

Initiation of coverage

ACCUMULATE
Hua Xia Bank (600015 CH)
Initiating coverage: 1H21 incremental profit grew faster and asset quality continued to improve

Hua Xia Bank is restructuring its retail finance model under a three-step strategy as it moves toward becoming a wealth management bank. 1H net profit lifted 17.6% yoy, 6.96ppt above 1Q21 growth. Asset quality continued to improve while asset expansion slowed. We initiate coverage with an **ACCUMULATE** call on this stock and a target price of RMB6.86.

Credit impairment accrual declined yoy and profitability accelerated

1H21 revenue increased 1.12% yoy, up 1.05ppt from 1Q21, and net profit increased 17.6% yoy, 6.96ppt more than in 1Q21. Net profit grew faster than revenue, mainly due to a decrease of 14.17% yoy in the provision of credit impairment losses.

1H21 NIM decline narrowed; higher proportion of medium and long-term loans

Net interest margin (NIM) was 2.41% in 1H21, down 18bp yoy from full-year 2020 and down 4bp from 1Q21. 1H yield on interest-bearing assets fell 10bp from full-year 2020, with yields on major loans down 16bp.

The average balance of loans with relatively high 1H returns as a percentage of interest-bearing assets increased 0.54ppt to 62.93% vs the whole of last year. The bank focused on its commercial and investment banking model. It launched an annual review loan product designed to provide medium and long-term financing for manufacturing customers, and accelerated the provision of medium and long-term loans. In terms of average loan balance in 1H, the proportion of medium and long-term loans increased 4.35ppt to 65.56% from the whole of 2020. Of the average loan balance, retail sales rose 1.77ppt to 29.02% from 2020, with more retail investment in housing-related loans.

The bank strengthened asset and liability management, focused on expanding low-cost debt sources and reducing deposit costs. Deposit cost ratio was 1.86% in 1H, down 0.05ppt yoy and down 0.02ppt from 2020.

Asset quality continued to improve and asset expansion slowed

At the end of 2Q21, the non-performing loan (NPL) ratio decreased 1bp qoq to 1.78% and the focus rate decreased 10bp to 3.27%, reducing the pressure on hidden NPL generation. The overdue rate at the end of 2Q increased 8bp to 2.04% from the end of 2020. Provision coverage decreased 4.21ppt qoq to 157.4%.

The bank stepped up efforts in risk resolution. In retail loans, NPL ratio at the end of 2Q fell 10bp from the end of 2020. In corporate loans, NPLs were mainly concentrated in the manufacturing, wholesale and retail industries. At the end of 2Q, total NPL balance in the two segments accounted for 43.55% of total NPLs, a decrease of 4.90ppt from the end of 2020, and NPL ratio decreased 5bp and 82bp respectively from 2020. In terms of regional distribution, the Beijing-Tianjin-Hebei, central-eastern and northeastern regions had more risk exposures. NPL ratio in Beijing-Tianjin-Hebei dropped 5bp to 2.78% from the end of 2020. Affected by the consumer vs public sector NPL generation differential, NPL ratio in northeast China increased 45bp from the end of 2020.

The expansion of the bank's assets slowed down and credit lending slowed down. At the end of 2Q, total assets increased 7.72% yoy, 3.91ppt lower than 1Q21, with loans and advances shrinking 4.40ppt to 6.16%. At the end of 2Q, core Tier 1 capital adequacy ratio fell 4bp qoq to 8.62%, with asset expansion under some pressure.

Valuation and risks

Under the bank's new five-year development plan, the retail business would serve as a stabilizer for its business development and provide a new growth engine. In 1H21, retail AUM increased 8.02% from the end of 2020. The bank comprehensively promoted the restructure of retail finance based on its three-step strategy toward becoming a wealth management bank. We forecast profit growth of 8.38%/9.21%/9.37% in 2021/22/23E, given our 0.45x PB target valuation in 2021E, with our corresponding target price at RMB6.86. We initiate coverage with an **ACCUMULATE** rating. **Risks include:** pandemic resurgence; economic downturn exceeding expectations; policy regulation releases exceeding expectations; and fluctuations in asset quality.

Target price:	RMB6.86
Share price (9 Sep):	RMB5.77
Up/downside	18.9%

Company information

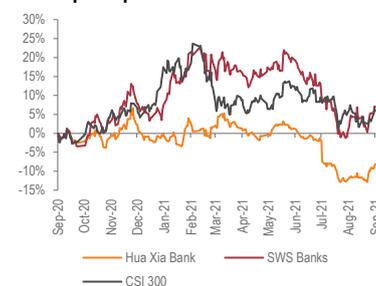
52wk High (11/30/2020)	6.75
52wk Low (07/30/2021)	5.42
P/E (Trailing 12m)	3.87
Dividend Yield	5.22
Price to Book Ratio	0.39
Price to Sales Ratio	0.93
EV / Trail 12M EBITDA	-
Shares Outstanding (m)	15,387.2
Market Cap (RMBm)	88,784.3

Source: Wind

Financial summary

	21E	22E	23E
Revenue (RMB100m)	1,007	1,074	1,154
Growth rate (%)	5.70	6.58	7.45
Earnings (RMB100m)	231	252	275
Growth rate (%)	8.38	9.21	9.37
EPS (RMB)	1.50	1.64	1.79
P/E	3.86	3.53	3.23
P/B	0.38	0.36	0.35

Source: Tianfeng Securities estimate

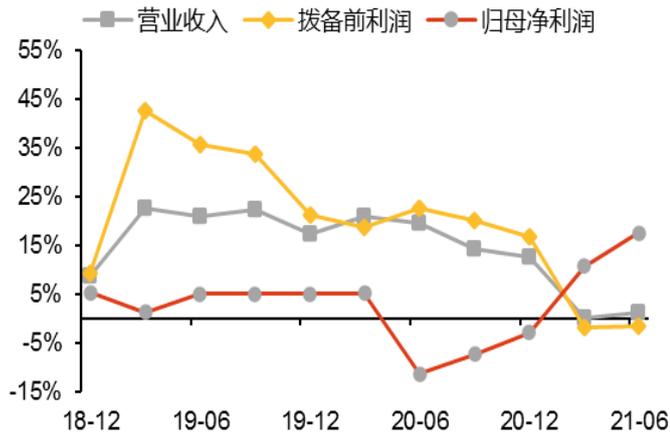
Share price performance


Source: BigData

TFI Asset Management Limited would like to acknowledge the contribution and support provided by **Guo Qi Wei (郭其伟)** and **Fan Qing Lin (范清林)**, employees of Tianfeng Securities Co., Ltd.

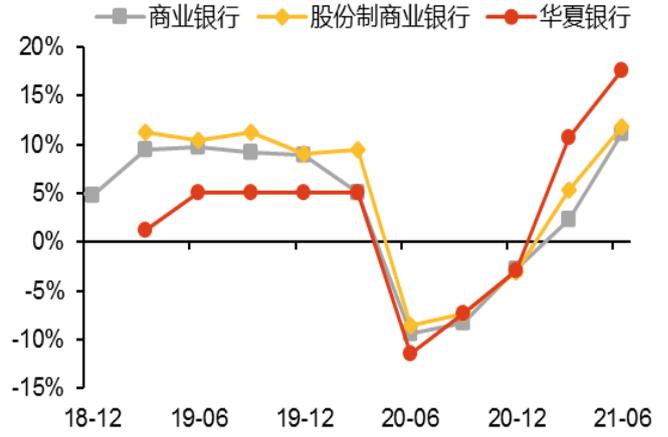
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图 1：华夏银行营收、PPOP 及业绩同比增速



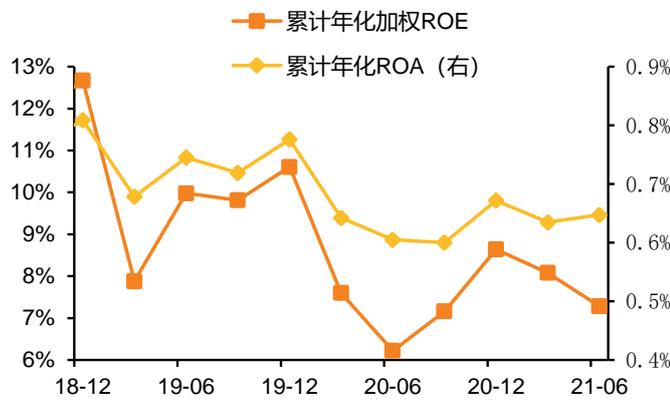
资料来源：WIND，天风证券研究所

图 2：华夏银行业绩累计同比增速 VS. 行业整体水平



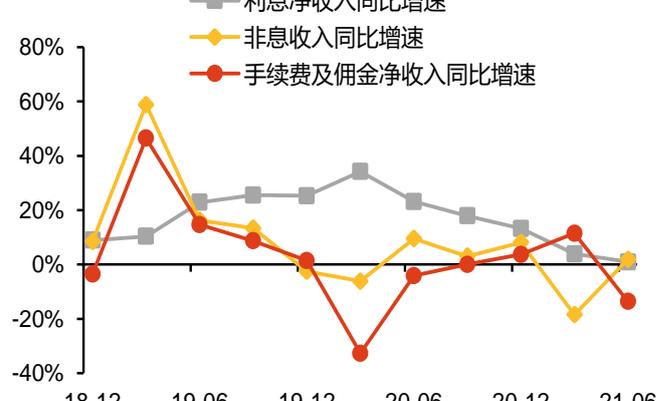
资料来源：WIND，天风证券研究所

图 3：华夏银行累计年化加权 ROE 和 ROA



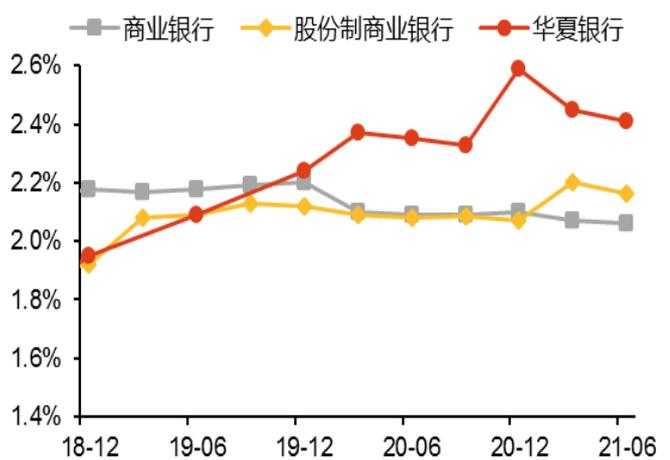
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图 4：华夏银行利息净收入&非息收入累计同比增速



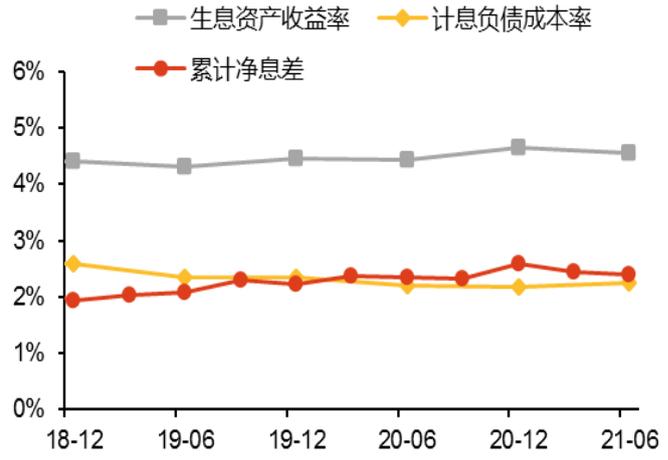
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图 5：华夏银行累计净息差（披露值） VS. 行业平均



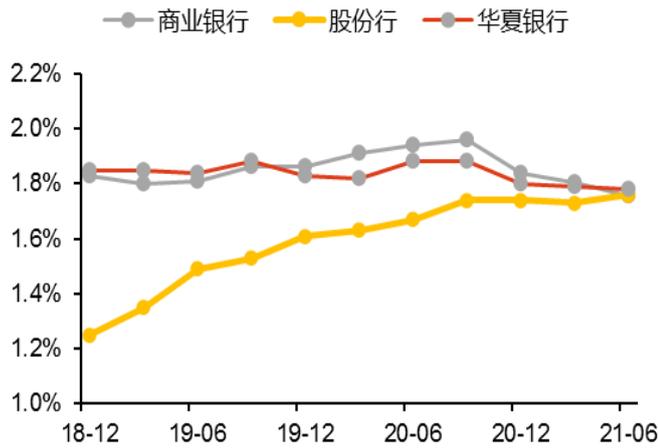
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图 6：华夏银行累计生息资产收益率&计息负债成本率



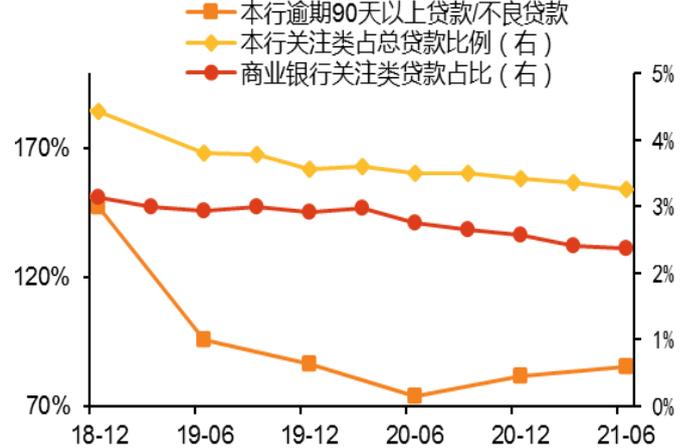
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图 7：华夏银行不良贷款率 VS. 行业



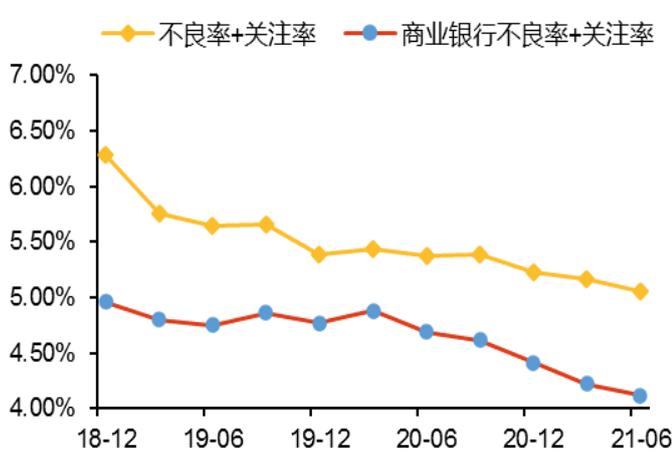
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图 8：华夏银行关注率、逾期 90 天以上贷款/不良贷款



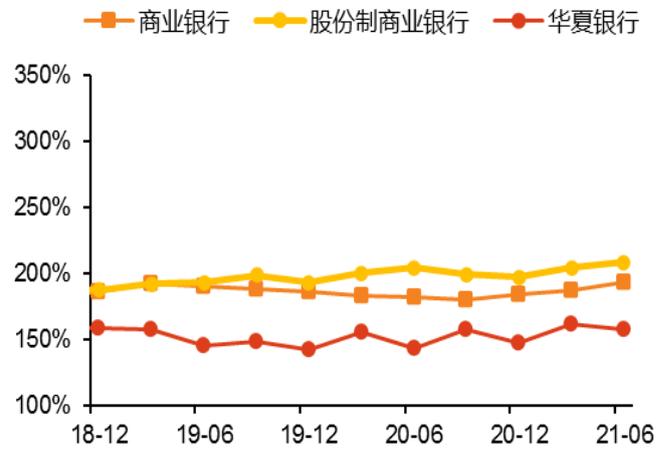
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图 9：华夏银行不良率+关注率 VS. 行业



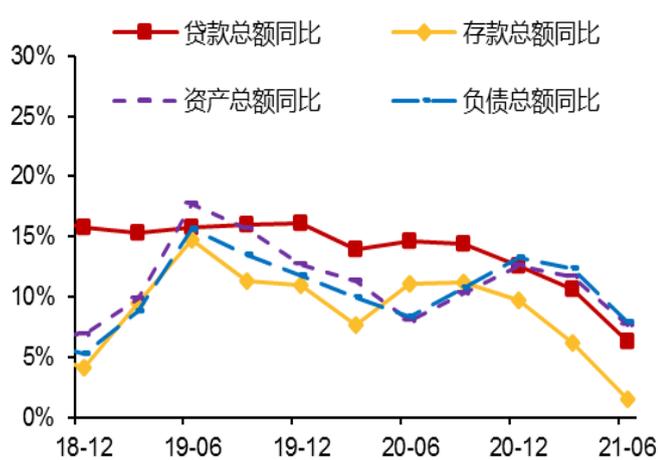
资料来源：WIND，天风证券研究所

图 10：华夏银行拨备覆盖率 VS. 行业



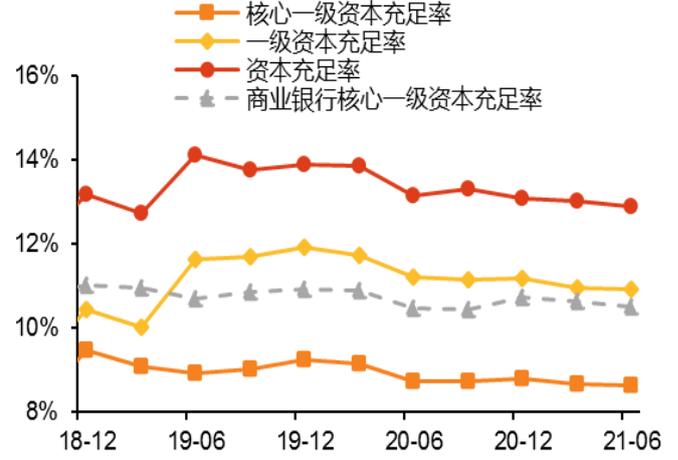
资料来源：WIND，天风证券研究所

图 11：华夏存、贷款及资产同比增速



资料来源：WIND，天风证券研究所

图 12：华夏银行各级资本充足率



资料来源：WIND，天风证券研究所

Financial forecast summary

RMB (100m)	2019	2020	2021E	2022E	2023E		2019	2020	2021E	2022E	2023E
Income statement						Growth related to earnings					
Net interest income	646	820	861	912	976	Net profit	5.0%	-2.9%	8.4%	9.2%	9.4%
Fee and commission income	180	106	116	128	141	PPOP	21.1%	16.7%	1.6%	2.7%	3.1%
Other income	22	28	31	34	37	Profit before tax	2.9%	-1.5%	6.9%	9.2%	9.4%
Revenue	847	953	1007	1074	1154	Revenue	17.3%	12.5%	5.7%	6.6%	7.5%
Business Taxes and Surcharges	8.90	10.76	11.37	12.12	13.03	Interest income	25.3%	27.0%	5.0%	6.0%	7.0%
Administration expenses	259	266	310	356	413	Fee and commission income	1.5%	-41.4%	10.0%	10.0%	10.0%
Net operating income before impairment allowances	579	676	687	705	727	Operating fee	10.1%	2.7%	16.3%	15.1%	16.0%
Impairment allowances	304	404	396	388	381	Growth related to net assets					
Profit before taxation	276	272	290	317	347	Interest-bearing assets	27.3%	12.2%	11.5%	10.8%	11.1%
Income Taxes	54	56	60	65	71	Advances	16.8%	12.6%	8.0%	8.0%	8.0%
Net Profit	219	213	231	252	275	Interbank assets	-1.3%	25.7%	15.0%	15.0%	15.0%
Balance Sheet						Investment in securities	62.6%	11.8%	12.0%	11.0%	10.0%
Advances	18726	21090	22777	24599	26567	Other assets	-27.1%	36.9%	11.5%	10.8%	5.3%
Interbank assets	634	798	917	1055	1213	interest-bearing liabilities	15.1%	13.0%	7.4%	7.4%	7.5%
Investment in securities	8994	10052	11258	12496	13746	Deposits from customers	12.0%	9.9%	9.0%	9.0%	9.0%
Interest-bearing assets	29780	33413	37255	41279	45861	Interbank liabilities	8.8%	-54.4%	15.0%	15.0%	15.0%
Non interest-bearing assets	428	585	653	723	761	Equity	23.1%	4.9%	17.0%	11.8%	10.0%
Total assets	30208	33998	37908	42002	46622	Deposit structure					
Deposits from customers	16713	18370	20024	21826	23790	Current deposit	45.2%	45.4%	45.3%	45.2%	45.0%
Other interest-bearing liabilities	10474	12360	12978	13627	14308	Fixed deposit	36.6%	44.4%	44.6%	44.7%	44.8%
Non interest-bearing liabilities	328	441	1599	2850	4456	Other Current assets	10.5%	9.9%	10.1%	10.1%	10.2%
Total liabilities	27515	31172	34600	38303	42554	Loan structure					
Equity	2693	2827	3307	3699	4068	Corporate loans	65.8%	66.0%	66.0%	66.0%	66.0%
Indicator per share						Individual loans	26.9%	28.2%	34.0%	34.0%	34.0%
EPS	1.42	1.38	1.50	1.64	1.79	Assets quality					
Pre-Provision Operating Profit / share	3.76	4.39	4.46	4.58	4.73	NPL	1.83%	1.80%	1.78%	1.77%	1.76%
Net asset / share	13.49	14.34	15.24	15.88	16.38	Pass,	94.61%	94.77%	94.80%	94.82%	94.84%
Assets / share	196.32	220.95	246.36	272.97	302.99	Special Mention	3.56%	3.43%	3.42%	3.41%	3.40%
P/E	4.1	4.2	3.9	3.5	3.2	Substandard	0.73%	0.77%	0.77%	0.76%	0.75%
P/PPOP	1.5	1.3	1.3	1.3	1.2	Doubtful	0.61%	0.66%	0.65%	0.65%	0.65%
P/B	0.4	0.4	0.4	0.4	0.4	Loss	0.49%	0.37%	0.36%	0.36%	0.36%
P/A	0.0	0.0	0.0	0.0	0.0	Provision coverage	141.92%	147.22%	160.00%	170.00%	185.00%
Interest indicators						Capital					
NIM	2.24%	2.59%	2.15%	2.14%	2.13%	Capital adequacy ratio	13.89%	13.08%	12.89%	12.54%	12.01%
Spread	2.10%	2.48%	2.12%	2.11%	2.10%	Core capital adequacy ratio	9.25%	8.79%	8.60%	8.38%	8.25%
Loan interest	4.96%	5.34%	4.25%	4.25%	4.25%	Debt to Asset Ratio	91.08%	91.69%	91.28%	91.19%	91.27%
Deposit rate	1.85%	1.88%	1.50%	1.50%	1.50%	Others					
Yield on Interest-bearing assets	4.46%	4.66%	3.70%	3.70%	3.70%	Share capital (100m)	153.87	153.87	153.87	153.87	153.87
Capital cost of interest-bearing liabilities	2.36%	2.18%	1.58%	1.59%	1.60%						
Profitability											
ROAA	0.78%	0.67%	0.62%	0.64%	0.67%						
ROAE	10.61%	8.64%	8.13%	8.52%	9.10%						
PPOP	1.92%	1.99%	1.81%	1.68%	1.56%						

Source: Company data, Tianfeng Securities estimate

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Category	Description	Ratings	System
Stock investment ratings	within 6 months from the report issuance date, increase or decrease relative to the Index of the jurisdiction of the Stock in the same period	Buy	Expected relative return over stock price above 20%
		Accumulate	Expected relative return over stock price between 10% and 20%
		Neutral	Expected relative return over stock price between -10% and 10%
		Sell	Expected relative return over stock price below -10%
Industry investment ratings	within 6 months from the report issuance date, increase or decrease relative to the Index of the jurisdiction of the Industry in the same period	Outperform	Expected increase of industry index over 5%
		Neutral	Expected increase of industry index between -5% and 5%
		Underperform	Expected increase of industry index below -5%

Jurisdictions	Index Used for Ratings Definitions
China Mainland	CSI 300 Index
China-Hong Kong	Hang Seng Index
China-Marco	Hang Seng Index
USA	Standard & Poor's 500 Index

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