

14 May 2018

Financial Services | Banks

Banks

Overweight (Maintained)

Improving Credit Growth Structure

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

We remain **OVERWEIGHT** on the sector, with ABC and BOC as our Top Picks. April's TSF data came in above estimates on strong bond financing. This, together with the solid growth in the mid- and long-term corporate loans, suggest credit demand from the real economy has remained healthy. PBoC targets to maintain a stable and neutral monetary policy, while aiming to keep liquidity conditions benign. Thus, we see less probability for further policy tightening. There would likely be a pick-up in loan growth in the coming months, driven by funding support from the recent RRR cut.

April's total financing beats expectation. On 11 May, the People's Bank of China (PBoC) released April's monetary statistics. Monthly new loans were broadly in line, at CNY1.18trn (up 5.4% MoM). However, total social financing (TSF) rose 17.1% MoM to CNY1.56trn, or 16% above consensus estimates. This boosted M2 growth by 0.1ppts to 8.3% YoY. Deposit growth also picked up slightly to 8.9% YoY, but still notably below loan growth of 12.7% YoY.

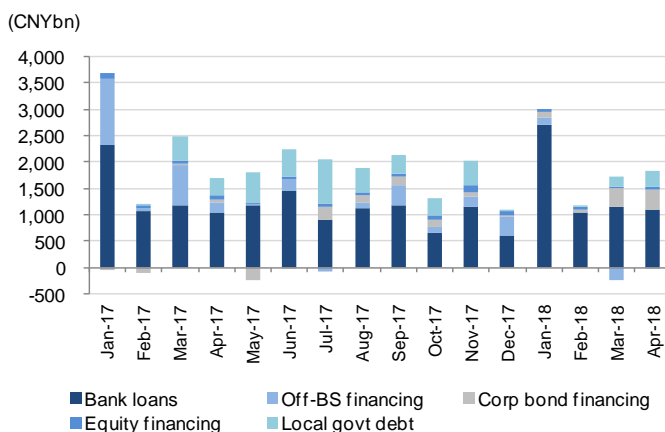
Optimised structure in credit growth. The stronger-than-expected TSF was mainly due to robust bond financing, which accounted for 24% of total TSF (vs 9.6% in 1Q18). On the flip side, off-balance financing continued to shrink, led by a CNY148bn decline in outstanding balance of entrusted loans. As for loan mix, growth in mid- and long-term corporate loans stayed healthy, accounting for 40% of total new loans. This reflected the strong credit support for the real economy. Elsewhere, softened mortgage growth (down 6% MoM) pointed to the still-tight lending quota for personal loans, amid rising household leverage.

PBoC keeps current policy stance unchanged. The central bank also issued the 1Q18 Monetary Policy Report on 11 May, targeting to maintain a stable and neutral monetary policy. Preventing financial system risks were, again, the key word throughout the report. Meanwhile, it also stated that the variety of policy tools shall be used to maintain reasonable and stable liquidity. Therefore, we believe that although deleveraging efforts are to be carried on, further tightening of the monetary policy is less likely.

New loans may pick up in the coming months. PBoC's 100bps cut in the reserve requirement ratio (RRR) came into effect on 25 Apr. This should offer funding support to banks while easing financing cost for corporates (see our 18 Apr report titled [RRR Cut Positive For Margin And Credit Growth](#)). As such, we see more incentive for banks to extend credit, especially to the micro and small enterprise (MSE) segment. Meanwhile, the enforcement of the new asset management rule will drive financing demand to bank loans and corporate bonds from off-balance sheet channels.

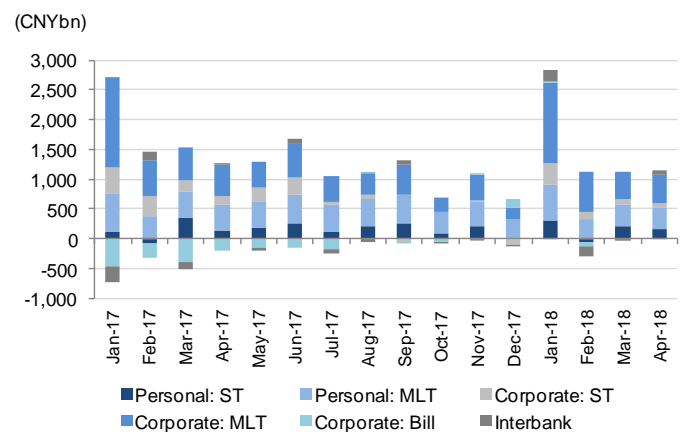
Maintain OVERWEIGHT. We believe China banks would continue to benefit from the healthy credit demand and reduced systematic risks from financial deleveraging. Our Top Picks are Agricultural Bank of China (ABC) and Bank of China (BOC).

Breakdown of total social financing (TSF)



Source: Wind, RHB

Breakdown of new CNY-denominated loans



Source: Wind, RHB

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	HKD4.45	HKD5.80	30.3	5.8	0.7	5.3
Bank of China	BUY	HKD4.23	HKD5.90	39.5	5.6	0.7	5.5
China CITIC Bank	BUY	HKD5.72	HKD6.50	13.6	5.2	0.6	6.0
China Construction Bank	BUY	HKD8.20	HKD10.30	25.6	6.5	0.9	4.7
China Merchants Bank	BUY	HKD35.00	HKD37.50	7.1	9.0	1.4	3.4
ICBC	BUY	HKD6.85	HKD8.50	24.1	6.5	0.9	4.7
Bank of Communications	NEUTRAL	HKD6.30	HKD6.30	-	5.3	0.6	5.8
China Everbright Bank	NEUTRAL	HKD3.99	HKD4.00	0.3	5.4	0.6	2.9
China Minsheng Banking Corp	NEUTRAL	HKD7.39	HKD7.90	6.9	4.3	0.5	4.8

Source: Company data, RHB

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