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KEY HIGHLIGHTS

Sector

Banking

Not all bad for banks after several rate cuts.

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TRADERS' CORNER

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PICC Property And Casualty Co. Ltd. (2328 HK): Trading Buy range: HK\$9.20-9.40

China Power International (2380 HK): Trading Buy range: HK\$2.96-3.00

UOBKH EVENTS

Date	Corporate/Stock Code	Event
14 Sep	China Overseas Property Holdings Limited (2669 HK)	Virtual Meeting at 4:30pm HKT

CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
07 Sep	China	Aug Trade
09 Sep	China	Aug Inflation
09-15 Sep	China	Aug Money Supply And Credit
15 Sep	China	Aug Economic Activities
20 Sep	China	Sep Loan Prime Rate
27 Sep	China	Aug Industrial Profits

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34321.1	(0.9)	(1.5)	(2.1)	3.5
S&P 500	4445.5	(1.1)	(1.2)	(0.7)	15.8
FTSE 100	7426.1	(0.2)	(0.6)	(1.8)	(0.3)
AS30	7461.6	(0.7)	(0.6)	(0.8)	3.3
CSI 300	3812.0	(0.2)	0.6	(4.5)	(1.5)
FSSTI	3222.9	(0.1)	(0.0)	(2.6)	(0.9)
HSCEI	6403.7	0.1	0.3	(4.9)	(4.5)
HSI	18450.0	(0.0)	(0.2)	(5.6)	(6.7)
JCI	6996.0	0.1	0.4	1.6	2.1
KLCI	1460.6	0.4	0.4	1.0	(2.3)
KOSPI	2563.3	(0.7)	0.1	(0.7)	14.6
Nikkei 225	33241.0	0.6	2.8	3.1	27.4
SET	1548.8	0.1	(1.8)	1.1	(7.2)
TWSE	16738.2	(0.3)	0.1	(1.5)	18.4
BDI	1081	1.7	(1.2)	(4.8)	(28.6)
CPO (RM/mt)	3845	(0.7)	3.1	0.5	(5.0)
Brent Crude (US\$/bbl)	91	0.7	5.6	5.1	5.6

Source: Bloomberg

TOP VOLUME

Company	Price (HK\$)	Chg (%)	Volume ('000)
SENSETIME-W	1.59	(0.6)	184,688
XIAOMI CORP-W	11.76	1.4	99,746
COUNTRY GARDEN SER	10.14	5.8	90,077
CHINA JINMAO HOL	1.21	6.1	84,726
SMIC	21.45	2.4	84,668

TOP GAINERS

Company	Price (HK\$)	Chg (%)	Volume ('000)
CHINA JINMAO HOL	1.21	6.1	84,726
COUNTRY GARDEN S	10.14	5.8	90,077
LONGFOR GROUP	17.90	4.6	37,852
SMIC	21.45	2.4	84,668
HUA HONG SEMI	21.05	2.2	9,164

TOP LOSERS

Company	Price (HK\$)	Chg (%)	Volume ('000)
EAST BUY HOLDING	36.25	(4.6)	22,966
PING AN HEALTHCARE	18.96	(3.6)	3,753
LENOVO GROUP	8.62	(3.4)	63,202
JD LOGISTICS INC	10.52	(2.8)	7,610
TECHTRONIC IND	76.90	(2.7)	5,971

KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	2.1	0.8	1.2
Euro Zone	3.5	0.1	1.0
Japan	1.0	1.0	1.5
Singapore	3.6	0.7	3.0
Malaysia	8.7	4.4	4.6
Thailand	2.6	3.1	3.5
Indonesia	5.4	4.9	5.2
Hong Kong	-3.5	4.6	3.0
China	3.0	5.0	4.6
CPO (RM/mt)	5,088	4,000	4,200
Brent (Average) (US\$/bbl)	99.0	81.0	84.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

SECTOR UPDATE

Banking – China

Not All Bad For Banks After Several Rate Cuts

In August, the PBOC lowered the 1-year LPR by 10bp to 3.45%, while surprisingly keeping the 5-year LPR at 4.20%. Additionally, the PBOC also allowed the repricing of existing mortgages to reduce mortgage borrowers' financial burden. Against this backdrop, banks cut time deposit rates by a larger quantum to defend their NIM. All in all, the net impact of these rate cuts is minimal to banks' NIM and earnings. Maintain MARKET WEIGHT. Top pick: China Merchants Bank.

WHAT'S NEW

- **Asymmetrical LPR cut in Aug 23.** The People's Bank of China (PBOC) reduced the 1-year loan prime rate (LPR) by 10bp from 3.55% to 3.45% and maintained the mortgage reference rate, 5-year LPR at 4.20% after the 10bp medium-term lending facility (MLF) rate cut on 15 August. The partial rate cuts were in accordance with the PBOC's intention to maintain reasonable profits and NIM for the banks in order to support economic recovery and stabilise the financial risk. At the same time, the unchanged 5-year LPR has created scope to cut rates for existing mortgage rates.
- **To allow mortgage repricing for existing first-home loans from 25 September.** In a joint statement last week, the PBOC and the National Administration of Financial Regulation allowed the borrowers to negotiate with banks to adjust the interest rates of their first-home outstanding mortgages, either by reducing the spreads in mortgage contracts, or swapping for a new mortgage. The new mortgage rate should not be lower than the floor limit of first-home mortgages rate that the city adopted when the original loan was issued.
- **Second deposit rate cut via self-discipline pricing mechanism to alleviate NIM compression.** Most state-owned (SOE) banks and joint-stock banks have lowered their deposit rates in the last week. Among these, rates for 1-year/2-year/3-year/5-year term fixed deposits were reduced by 10bp/20bp/25bp/25bp to 1.55%/1.85%/2.20%/2.25% respectively while the demand deposit rate remained unchanged at 0.2%. The size of deposit rate cuts round are much larger than the previous round in order to mitigate the impact of reduced loan yields arising from the recent key policy rate cuts.

ACTION

- **Less impacts on banks after half-measure LPR cuts.** We forecast that 34% of total loans (Rmb65,879b) are pegged to the 1-year LPR and most of them comprise short-term loan and advances. As such, the banks' net interest income (NII) will fall by Rmb27.4b and Rmb65.9b in 2023 and 2024 respectively, contributing a 0.9bp and 2.1bp dilution to net interest margin (NIM). Thus, banks' profit after tax in 2023/24 will be reduced by 0.9%/1.9%. We opine that banks, particularly state-owned banks, with a larger share of mortgage loans and mid to long-term corporate loans in their loan portfolios will be less affected by the latest LPR cut.

ESTIMATED IMPACT OF 1-YEAR LPR CUT ON CHINA'S EXISTING TOTAL LOANS

Total loan (as of Jul 23)	Household Mid & Long-term Loans	Corporate Mid & Long-term Loans	Estimated 1-yr LPR linked loan	Estimated affected loan as % of total loan (in Jul 23)
Rmb193,709b	Rmb42,174b	Rmb85,655b	Rmb65,879b	34.0%

Source: PBOC, CBIRC, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 6 Sep 23 (lcy)	Target Price (lcy)	Market Cap (lcy b)	Upside / (Downside) to TP (%)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	Yield 2023F (x)	Yield 2024F (x)	ROE 2023F (%)	ROE 2024F (%)	NIM 2023F (%)	NIM 2024F (%)
CCB	939 HK	BUY	4.33	6.30	1,103.3	45.5	2.9	2.7	0.33	0.31	10.3	11.3	11.6	11.6	1.84	1.88
CMB	3968 HK	BUY	33.00	50.00	888.7	51.5	5.2	4.5	0.73	0.66	6.3	7.3	16.6	17.0	2.20	2.25

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR TOP PICK

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
CMB	3968 HK	BUY	33.00	50.00

Source: UOB Kay Hian

LPR RATE CUT MAGNITUDE IN 2023

2023	1Y LPR	5Y LPR
Jan 23	3.65%	4.30%
Jun 23	3.55%	4.20%
Aug 23	3.45%	4.20%
Total Cuts	-20bp	-10bp

Source: PBOC, UOB Kay Hian

DEPOSIT RATE CUT BY BANKS

Deposit type	Sep 22	Jun 23	Sep 23
Demand	-5bp	-5bp	Unchanged
1-year time deposit	-10bp	-10bp	-10bp
2-year time deposit	-10bp	-10bp	-20bp
3-year time deposit	-15bp	-15bp	-25bp
5-year time deposit	-10bp	-15bp	-25bp

Source: Banks, UOB Kay Hian

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ESTIMATED IMPACT OF 1-YEAR LPR CUT ON CHINA BANKS

----- NII chg -----		---- Net Profit Forecast ----		----- NIM impact -----		----- Net Profit Impact -----	
2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
-Rmb27.4b	-Rmb65.9b	Rmb2,418b	Rmb2,539b	-0.9bp	-2.1bp	-0.9%	-1.9%

Source: UOB Kay Hian

- **Impact of mortgage repricing on existing first-home loans is smaller than our expectations.** We expect mortgage loans issued between 2017-22 to benefit from the rate cut, as mortgage rates during that period were much higher than the national floor mortgage rate. Assuming that 90% of them are first-home buyers, around Rmb25,650b mortgage loans or 65% of total mortgage book will be repriced to the national floor first-home mortgage rate. As a result, we expect the existing mortgage rate to be reduced by 60bp on average. This is a more pessimistic estimate as some cities' minimum mortgage rates for first homes are much higher than the national rate.

ESTIMATED EXISTING MORTGAGE BALANCE TO BE REPRICED

----- Existing mortgage balance -----							
	(Rmbb)	2017	2018	2019	2020	2021	2022
New increase mortgage for each year	2017	3,870.0	3,480.1	3,090.2	2,700.3	2,306.4	1,883.2
	2018		5,729.3	5,152.1	4,574.8	3,991.6	3,365.2
	2019			6,313.1	5,677.1	5,034.5	4,344.2
	2020				6,987.2	6,275.9	5,564.7
	2021					7,690.8	6,223.2
	2022						7,069.9
Total existing mortgage balance from 2017-2022							28,450.5
First-home mortgage balance							25,650.5
Weighted average spread (Average mortgage rate – National floor first-home mortgage rate)							60bp

Source: CBIRC, UOB Kay Hian

- **Banks' net profit may decrease 1.2%/4.8% at the most in 2023/24 from the existing mortgage rate cut.** Nevertheless, it is important to note that the actual mortgage book that will undergo repricing and the extent of rate reduction may be smaller than what we initially anticipated, due to: a) banks have more bargaining powers in negotiations, and b) the average spread between the existing mortgage rate and Tier-1 cities' floor rate is lower due to the intense competition among banks for mortgage loans. Additionally, the banking sector might also see an easing in early repayment of mortgages, which will boost their interest revenue. To recap, banks' interest revenues in 1H23 were significantly impacted by the mortgage prepayment rush as reflected by the surge in the residential mortgage-backed securities (RMBS) prepayment rate index in 2Q23.

ESTIMATED IMPACTS OF EXISTING MORTGAGE RATE CUT ON CHINA BANKS

----- NII chg -----		---- Net Profit Forecast ----		----- NIM impact -----		----- Net Profit Impact -----	
2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
-Rmb38.4b	-Rmb153.6b	Rmb2,418b	Rmb2,539b	-1.2bp	-4.9bp	-1.2%	-4.8%

Source: UOB Kay Hian

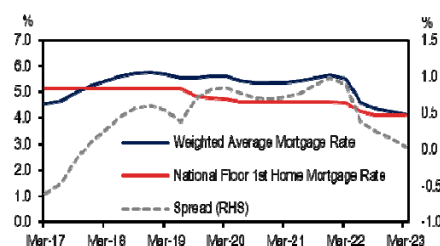
- **Deposit rate cuts gradually reduce banks' funding cost.** Assuming that the 1-year/2-year/3-year/5-year term fixed deposits make up 25%/25%/15%/10% of banks' total time deposit, banks could potentially save up to Rmb68.4b/Rmb205.2b in interest expenses in 2023/24, which will then improve their NIM by 2.2bp/6.6bp as well as net profit by 2.1%/6.1%. Nonetheless, these are more ideal assumptions as it will take time for deposits to reprice at lower rates.

ESTIMATED IMPACTS OF DEPOSIT RATE CUT ON CHINA BANKS

Time Deposit	NII chg		NIM impact		Net Profit Impact	
2023F	2023F	2024F	2023F	2024F	2023F	2024F
Rmb14,925b	+Rmb68.4b	+Rmb205.2b	+2.2bp	+6.6bp	+2.1%	+6.1%

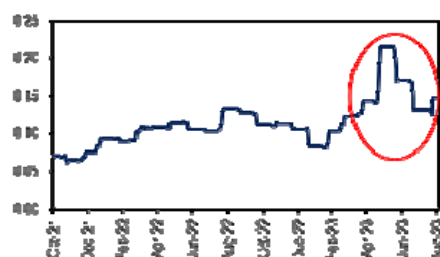
Source: UOB Kay Hian

EXISTING MORTGAGE RATE SPREAD



Source: PBOC, CBIRC, Wind, UOB Kay Hian

RMBS PREPAYMENT RATE INDEX



Source: Wind, UOB Kay Hian

RATE CUTS IMPACT ON BANKS' NIM

(bp)	2023F	2024F
LPR cut in Aug 23	-0.9bp	-2.1bp
Existing mortgage rate cut	-1.2bp	-4.9bp
Deposit rate cut	+2.2bp	+6.6bp
Net Impact	0.1bp	-0.5bp

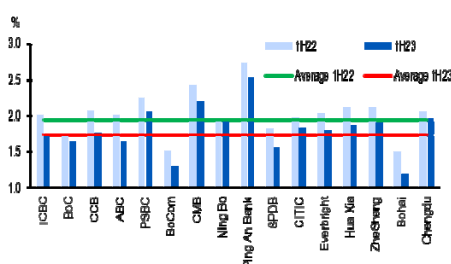
Source: UOB Kay Hian

RATE CUTS IMPACT ON BANKS' NET PROFIT

(%)	2023F	2024F
LPR cut in Aug 23	-0.9%	-1.9%
Existing mortgage rate cut	-1.2%	-4.8%
Deposit rate cut	+2.1%	+6.1%
Net Impact	0.0%	-0.6%

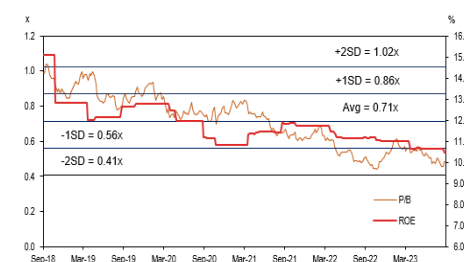
Source: UOB Kay Hian

NIM PERFORMANCE OF CHINESE BANKS IN 1H23



Source: Respective banks, UOB Kay Hian

CHINESE BANKS P/B VS ROE



Source: Bloomberg, UOB Kay Hian

- **NIM compression may ease in coming quarters.** All in all, the deposit rate cuts in this round have largely offset the negative impact of LPR cut and existing mortgage loans rate cut on banks' NIM and net profit in 2023/24. Meanwhile, the LPR and mortgage rate cut may help to spur consumer spending and investment, which will then boost effective retail loan demand for consumer loan, credit card loan and mortgage loans. In 1H23, NIM of all SOE banks except Postal Savings Banks of China (PSBC) fell below the 1.8% red line, while other joint-stock banks also experienced double-digit NIM compression. However, we retain our stance that NIM compression will gradually alleviate in the upcoming quarters, and foresee some banks' NIM possibly reaching a plateau by the end of year, especially as more policies are being implemented progressively.

ESSENTIALS

- **We continue to maintain MARKET WEIGHT on the banking sector.** Moving forward, the banks' primary concerns continue to be asset quality and the NIM dilution. Nevertheless, we believe that Chinese banks have overcome their most challenging period, as we note that the downward pressure on larger banks's NIM is easing, and their NPL ratios have also remained largely stable in their latest interim results. On the policy front, we foresee one reserve requirement ratio (RRR) cut in 4Q in order to stimulate the effective credit demand.
- **China Merchants Bank (3968 HK/BUY/Target: HK\$50.00) remains our top pick.** It is well-positioned to benefit from the recovery of its wealth management business, leveraging on its extensive retail customer base and growing asset under management (AUM) after China's efforts to revive the capital market. We also like the bank for its outstanding ROE performance (>17%) and solid capital buffer (CET1 ratio: 13.1%) which position it comfortably to expand its balance sheet and maintain its current dividend payout ratio.

RISKS

- Deterioration of asset quality from the contagion effect of property sector.
- Weaker-than-expected economic recovery in 2H23 from a lack of significant stimulus.

TRADERS' CORNER



Chart by TradingView

PICC Property And Casualty Co. Ltd. (2328 HK)

Trading Buy range: HK\$9.20-9.40

Last price: HK\$9.45

Target price: HK\$9.70/HK\$9.86

Protective stop: Breaks below HK\$8.90

Stock Highlights:

In 1H23, original insurance premium income increased 8.8% to Rmb300.93b. Net profit for the period increased 5.4% to Rmb20.254b.

Technical View:

In mid-August, share price briefly fell below its July low and then rebounded. It opened with an upside gap on 30 Aug 23 and rose further to reach a one-month high. It is now higher than its 10-day (light blue), 20-day (orange) and 50-day (red) moving averages. Its 10-day and 20-day moving averages are pointing upwards. The 14-day RSI is above the midline level of 50 and is currently around 69, indicating strong momentum. The MACD line is higher than the signal line, showing a double bullish signal.

Average timeframe: Around two weeks.



Chart by TradingView

China Power International Development Ltd (2380 HK)

Trading Buy range: HK\$2.96-3.00

Last price: HK\$3.04

Target price: HK\$3.16/HK\$3.25

Protective stop: Breaks below HK\$2.88

Stock Highlights:

In 1H23, revenue increased 5% to Rmb21.317b. Profit attributable to ordinary shareholders of the company increased 114.4% to Rmb1.68b.

Technical View:

Share price rebounded after falling to around HK\$2.70 in late-August, and has now risen above the 10-day (light blue), 20-day (orange), 50-day (red) and 200-day (purple) moving averages. The 14-day RSI is above the midline level of 50 and is currently around 58, indicating strong momentum. The MACD line is higher than the signal line, showing a bullish crossover. If it stays above its 50-day moving average, it could rise further.

Average timeframe: Around two weeks.

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