

16 July 2018

Financial Services | Banks

## Banks

**Overweight** (Maintained)

### Deleveraging Pace To Moderate

Stocks Covered: 9

Ratings (Buy/Neutral/Sell): 6 / 3 / 0

Last 12m Earnings Revision Trend: Positive

Remain **OVERWEIGHT** on the sector, with ABC and BOC as Top Picks. June's credit data indicated robust new loans from both corporate and retail sectors. Yet, they were not able to uphold the softening TSF growth, due to significant decline in off-balance sheet financing. With the effect of RRR cuts and increase in state-owned banks' lending quota, system loan growth is likely to pick up further. Also, delay in wealth management regulation pointed to the tapering of deleveraging, in our view. We expect more policy easing to cushion off the trade tensions turmoil and support economic growth in 2H18.

**TSF and bank loans continued to diverge.** On 13 Jul, People's Bank of China (PBoC) released June's monetary statistics. Despite rebounding 55% MoM to CNY1.18trn, total social financing (TSF) was still 16% below consensus estimate. However, monthly new loans surged 60% MoM to CNY1.84trn, or 20% above market expectations. This has enlarged the gap between TSF and loan growth to 2.5ppts. Meanwhile, M2 declined 0.3ppts to a historic low of 8% YoY, along with the 0.5-ppt slide in deposit growth (8.4% YoY).

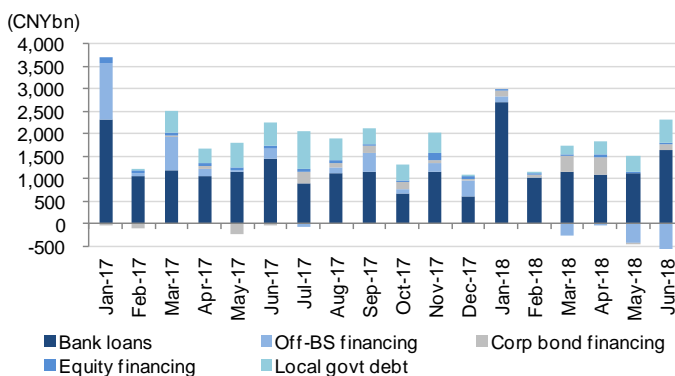
**Unwinding of shadow banking accelerated.** Off-balance credit shrank for the fourth consecutive month amid financial deleveraging. In particular, acceptance bills saw the biggest decline of CNY365bn in two years, pull-back in trust and entrusted loans were also faster than the previous month. We believe shadow banking clean-up will continue to weigh on TSF growth in the coming months. On the flip side, it is encouraging to see a recovery in net corporate bond issuance, which amounted to CNY130bn in June (vs a CNY43bn drop in May).

**Solid credit demand from the real economy.** Incremental corporate loans nearly doubled MoM and accounted for 53% of total new loans in June (vs 46% in May). This was mainly driven by rising short-term loans and bill financing. For retail sector, mid- to long-term loans (a proxy for mortgage) rose 18% MoM, suggesting a possible recovery in property sales.

**Loan growth poised to pick up.** PBoC's previous two cuts in the reserve requirement ratio (RRR) should lower banks' funding cost and boost their lending capacity in the coming months. *China Daily* recently reported that the state-owned banks were granted with additional loan quota, for deployment to the non-financial sectors. Meanwhile, credit demand should continue to shift to bank loans from off-balance channels.

**Maintain OVERWEIGHT.** Against the backdrop of China-US trade dispute and tight credit environment, authorities may taper deleveraging efforts and implement further policy easing. This is evidenced by the delay in regulation for commercial banks' wealth management business, a supporting policy for the finalised asset management rule. We believe recent share price weakness offers a good opportunity to accumulate quality banks ahead of the 1H18 earnings season. Top Picks are Agricultural Bank of China and Bank of China.

#### Breakdown of TSF



Note: Local government debt was not included in official TSF data.  
Source: Wind, RHB

#### YoY growth of TSF and bank 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	HKD3.67	HKD5.80	58.0	5.0	0.6	6.1
Bank of China	BUY	HKD3.63	HKD5.90	62.5	5.1	0.6	6.1
China CITIC Bank	BUY	HKD4.81	HKD6.50	35.1	4.6	0.5	6.7
China Construction Bank	BUY	HKD6.95	HKD10.30	48.2	5.8	0.8	5.2
China Merchants Bank	BUY	HKD28.40	HKD37.50	32.0	7.7	1.2	4.0
ICBC	BUY	HKD5.61	HKD8.50	51.5	5.7	0.8	5.3
Bank of Communications	NEUTRAL	HKD5.55	HKD6.30	13.5	5.0	0.5	6.3
China Everbright Bank	NEUTRAL	HKD3.31	HKD4.00	20.8	4.7	0.5	6.8
China Minsheng Banking Corp	NEUTRAL	HKD5.59	HKD7.90	41.3	3.7	0.5	3.9

Source: Company data, RHB

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