

23 July 2018

Financial Services | Banks

Banks

Overweight (Maintained)

Softened Regulation To Lift Credit Support

Stocks Covered: 9
 Ratings (Buy/Neutral/Sell): 6 / 3 / 0
 Last 12m Earnings Revision Trend: Positive

Maintain **OVERWEIGHT** on the sector with **ABC** and **BOC** as our **Top Picks**. **PBoC's** implementation guideline for asset management rules and **CBIRC's** draft regulation for wealth management businesses reaffirmed our view of a moderating deleveraging pace. The policy makers' monetary easing and window guidance will likely boost credit growth in 2H18, thereby stabilising market sentiment amid intensifying trade disputes and rising bond defaults. Sector valuations appear attractive after the recent share price correction, offering a good entry point ahead of China banks' interim earnings results.

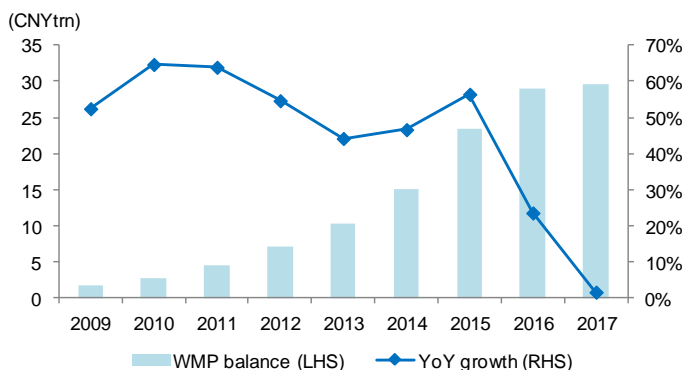
Notable loosening in regulatory stance. On 22 July, the People's Bank of China (PBoC) and China Banking and Insurance Regulatory Commission (CBIRC) issued the implementation guideline for new asset management rules and draft regulation for banks' wealth management businesses respectively. Both policies turned out to be softer-than-expected. Key highlights are:

- Relaxation in NSCA investment.** Publicly offered asset management products (AMPs) can invest in certain non-stand credit assets (NSCAs), in addition to bonds and equities;
- Roll-over of existing products.** During the transition period, financial institutions may issue old products to invest in new assets, with maturity no later than end-2020;
- Less strict valuation method.** Cash management products and certain open-ended products with maturity of over six months can be measured at amortised cost, instead of fair value;
- Supportive measures for off-balance sheet clean-up.** Regulators may relax Macro Prudence Assessment (MPA) to support NSCAs that cannot be digested but have to be shifted back to the balance sheet. Banks are encouraged to replenish capital via subordinated debt;
- More flexibility during transition period.** By end-2020, outstanding NCSAs yet to be transferred to loans can be properly digested with the consent of regulators. Financial institutions can set their own pace to reduce shadow banking exposure.

Policy incentive to spur credit growth. Although the Government maintained the target for financial deleveraging, the fine-tuning of policy measures would, to a great extent, alleviates pressure on banks to fulfil regulatory standards. Moreover, PBoC's recent liquidity support and guidance to increase lending and bond investments should somewhat lower banks' risk appetite and boost overall credit growth in the coming months.

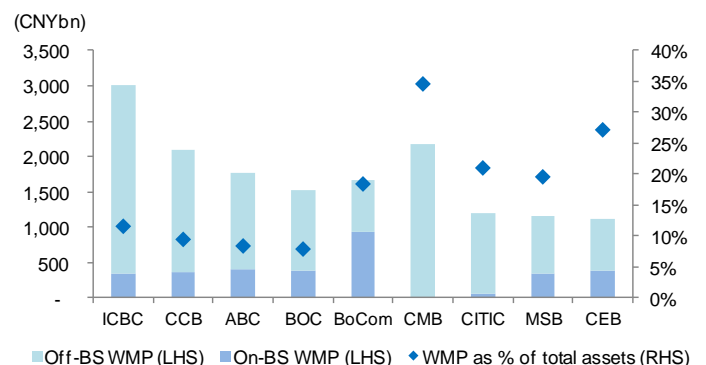
Maintain OVERWEIGHT. Smaller banks with relatively higher wealth management product (WMP) exposure are likely to benefit more in the near term. However, over mid to long run, we still prefer big banks with solid asset quality and decent capital positions.

Figure 1: Growth in WMP slowed sharply during 2016-2017



Source: Wind, RHB

Figure 2: Individual banks' WMP balances



Source: Company data

Company Name	Rating	Price	Target	% Upside (Downside)	P/E (x) Dec-18F	P/B (x) Dec-18F	Yield (%) Dec-18F
Agricultural Bank of China	BUY	HKD3.62	HKD5.80	60.2	5.0	0.6	6.1
Bank of China	BUY	HKD3.61	HKD5.90	63.4	5.1	0.6	6.1
China CITIC Bank	BUY	HKD4.78	HKD6.50	36.0	4.6	0.5	6.7
China Construction Bank	BUY	HKD6.86	HKD10.30	50.1	5.8	0.8	5.2
China Merchants Bank	BUY	HKD28.80	HKD37.50	30.2	7.9	1.2	3.9
ICBC	BUY	HKD5.56	HKD8.50	52.9	5.7	0.8	5.3
Bank of Communications	NEUTRAL	HKD5.47	HKD6.30	15.2	4.9	0.5	6.3
China Everbright Bank	NEUTRAL	HKD3.32	HKD4.00	20.5	4.7	0.5	6.7
China Minsheng Banking Corp	NEUTRAL	HKD5.67	HKD7.90	39.3	3.8	0.5	3.8

Source: Company data, RHB

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