-H	2066 HK	HKD	3.50	2.3	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	20,288
Bank Of Chongqing Co Ltd-H	1963 HK	HKD	4.51	3.3	3.3	3.2	3.1	0.5	0.4	0.4	0.3	13.2	4.1	0.9	14,103
Bank Of Zhengzhou Co Ltd-H	6196 HK	HKD	3.90	4.2	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	32,968
China Zhesang Bank Co Ltd-H	2016 HK	HKD	4.36	6.2	n.a.	n.a.	n.a.	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	81,614
Bank Of Tianjin Co Ltd-H	1578 HK	HKD	4.13	5.5	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25,071
Jilin Jiutai Rural Commec-H	6122 HK	HKD	3.77	10.1	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15,023
Zhongyuan Bank Co Ltd-H	1216 HK	HKD	2.33	9.6	n.a.	n.a.	n.a.	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	46,775
Bank Of Gansu Co Ltd-H	2139 HK	HKD	2.01	3.9	n.a.	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	20,240
Jiangxi Bank Co Ltd-H	1916 HK	HKD	6.18	8.8	n.a.	n.a.	n.a.	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	37,230
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				5.9	5.1	4.7	4.3	0.8	0.6	0.6	0.5	13.0	4.7	0.9	
Weighted Average				6.0	5.6	5.2	4.7	0.8	0.7	0.7	0.6	13.5	5.3	1.0	
HK - Listed other banks															
Hsbc Holdings Plc	5 HK	HKD	64.65	17.3	11.5	10.9	10.3	1.0	1.0	1.0	0.9	8.5	6.2	0.6	1,288,339
Standard Chartered Plc	2888 HK	HKD	57.90	31.6	10.6	8.9	8.0	0.5	0.5	0.5	0.5	4.7	2.9	0.4	191,493
Boc Hong Kong Holdings Ltd	2388 HK	HKD	29.05	9.9	9.5	8.8	8.1	1.3	1.2	1.1	1.0	12.8	5.0	1.2	307,139
Hang Seng Bank Ltd	11 HK	HKD	177.90	17.3	14.4	13.3	12.3	2.3	2.2	2.0	1.9	15.1	4.2	1.5	340,117
Bank Of East Asia	23 HK	HKD	25.65	8.0	11.2	11.0	10.6	0.8	0.7	0.7	0.7	6.8	4.1	0.8	72,987
Dah Sing Banking Group Ltd	2356 HK	HKD	14.68	9.4	7.6	6.9	6.6	0.8	0.8	0.7	0.6	10.3	3.5	1.2	20,622
Simple Average				15.6	10.8	10.0	9.3	1.1	1.1	1.0	1.0	9.7	4.3	0.9	
Weighted Average				17.1	11.5	10.8	10.1	1.2	1.2	1.1	1.0	9.7	5.3	0.8	
China A-share listed banks															
Ind & Comm Bk Of China-A	601398 CH	CNY	5.35	6.8	6.4	5.9	5.4	0.9	0.8	0.8	0.7	13.7	4.8	1.1	2,088,982
China Construction Bank-A	601939 CH	CNY	6.72	7.0	6.5	6.0	5.5	1.0	0.9	0.8	0.7	14.2	4.7	1.1	1,618,524
Agricultural Bank Of China-A	601288 CH	CNY	3.65	6.3	6.1	5.7	5.1	0.9	0.8	0.7	0.7	13.7	5.0	0.9	1,420,725
Bank Of China Ltd-A	601988 CH	CNY	3.59	6.4	6.0	5.6	5.1	0.8	0.7	0.6	0.6	11.9	5.1	0.9	1,132,818
Bank Of Communications Co-A	601328 CH	CNY	5.80	6.4	6.0	5.7	5.2	0.7	0.7	0.6	0.6	10.9	5.1	0.8	464,869
China Merchants Bank-A	600036 CH	CNY	28.60	10.3	9.0	7.8	6.8	1.6	1.4	1.2	1.1	16.3	3.4	1.2	810,632
China Citic Bank Corp Ltd-A	601998 CH	CNY	5.69	6.5	6.3	5.9	5.2	0.8	0.7	0.6	0.6	11.3	4.5	0.8	290,530
China Minsheng Banking-A	600016 CH	CNY	6.18	5.5	5.1	5.0	4.5	0.7	0.6	0.6	0.5	13.0	2.9	0.9	294,398
Shanghai Pudong Devel Bank-A	600000 CH	CNY	10.75	5.8	5.8	5.5	5.1	0.8	0.7	0.6	0.6	12.5	2.3	0.9	355,584
Industrial Bank Co Ltd -A	601166 CH	CNY	15.68	5.7	5.4	5.0	4.5	0.8	0.7	0.7	0.6	14.0	4.4	0.9	367,084
China Everbright Bank Co-A	601818 CH	CNY	3.84	6.0	6.2	5.8	5.2	0.7	0.7	0.6	0.6	11.3	4.9	0.8	215,383
Huaxia Bank Co Ltd-A	600015 CH	CNY	7.75	5.2	5.0	4.7	4.5	0.7	0.6	0.5	0.5	11.9	3.5	0.8	111,989
Ping An Bank Co Ltd-A	000001 CH	CNY	10.55	8.1	7.5	6.7	5.9	0.9	0.8	0.7	0.7	11.0	1.4	0.7	204,140
Bank Of Beijing Co Ltd -A	601169 CH	CNY	6.00	6.1	6.3	5.8	5.4	0.8	0.7	0.6	0.6	11.4	4.2	0.8	142,959
Bank Of Ningbo Co Ltd -A	002142 CH	CNY	17.16	9.5	8.0	6.7	5.4	1.7	1.4	1.2	1.0	18.7	2.7	1.0	100,723
Bank Of Nanjing Co Ltd -A	601009 CH	CNY	7.03	6.4	5.6	5.0	4.4	1.0	0.9	0.8	0.7	16.8	4.9	1.0	67,198
Bank Of Shanghai Co Ltd-A	601229 CH	CNY	11.52	8.2	6.8	5.8	4.9	1.0	0.9	0.8	0.7	12.4	3.6	1.0	141,871

Bank Of Jiangsu Co Ltd-A	600919 CH	CNY	6.39	6.2	5.8	5.2	4.5	0.8	0.7	0.6	0.6	11.8	3.1	0.7	83,132
Bank Of Hangzhou Co Ltd-A	600926 CH	CNY	7.73	8.7	8.3	7.2	5.3	0.9	0.9	0.8	0.7	11.0	2.6	0.6	44,690
Bank Of Guiyang Co Ltd-A	601997 CH	CNY	11.42	5.8	5.0	4.2	3.5	1.1	0.9	0.8	0.6	19.8	3.5	1.1	29,582
Jiangsu Jiangyin Rural Com-A	002807 CH	CNY	5.55	12.1	11.3	10.5	9.7	1.1	1.0	0.9	0.9	8.9	2.7	0.8	11,054
Wuxi Rural Commercial Bank-A	600908 CH	CNY	5.62	10.4	9.3	8.2	7.1	1.1	1.0	0.9	0.9	11.6	3.2	0.2	11,705
Jiangsu Changshu Rural Com-A	601128 CH	CNY	6.38	11.2	9.1	7.6	6.3	1.4	1.2	1.1	1.0	13.8	3.3	1.1	15,981
Jiangsu Wujiang Rural Comm-A	603323 CH	CNY	6.23	12.5	11.0	9.9	9.3	1.1	1.0	0.9	0.9	9.4	2.4	0.8	10,167
Jiangsu Zhangjiagang Rura -A	002839 CH	CNY	5.87	13.7	12.5	11.2	9.6	1.3	1.2	1.1	1.0	9.9	n.a.	0.8	11,957
Simple Average				7.9	7.2	6.5	5.7	1.0	0.9	0.8	0.7	12.8	3.7	0.9	
Weighted Average				6.9	6.4	5.9	5.4	0.9	0.8	0.8	0.7	13.4	4.4	1.0	

USA - Listed banks

Citigroup Inc	C US	USD	67.78	n.a.	10.2	8.9	7.8	1.0	0.9	0.9	0.8	9.0	2.3	0.9	1,295,952
Bank Of America Corp	BAC US	USD	28.87	17.7	11.3	10.1	9.0	1.2	1.2	1.1	1.0	10.5	1.9	1.2	2,218,293
Jpmorgan Chase & Co	JPM US	USD	112.38	17.7	12.2	11.3	10.4	1.7	1.6	1.5	1.4	13.6	2.4	1.3	2,925,848
Wells Fargo & Co	WFC US	USD	53.16	12.8	12.3	10.4	9.1	1.4	1.4	1.4	1.3	11.5	3.1	1.2	1,959,156
Us Bancorp	USB US	USD	52.93	15.0	12.9	12.1	11.3	2.0	1.9	1.8	1.7	14.6	2.5	1.5	669,708
Bank Of New York Mellon Corp	BK US	USD	49.03	13.1	11.7	11.2	10.4	1.3	1.3	1.2	1.1	11.1	2.1	1.2	379,558
Morgan Stanley	MS US	USD	46.43	14.8	9.4	9.0	8.4	1.2	1.1	1.0	1.0	12.4	2.4	1.0	625,293
Goldman Sachs Group Inc	GS US	USD	231.65	25.2	9.2	9.1	8.5	1.2	1.1	1.1	1.0	13.0	1.4	1.1	701,106
Simple Average				16.6	11.2	10.2	9.4	1.4	1.3	1.2	1.2	12.0	2.3	1.2	
Weighted Average				16.7	11.5	10.3	9.4	1.4	1.3	1.3	1.2	11.9	2.3	1.2	

Europe - Listed banks

Deutsche Bank Ag-Registered	DBK GR	EUR	8.92	n.a.	25.3	11.5	8.0	0.3	0.3	0.3	0.3	0.8	1.5	0.1	163,703
Commerzbank Ag	CBK GR	EUR	8.64	72.0	11.8	10.2	7.6	0.4	0.4	0.4	0.4	3.3	2.3	0.2	96,005
Bnp Paribas	BNP FP	EUR	45.91	7.6	7.6	7.3	6.5	0.6	0.6	0.6	0.6	7.8	6.6	0.4	509,055
Societe Generale Sa	GLE FP	EUR	33.27	11.4	7.3	6.9	6.2	0.4	0.5	0.5	0.5	7.2	6.8	0.3	238,602
Credit Agricole Sa	ACA FP	EUR	11.29	10.0	8.2	8.0	7.3	0.6	0.6	0.6	0.6	7.2	6.2	0.3	287,219
Royal Bank Of Scotland Group	RBS LN	GBp	249.30	39.6	9.2	9.0	7.7	0.6	0.7	0.7	0.7	7.7	2.6	0.5	305,756
Barclays Plc	BARC LN	GBp	173.86	n.a.	8.1	7.6	6.9	0.5	0.6	0.5	0.5	5.2	3.8	0.3	303,140
Lloyds Banking Group Plc	LLOY LN	GBp	59.22	13.5	7.7	7.9	7.5	1.0	1.0	0.9	0.9	12.8	5.6	0.6	428,899
Simple Average				25.7	10.7	8.6	7.2	0.6	0.6	0.6	0.5	6.5	4.4	0.3	
Weighted Average				18.4	9.4	8.1	7.1	0.6	0.6	0.6	0.6	7.6	5.0	0.4	

Singapore - Listed banks

Dbs Group Holdings Ltd	DBS SP	SGD	23.74	13.8	10.7	9.7	8.9	1.3	1.3	1.2	1.1	12.1	5.0	1.1	344,377
Oversea-Chinese Banking Corp	OCBC SP	SGD	11.46	11.7	10.3	9.6	8.9	1.3	1.2	1.1	1.0	11.9	3.8	1.1	276,881
United Overseas Bank Ltd	UOB SP	SGD	24.66	12.4	10.3	9.6	8.9	1.2	1.1	1.1	1.0	11.2	4.9	1.1	233,641
Simple Average				12.7	10.4	9.6	8.9	1.3	1.2	1.1	1.0	11.7	4.6	1.1	
Weighted Average				12.8	10.4	9.6	8.9	1.3	1.2	1.1	1.1	11.8	4.6	1.1	

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
USD m, year ended 31 Dec	2016A	2017A	2018F	2019F	2020F	USD m, year ended 31 Dec	2016A	2017A	2018F	2019F	2020F
Net interest income	29,813	28,176	30,853	33,259	35,222	Cash and balances at central banks	128,009	180,624	169,787	183,369	196,205
Net fee income	12,777	12,811	13,170	13,499	13,931	Loans, net	861,504	962,964	991,949	1,026,667	1,060,547
Other non-interest income	5,376	10,458	11,053	11,554	12,109	Loans, interbank	88,126	90,393	85,873	88,707	91,457
Total non-interest income	18,153	23,269	24,223	25,053	26,040	Financial investments	436,797	389,076	394,912	406,760	418,962
Total operating income	47,966	51,445	55,075	58,312	61,261	Other assets	860,550	898,714	954,903	980,233	1,004,508
Total operating expense	(39,808)	(34,884)	(35,477)	(36,222)	(36,874)	Total Assets	2,374,986	2,521,771	2,597,424	2,685,737	2,771,680
PPOP	8,158	16,561	19,598	22,090	24,387	Customer Deposits	1,272,386	1,364,462	1,356,275	1,398,320	1,443,066
Provision loss	(3,400)	(1,769)	(1,504)	(2,556)	(3,067)	Deposits by banks	59,939	69,922	65,027	67,173	69,256
Operating profit	4,758	14,792	18,095	19,534	21,320	Trading liabilities	153,691	184,361	92,181	95,222	98,174
Other profits	2,354	2,375	2,570	2,642	2,695	Other liabilities	706,392	705,155	882,152	918,114	947,835
Profit before tax	7,112	17,167	20,664	22,176	24,014	Total Liabilities	2,192,408	2,323,900	2,395,635	2,478,830	2,558,331
Income tax	(3,666)	(5,288)	(4,608)	(4,945)	(5,355)	Total Shareholders' Equity	175,386	190,250	193,519	197,828	203,428
Profit after tax	3,446	11,879	16,056	17,231	18,659	Minority Interest	7,192	7,621	8,270	9,079	9,921
Non-controlling interest	(967)	(1,081)	(1,297)	(1,349)	(1,403)	Total Equity	182,578	197,871	201,789	206,907	213,349
Shareholders' profit / loss	2,479	10,798	14,759	15,882	17,256						
Other equity instruments' net profit	(1,180)	(1,115)	(1,150)	(1,150)	(1,150)						
Common shareholders' net profit (reported)	1,299	9,683	13,609	14,732	16,106						
EPS (\$), basic	0.066	0.485	0.677	0.724	0.785						
EPS (\$), diluted	0.065	0.482	0.673	0.720	0.781						

Cash Flow Statement						Financial Ratios					
USD m, year ended 31 Dec	2016A	2017A	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
Profit before tax	7,112	17,167	20,664	22,176	24,014	EPS (\$), basic	0.066	0.485	0.677	0.724	0.785
Adjustments for non-cash items	25,649	(19,394)	2,565	25,136	23,879	BVPS (\$)	7.967	8.425	8.448	8.591	8.795
Change in operating assets	36,299	(169,039)	(71,334)	(83,847)	(81,335)	DPS (\$)	0.510	0.510	0.510	0.510	0.510
Change in operating liabilities	3,200	163,908	72,659	81,421	77,870	Growth (%)					
Dividends received from associates	689	740	444	534	559	Net interest income	(8.4)	(5.5)	9.5	7.8	5.9
Contributions paid to defined benefit plans	(726)	(685)	(706)	(695)	(700)	Non-interest income	(33.4)	28.2	4.1	3.4	3.9
Tax paid	(3,264)	(3,175)	(4,608)	(4,945)	(5,355)	Operating expense	0.1	(12.4)	1.7	2.1	1.8
Cash from operating activities	68,959	(10,478)	19,684	39,779	38,933	PPOP	(59.3)	103.0	18.3	12.7	10.4
Net proceeds from financial investments	(26,999)	61,088	(5,836)	(11,847)	(12,203)	Net profit	(89.7)	645.4	40.5	8.2	9.3
Net proceeds from others	11,939	4,469	(4,319)	(4,466)	(4,609)	EPS, basic	(89.9)	637.2	39.6	6.9	8.5
Cash from investing activities	(15,060)	65,557	(10,155)	(16,313)	(16,811)	Efficiency and liquidity (%)					
Net cash from financing liabilities and equity	239	(1,445)	(924)	1,773	1,631	Cost-to-income	83.0	67.8	64.4	62.1	60.2
Dividends paid	(9,157)	(9,005)	(9,941)	(10,028)	(10,116)	Loan-to-deposit	67.7	70.6	73.1	73.4	73.5
Cash from financing activities	(8,918)	(10,450)	(10,864)	(8,254)	(8,485)	Income contribution (%)					
Net changes in cash	44,981	44,629	(1,335)	15,212	13,637	Net interest income	62.2	54.8	56.0	57.0	57.5
Cash at beg of year	243,863	274,550	337,412	326,077	333,289	Non-interest income	37.8	45.2	44.0	43.0	42.5
FX adjustments	(14,294)	18,233	(10,000)	(8,000)	(7,000)	Profitability and Valuation					
Cash at end of year	274,550	337,412	326,077	333,289	339,925	ROE (%)	0.8	5.9	8.0	8.5	9.0
						ROA (%)	0.1	0.5	0.6	0.7	0.7
						Dividend yield (%)	6.1	6.2	6.2	6.2	6.2
						PE (x)	126.8	17.1	12.2	11.4	10.5
						PB (x)	1.0	1.0	1.0	1.0	0.9
						CAR (%)					
						CET-1 ratio	13.6	14.5	14.3	14.1	13.9
						CAR	20.1	20.9	20.7	20.5	20.3
						Asset Quality (USD m, year ended 31 Dec)					
						NPL	18,228	15,470	15,977	16,762	17,549
						NPL ratio %	1.90	1.46	1.47	1.49	1.51
						LLR/NPL %	43.07	48.38	56.68	57.27	57.98
						LLR/Total loan %	0.82	0.71	0.83	0.85	0.88

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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