

SPD Bank (600000.SH)

Steady profit growth; worsen loan quality

CHINA | BANKING | COMPANY NOTE

14 Jul 2015

Summary

- According to the 2015Q1 business results previously released by Shanghai Pudong Development Bank ("SPD Bank" or "the Group" in the text below), the Group's operating income as at the end of March 2015 recorded a growth of 19.52% yoy, to RMB32.991 billion; while operating profit and net profit attributable to equity holders increased 4.85% and 4.52% respectively, amounted to RMB14.686 billion and RMB11.194 billion respectively;
- SPD Bank's scale of asset demonstrated steady growth. Total asset of the Group increased 1.42% higher than the figure recorded in the year end of 2014, amounted to RMB4.26 trillion. Meanwhile, the growth of net asset recorded 9.73%, to RMB285.494 billion, indicating net asset per share as RMB13.70;
- Being similar to other banks, the asset quality of SPD Bank demonstrated a trend of deterioration. The non-performing loan ratio of the Group in the end of 2015Q1 increased by 0.11 ppts, to 1.18%, in comparison to the ratio recorded in the year end of 2014. It is mainly due to the significant increase of doubtful loan and loss loan in the period under review. The Group's share price, which has recently been affected by the adverse condition of A-sharemarket, showed greater volatility. However, SPD Bank's share price is still obviously better than counterparts in the same period. The recent market adjustment exposed the effect of extended high leverage existed in the market. Meanwhile, it also reflects the potential risks of the wealth management products of the Group. We expect the asset quality of the Group would further deteriorate in the future;
- Overall, with SPD Bank's steady growth of profit and locational advantage in Shanghai district, we are confident toward the business of the Group in the future. We set the 12-month target price as RMB20 (2higher than the most recent closing price) which is equivalent to e2016 21.3x EPS and 1.3x BVPS. We grant the rating of "Accumulate". (Closing price as at the morning, 10 July 2015)

Steady profit growth; worsen loan quality

As at the end of March 2015, SPD Bank's operating income recorded a growth of 19.52% yoy, to RMB32.991 billion. The operating profit and net profit attributable to equity holders increased 4.85% and 4.52% respectively, amounted to RMB14.686 billion and RMB11.194 billion. Among this, net interest income and net commission income of the Group increased 14.03%yoy and 38.28%yoy respectively, amounted to RMB24.679 billion and 6.932 billion. However, loan quality of the Group in the period under review consistently deteriorated. Non-performing loan ratio increased by 0.11 ppts to 1.18%, in comparison to the ratio recorded in the year end of 2014. The balance of non-performing loan increased 13.56%, to RMB24.513 billion. Therefore, asset impairment loss significantly increased 105.81% yoy, to RMB9.313 billion.

The main reason of the increase of non-performing loan is related to the surge of doubtful loan and loss loan, which increased 22.10% and 29.52% respectively in the period under review, compared to the end of 2014, and amounted to RMB 9.714 billion and RMB2.176 billion respectively.

We consider profit of the Group would decline in the future, but it keeps stability in general. However, asset quality of the Group would continue to deteriorate and this is exactly one of the major risks faced by the Group in the future.

Accumulate

CMP: RMB 17.78

(Closing price as at the morning, 10 July 2015)

TARGET: RMB 20.00 (+12%)

COMPANY DATA

O/S SHARES (MN) :	18,653
MARKET CAP (RMB MN) :	265,300
52 - WK HI/LO (RMB) :	19.17/ 8.90

SHARE HOLDING PATTERN, %

China Mobile Group Guangdong Company	20.00
Shanghai International Group	16.93
Shanghai International Trust Investment	5.23

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
SPD Bank	-2.3%	-1.4%	98.9%
SSCI	-21.5%	-5.4%	90.6%

KEY FINANCIALS

Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Operating Profit (RMB mn)	53,523	61,751	69,245	76,594
Net Profit, adj. (RMB mn)	40,922	47,026	52,875	58,482
EPS, adj. (RMB)	2.19	2.52	2.83	3.14
P/E (X)	8.1	7.1	6.3	5.7
BV/PS (RMB)	10.96	13.15	14.35	14.90
P/B (X)	1.6	1.4	1.2	1.2
DPS (RMB)	0.66	0.76	0.86	0.94
Div. Yield	3.71%	4.26%	4.81%	5.29%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

Research Analyst

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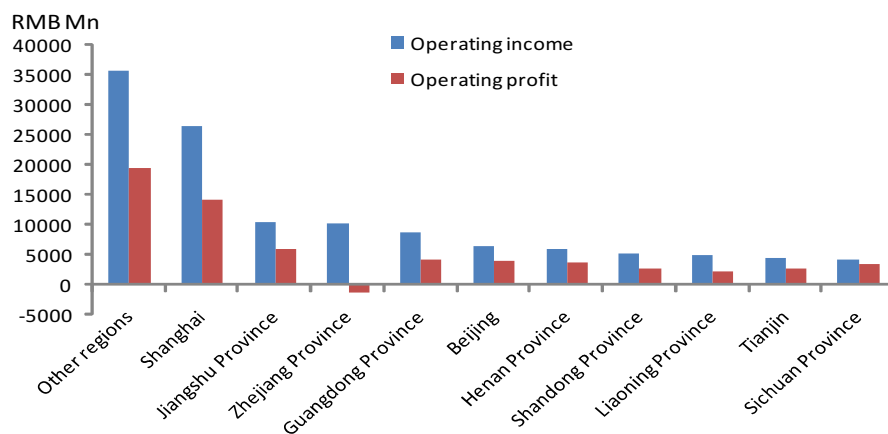
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SPD Bank's NPLs

Loan quality analysis (RMB Million)	2014A	2015Q1	Growth rate	Portion(2014)	Portion(2015Q1)
Normal	1,963,781	1,999,926	1.84%	96.82%	95.95%
Special Mention	43,014	59,866	39.18%	2.12%	2.87%
Substandard	11,949	12,623	5.64%	0.59%	0.61%
Doubtful	7,956	9,714	22.10%	0.39%	0.47%
Loss	1,680	2,176	29.52%	0.08%	0.10%
Total non-performing loans	21,585	24,513	13.56%	1.06%	1.18%
Total loans and advances to customers	2,028,380	2,084,305	2.76%	100.00%	100.00%
Asset quality ratios			Changes (ppt)		
Non-performing loan ratio	1.06%	1.18%	0.11		
Allowances for impairment losses to non-performing loans	249.09%	245.46%	-3.63		

Source: Company, Phillip Securities (HK) Research

SPD Bank's operating income and profit by region in 2014


Source: Company, Phillip Securities (HK) Research

Risk

Lower-than-expected growth of incomes;

The deterioration of the asset quality due to the large increase of the NPLs;

Share price decreases largely affected by the market environment in the short term.

Financials

Income statement (RMB Million)	2012A	2013A	2014A	2015E	2016E
Interests income	150,243	177,804	212,015	249,570	287,006
Interest expense	(76,881)	(92,627)	(113,832)	(138,515)	(163,447)
Net Interest income	73,362	85,177	98,183	111,056	123,558
Fee and commission income	9,321	14,573	22,321	33,336	43,337
Fee and commission expense	(575)	(669)	(975)	(1,355)	(1,829)
Net fee and commission income	8,746	13,904	21,346	31,982	41,508
Investment income	76	820	(262)	2,559	3,198
Net loss on financial assets and financial liabilities designated at fair value through profit or loss	(180)	(1,565)	2,262	(568)	(653)
Net exchange gain/(loss)	417	767	(53)	784	862
Other operating gain/(loss), net	531	912	1,705	2,144	2,573
Operating income	82,952	100,015	123,181	147,956	171,047
Operating expense	(23,814)	(25,830)	(28,475)	(30,475)	(33,522)
Impairment losses	(8,119)	(13,074)	(24,193)	(32,596)	(44,004)
Total expense	(38,533)	(46,492)	(61,430)	(78,712)	(94,454)
Operating profit	44,419	53,523	61,751	69,245	76,594
Share of profits of associates	335	326	279	360	450
Profit before tax	44,754	53,849	62,030	69,605	77,044
Income tax expense	(10,443)	(12,649)	(14,670)	(16,380)	(18,181)
Tax rate	23.33%	23.49%	23.65%	23.53%	23.60%
Profit for the period	34,311	41,200	47,360	53,225	58,862
Equity holders of the parent company	34,186	40,922	47,026	52,875	58,482
Minority interests	125	278	334	350	380
Dividend	10,259	12,311	14,121	15,957	17,552
Items per share	2012A	2013A	2014A	2015E	2016E
Basic EPS(RMB)	1.83	2.19	2.52	2.83	3.14
Book value per share(RMB)	9.52	10.96	13.15	14.35	14.90
Dividend per Share(RMB)	0.55	0.66	0.76	0.86	0.94
Financial ratio	2012A	2013A	2014A	2015E	2016E
P/E (x)	9.7	8.1	7.1	6.3	5.7
P/B (x)	1.9	1.6	1.4	1.2	1.2
Dividend Payout ratio	30.01%	30.08%	30.03%	30.18%	30.01%
Dividend yield	3.09%	3.71%	4.26%	4.81%	5.29%
NIM	2.58%	2.46%	2.50%	2.55%	2.63%
ROAA	1.18%	1.21%	1.20%	1.21%	1.22%
ROAE	19.26%	20.02%	19.18%	20.62%	21.44%
Cost to income ratio	28.71%	25.83%	23.12%	21.28%	22.09%
NPL ratio	0.58%	0.74%	1.06%	1.46%	1.67%
Coverage ratio	399.85%	319.56%	249.09%	225.30%	198.30%
CAR	12.45%	11.36%	11.25%	12.10%	12.40%
Core tier-1 CAR	8.97%	8.56%	8.52%	8.75%	8.96%

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at the morning, 10 July 2015)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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