China Banks Sector

Persisting NIM pressure in 1Q25

- Sector average NIM declined slightly in 4Q24; expect higher NIM pressure in 1Q25 on loan re-pricing
- Balance sheet growth pace will adjust according to policy direction
- Sector NPL ratio fell slightly in 4Q24; attention remains on property-related sector and retail segment
- Investors eye on possibility of sector re-rating, which requires improving macro data and banks' fundamentals

Sector Report
Feb 24, 2025

Rating (H): OVERWEIGHT
Rating (A): OVERWEIGHT

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Sector average NIM narrowed slightly in 4Q24; expect increased downside pressure in 1Q25. NFRA released the 4Q24 statistics for the bank sector, which can serve as a preview to the upcoming result season in Mar 2025. Overall, fundamental outlook remained stable for the quarter, while divergence is noted among bank categories. Based on the 4Q24 statistics, the sector average NIM was down 1bps QoQ to 1.52%, implying that banks can still manage NIM through balance sheet adjustments. By category, the average NIM of big banks/joint stock banks' (JSBs)/city commercial banks declined 1bps/2bps/5bps QoQ to 1.44%/1.61%/1.38% in 4Q24; rural commercial banks' average NIM inched up 1bps QoQ to 1.73%. Since Jan is usually a major re-pricing month, sector average NIM will see larger downside pressure in 1Q25.

LPR has stayed flat so far. While ABCI economist expects 1Y and 5Y LPR to fall to 2.7% and 3.2% by end-2025, 1Y and 5Y LPR remained unchanged in Jan/Feb-2025 at 3.1%/3.6%. According to the PBOC data, the average new RMB lending rate dropped 39bps QoQ to 3.28%, or down 55bps YoY as of Dec 2024, as a result of the 1Y and 5Y LPR cuts in Oct 2024 by 25bps each. Our base case assumes NIM pressure to persist in FY25E given the interest rate down cycle and increasing support for the real economy. We expect sector average NIM to narrow by 13bps-19bps YoY for FY25E.

Stable earnings growth for big banks/JSBs. Sector net profit dropped 2.3% YoY in 2024, or fell 12.2% YoY in 4Q24. By category, big banks/JSBs are relatively stable with YoY increases of 2.1% and 7.2% in their 4Q24 net profit; city and rural commercial banks' net profit YoY dropped over 80%, mainly due to large provisions for the quarter, in our view. Since banks tend to make larger provisions in 4Q, a QoQ reduction in net profits is normal. As a result, 4Q24 sector average ROAA and ROAE declined by 5bps and 67bps to 0.63% and 8.1%.

Balance sheet growth slowed in Dec. Balance sheet growth slowed in 4Q24 - total assets and total liabilities of commercial banks was up 8.1% YoY as of Sep 2024 but only increased by 7.2% YoY as of Dec 2024. To note, most of the slowdown occurred during Dec 2024, which indicated some banks might have fulfilled their targets earlier in the year. With the strong sector loans and deposits growth in Jan 2025 and the expectations of clear policy direction in coming months, balance sheet growth pace may adjust accordingly.

Asset quality stayed benign. Although specific industries, such as the property-related sectors and the retail segment, may continue to pose risk, we expect the overall asset quality to stay benign with solid risk buffers in 2025. As of Dec 2024, the sector's average NPL ratio was down 6bps QoQ at 1.50%. By category, the average NPL ratios of big banks/JSBs/city commercial banks were down 2bps/3bps/6bps QoQ to 1.23%/1.22%/1.76%; rural commercial banks saw the largest drop of 24bps QoQ to 2.80% given their higher NPL ratio than other bank categories. Risk buffers remained stable in 4Q24 - the average provision ratio declined by 9 bps QoQ to 3.18% and the average provision coverage increased by 1.71ppt QoQ to 211.19%.

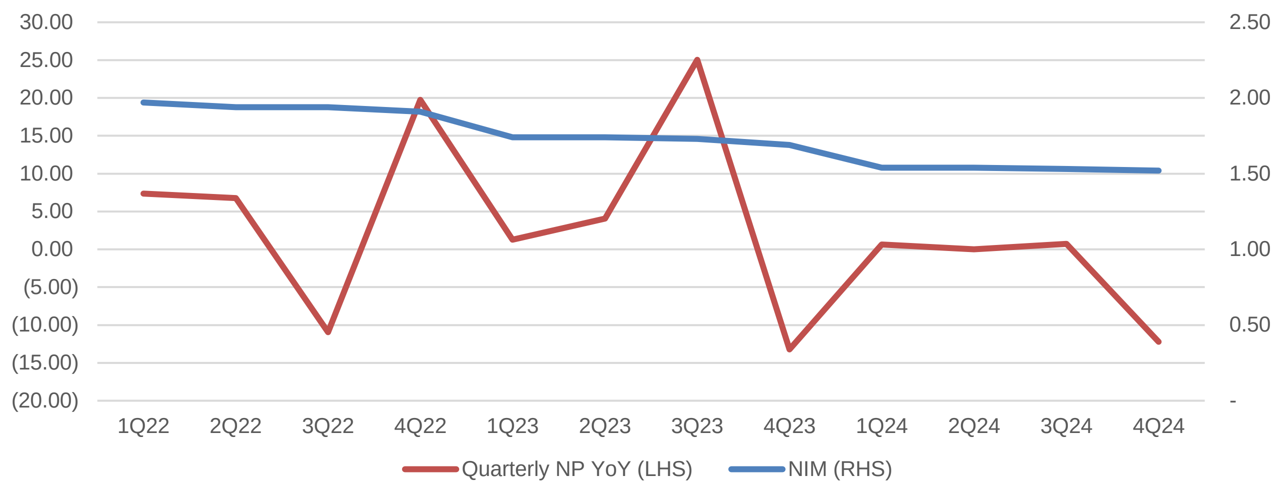
Possibility of sector re-rating. While major banks' H/A-shr are trading at 0.46x/0.57x 25E P/B on average, we believe investors' key question for the sector is whether a sector re-rating scenario could emerge in 2025. This would highly depend on clearer policy direction to be announced in coming months, along with solid improvements in both macroeconomic and bank fundamental data.

Key data

Avg.25E P/E (x) (H/A shr)	5.14/6.48
Avg.25E P/B (x) (H/A shr)	0.46/0.57
Avg 25E dividend yield (H/A shr)	6.25%/4.93%
Last sector rating (H/A shr)	Overweight/ Overweight
Previous Report Date	Feb 17, 2025

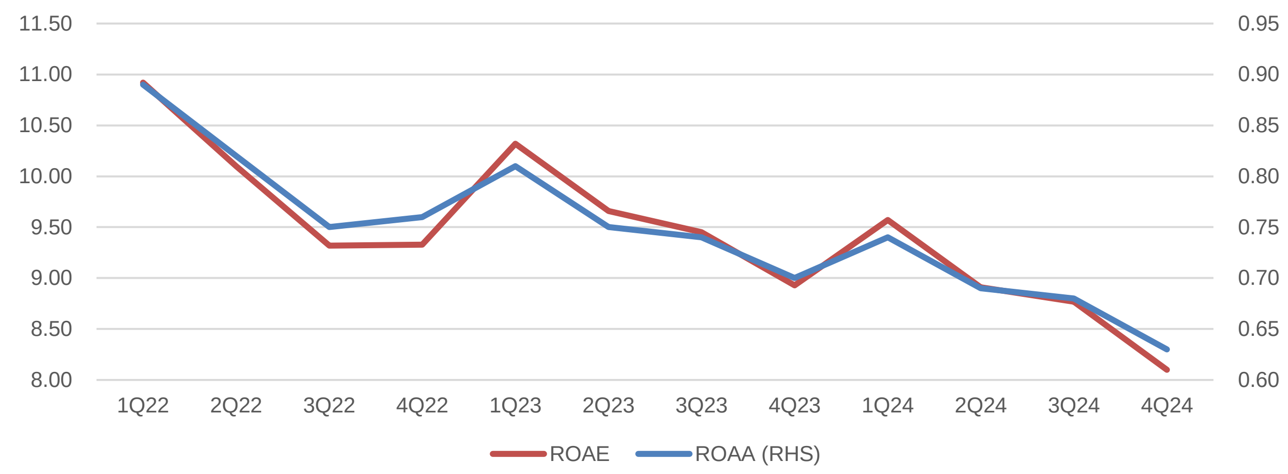
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: Sector average NIM (annualized) vs. sector quarterly net profit YoY (%)



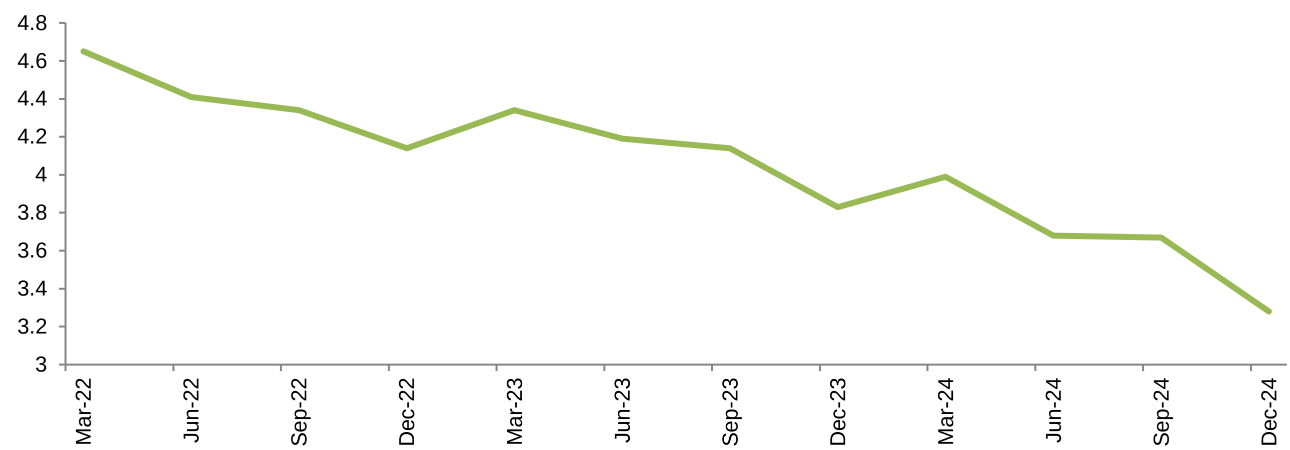
Source(s): Bloomberg, ABCI Securities

Exhibit 2: Sector average ROAA (annualized) and ROAE (annualized) (%)



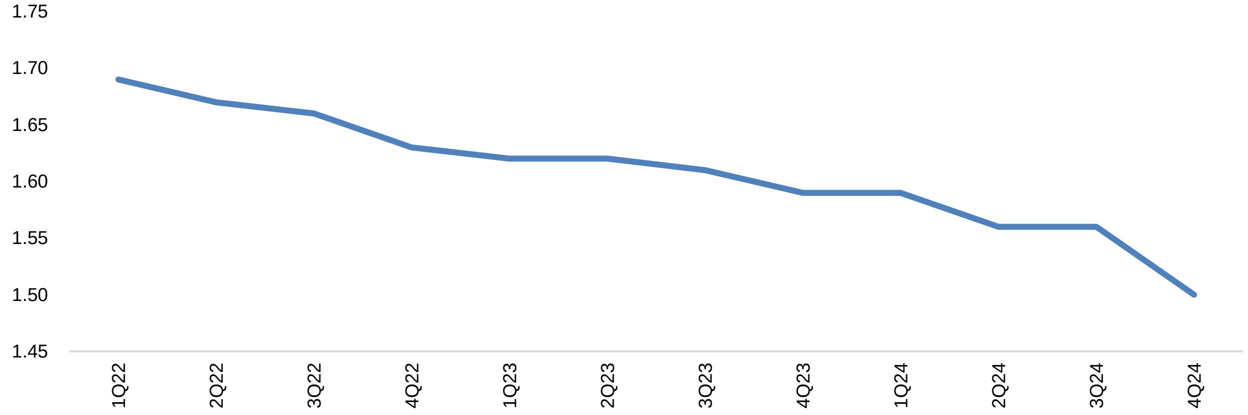
Source(s): Bloomberg, ABCI Securities

Exhibit 3: Sector monthly new loan average lending rate (%)



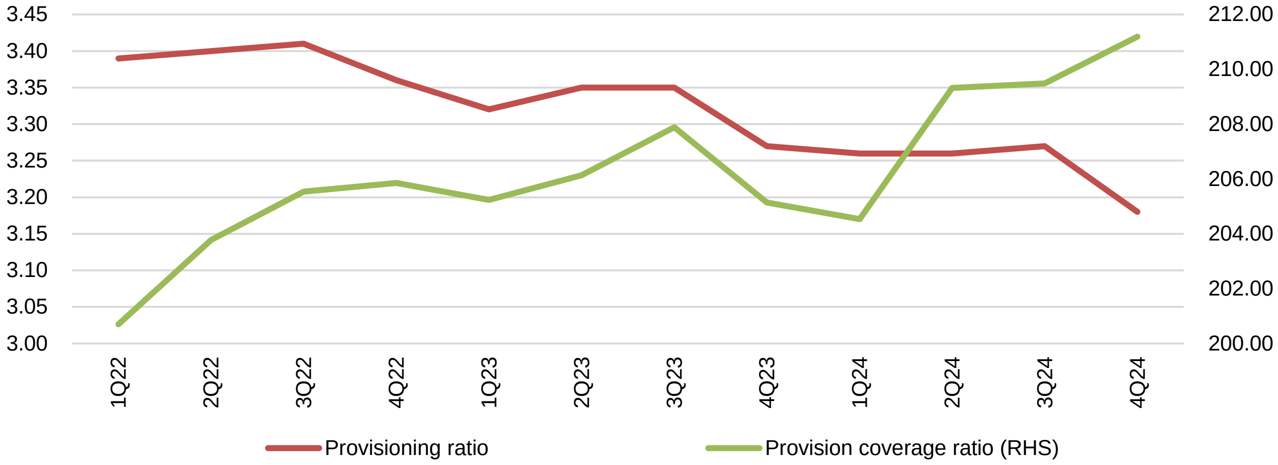
Source(s): PBOC, ABCI Securities

Exhibit 4: Sector average NPL ratio (period-end) (%)



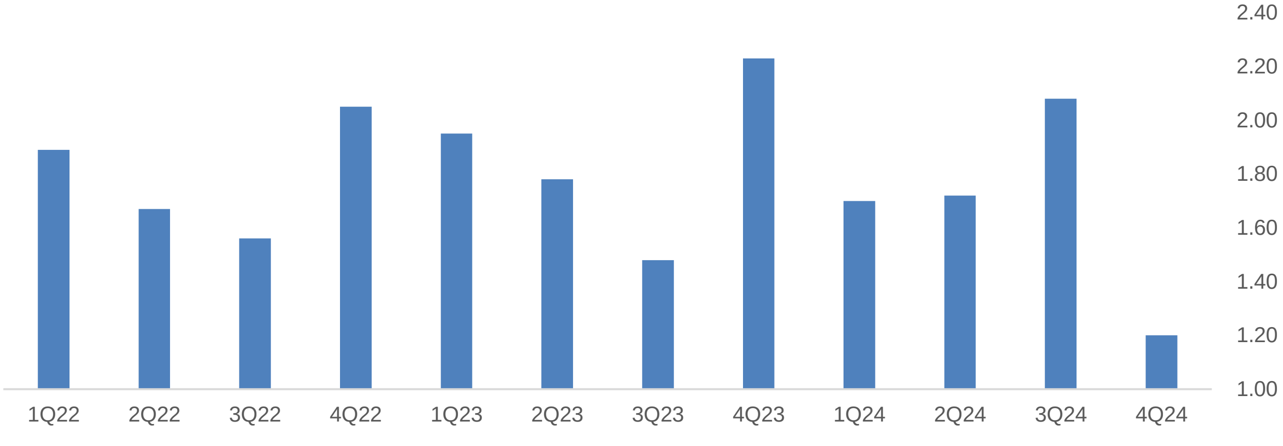
Source(s): Bloomberg, ABCI Securities

Exhibit 5: Sector average risk buffers (period-end) (%)



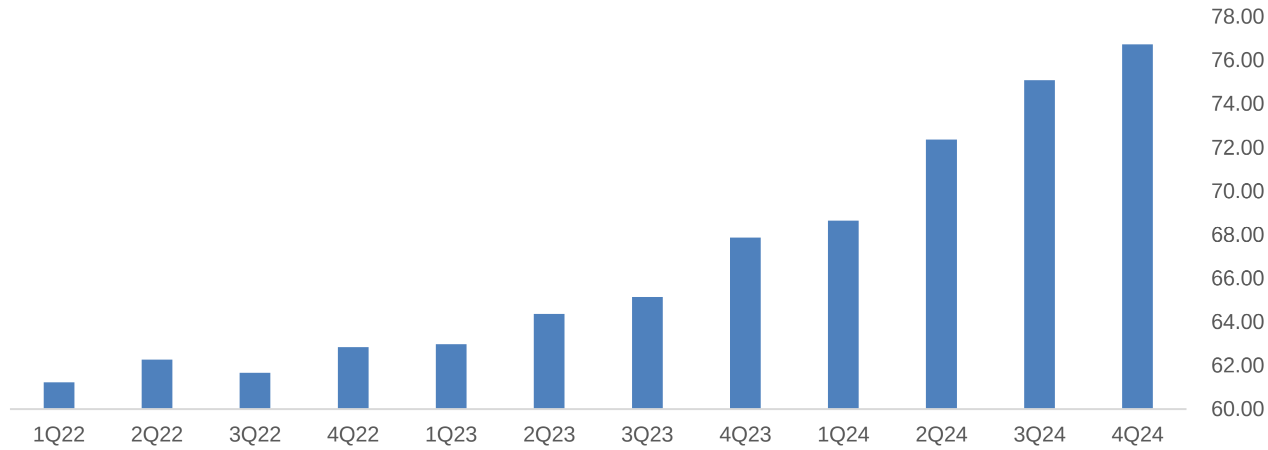
Source(s): Bloomberg, ABCI Securities

Exhibit 6: Sector average excess reserve ratio (%)



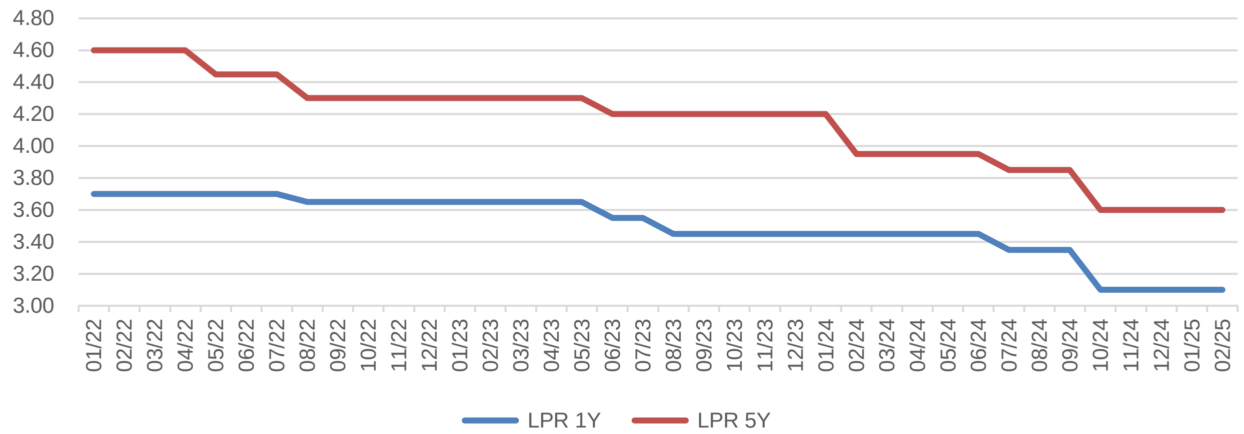
Source(s): Bloomberg, ABCI Securities

Exhibit 7: Sector average liquidity ratio (%)



Source(s): Bloomberg, ABCI Securities

Exhibit 8: LPR (%)



Source(s): Bloomberg, ABCI Securities

Exhibit 9: Major indices and share price changes (Data as of Feb 21, 2025)

	1M chg (%)	3M chg (%)	6M chg (%)	1Y chg (%)
Major index				
HSI	16.77	19.78	35.00	42.26
HSCEI	18.38	23.20	41.11	53.59
HSMBI	8.52	17.37	23.42	37.66
CSI 300	3.80	(0.27)	19.77	15.09
CSI Financial Index	1.91	(1.15)	21.72	20.40
H-share prices				
Big banks average	9.47	14.98	19.55	33.87
JSB average	4.24	12.93	21.56	21.50
A-share prices				
Big banks average	2.93	7.28	5.22	19.28
JSB average	0.65	3.68	14.33	14.80

Source(s): Bloomberg, ABCI Securities

Risk Factors

1) **Effectiveness and sustainability of government policies and measures**. The market anticipates additional policy support measures while expecting tangible results from existing policies to materialize in macro indicators and banking metrics, with emphasis on sustainable outcomes.

2) **Increasing competition from non-bank financial institutions.** Aside from the competition within the sector, banks face growing competition from the development of light-capital business and technology by non-bank FIs.

3) **Sharp deterioration in asset quality in specific regions**. Asset quality remains a key investor concern, with the market typically sensitive to risk developments across specific business segments or geographical regions.

4) **Slow macro recovery can increase obligations to social responsibility and elevate policy risk**. Major banks face heightened policy pressure due to their expected role in social responsibilities, particularly if macroeconomic recovery lags market expectations.

5) **Persisting pressure on NIM and net fee income recovery may lag expectations.** While banks showed modest revenue improvement in 3Q24, any growth deceleration or trend reversal could negatively impact valuations.

6) **Declining ROAA and ROAE trends.** Policy factor and keen competition will lower banks' profitability in coming years, which could suppress sector valuation.

7) **Issuance of additional capital and non-capital TLAC instruments** to fulfill regulatory requirement.

8) **Government's capital injection plan** for the big banks in coming years may suppress ROAE as a result of larger equity base.

9) **Potential shifts in Sino-US relations** under Trump's presidency could affect China's economic outlook and Chinese banks' operations through policy actions and sanctions.

Disclosures

Analyst Certification

I, Au Yu Hang Johannes, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (~8%)
Hold	- Market return rate (-~8%) ≤ Stock return rate < Market return rate (+~8%)
Sell	Stock return < - Market return (-~8%)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index 2005-24 average return at 8.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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