

## ABC (1288 HK / 601288 CH)

### Superior risk buffer supports profitability prospects

- Solid top line growth in coming years despite NIM pressure; expect net fee income to grow faster
- Leading risk buffer bodes well profitability
- Expect competitiveness to improve on larger IT investments
- Maintain **BUY** on leading risk buffer. Our GGM-based H/A shr TPs imply target 21E P/B of 0.70x/0.86x

**Decent topline growth momentum.** ABC's NII and net fee grew by 4.76% and 12.24% YoY in 1Q21, driving up top line by 4.06% YoY. We adjust up FY21E/22E top line by 1.62%/0.15%. Our base case scenario projects top line to grow at 6.7% CAGR over FY20-23E. We expect NIM pressure to persist as a result of 1) LPR-related repricing; 2) increase support of inclusive finance with lower average rate; 3) competition in deposit pricing. ABC's NIM would narrow by 6bps-9bps YoY each in FY21E-23E to 1.98% by FY23E, supporting a NII growth at 7.4% CAGR over FY20-23E. We expect net fee growth to rebound further from that in FY20 (+2.2% YoY). Net fee income would grow at 5.8% CAGR over FY20-23E, driven mainly by agency and e-banking fees.

**Robust risk buffer shields earnings growth.** Based on the highest provisioning ratio (4.05%) and provision coverage ratio (264.61%) among the big five banks as of Mar 2021, we lower our FY21E/22E provision expenses forecasts by 8.96%/12.18% and project a 5.3% CAGR in provision expenses over FY20-23E. This raises our 21E/22E net profit forecasts by 9.92%/8.71%, resulting in a net profit CAGR of 5.2% over FY20-23E. ABC's NPL ratio was down by 4bps QoQ in 1Q21 to 1.53%. Assuming the bank would maintain its NPL handling intensity and leading risk buffers in FY21E-23E, we estimate NPL ratio would stay in 1.55%-1.62% for FY21E-23E; provisioning ratio would gradually strengthen to 4.2% by FY23E.

(Continue next page)

#### Results and Valuation

FY ended Dec 31	2019A	2020A	2021E	2022E	2023E
Revenue (RMB mn)	629,350	659,332	718,428	756,770	801,756
Chg (% YoY)	4.4	4.8	9.0	5.3	5.9
Net profit* (RMB mn)	212,098	215,925	225,306	237,994	251,113
Chg (% YoY)	4.6	1.8	4.3	5.6	5.5
EPS (RMB)	0.59	0.59	0.60	0.64	0.68
Chg (% YoY)	0.9	(0.2)	1.9	6.0	5.9
BVPS (RMB)	5.00	5.39	5.78	6.20	6.64
Chg (% YoY)	9.9	7.8	7.3	7.2	7.2
P/E (x) – H-shr	4.26	4.26	4.19	3.95	3.73
P/B (x) – H-shr	0.51	0.47	0.44	0.41	0.38
P/E (x) – A-shr	5.40	5.41	5.31	5.01	4.73
P/B (x) – A-shr	0.64	0.59	0.55	0.52	0.48
ROAA (%)	0.90	0.83	0.82	0.80	0.79
ROAE (%)	12.43	11.35	10.91	10.85	10.79
DPS (RMB)	0.18	0.19	0.20	0.21	0.23
Yield (%) H-shr	7.21	7.33	8.04	8.49	8.96
Yield (%) A-shr	5.68	5.78	6.34	6.69	7.06

Note: Company; HKD/CNY=1.1927

\*Net profit = Net profit attributable to shareholders of the Company

Source(s): Bloomberg, ABCI Securities estimates

## Company Report May 4, 2021

Rating (H): BUY  
Rating (A): BUY  
TP (H): HK\$ 4.84  
TP (A): RMB4.96

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Price (H/A shr)	HK\$ 3.01/ RMB 3.20
Est. s price return (H/A shr)	60.80%/ 55.00%
Est. dividend yield (H/A shr)	8.04%/6.34%
Est. total return (H/A shr)	68.84%/ 61.34%
Last Rating & TP (H/A shr)	BUY, HK\$4.46/ BUY, RMB4.92
Previous Report Date	15 Oct, 2020

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	3.30/2.38
52Wk H/L (RMB) (A shr)	3.86/3.11
Total issued shares (mn)	349,983.0
Issued H shr (mn)	30,738.8
Issued A shr (mn)	319,244.2
Market cap (HK\$ mn)	1,318,134.4
H-shr market cap (HK\$ mn)	92,523.9
A-shr market cap (HK\$ mn)	1,225,610.5
3-mth avg daily turnover (HK\$ mn) (H shr)	462.00
3-mth avg daily turnover (RMB mn) (A shr)	795.58
Major shareholder(s) (%):	
Central Huijin	40.03
MoF	35.29

Source(s): Bloomberg, ABCI Securities

**Larger Fintech investment.** Given the accelerating pace in China's digitalization, we expect ABC to increase its IT investment in coming years. In 2020, the bank spent RMB 18.3bn on IT, equivalent to 2.8% of revenue and 8.0% of operating expenses. Factoring in the larger Fintech investment, our base case estimates a 6.4% operating expenses CAGR in FY20-23E. The impact will be partially offset by a higher top line CAGR of 6.7%, however. ABC's CIR would be 28.79%-29.15% for FY21E-23E.

**Prefer ABC for strong risk buffer.** We raise ABC's H/A TP by 8.5% and 0.8% to HK\$ 4.84 and RMB 4.96, a result of the higher sustainable ROAE assumption and rolling over our TP calculation to mid-22 BVPS. Our new H/A TPs imply 0.70x/0.86x 21E target P/B. ABC's H/A shr are currently trading at 0.44x/0.55x 21E P/B. Maintain **BUY** for the bank's superior risk buffer among the big banks.

**Risk Factors:** 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Increasing competition from non-bank financial institutions; 3) Sharp deterioration in asset quality in specific regions; 4) Policy risk in new and rapid-growth businesses; 5) Prolonged COVID-19 pandemic; 6) Top line growth may not be able to justify Fintech investment.

**Exhibit 1: 1Q21 results summary**

(RMB mn)	1Q21	1Q20	YoY (%)
Net interest income	140,112	133,748	4.76
Net fee and commission	30,371	27,060	12.24
Operating income	194,499	186,915	4.06
Operating expenses	(63,642)	(60,653)	4.93
Impairment losses	(50,237)	(44,853)	12.00
Profit before tax	80,830	81,387	(0.68)
Income tax expenses	(14,642)	(17,022)	(13.98)
Net profit	65,861	64,187	2.61
<b>Key indicators (%)</b>			<b>AvE (ppt)</b>
Cost to income ratio	22.35	22.75	(0.40)
Return on average assets	0.95	1.01	(0.06)
Return on average equity	13.65	14.25	(0.60)
	<b>Mar-21</b>	<b>Dec-20</b>	<b>QoQ (ppt)</b>
CT1 CAR	10.98	11.04	(0.06)
Total CAR	16.37	16.59	(0.22)
NPL ratio	1.53	1.57	(0.04)
Provision to total loans	4.05	4.08	(0.03)
Provision coverage	264.61	260.64	3.97

Source(s): Company, ABCI Securities

**Exhibit 2: Changes in 2021E and 2022E forecasts**

(RMB mn)	2021E (old)	2021E (new)	change (%)	(RMB mn)	2022E (old)	2022E (new)	change (%)
Net interest income	574,098	601,693	4.81	Net interest income	617,401	636,763	3.14
Net fee and commission	96,749	78,272	(19.10)	Net fee and commission	101,586	82,577	(18.71)
Operating income	706,986	718,428	1.62	Operating income	755,628	756,770	0.15
Operating expenses	(219,821)	(245,553)	11.71	Operating expenses	(233,748)	(261,300)	11.79
Impairment losses	(209,341)	(190,589)	(8.96)	Impairment losses	(224,628)	(197,259)	(12.18)
Profit before tax	256,802	282,285	9.92	Profit before tax	274,338	298,211	8.70
Income tax expenses	(51,360)	(56,457)	9.92	Income tax expenses	(54,868)	(59,642)	8.70
Net profit attributable to equity holders	204,966	225,306	9.92	Net profit attributable to equity holders	218,924	237,994	8.71
<b>Key indicators (%)</b>			<b>change (ppt)</b>	<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	1.99	2.11	0.12	Net interest margin	1.91	2.04	0.13
Net interest spread	1.91	1.91	-	Net interest spread	1.83	1.83	-
CIR	31.09	28.79	(2.30)	Cost to income ratio	30.93	29.15	(1.78)
ROAA	0.68	0.82	0.14	Return on average assets	0.65	0.80	0.15
ROAE	10.21	10.61	0.40	Return on average equity	10.26	10.85	0.59
Dividend payout	30.50	31.50	1.00	Dividend payout	30.50	31.50	1.00
CT1 CAR	10.13	10.91	0.78	CT1 CAR	9.55	10.47	0.92
Total CAR	14.55	16.23	1.68	Total CAR	13.80	15.79	1.99
NPL ratio	1.51	1.55	0.04	NPL ratio	1.59	1.58	(0.01)
Provision to total loans	4.18	4.11	(0.07)	Provision to total loans	4.25	4.15	(0.10)
Provision coverage ratio	276.82	265.16	(11.66)	Provision coverage	267.30	262.66	(4.64)

Source(s): Company, ABCI Securities estimates

**Exhibit 3: Changes of GGM assumptions**

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	4.46	4.84	4.92	4.96	Roll over to mid-2022 BVPS
Sustainable ROE (%)	10.07	10.30	10.07	10.30	Rebounding net fee income and lower provisions
COE (%)	11.97	12.35	10.78	11.18	
Target 21E P/B (x)	0.68	0.70	0.85	0.86	
Rfr (%)	3.16	3.23	3.16	3.23	Reference to China 10Y government bond
Beta	0.89	0.94	0.77	0.82	Reference to Bloomberg data
ERP (%)	9.90	9.70	9.90	9.70	Lower risk premium on recovering macro environment in China
LT gr (%)	6.00	6.00	6.00	6.00	

Source(s): Company, ABCI Securities estimates

## Financial statements

### Consolidated income statement

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Net interest income	500,870	545,079	601,693	636,843	675,563
Non-interest income	128,480	114,253	116,735	119,927	126,193
Of which: Fees and commissions	72,927	74,545	78,272	82,577	88,358
<b>Operating income</b>	629,350	659,332	718,428	756,770	801,756
Operating expenses	(205,340)	(209,828)	(224,829)	(239,540)	(253,004)
Amortization	(18,711)	(19,551)	(20,724)	(21,760)	(22,848)
<b>Pre-provision operating profit</b>	405,299	429,953	472,875	495,470	525,904
Impairment loans losses	(138,723)	(164,903)	(190,589)	(197,259)	(211,222)
<b>Profit before tax</b>	266,576	265,050	282,285	298,211	314,682
Tax	(53,652)	(48,650)	(56,457)	(59,642)	(62,936)
Minority interests	(826)	(475)	(523)	(575)	(632)
<b>Net profit attributable to equity holders</b>	212,098	215,925	225,306	237,994	251,113
Other equity instruments dividend and interest	4,600	12,299	14,335	14,335	14,335
<b>Net profit attributable to ordinary shareholders</b>	207,498	203,627	210,971	223,659	236,779
<b>Growth (%)</b>					
Net interest income	4.8	8.8	10.4	5.8	6.1
Non-interest income	3.0	(11.1)	2.2	2.7	5.2
Of which: Fees and commissions	(6.7)	2.2	5.0	5.5	7.0
<b>Operating income</b>	4.4	4.8	9.0	5.3	5.9
Operating expenses	3.9	2.2	7.1	6.5	5.6
Amortization	14.0	4.5	6.0	5.0	5.0
<b>Pre-provision operating profit</b>	4.3	6.1	10.0	4.8	6.1
Impairment loans losses	1.3	18.9	15.6	3.5	7.1
<b>Profit before tax</b>	5.9	(0.6)	6.5	5.6	5.5
Tax	9.4	(9.3)	16.0	5.6	5.5
Minority interests	(643.4)	(42.5)	10.0	10.0	10.0
<b>Net profit attributable to equity holders</b>	4.6	1.8	4.3	5.6	5.5
Other equity instruments dividend and interest	0.0	167.4	16.6	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	4.7	(1.9)	3.6	6.0	5.9
<b>Per share (RMB)</b>					
EPS	0.59	0.59	0.60	0.64	0.68
BVPS	5.00	5.39	5.78	6.20	6.64
DPS	0.18	0.19	0.20	0.21	0.23
<b>Key ratio (%)</b>					
Net interest margin	2.23	2.20	2.11	2.04	1.98
Net interest spread	2.09	2.04	1.91	1.83	1.76
Cost to income ratio	30.49	29.23	28.79	29.15	29.06
Return on average assets	0.90	0.83	0.82	0.80	0.79
Return on average equity	12.43	11.35	10.91	10.85	10.79
Effective tax rate	20.13	18.36	20.00	20.00	20.00
Dividend payout	30.68	31.81	31.50	31.50	31.50

Note: Individual items may not sum to total due to rounding difference

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Cash & equivalent	2,699,895	2,437,275	2,485,490	2,562,113	2,672,719
Interbank assets	1,467,476	1,797,339	1,971,435	2,145,115	2,321,294
Investment securities	7,422,930	7,822,659	8,342,212	8,999,599	9,708,923
Net loans and advances	12,819,764	14,552,433	16,339,758	18,183,956	20,144,901
<b>Total interest earning assets</b>	<b>24,410,065</b>	<b>26,609,706</b>	<b>29,138,894</b>	<b>31,890,783</b>	<b>34,847,836</b>
Property and equipment	152,484	151,154	149,642	148,146	146,665
Other non-interest earning assets	314,942	444,187	485,939	530,212	577,069
<b>Total assets</b>	<b>24,877,491</b>	<b>27,205,047</b>	<b>29,774,475</b>	<b>32,569,141</b>	<b>35,571,570</b>
Customer deposits	18,849,155	20,372,901	22,118,403	24,024,907	26,041,377
Interbank liabilities	2,437,808	2,522,337	2,724,124	2,969,295	3,236,532
Subordinated debt	1,108,212	1,371,845	1,714,806	2,143,508	2,572,209
<b>Total interest bearing liabilities</b>	<b>22,395,175</b>	<b>24,267,083</b>	<b>26,557,333</b>	<b>29,137,710</b>	<b>31,850,118</b>
Current taxes	59,286	54,340	60,861	67,555	74,311
Deferred tax liabilities	520	334	367	400	433
Other liabilities	468,649	672,544	807,346	868,104	995,764
<b>Total liabilities</b>	<b>22,923,630</b>	<b>24,994,301</b>	<b>27,425,907</b>	<b>30,073,770</b>	<b>32,920,626</b>
Share capital	349,983	349,983	349,983	349,983	349,983
Other equity instruments	199,886	319,875	319,875	319,875	319,875
Reserves	1,398,486	1,534,931	1,672,276	1,818,565	1,974,138
Minorities	5,506	5,957	6,434	6,948	6,948
<b>Shareholder's equity</b>	<b>1,953,861</b>	<b>2,210,746</b>	<b>2,348,568</b>	<b>2,495,371</b>	<b>2,650,944</b>
<b>Growth (%)</b>					
Cash & equivalent	(3.8)	(9.7)	2.0	3.1	4.3
Interbank assets	42.1	22.5	9.7	8.8	8.2
Investment securities	7.8	5.4	6.6	7.9	7.9
Net loans and advances	11.9	13.5	12.3	11.3	10.8
<b>Total interest earning assets</b>	<b>10.0</b>	<b>9.0</b>	<b>9.5</b>	<b>9.4</b>	<b>9.3</b>
Property and equipment	0.0	(0.9)	(1.0)	(1.0)	(1.0)
Other non-interest earning assets	15.6	41.0	9.4	9.1	8.8
<b>Total assets</b>	<b>10.0</b>	<b>9.4</b>	<b>9.4</b>	<b>9.4</b>	<b>9.2</b>
Customer deposits	8.7	8.1	8.6	8.6	8.4
Interbank liabilities	21.2	3.5	8.0	9.0	9.0
Subordinated debt	42.0	23.8	25.0	25.0	20.0
<b>Total interest bearing liabilities</b>	<b>11.2</b>	<b>8.4</b>	<b>9.4</b>	<b>9.7</b>	<b>9.3</b>
Current taxes	20.4	(8.3)	12.0	11.0	10.0
Deferred tax liabilities	274.1	(35.8)	10.0	9.0	8.0
Other liabilities	(37.3)	43.5	20.0	7.5	14.7
<b>Total liabilities</b>	<b>9.5</b>	<b>9.0</b>	<b>9.7</b>	<b>9.7</b>	<b>9.5</b>
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	150.2	60.0	0.0	0.0	0.0
Reserves	12.7	9.8	8.9	8.7	8.6
Minorities	22.5	8.2	8.0	8.0	0.0
<b>Shareholder's equity</b>	<b>16.7</b>	<b>13.1</b>	<b>6.2</b>	<b>6.3</b>	<b>6.2</b>
<b>Key ratio (%)</b>					
CT1 CAR	11.24	11.04	10.78	10.47	10.19
Total CAR	16.13	16.59	16.23	15.79	15.40
NPL ratio	1.40	1.57	1.55	1.58	1.62
Provision to total loans	4.06	4.08	4.11	4.15	4.20
Provision coverage ratio	288.75	260.64	265.16	262.66	259.26

Note: Individual items may not sum to total due to rounding difference

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 10\%$ )
Hold	- Market return rate ( $\sim 10\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim +10\%$ )
Sell	Stock return $<$ - Market return ( $\sim 10\%$ )

Notes: 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 2008 (For reference: HSI total return index 2008-20 CAGR at 9.2%)

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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