



Asia Pacific: Banks

Equity Research

Banking on further NIM recovery; PAB and CCB-H our top picks

Maintain positive view on 2018 operating conditions for China banks

We expect further **NIM recovery** in 2018 for both the “big four” and joint stock banks, as: 1) banks continue to allocate balance sheet to higher yield assets and reprice loans/assets; and 2) there is less pressure on the funding side, with the cheap interbank funding seen in 2016 having mostly been refinanced into more expensive funding. On average, we expect our China Banks coverage to improve NIM by 17bp during 2018-20E.

Asset quality is likely to remain benign for the sector this year given improving corporate earnings and the stable macro outlook. The implied NPL ratio based on all A-share listed companies lowered to 4.8% as of 9M17, -3.5ppt vs YE16. We forecast credit cost to remain stable at c.110bp during 2018-20E, on the back of a lower NPL formation rate.

Revise P/PPOP target multiples

Since March 2017, our covered H-/A-share banks have risen on average by 22%/26%, but are still trading around the historical trough range at 3.2x/3.7x respectively on 1-year forward P/PPOP. We believe China banks **deserve higher multiples** on the back of a better operating environment. We see the upside risk-reward as still appealing, and expect up to 23% upside if China H-/A-share banks rerate to our **3.5x/4.0x target base multiples**.

Key rating changes: PAB, CCB-H and CMB-H/A upgrade to Buy

Top picks: PAB (up to Buy, add to CL) on retail bank potential and the associated ROE boost not yet priced in, and we also expect PAB to improve asset quality steadily as it switches gear towards a retail bank strategy. **CCB-H (up to Buy, add to CL)** on strong NIM expansion as assets reprice (for example, mortgages) and valuation catch-up vs ICBC-H.

We also: **Reinstate** on BoCom-A/H (Sell, weaker funding) and PSBC (Buy, leveraged player on interest rate); **Initiate** on CEB-A/H at Sell/Neutral (weaker NIM and NPL coverage); **Upgrade** CMB-H/A to Buy (strong retail franchise) and Industrial to Neutral (decreasing marginal impact from regulations); **Downgrade** to Neutral on ICBC-H (full valuation), BOC-A (weaker efficiency and NIM), ABC-A (capital position) and CQRCB (interbank funding risks). We remove ABC-H from our CL due to its weaker capital position vs. the rest of the big four, but maintain Buy given its solid fundamentals. Across our coverage we make earnings and 12-month target price changes to reflect rising deposit costs, slower fee growth, the impact from regulatory headwinds, and a revised valuation methodology.

RELATED RESEARCH

China: Banks: Retail lending – the next leg of growth for China banks, January 17, 2018.

Ping An Bank Co. (000001.SZ): The Asia Stock Collection: Consumer Lending 3.0; up to Buy, add to Conviction List, January 17, 2018.

SUMMARY OF RATINGS AND 12-M TARGET PRICES

	Currency	Current price	Revised TP	Rating	Original TP	Original rating
H-share (HKD)						
ICBC (H)	HK\$	6.65	7.2	Neutral	6.7	Buy
BOC (H)	HK\$	4.10	4.5	Neutral	4.5	Neutral
CCB (H)	HK\$	7.84	9.3	Buy*	7.7	Neutral
ABC (H)	HK\$	4.04	4.5	Buy	4.5	Buy*
BoCom (H)	HK\$	6.13	6.4	Sell		RS
CMB (H)	HK\$	34.85	38.1	Buy	30.1	Neutral
CEB (H)	HK\$	3.78	4.1	Neutral		NC
PSBC	HK\$	4.52	5.2	Buy		RS
CQRCB	HK\$	6.18	6.2	Neutral	7.0	Buy
A-share (Rmb)						
ICBC (A)	Rmb	6.43	7.0	Buy	6.2	Buy
BOC (A)	Rmb	4.18	4.4	Neutral	4.7	Buy
CCB (A)	Rmb	8.07	9.0	Buy	7.0	Buy
ABC (A)	Rmb	4.12	4.4	Neutral	4.0	Buy
BoCom (A)	Rmb	6.48	6.3	Sell		RS
CMB (A)	Rmb	31.94	36.3	Buy	25.3	Neutral
CEB (A)	Rmb	4.21	4.2	Sell		CS
Industrial	Rmb	18.00	19.4	Neutral	15.3	Sell
PAB	Rmb	14.20	17.5	Buy*	11.2	Neutral
Hua Xia	Rmb	9.40	9.5	Neutral	10.0	Neutral
BONB	Rmb	19.17	19.8	Neutral	15.8	Neutral
BONJ	Rmb	8.44	9.2	Neutral	8.2	Neutral

Notes: *Denotes stock is on our Conviction List (CL). RS = Rating Suspended, CS = Coverage Suspended, NC = Not Covered. Prices as of January 15, 2018. All target prices are on a 12-month timeframe.

Source: Datastream, Goldman Sachs Global Investment Research

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Pricing in this report is as of January 15, 2018, unless stated otherwise. Performance data for stocks being removed from an investment list is as of latest close.

Exhibit 1: China bank valuation comps

	Ticker	Currency	Current price	12-month TP	Rating	Target 19E P/POP	Upside/downside (%)	Implied P/B		P/B		P/E		P/POP		ROE		ROA		
H-share (HKD)								2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	
	ICBC (H)	1398.HK	HK\$	6.65	7.2	Neutral	3.5	8%	0.95	0.85	0.87	0.78	6.2	5.5	3.6	3.2	14.8%	15.1%	1.19%	1.24%
	BOC (H)	3988.HK	HK\$	4.10	4.5	Neutral	3.0	10%	0.68	0.62	0.62	0.57	5.7	5.1	2.9	2.7	11.2%	11.6%	0.83%	0.93%
	CCB (H)	0939.HK	HK\$	7.84	9.3	Buy*	3.5	19%	1.03	0.92	0.87	0.78	6.2	5.3	3.3	3.0	14.8%	15.2%	1.15%	1.22%
	ABC (H)	1288.HK	HK\$	4.04	4.5	Buy	3.0	11%	0.83	0.75	0.75	0.67	5.4	4.8	3.0	2.7	14.6%	14.8%	0.90%	0.95%
	BoCom (H)	3328.HK	HK\$	6.13	6.4	Sell	3.0	4%	0.61	0.57	0.59	0.55	5.7	5.4	3.1	2.9	10.6%	10.5%	0.72%	0.71%
	CMB (H)	3968.HK	HK\$	34.85	38.1	Buy	4.0	9%	1.60	1.40	1.46	1.28	9.2	7.7	4.2	3.7	16.7%	17.6%	1.16%	1.25%
	CEB (H)	6818.HK	HK\$	3.78	4.1	Neutral	2.5	8%	0.60	0.55	0.56	0.51	4.8	4.5	2.4	2.3	12.2%	11.8%	0.71%	0.70%
	PSBC	1658.HK	HK\$	4.52	5.2	Buy	3.5	15%	0.85	0.76	0.74	0.66	6.8	5.9	3.7	3.0	13.2%	14.2%	0.57%	0.62%
	CQRCB	3618.HK	HK\$	6.18	6.2	Neutral	2.5	0%	0.75	0.63	0.74	0.63	4.9	4.2	2.8	2.5	15.6%	16.0%	1.06%	1.12%
A-share (Rmb)								2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	
	ICBC (A)	601398.SS	Rmb	6.43	7.0	Buy	4.0	9%	1.09	0.97	1.00	0.90	7.1	6.2	4.1	3.7	14.8%	15.1%	1.19%	1.24%
	BOC (A)	601988.SS	Rmb	4.18	4.4	Neutral	3.5	5%	0.78	0.72	0.74	0.68	6.9	6.1	3.5	3.3	11.2%	11.6%	0.83%	0.93%
	CCB (A)	601939.SS	Rmb	8.07	9.0	Buy	4.0	12%	1.18	1.05	1.06	0.94	7.5	6.5	4.0	3.6	14.8%	15.2%	1.15%	1.22%
	ABC (A)	601288.SS	Rmb	4.12	4.4	Neutral	3.5	7%	0.96	0.86	0.90	0.81	6.5	5.7	3.6	3.3	14.6%	14.8%	0.90%	0.95%
	BoCom (A)	601328.SS	Rmb	6.48	6.3	Sell	3.5	-3%	0.71	0.66	0.73	0.68	7.2	6.7	3.9	3.6	10.6%	10.5%	0.72%	0.71%
	CMB (A)	600036.SS	Rmb	31.94	36.3	Buy	4.5	14%	1.80	1.57	1.58	1.39	10.0	8.4	4.5	4.0	16.7%	17.6%	1.16%	1.25%
	CEB (A)	601818.SS	Rmb	4.21	4.2	Sell	3.0	0%	0.73	0.66	0.73	0.67	6.2	5.9	3.2	3.0	12.2%	11.8%	0.71%	0.70%
	Industrial	601166.SS	Rmb	18.00	19.4	Neutral	3.0	8%	0.91	0.81	0.85	0.75	5.9	5.3	3.1	2.8	15.2%	15.0%	0.91%	0.92%
	PAB	000001.SZ	Rmb	14.20	17.5	Buy*	3.0	23%	1.22	1.08	0.99	0.88	9.1	7.3	2.8	2.4	11.4%	12.8%	0.77%	0.86%
	Hua Xia	600015.SS	Rmb	9.40	9.5	Neutral	2.5	1%	0.66	0.60	0.65	0.60	5.8	5.6	2.6	2.5	11.6%	11.2%	0.77%	0.73%
	BONB	002142.SZ	Rmb	19.17	19.8	Neutral	4.5	3%	1.54	1.32	1.49	1.28	8.9	7.3	5.2	4.4	17.9%	18.8%	1.01%	1.07%
	BONJ	601009.SS	Rmb	8.44	9.2	Neutral	3.5	9%	0.99	0.86	0.90	0.79	6.4	5.3	3.5	3.2	15.2%	15.9%	0.89%	0.94%

Notes: *Denotes stock is on our regional Conviction List. All target prices are on a 12-month timeframe.

Source: Datastream, Goldman Sachs Global Investment Research

Abbreviation & Acronym buster: **ABC:** Agricultural Bank of China. **BOC:** Bank of China. **BoCom:** Bank of Communications. **BONJ:** Bank of Nanjing. **BONB:** Bank of Ningbo. **CCB:** China Construction Bank. **CEB:** China Everbright Bank. **CMB:** China Merchants Bank. **CQRCB:** Chongqing Rural Commercial Bank. **Hua Xia:** Hua Xia Bank. **Industrial:** Industrial Bank. **ICBC:** Industrial and Commercial Bank of China. **PAB:** Ping An Bank. **PSBC:** Postal Saving Bank of China. **AMP:** asset management product. **JSB:** joint stock bank. **MMF:** money market fund. **NCD:** negotiable certificate of deposit. **WMP:** wealth management product.

2018 Outlook: NIM expansion continues on repricing and balance sheet management

Further NIM expansion with repricing for long duration assets to continue

In our March 13, 2017 report *"Breathing Space: Better near-term operating conditions should allow China's Banks room to earn their way out of trouble"*, we argued that big banks with a strong funding franchise and ability to reprice assets were likely to benefit the most from the de facto rate hikes (at the time of writing the note, 7-day repo/NCD rates had risen 45bps/140bps in the previous six months). This thesis has played out so far; by 3Q2017, the big 4 banks had all recorded positive yoy NIM improvement vs most joint stock banks (JSBs) suffering 15-35bp NIM contraction¹. As a result the big 4 banks on average grew PPOP by 6% in 9M17 vs -2% for JSBs (vs 7% and 18% 2013-16 CAGR respectively).

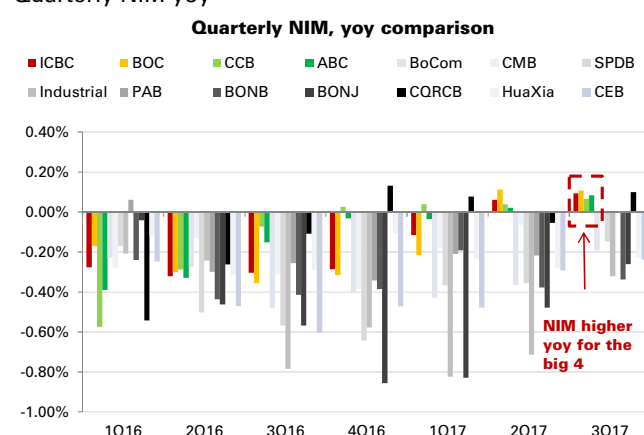
We continue to expect further NIM recovery in 2018 for both the big 4 and also JSB banks, as: 1) banks continue to allocate balance sheet to higher yield assets and reprice loans/assets; and 2) on the funding side, cheap interbank funding that banks saw in 2016 has mostly been refinanced into more expensive funding (average interbank funding now has less than 1 year's duration). Overall, we expect our China Banks coverage to improve NIM by 17bp on average during 2018-20E.

Exhibit 2: Big banks grew PPOP faster vs JSBs in 2017...
Quarterly PPOP yoy

	YoY						
	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
ICBC	4%	-1%	-1%	-1%	7%	8%	9%
BOC	18%	39%	2%	3%	10%	-20%	8%
CCB	7%	-1%	-4%	-7%	8%	7%	11%
ABC	-3%	5%	39%	-31%	14%	1%	5%
BoCom	5%	7%	-23%	25%	0%	-4%	1%
CMB	19%	6%	-6%	13%	1%	2%	7%
Industrial	22%	15%	0%	-10%	-15%	-17%	-14%
PAB	44%	16%	33%	26%	18%	5%	-12%
BONB	36%	29%	19%	24%	16%	0%	3%
BONJ	35%	26%	27%	-22%	-23%	-15%	-5%
CQRCB	3%	11%	11%	29%	22%	1%	6%
HuaXia	26%	12%	20%	2%	19%	9%	-2%
PSBC	-13%	-4%	-13%	-11%	24%	36%	34%
CEB	6%	6%	2%	6%	6%	-4%	-10%

Source: Company data

Exhibit 3: ...primarily on the back of NIM recovery
Quarterly NIM yoy



Source: Company data

1. Asset: Strong loan demand on the back of more disciplined asset growth

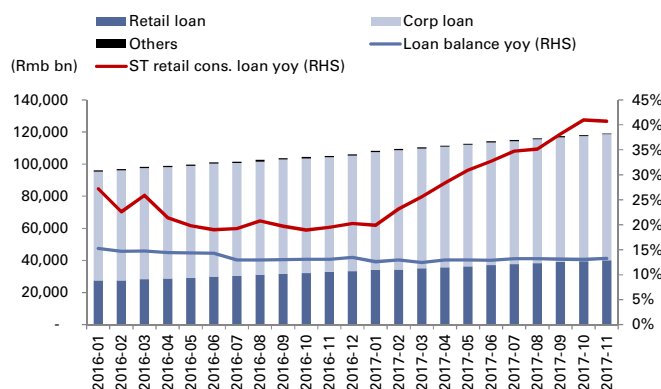
Despite slower average asset growth of 10% yoy as of 9M17 (vs 12% CAGR for 2014-16), total loans of our covered banks grew strongly at 11% yoy, and contributed to 63% of total asset growth in 9M17 (vs average 48% for 2014-16). We expect this trend to continue, and aggregate loan balance of our covered banks to grow by 12% in 2018-20E.

¹ Big 4 banks: ICBC, CCB, BOC, ABC. JSBs under our coverage: BoCom, CMB, PAB, CEB, Industrial, Hua Xia.

We expect to see especially strong demand in consumer loans and corporate capex.

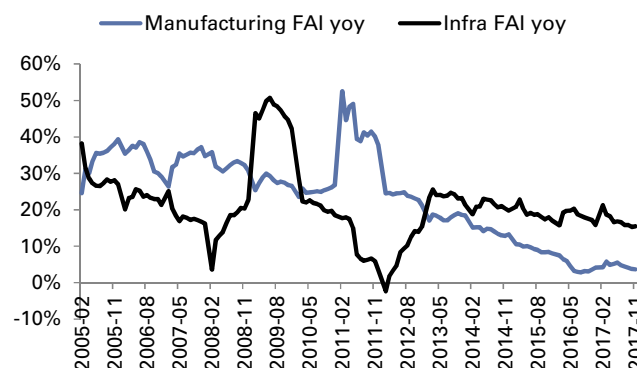
- **Consumer loans:** Grew by 41% yoy as of 11M17, outpacing aggregate loan balance growth (13%). As explained in our companion report (*China: Banks: Retail lending – the next leg of growth for China banks*, January 17, 2018), we expect the total addressable market of unsecured consumer loans to reach Rmb16tn in 2020E (from Rmb6tn in 2016), with banks continuing to play a dominant role with 83% market share by 2020E.
- **Corporate capex:** The improving corporate earnings of manufacturing, construction, and upstream companies have translated into higher corporate capex demand in the past year, and we have seen corporate medium/long-term loans account for 50% of total new loans in 11M17 (vs 36% in 2013-16). We expect this strength in corporate capex to continue as manufacturing FAI is still at low to mid-single digit growth while infra FAI has stabilized at low teens.

Exhibit 4: Consumer loans grew by 41% yoy as of 11M17, outpacing aggregate loan balance growth (13%)



Source: PBOC

Exhibit 5: Manufacturing FAI is still at low to mid-single digit growth while infra FAI has stabilized at low teens



Source: Wind

2. Liability: Competition for deposits to continue; divergence between stronger/weaker deposit franchises to widen with tightened AMP regulations

Deposit has traditionally been banks' preferred source of funding due to its low cost. Competition over deposits was intense under the tightening conditions seen in 2017, as investors sought higher-yield alternatives such as WMPs and MMFs. As a matter of fact, deposit growth slowed to 8% yoy as of 3Q17 for our covered banks (vs 10% in 2016), while effective funding costs rose by 23bp yoy in 3Q17.

Whilst competition for deposits will likely continue to be a long term theme, we expect to see divergence in 2018. AMP regulation may result in slower growth in WMP and other alternative investment products, and some investors may choose to put money back in to deposit accounts against the backdrop of fewer 'safe' alternative investment products, if the execution of removal of implicit guarantees proves strict (see *China: Banks: Stronger AMP regulation to safeguard financial stability, execution key*, November 20, 2017, for further details). Banks with a strong deposit franchise (bigger branch network, better user experience of online/mobile banking etc.) may enjoy an advantage in attracting funds back which previously has been invested in AMPs of other smaller institutions.

Exhibit 6: Deposit growth slowed to 8% yoy as of 3Q17 for our covered banks (vs 10% in 2016)...

Deposit growth yoy

Deposits	YoY						
	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
ICBC	8%	7%	7%	9%	9%	10%	9%
BOC	6%	9%	12%	10%	12%	9%	7%
CCB	7%	7%	10%	13%	11%	11%	8%
ABC	8%	11%	11%	5%	10%	7%	9%
BoCom	8%	5%	5%	5%	6%	4%	3%
CMB	7%	7%	4%	6%	10%	12%	10%
Industrial	-2%	1%	3%	8%	22%	22%	17%
PAB	-53%	15%	140%	11%	159%	1%	0%
BONB	29%	35%	36%	44%	20%	15%	13%
BONJ	25%	2%	0%	1%	16%	12%	8%
QRCB	16%	15%	12%	24%	7%	9%	10%
HuaXia	7%	5%	3%	1%	3%	0%	3%
CEB	16%	15%	9%	6%	5%	4%	4%

Source: Company data.

Exhibit 7: ...while effective funding costs rose by 23bp yoy in 3Q17

Funding cost yoy

Funding cost	YoY						
	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
ICBC	-0.35%	-0.40%	-0.36%	-0.25%	-0.13%	-0.01%	0.00%
BOC	-0.31%	-0.35%	-0.33%	-0.18%	-0.13%	0.03%	0.08%
CCB	-0.23%	-0.14%	-0.01%	-0.02%	-0.02%	-0.02%	0.07%
ABC	-0.41%	-0.23%	-0.16%	-0.04%	-0.03%	-0.08%	-0.03%
BoCom	-0.12%	-0.27%	-0.30%	-0.26%	0.04%	0.25%	0.35%
CMB	-0.68%	-0.68%	-0.40%	-0.33%	-0.11%	0.09%	0.25%
Industrial	-0.88%	-0.72%	-0.64%	-0.36%	0.18%	0.36%	0.65%
PAB	-1.31%	0.02%	0.55%	0.55%	0.32%	0.34%	-0.02%
BONB	-0.69%	-0.83%	-0.54%	-0.44%	-0.18%	0.08%	0.33%
BONJ	-0.75%	-0.85%	0.53%	-1.37%	-0.15%	0.35%	-0.73%
QRCB	-0.29%	0.06%	0.23%	0.53%	0.14%	0.21%	0.14%
HuaXia	-0.81%	-0.71%	-0.66%	-0.33%	0.10%	0.44%	0.55%
CEB	-0.75%	-0.57%	-0.33%	-0.22%	0.10%	0.45%	0.45%

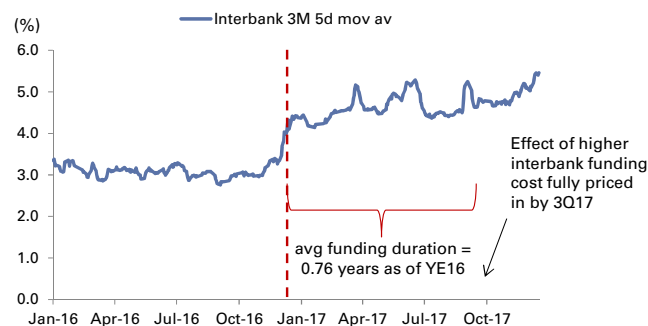
Source: Company data.

3. Further asset repricing on longer duration

As explained in our 3Q17 preview note (*China: Banks: Sector-wide recovery continues on NIM expansion*, October 17, 2017), we believe the NIM drag from funding cost hike is likely coming to an end as banks fully matured/rolled over the inexpensive interbank funding prior to 3Q16 to more expensive debts thereafter (average duration 9m). On the other hand, asset repricing is still taking place given a much longer asset duration (average 2.5/3.0 years for covered banks/big 4 as of 1H17). As a result, we expect banks to experience faster yield expansion on the asset side in 2018, especially the joint stock banks which suffered the most with high proportion of interbank liabilities in the past.

Exhibit 8: NIM drag from funding cost hike likely coming to an end...

Interbank 3M 5d moving average



Source: Datastream

Exhibit 9: ...while asset repricing is still taking place given a much longer asset duration

Asset/liability duration table

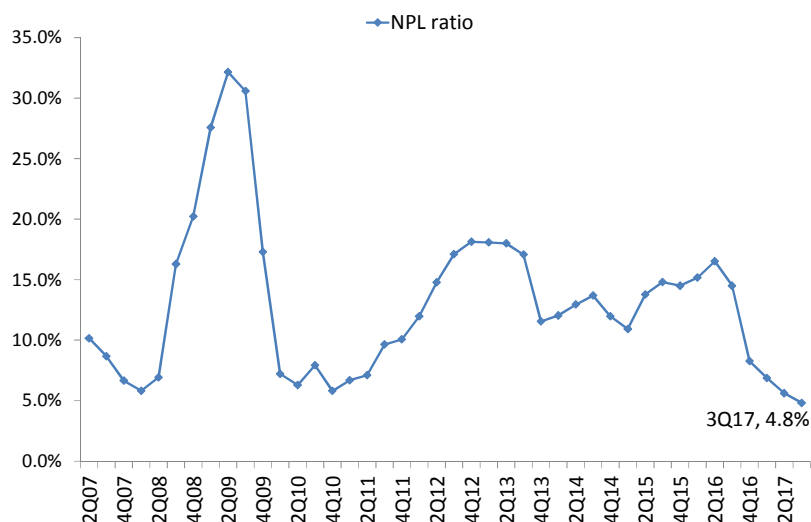
	Asset duration			Liability duration (ex deposit)		
	2015	2016	1H17	2015	2016	1H17
ICBC	2.57	2.81	3.02	0.69	0.80	0.78
CCB	2.79	2.83	2.96	0.65	0.63	0.63
BOC	2.50	2.67	2.65	0.76	0.72	0.68
ABC	2.62	2.85	3.30	1.01	0.86	0.86
PSBC	2.67	2.67	2.76	0.64	0.90	0.86
BoCom	2.77	2.99	2.54	1.17	1.16	1.11
CMB	1.84	2.15	2.23	0.50	0.44	0.53
Industrial	2.15	2.47	2.70	0.50	0.68	0.64
PAB	1.68	1.94	1.56	0.51	0.46	0.55
Hua Xia	1.87	2.04	2.22	0.41	0.56	0.71
CEB	1.64	1.93	2.15	0.21	0.24	0.35
BONB	1.64	1.83	1.73	0.98	0.93	0.84
BONJ	2.21	2.21	2.33	0.90	1.25	1.38
QRCB	1.74	1.65	na	0.43	0.60	na
Sector average	2.18	2.35	2.48	0.67	0.72	0.76
Big 4 average	2.62	2.79	2.98	0.78	0.75	0.74

Source: Company data

Asset quality: Implied NPL reached a new low in 3Q17; limited near-term deterioration risks

We calculate the implied NPL ratio based on all A-share listed companies and note that it lowered to 4.8% as of 9M17, -3.5ppt vs YE16. Recent macro indicator releases (e.g., November PPI 5.8% yoy) further confirmed the resilience of upstream sectors, traditionally a swing factor for banks' NPL outlook. We expect asset quality to remain benign for the sector given improving corporate earnings this year (taking 400k+ industrial companies as an example, aggregate EBIT was up 11% yoy as of 11M17) and the stable macro outlook. We forecast credit cost to remain stable at c.110bp during 2018-20E, on the back of a lower NPL formation rate (average 0.94% during 2018-20E vs 1.4%/1.3% in 2015/16 respectively).

Exhibit 10: Implied NPL ratio based on all A-share listed companies, which lowered to 4.8% as of 9M17, -3.5ppt vs YE16



Source: Wind, Goldman Sachs Global Investment Research

Exhibit 11: We forecast credit cost to remain stable at c.110bp during 2018-20E...

Credit cost (%)	2014	2015	2016	2017E	2018E	2019E	2020E
ICBC	0.51	0.72	0.66	0.84	0.87	0.85	0.80
CCB	0.63	0.88	0.76	0.88	0.95	0.91	0.77
BOC	0.57	0.65	0.89	0.88	0.87	0.79	0.81
ABC	0.80	0.92	0.81	0.93	0.96	0.95	0.75
BoCom	0.60	0.73	0.69	0.63	0.67	0.74	0.86
PSBC	0.96	0.94	0.67	0.73	0.80	0.91	0.92
CMB	1.24	2.04	1.98	1.79	1.76	1.63	1.48
CEB	0.81	1.33	1.27	1.00	0.94	0.87	0.78
Industrial	1.63	2.54	2.47	1.48	1.42	1.37	1.30
Hua Xia	0.67	0.84	1.14	1.16	1.20	1.17	1.06
PAB	1.46	2.51	3.15	2.93	2.66	2.56	2.38
BONB	1.20	1.48	1.76	1.48	1.19	1.16	1.02
BONJ	1.47	2.50	2.15	1.43	1.27	0.92	0.60
CRCB	0.76	1.11	0.79	1.05	0.99	0.85	0.51
Big-4 Avg	0.63	0.79	0.78	0.88	0.91	0.88	0.78
Sector Avg	0.95	1.37	1.37	1.23	1.18	1.12	1.00

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 12: ...on the back of lower NPL formation rate (average 0.9% during 2018-20E)

NPL formation (%)	2014	2015	2016	2017E	2018E	2019E	2020E
ICBC	0.70	1.05	0.89	0.67	0.76	0.68	0.67
CCB	0.76	1.53	1.21	0.74	0.84	0.73	0.73
BOC	0.71	0.91	0.78	0.87	0.83	0.77	0.72
ABC	0.91	1.60	1.13	0.82	1.01	1.14	1.04
BoCom	0.27	0.21	0.30	0.17	0.10	0.12	0.15
PSBC	0.53	0.82	0.65	0.36	0.47	0.48	0.49
CMB	1.27	2.30	1.96	1.06	1.35	1.37	1.40
CEB	0.98	1.39	1.37	0.94	0.90	0.82	0.76
Industrial	1.39	2.16	2.10	0.92	1.28	1.22	1.12
Hua Xia	0.80	1.20	1.11	1.14	1.03	0.97	0.97
PAB	1.42	3.00	3.12	3.03	2.77	2.72	2.64
BONB	0.77	1.16	1.27	1.04	1.06	0.96	0.85
BONJ	0.96	1.80	1.62	0.81	0.73	0.68	0.64
CRCB	0.27	0.56	0.49	0.47	0.54	0.50	0.46
Big-4 Avg	0.77	1.27	1.00	0.78	0.86	0.83	0.79
Sector Avg	0.84	1.41	1.29	0.93	0.98	0.94	0.90

Source: Company data, Goldman Sachs Global Investment Research

Key Model Assumptions

Exhibit 13: Loan growth to stabilize at ~12% in 2018-20E

Loan growth (%)	2014	2015	2016	2017E	2018E	2019E	2020E
ICBC	11%	8%	9%	8%	11%	10%	9%
CCB	10%	11%	12%	8%	11%	11%	10%
BOC	12%	8%	9%	9%	9%	9%	9%
ABC	11%	10%	9%	9%	9%	9%	9%
BoCom	5%	8%	10%	9%	9%	8%	8%
PSBC	26%	32%	22%	23%	19%	17%	13%
CMB	14%	12%	15%	15%	14%	15%	15%
CEB	11%	16%	19%	14%	12%	10%	11%
Industrial	17%	12%	17%	17%	14%	13%	12%
Hua Xia	14%	14%	14%	12%	11%	11%	10%
PAB	21%	19%	21%	15%	12%	14%	14%
BONB	23%	22%	18%	14%	15%	16%	17%
BONJ	19%	44%	32%	19%	16%	15%	14%
CQRCB	18%	11%	12%	9%	10%	11%	11%
Big-4 Avg	11%	9%	10%	8%	10%	10%	9%
Sector Avg	15%	16%	16%	13%	12%	12%	12%

Note: For Exhibits 13-18, color is used to indicate quartiles, with dark blue indicating the top 25% and dark grey the bottom 25%.

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 15: Net fee income growth to stabilize at ~9% in 2018-20E

Net fee income growth (%)	2014	2015	2016	2017E	2018E	2019E	2020E
ICBC	8%	8%	1%	-3%	7%	6%	5%
CCB	4%	5%	4%	4%	8%	8%	9%
BOC	17%	11%	1%	-4%	3%	3%	4%
ABC	-4%	3%	10%	-10%	1%	2%	4%
BoCom	14%	18%	5%	1%	2%	2%	2%
PSBC	9%	34%	33%	19%	17%	16%	14%
CMB	35%	34%	15%	-1%	15%	15%	16%
CEB	28%	37%	7%	14%	4%	3%	3%
Industrial	14%	19%	14%	4%	14%	9%	9%
Hua Xia	21%	62%	18%	22%	9%	13%	13%
PAB	66%	39%	16%	16%	14%	17%	17%
BONB	65%	53%	61%	52%	9%	8%	13%
BONJ	66%	66%	18%	-15%	-1%	2%	3%
CQRCB	57%	40%	42%	9%	8%	11%	11%
Big-4 Avg	7%	7%	4%	-3%	5%	5%	5%
Sector Avg	29%	31%	17%	8%	8%	8%	9%

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 14: NIM expansion to continue to spread across more banks

NIM yoy (bp)	2014	2015	2016	2017E	2018E	2019E	2020E
ICBC	7	-12	-33	4	13	9	4
CCB	7	-11	-47	-1	19	13	7
BOC	7	-15	-31	6	8	4	2
ABC	14	-23	-47	4	7	4	2
BoCom	-11	-5	-43	-27	3	4	3
PSBC	17	-20	-62	14	13	8	6
CMB	2	1	-34	2	12	9	7
CEB	8	0	-46	-28	3	1	-1
Industrial	-4	3	-45	-53	7	3	1
Hua Xia	17	-25	-14	-23	6	3	0
PAB	31	35	-11	-41	15	6	6
BONB	-3	-20	-33	-26	9	8	3
BONJ	35	1	-48	-37	6	3	2
CQRCB	-11	-17	-49	2	8	3	3
Big-4 Avg	9	-15	-40	3	12	7	4
Sector Avg	8	-7	-36	-14	9	5	3

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 16: Faster PPOP growth of ~11% going forward

PPOP growth rate (%)	2014	2015	2016	2017E	2018E	2019E	2020E
ICBC	11%	8%	0%	9%	14%	12%	10%
CCB	12%	9%	-1%	11%	15%	12%	11%
BOC	22%	11%	8%	2%	10%	8%	6%
ABC	12%	5%	-1%	7%	9%	11%	7%
BoCom	7%	7%	1%	1%	7%	9%	6%
PSBC	37%	12%	-11%	32%	24%	25%	19%
CMB	34%	27%	8%	7%	15%	14%	14%
CEB	25%	25%	5%	-3%	6%	5%	3%
Industrial	19%	25%	6%	-7%	13%	11%	9%
Hua Xia	24%	13%	17%	5%	8%	6%	3%
PAB	53%	44%	29%	5%	8%	16%	17%
BONB	27%	24%	27%	8%	15%	20%	16%
BONJ	60%	52%	21%	-2%	10%	9%	10%
CQRCB	25%	12%	4%	19%	11%	11%	10%
Big-4 Avg	14%	8%	2%	7%	12%	11%	9%
Sector Avg	26%	20%	8%	7%	12%	12%	10%

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 17: Asset quality to improve on stable macro outlook and resilient corporate earnings

LLR/NPL (%)	2014	2015	2016	2017E	2018E	2019E	2020E
ICBC	207	156	137	152	168	187	201
CCB	222	151	150	167	190	216	231
BOC	188	153	163	165	167	167	173
ABC	287	189	173	188	192	193	188
BoCom	179	156	151	152	162	169	173
PSBC	364	298	272	313	332	337	331
CMB	233	179	180	263	320	368	406
CEB	181	156	152	155	158	161	162
Industrial	250	210	211	232	235	238	243
Hua Xia	233	167	159	160	172	184	188
PAB	201	166	155	181	199	214	222
BONB	285	309	351	434	482	533	578
BONJ	326	431	457	514	563	573	545
CQRCB	460	420	428	461	494	514	502
Big-4 Avg	226	163	156	168	179	191	198
Sector Avg	258	224	224	253	274	290	296

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 18: Capital position gradually improves for our covered banks

Tier 1 CAR (%)	2014	2015	2016	2017E	2018E	2019E	2020E
ICBC	12.2	13.5	13.4	13.8	14.1	14.4	14.7
CCB	12.1	13.3	13.2	14.1	14.0	14.1	14.4
BOC	11.5	12.1	12.3	12.1	12.1	12.3	12.5
ABC	9.5	11.0	11.1	11.0	11.2	11.5	11.8
BoCom	11.3	11.5	12.2	12.1	12.0	12.1	12.1
PSBC	8.4	8.5	8.6	8.5	8.2	8.1	8.1
CMB	10.4	10.8	11.5	12.6	12.5	12.4	12.4
CEB	17.4	15.4	14.3	13.1	12.2	11.8	11.1
Industrial	8.9	9.2	9.2	9.6	9.5	9.4	9.3
Hua Xia	8.5	8.9	8.4	8.6	8.5	8.4	8.3
PAB	8.6	9.0	9.3	9.1	9.2	9.3	9.5
BONB	10.1	9.0	8.6	8.7	8.7	8.6	8.6
BONJ	8.6	9.4	8.2	8.2	8.2	8.4	8.6
CQRCB	10.1	10.1	9.9	10.1	9.7	10.1	10.4
Big-4 Avg	11.3	12.5	12.5	12.8	12.9	13.1	13.4
Sector Avg	10.5	10.8	10.7	10.8	10.7	10.8	10.9

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 19: We revise NPAT down on average by 3% for 2017-19E

Current vs. previous

vs previous	NPAT			Major adjustment vs. previously
	2017E	2018E	2019E	
ICBC	-1%	3%	5%	Higher operating expenses as the bank tilts to retail business, lower provision on asset quality upturn
CCB	2%	5%	11%	Faster NIM expansion due to ample deposit, good funding cost control and retail tilts, lower provision on asset quality upturn
BOC	-15%	-7%	-5%	Relatively higher operating expense, more provisions to beef up NPL coverage ratio as it's close to regulatory requirement
ABC	-2%	-5%	-8%	Slower NIM expansion and fee income growth, lower provision on asset quality upturn
CMB	-8%	-5%	2%	Higher opex as CMB continues to develop retail business and invests in Fintech, lower provision on asset quality upturn
Industrial	-2%	-10%	-9%	Lower NIM on rising funding cost due to reliance on interbank liabilities, slower fee growth, lower provision on better asset quality
Hua Xia	-2%	-1%	1%	Adjusted provision to be slightly higher due to slower asset quality improvement
PAB	-1%	7%	23%	Higher NIM and fee income on retail transition. Lower provision on better retail loan asset quality
BONB	-5%	-9%	-8%	Larger operating expense increase offsetting increase in NIM and fee income brought by retail business
BONJ	-2%	-7%	-8%	Slower fee income growth on regulatory headwinds, higher operating expense
CQRCB	-7%	-10%	-10%	Higher operating expense, partially offset by lower provision due to improving asset quality
Big-4 Avg	-4%	-1%	1%	
Sector Avg	-4%	-4%	-1%	

Note: Changes for PAB made in Ping An Bank Co. (000001.SZ): The Asia Stock Collection: Consumer Lending 3.0; up to Buy, add to Conviction List, January 17, 2018

Source: Goldman Sachs Global Investment Research

Exhibit 20: We are 2% above Bloomberg consensus on NPAT

GS vs. Bloomberg consensus, as of January 15, 2018

vs consensus	NPAT		
	2017E	2018E	2019E
ICBC	1%	7%	12%
CCB	1%	4%	9%
BOC	-9%	-3%	0%
ABC	0%	2%	5%
BoCom	0%	-4%	-4%
PSBC	1%	3%	2%
CMB	0%	2%	7%
CEB	2%	3%	1%
Industrial	1%	3%	4%
Hua Xia	0%	-2%	-3%
PAB	-1%	5%	16%
BONB	1%	5%	7%
BONJ	0%	1%	1%
CQRCB	-1%	1%	4%
Big-4 Avg	-2%	2%	7%
Sector Avg	0%	2%	4%

Source: Company data, Bloomberg, Goldman Sachs Global Investment Research

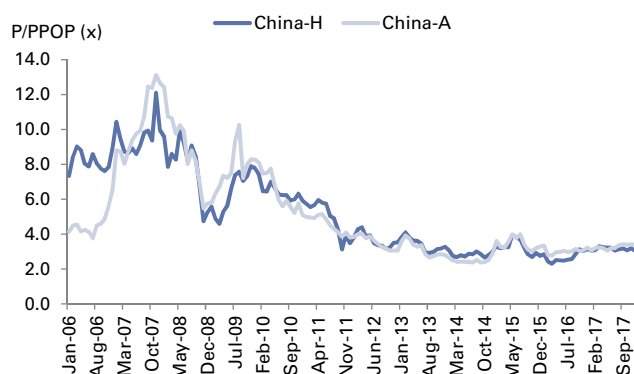
Summary of valuation, key rating changes and M&A rank

China banks still trade at around historical trough P/PPOP...

Since March 2017, our covered H-/A-share banks have risen by 22%/26% on average. However, at 3.2x/3.7x (for H-/A-share banks) on 1-year forward PPOP, the China banks are still trading around their historical trough P/PPOP range, which compares to global peers that are largely trading above the mid-cycle.

Exhibit 21: Our covered H-/A-share banks have risen by 22%/26% respectively since March 2017...

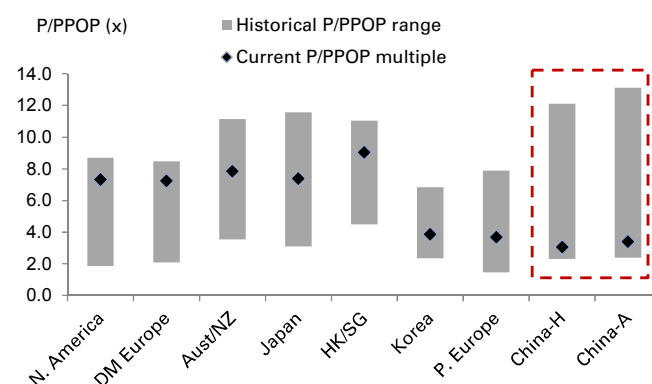
P/PPOP for A/H share China banks since 2006



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 22: ...but are still trading around historical trough P/PPOP multiples

P/PPOP range by region, 2006-17



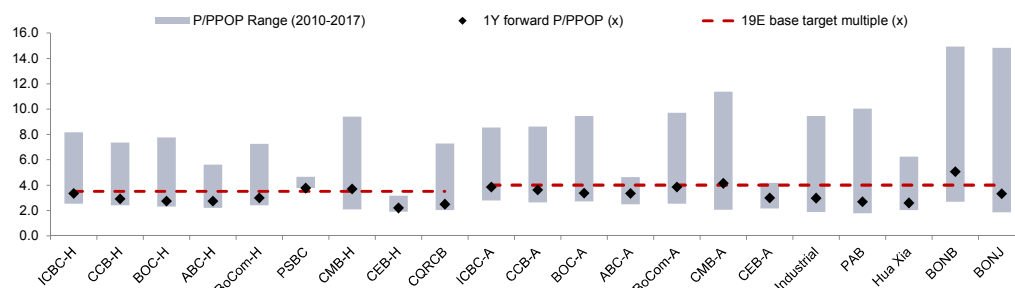
Source: Datastream, Goldman Sachs Global Investment Research

...but we believe they should rerate towards global peers

Banks globally have typically traded between 4x to 8x 1-year forward P/PPOP, except for crisis periods, e.g. US banks during the GFC, or European banks during the European debt crisis. Given our view on the continued recovery of NIM and improving asset quality on the back of the stable macro outlook and improving corporate profit, we believe China banks warrant higher multiples. Hence, we set 3.5x/4x, the low-end of global peers, as the target P/PPOP multiples for China H-/A-share banks.

Exhibit 23: We set 3.5x/4x, the low-end of global peers, as the target P/PPOP multiples for China H-/A-share banks

Historical P/PPOP range



Source: Datastream, Goldman Sachs Global Investment Research

Revised P/PPOP target multiple methodology

In addition to rolling forward our valuation base to 2019E P/PPOP (from 2018E), we also outline our revised target multiple methodology as supported by our rankings within the CAMELOT (capital, asset quality, management, earnings, liquidity, operating, transparency) framework.

We previously assigned each bank a target multiple based on its historical median P/PPOP after adjusting for PPOP growth and provision adequacy. However, we now set the target P/PPOP multiple base at 4x for the A-share banks and 3.5x for H-share banks (to reflect the H-share trading discount), the lower end of global peers' historical trading range, as we believe the China banks deserve to trade within the same range as global peers on the back of continuous NIM and asset quality improvement as well as a stable macro outlook and improving corporate profits.

Specifically, we take below steps to arrive at the target multiples:

1. Score banks by each pillar under the CAMELOT framework.
2. Calculate their CAMELOT scores based on the weighted average of each pillar.
3. Assign target P/PPOP multiples based on their score range.

We also make additional adjustments for:

1. CMB-A/H and BONB (+0.5x vs ICBC/CCB) on their retail potential, i.e., target 4.5x/4.0x/4.5x 2019E P/PPOP.
2. CQRCB target 2.5x 2019E P/PPOP for liquidity discount (HK\$62mn ADVT vs H-share banks average HK\$1.5bn for big-4 banks in past 12 months).

Overall, the change in target multiple impacts our H-/A-share 12-month target prices by an average of 1%/18%, with the remainder (6% for H-share, 3% for A-share) driven by other factors such as earnings adjustments.

Exhibit 24: CAMELOT ranking table

Key metrics	Weight	Sub metrics	Sub weight	ICBC	CCB	BOC	ABC	BoCom	PSBC	CMB	PAB	Industrial	Hua Xia	CEB	BONB	BONJ	CQRCB
Capital	15%	Tier 1 CAR	50%	1	1	1	2	2	4	1	3	3	4	4	3	4	2
		Equity/assets	50%	1	1	1	3	1	4	2	2	3	3	4	4	4	2
Asset quality	20%	NPL rate	30%	4	2	2	4	2	1	3	4	3	4	3	1	1	1
		LLR/NPL	70%	4	3	4	3	4	1	2	2	2	3	4	1	1	1
Management	20%	Management	100%	1	1	2	2	2	2	1	3	3	4	3	2	3	3
Earnings	15%	ROA	25%	1	1	3	2	4	4	1	4	2	3	4	2	3	1
		ROE	25%	2	2	4	3	4	3	1	4	2	4	3	1	1	1
		PPOP 17-20E CAGR	25%	2	2	4	3	4	1	1	1	2	4	4	1	3	3
		CIR	25%	1	1	3	4	4	4	2	2	1	4	2	3	1	3
Liquidity	5%	1H17 LCR	70%	1	2	2	2	3	1	4	4	4	4	3	1	3	1
		LDR	30%	3	1	3	2	4	1	4	3	2	4	4	2	1	1
Operating	20%	Regulatory risk	100%	2	2	2	2	2	2	2	3	3	3	3	3	3	3
Transparency	5%	Reporting standard	100%	2	2	2	2	2	2	1	2	3	3	3	3	3	3
Sum	100%	Sum		2.0	1.7	2.4	2.5	2.6	2.2	1.7	2.8	2.7	3.5	3.3	2.2	2.6	2.2
Target multiple for H share				3.5x	3.5x	3x	3x	3x	3.5x	4x				2.5x			2.5x
Target multiple for A share				4x	4x	3.5x	3.5x	3.5x		4.5x	3x	3x	2.5x	3x	4.5x	3.5x	

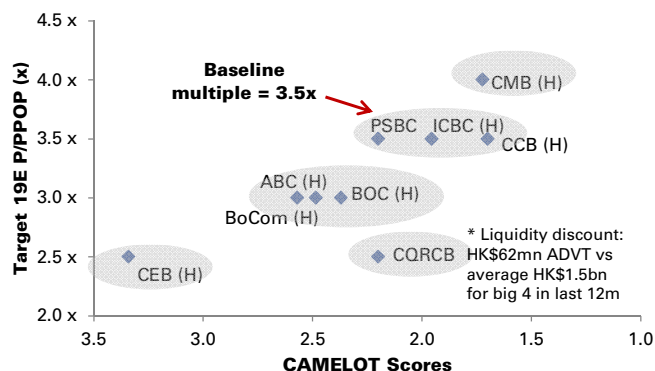
Notes:

1. The CAMELOT ranking is based on our bank data 2018E forecast quartile unless indicated otherwise. 1 indicates the top quartile, 4 indicates the bottom quartile.
2. Blue shading denotes a better score vs. YE16; grey shading denotes a worse score vs. YE16.
3. We rank the management by its structure stability (e.g., how long current management has been in place), efficiency, capability, etc. For example, Hua Xia is given a score of 4 due to a recent change in top management, which could lead to a period of restructuring in the near term. For operating measurement, we assign better scores to big banks, like CMB and PSBC due to higher operating prudence and stable funding mix which is likely to be more resistant to regulatory headwinds. For transparency, we base our scores on the comprehensiveness of company disclosure, reporting standards, etc.

Source: Goldman Sachs Global Investment Research.

Exhibit 25: We now set the target P/PPOP multiple base at 3.5x for H-share due to valuation discount...

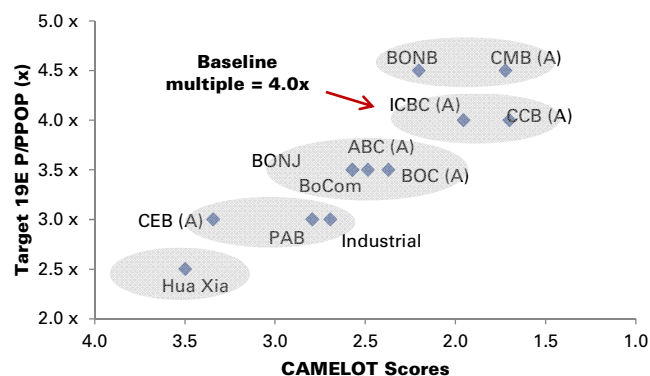
Target multiples of H-share banks



Source: Company data, Wind, Goldman Sachs Global Investment Research

Exhibit 26: ... and 4.0x A-share banks

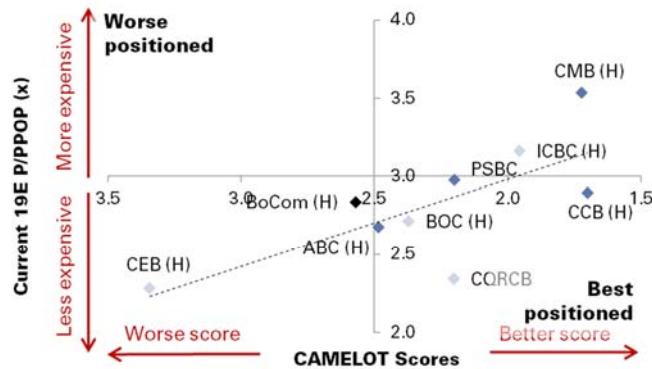
Target multiples of A-share banks



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 27: Our Buy rated names (dark blue dots) appear undervalued...

Scatter plot of current P/PPOP multiple vs. CAMELOT scores for H-share banks

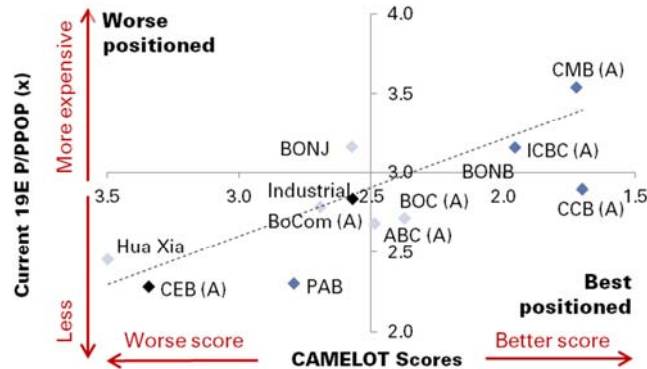


Note: For Exhibits 27-28, dark blue dots indicate a Buy rating, black dots indicate a Sell rating, and light blue dots indicate a Neutral rating.

Source: Goldman Sachs Global Investment Research

Exhibit 28: ... as they generally lie below the trend line

Scatter plot of current P/PPOP multiple vs. CAMELOT scores for A-share banks



Source: Goldman Sachs Global Investment Research

Exhibit 29: On average 1%/18% of our H-/A-share 12-month target price changes are driven by the target multiple revision, with the rest (6% for H-share, 3% for A-share) driven by other factors such as our earnings adjustments

	Ticker	Currency	Revised TP	Original TP	Change	Rating	Revised Target P/PPOP	Original target P/PPOP	Change driven by multiple	Change driven by others	
H-share (HKD)											
	ICBC (H)	1398.HK	HK\$	7.2	6.7	7%	Neutral	3.5	3.7	-5%	12%
	BOC (H)	3988.HK	HK\$	4.5	4.5	0%	Neutral	3.0	3.2	-6%	6%
	CCB (H)	0939.HK	HK\$	9.3	7.7	21%	Buy*	3.5	3.5	1%	20%
	ABC (H)	1288.HK	HK\$	4.5	4.5	0%	Buy	3.0	3.2	-7%	7%
	CMB (H)	3968.HK	HK\$	38.1	30.1	27%	Buy	4.0	3.4	19%	8%
	CQRCB	3618.HK	HK\$	6.2	7.0	-11%	Neutral	2.5	2.4	2%	-14%
A-share (Rmb)											
	ICBC (A)	601398.SS	Rmb	7.0	6.2	13%	Buy	4.0	3.8	5%	8%
	BOC (A)	601988.SS	Rmb	4.4	4.7	-6%	Neutral	3.5	3.7	-6%	0%
	CCB (A)	601939.SS	Rmb	9.0	7.0	29%	Buy	4.0	3.6	12%	16%
	ABC (A)	601288.SS	Rmb	4.4	4.0	10%	Neutral	3.5	3.2	9%	1%
	CMB (A)	600036.SS	Rmb	36.3	25.3	43%	Buy	4.5	3.2	41%	2%
Industrial		601166.SS	Rmb	19.4	15.3	27%	Neutral	3.0	2.2	36%	-9%
PAB		000001.SZ	Rmb	17.5	11.2	56%	Buy*	3.0	2.2	36%	20%
Hua Xia		600015.SS	Rmb	9.5	10.0	-5%	Neutral	2.5	2.9	-14%	9%
BONB		002142.SZ	Rmb	19.8	15.8	25%	Neutral	4.5	3.7	22%	3%
BONJ		601009.SS	Rmb	9.2	8.2	12%	Neutral	3.5	2.6	37%	-25%

Notes: *Denotes the stock is on our regional Conviction List.

Source: Company data, Goldman Sachs Global Investment Research

Key recommendations and rating changes

We make a number of rating changes within our China Banks coverage on the back of: 1) earnings revisions that reflect banks' retail advantage and also balance sheet positions in the face of tight regulations and elevated interbank rates, and 2) updated target P/PPOP multiples as discussed above. Incorporating these changes, we now see average upside of 10%/7% to our 12-m target prices for the H-/A-share banks.

Top picks

See **"Ping An Bank Co. (000001.SZ): The Asia Stock Collection: Consumer Lending 3.0; up to Buy, add to Conviction List", January 17, 2018 for additional details**

- **PAB (up to Buy, add to CL)** on retail bank potential and the associated ROE boost not priced in, and we expect PAB to improve asset quality steadily as it switches gear towards a retail bank strategy.
- **CCB-H (up to Buy, add to CL)** on strong NIM expansion as assets reprice (in particular mortgages) and valuation catch-up vs ICBC-H. See pages 17-19.

Other changes (see individual company pages in this report)

- **Upgrade** CMB-H/A to Buy (strong retail franchise), and Industrial to Neutral (decreasing marginal impact from regulatory headwinds).
- **Downgrade** to Neutral ICBC-H (full valuation), BOC-A (weaker efficiency and NIM), ABC-A (capital position) and CQRCB (interbank funding risks).
- **Initiate** on CEB-A/H at Sell/Neutral (strong fee offset by weaker NIM).
- **Reinstate** on BoCom-A/H (Sell, weaker NIM recovery) and PSBC (Buy, strong growth and market liquidity provider).
- Separately, we remove ABC-H from our **Conviction List** due to relatively weaker capital position vs. the rest of the big four but maintain our Buy rating on solid fundamentals.

Exhibit 30: Valuation table

	Ticker	Currency	Current price	Revised TP	Rating	Target 19E P/PPOP	Upside/downside (%)	Original TP	Original rating	Implied P/B	P/B	P/E	P/PPOP	ROE	ROA
										2018E	2019E	2018E	2019E	2018E	2019E
H-share (HKD)															
ICBC (H)	1398.HK	HK\$	6.65	7.2	Neutral	3.5	8%	6.7	Buy	0.95	0.85	0.87	0.78	6.2	5.5
BOC (H)	3988.HK	HK\$	4.10	4.5	Neutral	3.0	10%	4.5	Neutral	0.68	0.62	0.62	0.57	5.7	5.1
CCB (H)	0939.HK	HK\$	7.84	9.3	Buy*	3.5	19%	7.7	Neutral	1.03	0.92	0.87	0.78	6.2	5.3
ABC (H)	1288.HK	HK\$	4.04	4.5	Buy	3.0	11%	4.5	Buy*	0.83	0.75	0.75	0.67	5.4	4.8
BoCom (H)	3328.HK	HK\$	6.13	6.4	Sell	3.0	4%		RS	0.61	0.57	0.59	0.55	5.7	5.4
CMB (H)	3968.HK	HK\$	34.85	38.1	Buy	4.0	9%	30.1	Neutral	1.60	1.40	1.46	1.28	9.2	7.7
CEB (H)	6818.HK	HK\$	3.78	4.1	Neutral	2.5	8%		NC	0.60	0.55	0.56	0.51	4.8	4.5
PSBC	1658.HK	HK\$	4.52	5.2	Buy	3.5	15%		RS	0.85	0.76	0.74	0.66	6.8	5.9
CQRCB	3618.HK	HK\$	6.18	6.2	Neutral	2.5	0%	7.0	Buy	0.75	0.63	0.74	0.63	4.9	4.2
A-share (Rmb)															
ICBC (A)	601398.SS	Rmb	6.43	7.0	Buy	4.0	9%	6.2	Buy	1.09	0.97	1.00	0.90	7.1	6.2
BOC (A)	601988.SS	Rmb	4.18	4.4	Neutral	3.5	5%	4.7	Buy	0.78	0.72	0.74	0.68	6.9	6.1
CCB (A)	601939.SS	Rmb	8.07	9.0	Buy	4.0	12%	7.0	Buy	1.18	1.05	1.06	0.94	7.5	6.5
ABC (A)	601288.SS	Rmb	4.12	4.4	Neutral	3.5	7%	4.0	Buy	0.96	0.86	0.90	0.81	6.5	5.7
BoCom (A)	601328.SS	Rmb	6.48	6.3	Sell	3.5	-3%		RS	0.71	0.66	0.73	0.68	7.2	6.7
CMB (A)	600036.SS	Rmb	31.94	36.3	Buy	4.5	14%	25.3	Neutral	1.80	1.57	1.58	1.39	10.0	8.4
CEB (A)	601818.SS	Rmb	4.21	4.2	Sell	3.0	0%		CS	0.73	0.66	0.73	0.67	6.2	5.9
Industrial	601166.SS	Rmb	18.00	19.4	Neutral	3.0	8%	15.3	Sell	0.91	0.81	0.85	0.75	5.9	5.3
PAB	000001.SZ	Rmb	14.20	17.5	Buy*	3.0	23%	11.2	Neutral	1.22	1.08	0.99	0.88	9.1	7.3
Hua Xia	600015.SS	Rmb	9.40	9.5	Neutral	2.5	1%	10.0	Neutral	0.66	0.60	0.65	0.60	5.8	5.6
BONB	002142.SZ	Rmb	19.17	19.8	Neutral	4.5	3%	15.8	Neutral	1.54	1.32	1.49	1.28	8.9	7.3
BONJ	601009.SS	Rmb	8.44	9.2	Neutral	3.5	9%	8.2	Neutral	0.99	0.86	0.90	0.79	6.4	5.3

Notes: *Denotes stock is on our regional Conviction List. RS = Rating Suspended, CS = Coverage Suspended, NC = Not Covered. All target prices are on a 12-month timeframe.

Source: Datastream, Goldman Sachs Global Investment Research.

We maintain our Buy ratings on ICBC-A / CCB-A (key beneficiaries of NIM improvement in 2018-20E) and our Neutral ratings on BOC-H / Hua Xia / BONB / BONJ (balanced risk-reward).

M&A framework

We previously introduced the M&A framework to evaluate the M&A potential for our covered companies considering both qualitative factors (e.g. hostility to new strategic investors, political/regulatory ease) and quantitative factors (e.g. market cap, key shareholder stakes) to incorporate the potential that certain companies could be acquired (for details, please see *China: Financial Services: Introducing M&A framework for China financials*, June 29, 2016).

We consider three drivers of M&A...

- Can the target be bought?
- What strategic factors to consider?
- What is the target's positioning within the industry?

... and measure our covered banks across four pillars to assess the probability of M&A

- **Key shareholders' willingness:** Key shareholders of SOE usually do not want to lose their controlling interests, while some FIs may consider strategic investment.
- **Political/regulatory ease:** 1) Hostile takeovers are prohibited in the financial sector (except for leasing). 2) Both takeovers and strategic investments require regulatory approval (except leasing).
- **Synergy potential:** Banks may create a synergy of relatively cheap and easy access to funding for acquirers' related parties.
- **Size:** Small-sized players are more likely to become targets due to affordability (in transaction amount) and sub-scale disadvantages (hence less attractive return now).

We score each company from 1 to 3 on each of these pillars, calculating an overall M&A score based on the weighted average scores of each pillar (key shareholders' willingness: 40%; political/regulatory ease: 30%; market access: 20%; size: 10%), to reflect the relative importance of each factor. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Within this context, we assign an M&A rank of 3 to BoCom (as the largest shareholder – the Ministry of Finance – still holds 26.5% of total shares), CEB (due to a lack of key shareholder willingness, with at least 52% of its shares held by China Everbright Group and the government) and PSBC (as its largest shareholder, China Post Group, still holds 69% of its total shares). Hence, we do not incorporate an M&A value into our 12-month target prices for any of these stocks.

Exhibit 31: We don't factor an M&A component in to our China Banks due to the M&A rank of 3 under our framework

Name	Rating	Key shareholders' willingness (40%)	Political/regulatory ease (30%)	Market access (20%)	Size (10%)	M&A score
M&A component assessment						
Banks						
ICBC H / A	Neutral / Buy	3	3	2	3	3
BOC H / A	Neutral / Neutral	3	3	2	3	3
CCB H / A	Buy* / Buy	3	3	2	3	3
ABC H / A	Buy / Neutral	3	3	2	3	3
BoCom H / A	Sell / Sell	3	3	2	3	3
CMB H / A	Buy / Buy	3	3	2	3	3
CEB H / A	Neutral / Sell	3	3	2	2	3
PSBC	Buy	3	3	2	3	3
CQRCB	Neutral	3	2	3	1	3
Industrial	Neutral	3	3	2	3	3
PAB	Buy*	3	3	2	3	3
Hua Xia	Neutral	3	3	2	2	3
BONB	Neutral	3	2	3	2	3
BONJ	Neutral	3	2	3	2	3

Notes: *Denotes stock is on our regional Conviction List. For full details of our M&A Framework, please see *China: Financial Services: Introducing M&A framework for China financials*, June 29, 2016.

Source: Datastream, Goldman Sachs Global Investment Research

CCB-H (0939.HK): Up to Buy (add to CL) on strong NIM expansion

Source of opportunity

We upgrade CCB-H to Buy (from Neutral) and add it to our regional Conviction List on its faster-than-peer PPOP growth going into 2018E (15% vs 11% average of the other big 4 peers) on the back of strong NIM expansion. We also expect the CCB-H valuation gap vs. ICBC-H to close (currently -1% vs. 6% in 1H17) on the improved NIM outlook. Our P/POP-based 12-m target price is HKD9.3, implying 19% upside, among the highest in our China Banks coverage.

Catalyst

- NIM improvement** of 31bp during 2018-19E (vs big 4 average of 19bp), partly helped by CCB's highest exposure to mortgages (32% in 1H17 vs 27% for the rest of big 4). While the repricing of other types of loans is subject to banks/borrowers negotiation and may be affected by other considerations (LT corporate relations, fee/deposit businesses, etc.), we believe the repricing of mortgages is more certain with mortgage rates moving from being at a discount to base rates to being at a premium to base rates in many cities. Nationwide aggregate mortgage rates rose by 32bp qoq in 3Q17, surpassing that of general bank loans (+15bp). In addition, CCB's NIM recovery in 2017 lagged the other big 4 (3Q17 +2bp yoy vs +8bp on average for the big 4) and hence we see a lower base into 2018.
- Prudent risk management**, stable asset quality and relatively high NPL coverage ratio (only lower than ABC among the big 5 banks), hence we expect it to see a lower credit cost averaging 0.88% during 2017-20E vs 0.96% in 1H17. We also expect LLR/NPL to improve to 231% in 2020E (vs 160% by 1H17) on the back of a stable net NPL formation rate of 0.77% during 2018-20E, thanks to its prudent risk management measures.
- Valuation discount to ICBC-H** currently c.-1%, around the lowest point in the past two years (18th percentile). We expect valuation gap to close due to CCB's better NIM outlook and stable asset quality.

Valuation

Our new 12-m target price of HKD9.3 for CCB-H is derived from 2019E P/POP, with our target multiple of 3.5x (see pages 10-13 for details). This implies a 1.03x FY18E P/B multiple. We believe the valuation is attractive as CCB-H currently trades at 0.87x FY18E P/B.

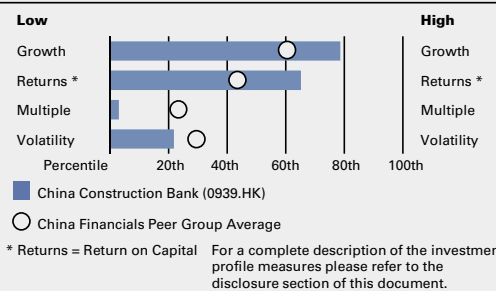
Key risks

- Policy tightening and economic slowdown, 2) weaker-than-expected asset quality and thus higher-than-expected credit costs, 3) failure to expand retail consumption related credit (7% of its gross loans in 1H17 vs. coverage average of 12%), which generates higher ROE.

Impact on related securities

We maintain a Buy rating on CCB-A (601939.SS) with our new 12-m PPOP-based target price of Rmb9.0 (based on a 4x 2019E PPOP multiple – see pages 10-13 for details) implying 12% upside.

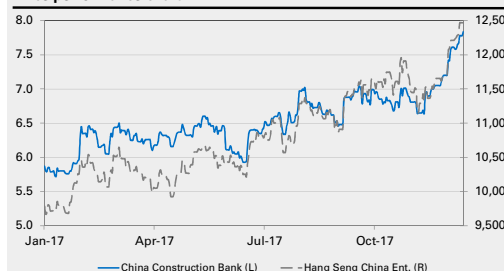
Investment Profile



Key data	Current
Price (HK\$)	7.84
12 month price target (HK\$)	9.30
601939.SS Price (Rmb)	8.07
601939.SS 12 month price target (Rmb)	9.00
Market cap (HK\$ mn / US\$ mn)	1,960,086.2 / 250,567.1
Foreign ownership (%)	--

	12/16	12/17E	12/18E	12/19E
EPS (Rmb)	0.93	0.98	1.08	1.24
EPS growth (%)	1.5	5.6	10.5	15.2
601939.SS EPS (Rmb)	0.93	0.98	1.08	1.24
601939.SS EPS growth (%)	1.5	5.6	10.5	15.2
P/E (X)	4.9	6.6	6.0	5.2
601939.SS P/E (X)	5.5	8.3	7.5	6.5
Dividend yield (%)	6.2	4.5	5.0	5.8
ROE (%)	15.8	15.4	15.6	16.0

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	12.6	22.5	33.6
Rel. to Hang Seng China Ent.	4.1	5.4	4.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/15/2018 close.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy list
Asia Pacific Conviction Buy list

Coverage View: Neutral

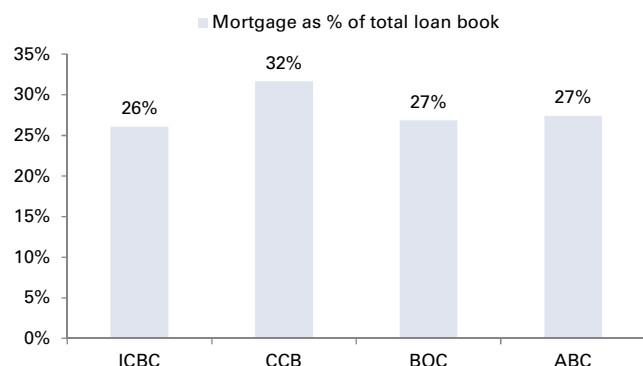
China Construction Bank: Summary financials

Profit model (Rmb mn)	12/16	12/17E	12/18E	12/19E
Net interest income	417,799.0	459,372.5	540,224.3	619,326.8
Non-interest income	142,061.0	148,286.0	160,510.5	174,069.9
Operating revenue	559,860.0	607,658.5	700,734.8	793,396.7
Non-interest expense	(171,515.0)	(175,055.2)	(201,691.9)	(232,176.7)
Provision operating profit	388,345.0	432,603.3	499,042.9	561,220.0
Total provision charge	(93,204.0)	(116,016.9)	(138,831.4)	(146,650.5)
Associates	69.0	161.0	161.0	161.0
Pretax profit	295,210.0	316,747.4	360,372.5	414,730.5
Tax	(62,821.0)	(67,414.8)	(85,527.1)	(99,034.7)
Minorities	--	--	--	--
Net profit	231,460.0	244,382.6	269,975.5	310,905.8
Dividends	(69,503.1)	(73,314.8)	(80,992.6)	(93,271.7)
Dividends payout (%)	30.0	29.6	29.6	29.7
Earnings growth drivers (%)	12/16	12/17E	12/18E	12/19E
Net interest margin	2.16	2.16	2.34	2.47
Provision charge/total loans	0.81	0.94	1.01	0.97
YoY Growth (%)				
Customer deposits	12.6	(100.0)	NM	NM
Loans	12.3	7.7	11.1	10.4
Net interest income	(8.7)	10.0	17.6	14.6
Fee income	4.4	4.5	8.2	8.4
Non-interest income	10.2	4.4	8.2	8.4
Operating revenue	(4.6)	8.5	15.3	13.2
Operating expenses	12.0	(2.1)	(15.2)	(15.1)
Provision operating profit	(0.9)	11.4	15.4	12.5
Provision charges	(3.3)	24.4	20.5	5.8
Pretax profit	(1.1)	7.3	13.8	15.1
Net profit	1.5	5.6	10.5	15.2
EPS	1.5	5.6	10.5	15.2
DPS	1.5	5.5	10.5	15.2
Market dimensions	12/16	12/17E	12/18E	12/19E
No of branches	14,985.0	14,985.0	14,985.0	14,985.0
No of staff (000)	362.5	362.5	362.5	362.5
Revenues/staff (US\$)	232,475.3	248,023.5	297,395.1	338,402.8
Net profit/staff (US\$)	96,111.0	99,747.9	114,578.8	132,608.8
DuPont analysis (%)	12/16	12/17E	12/18E	12/19E
ROE	15.8	15.4	15.6	16.0
x leverage	7.5	7.3	7.4	7.6
=ROA	1.18	1.12	1.15	1.22
% of assets	12/16	12/17E	12/18E	12/19E
Net interest income	2.13	2.11	2.30	2.43
Fee income	0.60	0.57	0.57	0.57
Non-interest income	0.72	0.68	0.68	0.68
Operating revenue	2.85	2.80	2.98	3.11
Operating expenses	0.87	0.81	0.86	0.91
Provision operating profit	1.98	1.99	2.13	2.20
Loan loss provisions	0.46	0.51	0.57	0.56
Pretax profits	1.50	1.46	1.53	1.63
Taxes	0.32	0.31	0.36	0.39
Balance sheet (Rmb mn)	12/16	12/17E	12/18E	12/19E
Gross loans	11,757,032.0	12,699,502.9	14,139,059.7	15,647,002.6
NPLs	178,690.0	195,318.2	207,636.6	219,142.5
Loan loss reserves	268,677.0	325,855.7	394,878.3	472,967.1
Total interest earning assets	17,415,401.0	18,781,842.0	20,660,237.6	22,638,232.2
Other non-interest earning assets	3,548,304.0	3,733,410.6	3,790,974.8	3,920,994.2
Total assets	20,963,705.0	22,515,252.5	24,451,212.4	26,559,226.5
Customer deposits	15,402,915.0	16,789,177.4	18,233,046.6	19,782,855.6
Total interest-bearing liabilities	18,419,929.0	19,614,746.1	21,197,302.8	22,895,149.9
Total equity	1,569,995.0	1,730,986.6	1,927,647.3	2,157,560.4
CAMEL ratios (%)	12/16	12/17E	12/18E	12/19E
C: Tier 1 capital ratio	13.2	13.5	13.5	13.6
C: Equity/loans	13.4	13.2	13.3	13.6
C: Equity/assets	7.3	7.3	7.5	7.8
A: NPL ratio	1.5	1.5	1.5	1.4
A: Loan loss reserves/NPLs	150.4	166.8	190.2	215.8
E: Net interest margin	2.16	2.16	2.34	2.47
E: Non int inc/oper revenues	25.37	24.40	22.91	21.94
E: Cost-income ratio	30.2	28.6	28.8	29.3
E: ROAA	1.18	1.12	1.15	1.22
L: Loan/deposit ratio	74.6	73.7	75.4	76.7
Loan portfolio (%)	12/16	12/17E	12/18E	12/19E
Commercial & corporate	58.0	57.5	55.8	54.2
Mortgages/home loans	30.8	33.5	35.0	36.4
Consumer	37.6	40.9	42.7	44.4
Valuation (current price)	12/16	12/17E	12/18E	12/19E
P/E basic (X)	4.9	6.6	6.0	5.2
P/B (X)	0.73	0.99	0.88	0.79
P/PPOP (X)	4.2	3.7	3.2	2.9
Dividend yield (%)	6.2	4.5	5.0	5.8
EPS, basic (Rmb)	0.93	0.99	1.09	1.26
EPS, fully-diluted (Rmb)	0.93	0.98	1.08	1.24
EPS, basic growth (%)	1.5	7.2	10.3	15.0
EPS, fully diluted growth (%)	1.5	5.6	10.5	15.2
BVPS (Rmb)	6.15	6.54	7.33	8.25
DPS (Rmb)	0.28	0.29	0.32	0.37

Note: Last actual year may include reported and estimated data.

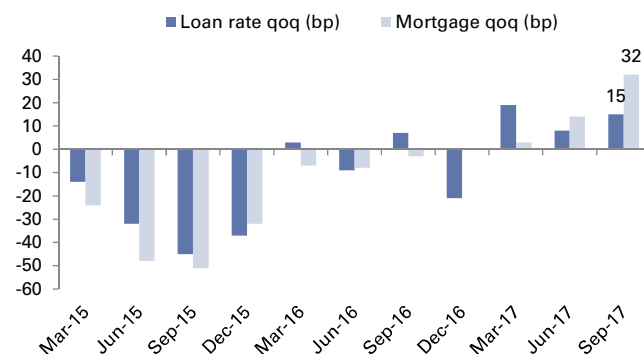
Source: Company data, Goldman Sachs Research estimates.

Exhibit 32: CCB has the highest exposure to mortgages in its loan book at 32% (vs average 27% for the rest of big 4 banks), as of 1H17



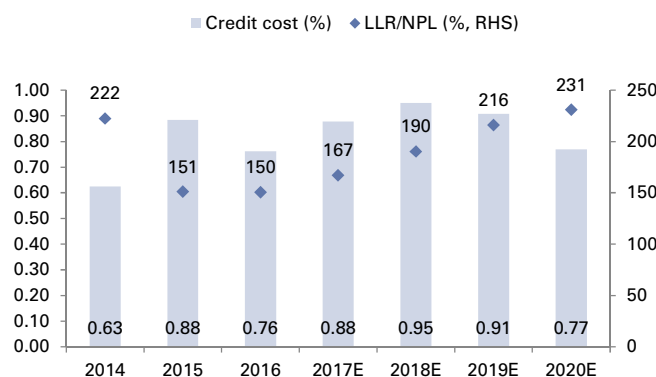
Source: Company data

Exhibit 33: Nationwide aggregate mortgage rates rose by 32bp qoq in 3Q17, surpassing that of general bank loans (+15bp)



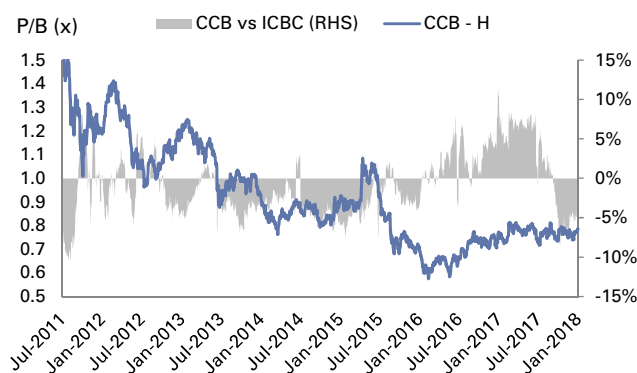
Source: PBOC

Exhibit 34: We expect lower low credit cost averaging 0.88% during 2017-20E, while LLR/NPL to improve to 231% in 2020E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 35: Valuation discount to ICBC-H currently c.-1%, around the lowest point in the past two years (18th percentile)



Source: Datastream

CMB (3968.HK/600036.SS): Up to Buy on strong retail franchise

Source of opportunity

We upgrade CMB-H to Buy (from Neutral) on its large retail exposure, with an established retail capacity and superior ROE. We expect it to enlarge its ROE leadership vs. peers. More specifically, we forecast 18.6%/14.5% FY17E-20E NPAT/PPOP CAGR, supported by its further expansion in retail business, especially in the consumer credit segment. We also expect CMB-H should continue to enjoy a valuation premium over other banks due to its 'best in class' retail capacity, as banks with a strong retail franchise typically trade at 40%-60% premium vs peers globally. Our P/PPOP-based 12-m target price is HKD38.1, implying 9% upside, among the highest in our H-share China Banks coverage.

Catalyst

- Large retail exposure with ROE leadership that we expect to further expand.** CMB has the largest retail exposure among our sampled retail-strong banks with retail revenue/ pre-tax profit accounting for 46%/53% of the total in 2016 (after removing the impact from retail WMP fees and internal fund transfer pricing income). Per our calculation, the CMB retail segment enjoys a higher ROE of 33% vs its corporate segment of 11% as of 2016, which helps support its leading ROE position. We expect CMB's ROE to expand by 2.2ppt through 2018-2020E, one of the highest among our sampled banks.
- Strong and already established retail capability as CMB has already been through the phase of retail transitioning.** Among our covered banks, CMB now has one of the lowest CIR, deposit funding cost, retail NPL rate, but among the highest branch utilization, credit card/ asset ratio, retail lending profit contribution, etc., all indicating its superior retail capacity and efficiency.
- Globally, banks with leading retail franchises trade at a premium to their respective peers, which supports CMB's premium.** For example, Hang Seng Bank has historically traded at a c.50%+ premium vs. BOC HK.

Valuation

Our new 12-m target price of HKD38.1 for CMB-H is derived from 2019E P/PPOP, with our target multiple of 4.0x (see pages 10-13 for details). This implies attractive 1.6x FY18E P/B. vs currently trading at 1.46x FY18E P/B.

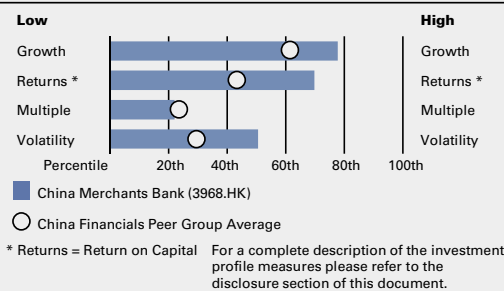
Key risks

- With one of the highest off-B/S WMP as a percentage of deposits in our China Banks coverage, CMB could be susceptible to over tightening on any WMP issuance.
- Weaker-than-expected asset quality and thus higher-than-expected credit costs.

Impact on related securities

We also upgrade CMB-A to Buy (from Neutral) with a new 12-m PPOP-based TP of Rmb36.3 (based on a 4.5x 2019E PPOP multiple – see pages 10-13 for details) implying 14% upside, among the highest in our A-share China Banks coverage.

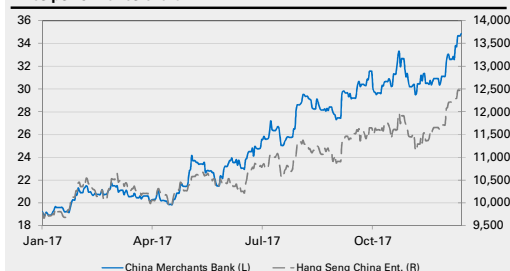
Investment Profile



Key data	Current
Price (HK\$)	34.85
12 month price target (HK\$)	38.10
600036.SS Price (Rmb)	31.94
600036.SS 12 month price target (Rmb)	36.30
Market cap (HK\$ mn / US\$ mn)	878,917.0 / 112,356.1
Foreign ownership (%)	--

	12/16	12/17E	12/18E	12/19E
EPS (Rmb)	2.47	2.76	3.20	3.82
EPS growth (%)	7.5	11.7	15.9	19.4
600036.SS EPS (Rmb)	2.47	2.76	3.20	3.82
600036.SS EPS growth (%)	7.5	11.7	15.9	19.4
P/E (X)	6.0	10.4	9.0	7.5
600036.SS P/E (X)	7.0	11.6	10.0	8.4
Dividend yield (%)	5.0	2.9	3.3	4.0
ROE (%)	16.2	16.2	16.8	17.6

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	19.3	42.2	81.5
Rel. to Hang Seng China Ent.	10.3	22.4	42.5

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/15/2018 close.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy list

Coverage View: Neutral

Profit model (Rmb mn)	12/16	12/17E	12/18E	12/19E
Net interest income	134,595.0	148,633.4	172,310.5	197,417.6
Non-interest income	74,430.0	73,716.5	84,257.8	96,647.0
Operating revenue	209,025.0	222,349.9	256,568.3	294,064.6
Non-interest expense	(65,148.0)	(67,783.1)	(78,217.2)	(90,864.5)
Preprovision operating profit	143,877.0	154,566.9	178,351.1	203,200.1
Total provision charge	(66,159.0)	(67,680.4)	(76,046.5)	(81,021.6)
Associates	1,245.0	1,251.5	1,439.2	1,655.1
Pretax profit	78,963.0	88,138.0	103,743.8	123,833.6
Tax	(16,583.0)	(18,488.1)	(23,031.1)	(27,491.1)
Minorities	(299.0)	(277.0)	(140.0)	(140.0)
Net profit	62,081.0	69,372.9	80,572.7	96,202.5
Dividends	(18,663.0)	(20,811.9)	(24,171.8)	(28,860.8)
Dividends payout (%)	29.9	29.9	29.9	30.0
Earnings growth drivers (%)	12/16	12/17E	12/18E	12/19E
Net interest margin	2.38	2.40	2.51	2.60
Provision charge/total loans	2.10	1.88	1.86	1.74
YoY Growth (%)				
Customer deposits	6.4	11.2	12.8	13.0
Loans	15.0	14.2	13.6	14.2
Net interest income	(2.2)	10.4	15.9	14.6
Fee income	14.8	(0.6)	15.0	15.5
Non-interest income	16.5	(1.0)	14.3	14.7
Operating revenue	3.7	6.4	15.4	14.6
Operating expenses	4.1	(4.0)	(15.4)	(16.2)
Preprovision operating profit	7.8	7.4	15.4	13.9
Provision charges	9.2	4.3	12.4	6.5
Pretax profit	5.2	11.6	17.7	19.4
Net profit	7.6	11.7	16.1	19.4
EPS	7.5	11.7	15.9	19.4
DPS	7.2	11.5	16.1	19.4
Market dimensions	12/16	12/17E	12/18E	12/19E
No of branches	1,819.0	1,819.0	1,819.0	1,819.0
No of staff (000)	70.5	70.5	70.5	70.5
Revenues/staff (US\$)	446,512.1	466,882.9	560,865.8	648,452.1
Net profit/staff (US\$)	133,254.0	146,248.4	176,440.3	212,448.3
DuPont analysis (%)	12/16	12/17E	12/18E	12/19E
ROE	16.3	16.3	16.8	17.6
x leverage	6.7	6.8	6.9	7.1
=ROA	1.09	1.11	1.16	1.25
% of assets	12/16	12/17E	12/18E	12/19E
Net interest income	2.36	2.38	2.49	2.56
Fee income	1.07	0.97	1.00	1.04
Non-interest income	1.30	1.18	1.22	1.25
Operating revenue	3.66	3.55	3.70	3.81
Operating expenses	1.14	1.08	1.13	1.18
Preprovision operating profit	2.52	2.47	2.57	2.64
Loan loss provisions	1.13	1.08	1.09	1.05
Pretax profits	1.38	1.41	1.50	1.61
Taxes	0.29	0.30	0.33	0.36
Balance sheet (Rmb mn)	12/16	12/17E	12/18E	12/19E
Gross loans	3,261,681.0	3,761,523.3	4,306,701.5	4,941,804.8
NPLs	61,121.0	61,802.0	67,706.9	74,121.5
Loan loss reserves	110,032.0	162,394.1	216,710.3	273,030.6
Total interest earning assets	5,782,063.0	6,350,007.0	6,973,570.6	7,695,136.5
Other non-interest earning assets	160,248.0	223,128.9	313,425.2	436,746.4
Total assets	5,942,311.0	6,573,135.9	7,286,995.7	8,131,882.9
Customer deposits	3,802,049.0	4,227,266.9	4,769,779.7	5,388,329.2
Total interest-bearing liabilities	5,374,664.0	5,944,774.0	6,576,786.1	7,324,355.2
Total equity	403,362.0	451,937.9	511,698.7	583,729.4
CAMEL ratios (%)	12/16	12/17E	12/18E	12/19E
C: Tier 1 capital ratio	11.5	12.6	12.5	12.4
C: Equity/loans	12.8	12.5	12.5	12.5
C: Equity/assets	6.8	6.8	7.0	7.1
A: NPL ratio	1.9	1.6	1.6	1.5
A: Loan loss reserves/NPLs	180.0	262.8	320.1	368.4
E: Net interest margin	2.38	2.40	2.51	2.60
E: Non int inc/oper revenues	35.61	33.15	32.84	32.87
E: Cost-income ratio	31.2	30.5	30.5	30.9
E: ROAA	1.09	1.11	1.16	1.25
L: Loan/deposit ratio	82.9	85.1	85.7	86.6
Loan portfolio (%)	12/16	12/17E	12/18E	12/19E
Commercial & corporate	52.8	51.3	49.4	47.5
Mortgages/home loans	22.3	22.8	22.9	22.4
Consumer	47.2	48.7	50.6	52.5

BoCom (3328.HK/601328.SS): Reinstate at Sell on weaker funding

Source of opportunity

We have removed the RS designation from BoCom H/A-shares. BoCom-H is on our Sell List with a 12-m target price of HK\$6.4 and BoCom-A has been added to the Sell List with a target price of Rmb6.3. Our target prices imply 4%/-3% upside for BoCom H/A-shares, the lowest within our Banks H/A-share coverage (average H/A-share upside 10%/7%). We forecast PPOP CAGR of 7% over 2017-20E, slower than peers (average 11% for our covered companies over the same period), due to: 1) weaker deposit growth resulting in elevated funding costs; 2) pressure on broad credit growth limiting profitability; and 3) headwinds on WMP regulation further add to funding cost and WMP fee income pressures. Our bottom-line estimates are broadly in-line with current Bloomberg consensus (0%/-4%/-4% for 2017/18/19E) but we expect BoCom's PPOP growth rates to be slower than peers (average 7% for 2018-20E vs big 4 average 11%) amid elevated interbank rates and MPA implementation.

Catalyst

- Weaker deposit growth vs. peers.** As of 3Q17, BoCom deposits only grew 3% yoy vs. 8%/ 8% for the sector/ big 4 average, while its 1H17 deposit cost was c.1.9ppt lower than its other funding costs based on our calculation. We expect this shortfall of low-cost funding will add pressure to the bank's cost, resulting in slower NIM expansion. We forecast 4% deposit CAGR over 2018-20E and 10bp NIM expansion vs. 10%/17bp for our coverage average.
- MPA pressure on broad credit growth limits profitability.** Based on our calculations, as of 3Q17, BoCom still had the highest broad credit growth at 11% vs. 8% for our coverage average. We expect MPA pressure to limit BoCom's profitability as it slows broad credit growth.
- Headwinds on WMP regulation further add to pressure on funding and WMP fee income.** As of 1H17, 54% of BoCom's WMP was on balance sheet vs. our coverage average of 24%. With the implementation of new AMP regulation, we expect BoCom to cut back on B/S WMP, which would increase its funding pressure. We expect this, coupled with the slowdown of off B/S WMP due to MPA test, to drag on its fee income.

We could become more positive on BoCom if it managed to restructure its funding base to maneuver through the de-facto rate hike, or if the policy stance on non-standard credit asset (NSCA) investments softens.

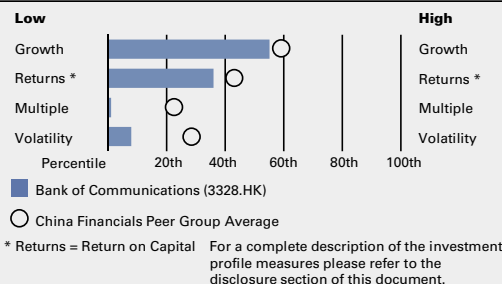
Valuation

Our 12-m target prices of HK\$6.4/Rmb6.3 for BoCom-H/A are derived from 2019E P/POP, with our target multiples of 3.0x/3.5x respectively (see pages 10-13 for details). This implies 0.61x/0.71x 2018E P/B multiples, broadly in line with the current 2018E P/B of 0.59x/0.73x.

Key risks

Lower-than-expected funding cost as BoCom's funding cost was at 2.57% as of 3Q17, highest among the big China banks; better-than-expected asset quality with faster NPL improvement; higher operating efficiency with lower CIR.

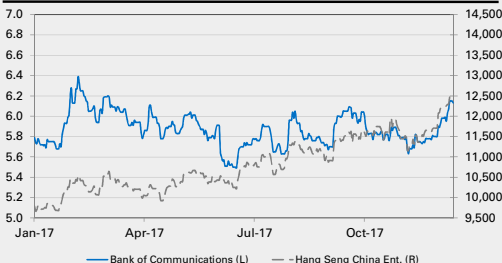
Investment Profile



Key data	Current
Price (HK\$)	6.13
12 month price target (HK\$)	6.40
601328.SS Price (Rmb)	6.48
601328.SS 12 month price target (Rmb)	6.30
Market cap (HK\$ mn / US\$ mn)	455,232.2 / 58,194.5
Foreign ownership (%)	--

	12/16	12/17E	12/18E	12/19E
EPS (Rmb)	0.91	0.90	0.91	0.96
EPS growth (%)	1.0	(0.1)	0.2	6.4
601328.SS EPS (Rmb)	0.91	0.90	0.91	0.96
601328.SS EPS growth (%)	1.0	(0.1)	0.2	6.4
P/E (X)	5.0	5.6	5.6	5.3
601328.SS P/E (X)	6.2	7.2	7.2	6.7
Dividend yield (%)	6.0	5.6	5.6	5.9
ROE (%)	13.3	12.0	10.6	10.5

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	1.3	7.5	5.9
Rel. to Hang Seng China Ent.	(6.4)	(7.5)	(16.9)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/15/2018 close.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Sell list

Coverage View: Neutral

Bank of Communications: Summary financials

Profit model (Rmb mn)	12/16	12/17E	12/18E	12/19E
Net interest income	134,871.0	128,422.8	141,130.0	154,841.2
Non-interest income	50,198.0	55,008.4	56,859.6	58,487.1
Operating revenue	185,069.0	183,431.2	197,989.6	213,328.3
Non-interest expense	(70,479.0)	(67,460.7)	(74,167.9)	(78,643.2)
Preprovision operating profit	114,590.0	115,970.5	123,821.7	134,685.2
Total provision charge	(28,480.0)	(28,152.6)	(32,858.1)	(39,124.0)
Associates	0.0	0.0	0.0	0.0
Pretax profit	86,110.0	87,818.0	90,963.6	95,561.1
Tax	(18,459.0)	(17,237.2)	(20,179.7)	(20,404.4)
Minorities	0.0	0.0	0.0	0.0
Net profit	67,210.0	67,134.1	67,269.3	71,564.1
Dividends	(20,162.0)	(21,038.4)	(20,992.8)	(22,038.3)
Dividends payout (%)	30.0	30.0	29.9	29.6
Earnings growth drivers (%)	12/16	12/17E	12/18E	12/19E
Net interest margin	1.79	1.52	1.55	1.59
Provision charge/total loans	0.71	0.64	0.69	0.76
YoY Growth (%)				
Customer deposits	5.4	4.2	4.0	3.6
Loans	10.3	9.4	8.7	8.0
Net interest income	(6.5)	(4.8)	9.9	9.7
Fee income	5.0	0.8	2.1	2.1
Non-interest income	9.4	9.6	3.4	2.9
Operating revenue	(2.6)	(0.9)	7.9	7.7
Operating expenses	8.4	4.3	(9.9)	(6.0)
Preprovision operating profit	1.3	1.2	6.8	8.8
Provision charges	4.9	(1.1)	16.7	19.1
Pretax profit	0.1	2.0	3.6	5.1
Net profit	1.0	(0.1)	0.2	6.4
EPS	1.0	(0.1)	0.2	6.4
DPS	0.6	4.3	(0.2)	5.0
Market dimensions	12/16	12/17E	12/18E	12/19E
No of branches	3,285.0	3,285.0	3,285.0	3,285.0
No of staff (000)	92.6	92.6	92.6	92.6
Revenues/staff (US\$)	300,962.8	293,216.4	329,230.9	356,347.7
Net profit/staff (US\$)	109,298.2	107,314.5	111,860.1	119,542.0
DuPont analysis (%)	12/16	12/17E	12/18E	12/19E
ROE	13.3	12.0	10.6	10.5
x leverage	6.5	6.4	6.8	6.8
=ROA	0.86	0.77	0.72	0.71
% of assets	12/16	12/17E	12/18E	12/19E
Net interest income	1.73	1.47	1.51	1.54
Fee income	0.47	0.43	0.40	0.39
Non-interest income	0.65	0.63	0.61	0.58
Operating revenue	2.38	2.10	2.11	2.13
Operating expenses	0.91	0.77	0.79	0.78
Preprovision operating profit	1.47	1.33	1.32	1.34
Loan loss provisions	0.37	0.32	0.35	0.39
Pretax profits	1.11	1.01	0.97	0.95
Taxes	0.24	0.20	0.22	0.20
Balance sheet (Rmb mn)	12/16	12/17E	12/18E	12/19E
Gross loans	4,102,959.0	4,491,479.0	4,885,478.9	5,283,999.9
NPLs	62,400.0	68,247.3	72,933.6	78,773.5
Loan loss reserves	93,913.0	104,010.7	118,280.1	133,080.8
Total interest earning assets	8,067,936.0	8,666,068.3	9,324,828.5	9,931,573.1
Other non-interest earning assets	335,230.0	361,034.3	385,034.3	411,177.4
Total assets	8,403,166.0	9,027,102.6	9,709,862.8	10,342,750.5
Customer deposits	4,728,589.0	4,925,522.8	5,124,602.9	5,311,244.4
Total interest-bearing liabilities	7,273,463.0	7,755,673.3	8,261,203.5	8,735,410.6
Total equity	572,531.0	614,798.1	660,742.0	710,216.3
CAMEL ratios (%)	12/16	12/17E	12/18E	12/19E
C: Tier 1 capital ratio	12.2	12.1	12.0	12.1
C: Equity/loans	12.7	13.9	13.8	13.7
C: Equity/assets	6.1	6.8	6.8	6.8
A: NPL ratio	1.5	1.5	1.5	1.5
A: Loan loss reserves/NPLs	150.5	152.4	162.2	168.9
E: Net interest margin	1.79	1.52	1.55	1.59
E: Non int inc/oper revenues	27.12	29.99	28.72	27.42
E: Cost-income ratio	38.1	36.8	37.5	36.9
E: ROAA	0.86	0.77	0.72	0.71
L: Loan/deposit ratio	84.8	89.1	93.0	97.0
Loan portfolio (%)	12/16	12/17E	12/18E	12/19E
Commercial & corporate	68.0	66.0	64.1	62.3
Mortgages/home loans	18.8	21.8	23.3	24.6
Consumer	28.9	31.2	33.2	35.2
Valuation (current price)	12/16	12/17E	12/18E	12/19E
P/E basic (X)	5.0	5.6	5.6	5.3
P/B (X)	0.66	0.62	0.57	0.53
P/PPOP (X)	3.3	3.2	3.0	2.8
Dividend yield (%)	6.0	5.6	5.6	5.9
EPS, basic (Rmb)	0.91	0.94	0.95	1.00
EPS, fully-diluted (Rmb)	0.91	0.90	0.91	0.96
EPS, basic growth (%)	1.0	4.3	0.2	6.1
EPS, fully diluted growth (%)	1.0	(0.1)	0.2	6.4
BVPS (Rmb)	6.86	8.23	8.85	9.52
DPS (Rmb)	0.27	0.28	0.28	0.30

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

ICBC-H (1398.HK): Down to Neutral on full valuation

What happened

Since being added to the Buy list on March 13, 2017, ICBC-H is +36%, vs. +25% for the HSCEI and +26% for our H-share coverage. While we continue to like the bank's strong fundamentals, we downgrade ICBC-H to Neutral (from Buy) on its less desirable risk-reward. The P/B valuation premium of ICBC-H vs CCB-H is now 1% vs a -6% discount in 1H17, we believe largely due to southbound buying and, more recently, share purchases from Ping An group. We expect this valuation gap vs CCB (in terms of 1-year forward P/B) to close on comparable ROE, capital position, and asset quality. Our P/POP-based 12-m target price is HK\$7.2, implying 8% upside, broadly in line with the average of H-share bank peers at 10%.

Current view

We expect ICBC to grow PPOP by 14%/12%/10% in 2018E/19E/20E on the back of further NIM recovery (+25bps over 2018 to 2020E):

1. Gradually reprice loans, which account for 56% of interest earning assets (3Q17), while funding cost is likely to remain stable, with deposits accounting for an average of 87% of its funding liabilities, vs the 75% average for our covered banks (3Q17).
2. Benefits from retail transition (as discussed in *Retail lending – the next leg of growth for China banks*, January 17, 2018); we forecast retail loans to account for 40% of ICBC's total loans by 2020E (+8ppt from 32% in 2016).

We expect ICBC to lift NPAT growth to c.13% with lower credit cost c.0.84% during 2018-20E, while LLR/NPL gradually improves to 201% in 2020E (from 148% in 3Q17) under the assumption of stable macro outlook and healthy corporate earnings in the short to median term.

However, it is trading at 0.87x 2018E P/B, an 8% premium vs. CCB/ABC with similar ROEs, and thus we see it as a less favorable value proposition. Additionally, as of 3Q17, ICBC's NPL coverage ratio was at 148%, still below the regulatory requirement of 150%, putting some pressure on its provision charges in the near future.

Valuation

Our new 12-m target price of HK\$7.2 for ICBC-H is derived from 2019E P/POP, with our target multiple of 3.5x (see pages 10-13 for details). This implies a 0.95x FY18E P/B multiple, vs the current valuation at 0.87x FY18E P/B.

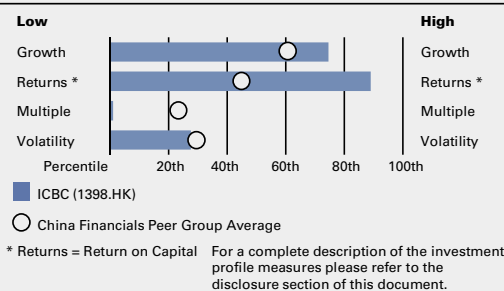
Key risks

Upside: better-than-expected net interest margin and asset quality; higher-than-expected provision charges to meet regulatory guidance on NPL coverage ratio. Downside: worse-than-expected NPLs; slower-than-expected NIM expansion.

Impact on related securities

We maintain our Buy on ICBC-A with our new 12-month PPOP-based target price of Rmb7.0 (based on a 4.0x 2019E PPOP multiple – see pages 10-13 for details) implying 9% upside, broadly in line with the average of A-share bank peers at 7%.

Investment Profile



Key data	Current
Price (HK\$)	6.65
12 month price target (HK\$)	7.20
601398.SS Price (Rmb)	6.43
601398.SS 12 month price target (Rmb)	7.00
Market cap (HK\$ mn / US\$ mn)	2,370,106.6 / 302,981.9
Foreign ownership (%)	--

	12/16	12/17E	12/18E	12/19E
EPS (Rmb)	0.77	1.11	1.50	1.69
EPS growth (%)	(0.4)	44.0	35.2	12.8
601398.SS EPS (Rmb)	0.77	1.11	1.50	1.69
601398.SS EPS growth (%)	(0.4)	44.0	35.2	12.8
P/E (X)	4.9	5.0	3.7	3.3
601398.SS P/E (X)	5.7	5.8	4.3	3.8
Dividend yield (%)	6.2	4.3	5.1	5.8
ROE (%)	15.2	20.0	24.4	24.8

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	4.4	26.2	39.4
Rel. to Hang Seng China Ent.	(3.6)	8.6	9.4

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/15/2018 close.

INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

ICBC: Summary financials

Profit model (Rmb mn)	12/16	12/17E	12/18E	12/19E
Net interest income	471,846.0	520,978.8	600,505.1	681,192.7
Non-interest income	169,835.0	161,955.9	174,654.5	186,671.4
Operating revenue	641,681.0	682,934.7	775,159.6	867,864.1
Non-interest expense	(193,112.0)	(83,981.1)	(8,285.3)	(9,289.8)
Provision operating profit	448,569.0	598,953.7	766,874.3	858,574.4
Total provision charge	(87,894.0)	(120,680.2)	(138,300.4)	(149,256.0)
Associates	2,604.0	3,003.3	3,303.6	3,634.0
Pretax profit	363,279.0	481,276.8	631,877.6	712,952.3
Tax	(84,173.0)	(81,392.9)	(93,239.9)	(106,039.4)
Minorities	--	--	--	--
Net profit	273,799.0	394,282.1	532,920.7	601,069.2
Dividends	83,506.0	85,244.2	99,963.5	113,851.8
Dividends payout (%)	30.5	21.6	18.8	18.9
Earnings growth drivers (%)	12/16	12/17E	12/18E	12/19E
Net interest margin	2.08	2.12	2.25	2.34
Provision charge/total loans	0.69	0.88	0.91	0.89
YoY Growth (%)				
Customer deposits	9.5	(100.0)	NM	NM
Loans	9.6	8.0	10.6	10.1
Net interest income	(7.1)	10.4	15.3	13.4
Fee income	1.1	(2.8)	7.0	6.3
Non-interest income	5.6	(4.6)	7.8	6.9
Operating revenue	(4.0)	6.4	13.5	12.0
Operating expenses	12.6	56.5	90.1	(12.1)
Preprovision operating profit	0.1	33.5	28.0	12.0
Provision charges	0.1	38.3	14.8	8.0
Pretax profit	0.0	32.5	31.3	12.8
Net profit	(0.4)	44.0	35.2	12.8
EPS	(0.4)	44.0	35.2	12.8
DPS	0.3	2.1	17.3	13.9
Market dimensions	12/16	12/17E	12/18E	12/19E
No of branches	--	--	--	--
No of staff (000)	--	--	--	--
Revenues/staff (US\$)	NM	NM	NM	NM
Net profit/staff (US\$)	NM	NM	NM	NM
DuPont analysis (%)	12/16	12/17E	12/18E	12/19E
ROE	15.2	20.0	24.4	24.8
x leverage	7.8	7.9	8.0	8.2
=ROA	1.18	1.57	1.96	2.03
% of assets	12/16	12/17E	12/18E	12/19E
Net interest income	2.04	2.07	2.21	2.30
Fee income	0.63	0.56	0.55	0.54
Non-interest income	0.73	0.64	0.64	0.63
Operating revenue	2.77	2.72	2.85	2.93
Operating expenses	0.83	0.33	0.03	0.03
Preprovision operating profit	1.94	2.39	2.82	2.90
Loan loss provisions	0.37	0.47	0.50	0.50
Pretax profits	1.57	1.92	2.32	2.41
Taxes	0.36	0.32	0.34	0.36
Balance sheet (Rmb mn)	12/16	12/17E	12/18E	12/19E
Gross loans	13,056,846.0	14,132,654.0	15,672,960.1	17,296,975.1
NPLs	211,801.0	229,204.7	255,904.2	277,114.7
Loan loss reserves	289,512.0	349,157.6	429,832.8	518,143.6
Total interest earning assets	23,162,276.0	25,075,715.2	27,340,755.3	29,734,353.5
Other non-interest earning assets	974,989.0	1,011,048.0	996,312.7	1,080,806.8
Total assets	24,137,265.0	26,086,763.1	28,337,068.1	30,815,160.3
Customer deposits	17,825,302.0	19,286,976.8	20,926,369.8	22,705,111.2
Total interest-bearing liabilities	21,008,316.0	22,678,188.3	24,587,302.9	26,684,373.9
Total equity	1,981,163.0	2,162,280.0	2,396,095.8	2,660,078.8
CAMEL ratios (%)	12/16	12/17E	12/18E	12/19E
C: Tier 1 capital ratio	13.4	13.8	14.1	14.4
C: Equity/loans	14.8	15.0	15.1	15.3
C: Equity/assets	7.8	7.9	8.1	8.3
A: NPL ratio	1.6	1.6	1.6	1.6
A: Loan loss reserves/NPLs	136.7	152.3	168.0	187.0
E: Net interest margin	2.08	2.12	2.25	2.34
E: Non int inc/oper revenues	26.47	23.71	22.53	21.51
E: Cost-income ratio	30.1	12.3	1.1	1.1
E: ROAA	1.18	1.57	1.96	2.03
L: Loan/deposit ratio	71.6	71.5	72.8	73.9
Loan portfolio (%)	12/16	12/17E	12/18E	12/19E
Commercial & corporate	62.3	62.5	60.9	59.3
Mortgages/home loans	24.8	27.0	28.4	29.7
Consumer	32.1	35.0	36.7	38.4
Valuation (current price)	12/16	12/17E	12/18E	12/19E
P/E basic (X)	4.9	5.0	3.7	3.3
P/B (X)	0.71	0.95	0.85	0.77
P/POP (X)	4.4	3.3	2.6	2.3
Dividend yield (%)	6.2	4.3	5.1	5.8
EPS, basic (Rmb)	0.77	1.11	1.50	1.69
EPS, fully-diluted (Rmb)	0.77	1.11	1.50	1.69
EPS, basic growth (%)	(0.4)	44.0	35.2	12.8
EPS, fully diluted growth (%)	(0.4)	44.0	35.2	12.8
BVPS (Rmb)	5.29	5.79	6.44	7.18
DPS (Rmb)	0.23	0.24	0.28	0.32

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

BOC-A (601988.SS): Down to Neutral on weaker efficiency and NIM

What happened

Since being added to the Buy list on March 13, 2017, BOC-A is +15%, vs. +23% for the Shanghai Composite index and +27% for our A share coverage. We believe this weaker than expected performance was due to: 1) lower operational efficiency and 2) weaker NIM expansion. While we continue to like the solid fundamentals of BOC-A, we downgrade to Neutral (from Buy) as we expect it will continue to see weaker operating efficiency and slower NIM recovery vs peers. Our P/POP-based 12-m target price is Rmb4.4, implying 5% upside, below the average of A-share peers at 7%.

Current view

- 1) BOC's fundamentals remain solid and we expect its asset quality to improve further with a low credit cost averaging 0.82% during 2018-20E (in line with the big 4 average, lower than 1.10% for all China banks under our coverage), while the LLR/NPL is likely to gradually improve to 173% in 2020E (vs 152% by 1H17) on the back of a stable net NPL formation rate of 0.77% during 2018-20E.
- 2) We believe BOC needs to enhance operational efficiency in order to get re-rated towards ICBC/CCB in terms of P/B multiple. We forecast a 2018E cost-income ratio of 36% for BOC, close to the 38% for ABC but higher than the 28%/29% of ICBC/CCB.
- 3) We expect BOC's NIM to expand by 15bp in 2018-2020E (vs. the 23bp average for the big 4 banks) on higher funding cost vs the rest of the big 4 banks (+11bp as of FY16), and the high base effect (3Q17 NIM for BOC +11bp yoy, vs +9/2bp for ICBC/CCB).

Valuation

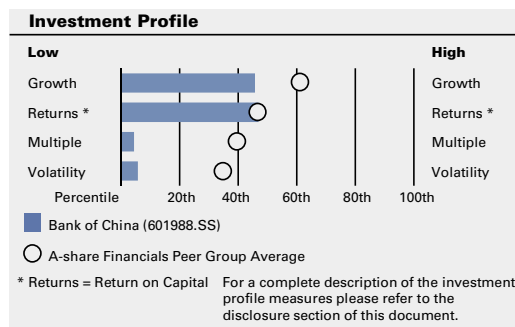
Our new 12-m target price of Rmb4.4 for BOC-A is derived from 2019E P/POP, with our target multiple of 3.5x (see pages 10-13 for details). This implies a 0.78x FY18E P/B multiple, vs the current valuation at 0.74x FY18E P/B.

Key risks

Upside: operational cost reductions and efficiency improvements.
Downside: worse-than-expected NPLs, any significant downturn in the overseas market given BOC's overseas exposure of 22% as of 1H17 in terms of net profit.

Impact on related securities

We maintain our Neutral on BOC-H with our 12m PPOP-based target price of HK\$4.5 (based on a 3.0x 2019E PPOP multiple, (see pages 10-13 for details), implying 10% upside, in line with the average of H-share bank peers at 10%.



Key data	Current
Price (Rmb)	4.22
12 month price target (Rmb)	4.40
3988.HK Price (HK\$)	4.24
3988.HK 12 month price target (HK\$)	4.50
Market cap (Rmb mn / US\$ mn)	1,242,317.4 / 192,071.3
Foreign ownership (%)	--

	12/16	12/17E	12/18E	12/19E
EPS (Rmb)	0.54	0.53	0.61	0.68
EPS growth (%)	(12.9)	(0.4)	14.0	11.7
3988.HK EPS (Rmb)	0.54	0.53	0.61	0.68
3988.HK EPS growth (%)	(12.9)	(0.4)	14.0	11.7
P/E (X)	6.3	7.9	6.9	6.2
3988.HK P/E (X)	5.2	6.6	5.8	5.2
Dividend yield (%)	5.2	3.8	4.3	4.8
ROE (%)	12.5	11.4	11.8	12.2



Share price performance (%)	3 month	6 month	12 month
Absolute	1.0	13.6	20.8
Rel. to Shanghai - Shenzhen 300	(6.3)	(0.4)	(5.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/15/2018 close.

INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

ABC-A (601288.SS): Down to Neutral on capital concerns

What happened

Since being added to the Buy list on March 13, 2017, ABC-A is +27%, vs. +23% for the Shanghai Composite index and +27% for our A share coverage. We believe this weaker-than-expected performance was due to heightened concerns over its capital position, with its Tier 1 CAR 2ppt lower vs ICBC/CCB as of 3Q17 but still well above the regulatory requirement. While we continue to like the fundamentals of ABC-A, we downgrade to Neutral (from Buy) on its relatively weaker capital position compared with ICBC/CCB. Our P/PPOP-based 12-m target price is Rmb4.4, implying 7% upside, in-line with the average of A-share peers (7%).

Current view

- 1) We continue to like ABC's fundamentals as a key beneficiary of de facto rate hikes given its superior funding franchise. We expect average 9% PPOP growth over 2018-20E, on the back of 9% loan CAGR and 13bp NIM expansion (cumulative), and average 3% net fee growth post a trough of -10% in 2017E on termination of one-off items (agency sales contract of financial bonds on behalf of MOF which expired in 2017).
- 2) Expect stable asset quality, with credit cost slightly rising to 0.90% during 2017-20E (vs 0.87% during 2015-16), while maintaining LLR/NPL at 188% by 2020E on the back of normalized NPL formation rates (average 1.06% for 2017-20E, vs 1.60%/1.13% in 2015/16) on stable macro outlook and as the bank has improved underwriting standards.
- 3) ABC has the lowest capital position among the big 4, with its Tier 1 CAR at 11.3% as of 1H17 (average 12.6% for rest of big 4 banks). Any potential plans for capital replenishment might add risks to ABC's ROE dilution in the near term. For 2018 we expect its ROE to be 14.6% vs. 14.8% for ICBC/ CCB.

Valuation

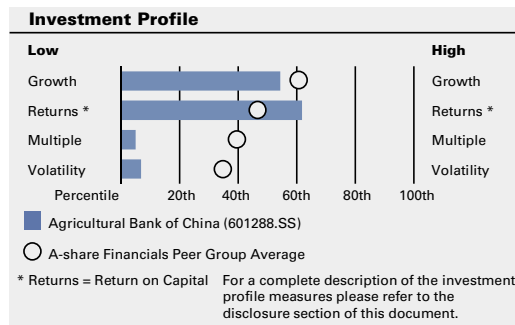
Our new 12-m target price of Rmb4.4 for ABC-A is derived from 2019E P/PPOP, with our target multiple of 3.5x (see pages 10-13 for details). This implies a 0.96x FY18E P/B multiple, vs the current valuation at 0.90x FY18E P/B.

Key risks

Upside: better-than expected net interest margin and asset quality.
Downside: worse-than-expected NPLs; increased competition from county areas.

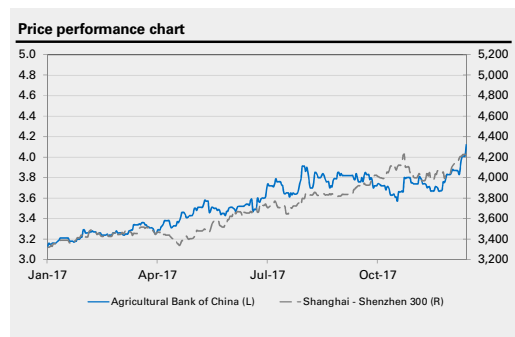
Impact on related securities

We maintain our Buy on ABC-H but remove from our Conviction List due to its weaker capital position compared with the rest of the big 4. Since being added to the Conviction List on March 13, 2017, ABC-H is +16%, vs. +25% for the HSCEI and +26% for its H-share peers. Our unchanged 12m PPOP-based target price at HK\$4.5 (based on a 3.0x 2019E PPOP multiple – see pages 10-13 for details) implies 11% upside, the third highest within our H-share bank coverage.



Key data	Current
Price (Rmb)	4.12
12 month price target (Rmb)	4.40
1288.HK Price (HK\$)	4.04
1288.HK 12 month price target (HK\$)	4.50
Market cap (Rmb mn / US\$ mn)	1,338,151.3 / 206,888.0
Foreign ownership (%)	--

	12/16	12/17E	12/18E	12/19E
EPS (Rmb)	0.57	0.58	0.63	0.72
EPS growth (%)	1.9	2.0	9.6	13.2
1288.HK EPS (Rmb)	0.57	0.58	0.63	0.72
1288.HK EPS growth (%)	1.9	2.0	9.6	13.2
P/E (X)	5.5	7.1	6.5	5.7
1288.HK P/E (X)	4.5	5.8	5.3	4.7
Dividend yield (%)	5.4	4.3	4.7	0.0
ROE (%)	15.5	14.6	14.6	14.9



Share price performance (%)	3 month	6 month	12 month
Absolute	9.6	18.1	32.1
Rel. to Shanghai - Shenzhen 300	1.7	3.5	3.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/15/2018 close.

INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

Agricultural Bank of China: Summary financials

Profit model (Rmb mn)	12/16	12/17E	12/18E	12/19E
Net interest income	398,104.0	435,488.8	477,656.4	533,466.4
Non-interest income	112,024.0	110,202.5	114,530.9	118,087.7
Operating revenue	510,128.0	545,691.4	592,187.3	651,554.1
Non-interest expense	(197,049.0)	(209,425.3)	(224,709.9)	(242,133.1)
Provision operating profit	313,079.0	336,266.1	367,477.4	409,421.1
Total provision charge	(86,446.0)	(101,382.9)	(110,491.1)	(119,366.4)
Associates	0.0	0.0	0.0	0.0
Pretax profit	226,624.0	234,885.1	256,986.3	290,054.7
Tax	(42,564.0)	(42,536.8)	(46,414.7)	(52,209.8)
Minorities	0.0	0.0	0.0	0.0
Net profit	183,941.0	187,577.0	205,678.1	232,744.8
Dividends	(55,215.0)	(57,651.4)	(63,081.7)	(71,201.7)
Dividends payout (%)	30.0	30.0	30.0	30.0
Earnings growth drivers (%)	12/16	12/17E	12/18E	12/19E
Net interest margin	2.21	2.25	2.32	2.36
Provision charge/total loans	0.93	1.00	1.00	0.99
YoY Growth (%)				
Customer deposits	11.1	9.0	7.5	7.5
Loans	9.6	8.6	8.9	9.0
Net interest income	(8.7)	9.4	9.7	11.7
Fee income	10.2	(9.7)	1.2	2.4
Non-interest income	7.0	(1.6)	3.9	3.1
Operating revenue	(5.7)	7.0	8.5	10.0
Operating expenses	12.7	(6.3)	(7.3)	(7.8)
Preprovision operating profit	(0.6)	7.4	9.3	11.4
Provision charges	(3.6)	24.3	12.6	8.0
Pretax profit	(1.8)	3.6	9.4	12.9
Net profit	1.9	2.0	9.6	13.2
EPS	1.9	2.0	9.6	13.2
DPS	1.9	4.4	9.4	(100.0)
Market dimensions	12/16	12/17E	12/18E	12/19E
No of branches	23,682.0	23,682.0	23,682.0	23,682.0
No of staff (000)	496.7	496.7	496.7	496.7
Revenues/staff (US\$)	154,586.1	162,545.3	183,414.3	202,809.4
Net profit/staff (US\$)	55,740.4	55,873.6	63,703.3	72,446.5
DuPont analysis (%)	12/16	12/17E	12/18E	12/19E
ROE	15.5	14.6	14.6	14.9
x leverage	6.3	6.4	6.5	6.7
=ROA	0.98	0.93	0.95	1.00
% of assets	12/16	12/17E	12/18E	12/19E
Net interest income	2.13	2.16	2.22	2.30
Fee income	0.49	0.41	0.39	0.37
Non-interest income	0.60	0.55	0.53	0.51
Operating revenue	2.73	2.71	2.75	2.81
Operating expenses	1.05	1.04	1.04	1.04
Preprovision operating profit	1.68	1.67	1.71	1.76
Loan loss provisions	0.42	0.49	0.51	0.51
Pretax profits	1.21	1.16	1.19	1.25
Taxes	0.23	0.21	0.22	0.23
Balance sheet (Rmb mn)	12/16	12/17E	12/18E	12/19E
Gross loans	9,719,639.0	10,557,079.7	11,500,287.1	12,529,426.1
NPLs	230,834.0	233,532.9	251,889.0	267,926.9
Loan loss reserves	400,275.0	437,954.3	484,370.7	517,512.5
Total interest earning assets	18,461,655.0	19,378,083.0	20,824,606.3	22,346,620.3
Other non-interest earning assets	1,108,406.0	1,379,134.6	1,523,346.8	1,709,474.8
Total assets	19,570,061.0	20,757,217.6	22,347,953.1	24,056,095.1
Customer deposits	15,038,001.0	16,391,421.1	17,620,777.7	18,942,336.0
Total interest-bearing liabilities	17,192,837.0	18,263,935.4	19,662,187.1	21,536,253.2
Total equity	1,241,692.0	1,336,117.0	1,484,143.8	1,653,806.9
CAMEL ratios (%)	12/16	12/17E	12/18E	12/19E
C: Tier 1 capital ratio	11.1	11.0	11.2	11.5
C: Equity/loans	13.3	13.2	13.4	13.7
C: Equity/assets	6.3	6.4	6.6	6.9
A: NPL ratio	2.4	2.2	2.2	2.1
A: Loan loss reserves/NPLs	173.4	187.5	192.3	193.2
E: Net interest margin	2.21	2.25	2.32	2.36
E: Non int inc/oper revenues	21.96	20.20	19.34	18.12
E: Cost-income ratio	38.6	38.4	37.9	37.2
E: ROAA	0.98	0.93	0.95	1.00
L: Loan/deposit ratio	62.0	61.7	62.5	63.4
Loan portfolio (%)	12/16	12/17E	12/18E	12/19E
Commercial & corporate	59.7	58.9	57.1	55.4
Mortgages/home loans	26.3	28.7	30.3	31.9
Consumer	34.4	37.6	39.7	41.7
Valuation (current price)	12/16	12/17E	12/18E	12/19E
P/E basic (X)	5.5	7.1	6.5	5.7
P/B (X)	0.82	1.00	0.90	0.81
P/POP (X)	4.3	4.0	3.6	3.3
Dividend yield (%)	5.4	4.3	4.7	0.0
EPS, basic (Rmb)	0.57	0.59	0.65	0.73
EPS, fully-diluted (Rmb)	0.57	0.58	0.63	0.72
EPS, basic growth (%)	1.9	4.5	9.4	12.9
EPS, fully diluted growth (%)	1.9	2.0	9.6	13.2
BVPS (Rmb)	3.81	4.10	4.56	5.08
DPS (Rmb)	0.17	0.18	0.19	0.00

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

CQRCB (3618.HK): Down to Neutral on interbank funding risks

What happened

Since being added to the Buy list on April 20, 2017, CQRCB is +20%, vs. +27% for the HSCEI and +26% for its H-share peers. We believe this underperformance was primarily driven by NIM margin pressures in 2Q17. Our Buy thesis was based on the view that CQRCB would be one of the key beneficiaries of a de facto rate rise due to its solid retail deposit franchise, and while this thesis remains intact we now see the potential for higher funding costs due to its exposure to interbank funding. Our P/POP-based 12-m target price is HK\$6.2, and we downgrade to Neutral (from Buy) on its less desirable risk-reward (0% upside vs average 10% for H-share peers).

Current view

We forecast net income growth of 13%/16%/19% in 2018/19/20E, supported by:

- +13bp NIM improvement during 2018-20E, as asset repricing continues, while funding cost remains largely stable on the back of strong deposit franchise (deposits account for 73% of its funding liabilities as of 9M17, 7ppt higher vs peer city commercial banks).
- Above-peer asset quality and strong provisioning (LLR/loans >4% and LLR/NPL >400% as of 9M17), driving a lower need for credit costs (we forecast average 0.78% credit cost during 2018-20E).

However, concerns over interbank funding remain as NCD accounted for 12% of CQRCB's total liabilities as of 9M17 (vs sector average of 6%), lifting interbank funding (incl. NCD) contribution to 22% of total liabilities (vs regulatory redline of 30%). It is also notable that CQRCB added Rmb4bn of net NCD outstanding volume during Oct to Dec 2017, while peer city banks such as BONB and BONJ worked towards shrinking their balance (Rmb-12bn/Rmb-26bn respectively in the same period).

Valuation

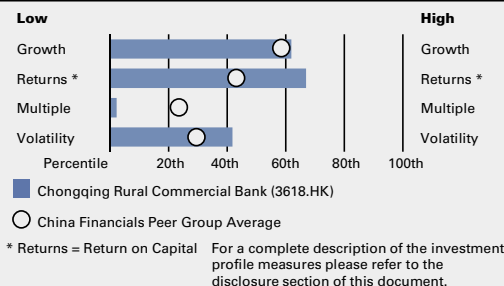
Our new 12-m target price of HKD6.2 for CQRCB is derived from 2019E P/POP, with our target multiple of 2.5x (see pages 10-13 for details). This implies a 0.75x FY18E P/B multiple. We believe the valuation is fair as CQRCB currently trades at 0.74x FY18E P/B.

Key risks

Upside: better-than-expected net interest margin and asset quality.

Downside: worse-than-expected NPLs; surprise slowdown of Chongqing economy, a major contributor to CQRCB's revenues.

Investment Profile

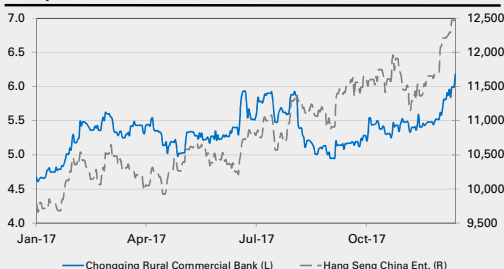


Key data

	Current
Price (HK\$)	6.18
12 month price target (HK\$)	6.20
Market cap (HK\$ mn / US\$ mn)	57,474.0 / 7,347.2
Foreign ownership (%)	--

	12/16	12/17E	12/18E	12/19E
EPS (Rmb)	0.85	0.94	1.06	1.23
EPS growth (%)	10.0	10.1	13.0	16.2
EPS (diluted) (Rmb)	0.85	0.94	1.06	1.23
EPS (basic pre-ex) (Rmb)	0.85	0.94	1.06	1.23
P/E (X)	4.3	5.4	4.8	4.1
P/B (X)	0.6	0.8	0.7	0.6
EV/EBITDA (X)	NM	NM	NM	NM
Dividend yield (%)	5.5	3.9	4.2	4.8
ROE (%)	16.0	15.6	15.8	16.1
CROCI (%)	NM	NM	NM	NM

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	19.5	4.2	32.3
Rel. to Hang Seng China Ent.	10.4	(10.3)	3.9

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/15/2018 close.

INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

Chongqing Rural Commercial Bank: Summary financials

Profit model (Rmb mn)	12/16	12/17E	12/18E	12/19E	Balance sheet (Rmb mn)	12/16	12/17E	12/18E	12/19E
Net interest income	19,404.7	21,669.9	24,497.8	27,268.7	Gross loans	300,421.4	327,101.6	361,129.9	399,929.6
Non-interest income	2,367.6	2,338.9	2,496.0	2,767.9	NPLs	2,872.5	3,225.1	3,488.2	3,762.7
Operating revenue	21,772.4	24,008.9	26,993.7	30,036.6	Loan loss reserves	12,305.0	14,883.1	17,225.9	19,356.6
Non-interest expense	(8,451.0)	(8,123.7)	(9,349.0)	(10,363.4)	Total interest earning assets	785,183.6	857,459.0	947,616.9	1,039,243.8
Preprovision operating profit	13,321.4	15,885.2	17,644.7	19,673.2	Other non-interest earning assets	17,974.2	21,636.0	29,836.1	39,706.3
Total provision charge	(2,676.5)	(4,140.9)	(4,304.1)	(4,121.9)	Total assets	803,157.7	879,095.0	977,453.0	1,078,950.1
Associates	0.0	0.0	0.0	0.0	Customer deposits	518,185.9	565,798.8	619,319.6	685,881.0
Pretax profit	10,644.8	11,744.3	13,340.6	15,551.3	Total interest-bearing liabilities	735,630.9	805,016.5	896,564.4	984,933.9
Tax	(2,643.5)	(2,911.0)	(3,335.2)	(3,887.8)	Total equity	54,189.8	61,343.1	67,076.6	78,740.1
Minorities	--	--	--	--					
Net profit	7,944.7	8,745.3	9,878.7	11,480.9	CAMEL ratios (%)	12/16	12/17E	12/18E	12/19E
Dividends	(1,860.0)	(1,860.0)	(1,975.7)	(2,296.2)	C: Tier 1 capital ratio	9.9	10.1	9.7	10.1
Dividends payout (%)	23.4	21.3	20.0	20.0	C: Equity/loans	18.3	19.1	19.0	20.3
					C: Equity/assets	6.5	6.8	6.7	7.2
Earnings growth drivers (%)	12/16	12/17E	12/18E	12/19E	A: NPL ratio	1.0	1.0	1.0	0.9
Net interest margin	2.55	2.57	2.65	2.67	A: Loan loss reserves/NPLs	428.4	461.5	493.8	514.4
Provision charge/total loans	0.93	1.33	1.25	1.08	E: Net interest margin	2.55	2.57	2.65	2.67
YoY Growth (%)					E: Non int inc/oper revenues	10.87	9.74	9.25	9.21
Customer deposits	10.2	9.2	9.5	10.7	E: Cost-income ratio	38.8	33.8	34.6	34.5
Loans	11.9	8.4	10.1	10.7	E: ROAA	1.05	1.04	1.06	1.12
Net interest income	(3.8)	11.7	13.0	11.3	L: Loan/deposit ratio	55.6	55.2	55.5	55.5
Fee income	41.7	8.8	7.9	11.0					
Non-interest income	36.6	(1.2)	6.7	10.9	Loan portfolio (%)	12/16	12/17E	12/18E	12/19E
Operating revenue	(0.6)	10.3	12.4	11.3	Commercial & corporate	NM	NM	NM	NM
Operating expenses	6.9	3.9	(15.1)	(10.9)	Mortgages/home loans	14.5	14.2	14.2	14.2
Preprovision operating profit	3.9	19.2	11.1	11.5	Consumer	NM	NM	NM	NM
Provision charges	(20.3)	44.1	4.8	(5.1)					
Pretax profit	11.0	10.3	13.6	16.6	Valuation (current price)	12/16	12/17E	12/18E	12/19E
Net profit	10.0	10.1	13.0	16.2	P/E basic (X)	4.3	5.4	4.8	4.1
EPS	10.0	10.1	13.0	16.2	P/B (X)	0.64	0.80	0.73	0.62
DPS	0.0	0.0	6.2	16.2	P/POP (X)	3.6	3.0	2.7	2.4
					Dividend yield (%)	5.5	3.9	4.2	4.8
Market dimensions	12/16	12/17E	12/18E	12/19E	EPS, basic (Rmb)	0.85	0.94	1.06	1.23
No of branches	1,777.0	1,777.0	1,777.0	1,777.0	EPS, fully-diluted (Rmb)	0.85	0.94	1.06	1.23
No of staff (000)	16.2	16.2	16.2	16.2					
Revenues/staff (US\$)	201,729.6	218,661.0	255,628.8	285,864.7	EPS, basic growth (%)	10.0	10.1	13.0	16.2
Net profit/staff (US\$)	73,611.2	79,647.9	93,550.6	109,266.7	EPS, fully diluted growth (%)	10.0	10.1	13.0	16.2
DuPont analysis (%)	12/16	12/17E	12/18E	12/19E	BVPS (Rmb)	5.66	6.43	7.04	8.30
ROE	16.0	15.6	15.8	16.1	DPS (Rmb)	0.20	0.20	0.21	0.25
x leverage	6.5	6.7	6.7	6.9					
=ROA	1.05	1.04	1.06	1.12					
% of assets	12/16	12/17E	12/18E	12/19E					
Net interest income	2.55	2.58	2.64	2.65					
Fee income	0.28	0.27	0.27	0.27					
Non-interest income	0.31	0.28	0.27	0.27					
Operating revenue	2.86	2.85	2.91	2.92					
Operating expenses	1.11	0.97	1.01	1.01					
Preprovision operating profit	1.75	1.89	1.90	1.91					
Loan loss provisions	0.31	0.41	0.39	0.33					
Pretax profits	1.40	1.40	1.44	1.51					
Taxes	0.35	0.35	0.36	0.38					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

PSBC (1658.HK): Leveraged player on interest rates; reinstate at Buy

Source of opportunity

We have removed the RS designation from Postal Savings Bank of China (PSBC). PSBC is on the Buy list with a 12-month P/POP-based price target of HK\$5.2, implying upside of 15%, the second highest within our H-share banks coverage group. We like PSBC's fundamentals: 1) a leveraged player on interest rates, whereby we calculate 2018E PPOP would be 8.1ppt higher should interest rates rise by 10bp, the highest potential boost amongst our coverage, and 2) faster-than-peer NPAT growth of 16%/19%/20% in 2018/19/20E, supported by strong PPOP growth (average 23%) and a stable asset quality outlook with low credit cost average 0.87% over 2018-20E.

Catalyst

We expect PSBC to deliver average 23% PPOP growth during 2018-20E, the fastest within our coverage group (coverage average c.11%), on the back of:

- 1) Fast loan growth** averaging 16% during 2018-20E (vs big-4 banks average 10%) from a low base. PSBC has the 5th largest loan balance amongst all banks in China despite having the largest branch network already in place.
- 2) 27bps NIM expansion** over 2018-20E (vs big-4 average 23bps) thanks to the retail tilt whereby consumer loans accounted for 13% total loan balance as of 1H17 (vs average 7% of big-4 banks), which potentially generates higher yields and sees faster growth. PSBC also benefits from a stable funding franchise with deposits making up >80% of total interest bearing liabilities, the highest amongst our coverage.
- 3) Strong net fee growth average 16%** (vs average 5% for big-4 banks) as demand for financial services pick up, though net fees will still account for <10% of total revenue by 2020E.

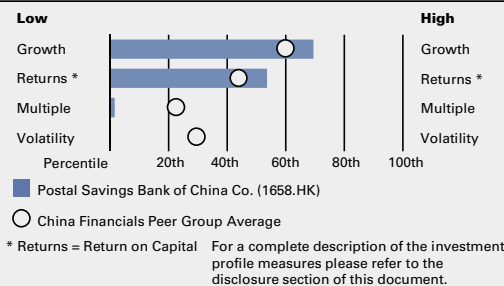
Valuation

Our 12-m target price of HK\$5.2 for PSBC is derived from 2019E P/POP, with our target multiple of 3.5x (see pages 10-13 for details). This implies a 0.85x FY18E P/B multiple, vs the current valuation at 0.74x FY18E P/B.

Key risks

Relatively softer capital position (vs other big banks) posing constraints on balance sheet expansion; worse-than-expected asset quality and operating efficiency; interest rate decline impacting NIM; sticky deposit cost.

Investment Profile



Key data	Current
Price (HK\$)	4.52
12 month price target (HK\$)	5.20
Market cap (HK\$ mn / US\$ mn)	366,260.1 / 46,820.8
Foreign ownership (%)	--

	12/16	12/17E	12/18E	12/19E
EPS (Rmb)	0.55	0.56	0.65	0.78
EPS growth (%)	(8.9)	1.7	16.1	19.4
P/B (X)	0.9	0.8	0.7	0.6
P/E (X)	7.0	6.6	5.7	4.8
Dividend yield (%)	2.2	1.9	5.3	6.3
P/POP (X)	5.1	3.8	3.1	2.5
PPOP growth (%)	(10.7)	31.6	24.4	25.4
Provision ROA (%)	0.8	0.9	1.0	1.2
Credit cost (%)	0.6	0.7	0.8	0.9
ROA (%)	0.51	0.53	0.57	0.62
ROE (%)	12.9	12.5	13.2	14.2

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(3.0)	(5.6)	2.7
Rel. to Hang Seng China Ent.	(10.4)	(18.8)	(19.4)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/15/2018 close.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy list

Coverage View: Neutral

Postal Savings Bank of China Co.: Summary financials

Profit model (Rmb mn)	12/16	12/17E	12/18E	12/19E
Net interest income	157,586.0	187,190.5	216,081.1	243,008.7
Non-interest income	32,016.0	29,498.8	28,493.1	31,686.9
Operating revenue	189,602.0	216,689.3	244,574.2	274,695.6
Non-interest expense	(129,772.0)	(137,972.9)	(146,655.9)	(151,862.0)
Provision operating profit	59,830.0	78,716.4	97,918.3	122,833.6
Total provision charge	(16,902.0)	(27,543.4)	(35,866.7)	(47,077.8)
Associates	0.0	0.0	0.0	0.0
Pretax profit	42,928.0	51,173.0	62,051.6	75,755.9
Tax	(3,152.0)	(5,489.6)	(8,995.1)	(12,421.2)
Minorities	--	--	--	--
Net profit	39,801.0	45,691.4	53,056.5	63,334.7
Dividends	(5,972.0)	(5,727.4)	(15,916.9)	(19,000.4)
Dividends payout (%)	15.0	12.5	30.0	30.0
Earnings growth drivers (%)	12/16	12/17E	12/18E	12/19E
Net interest margin	2.05	2.19	2.32	2.40
Provision charge/total loans	0.58	0.76	0.84	0.95
YoY Growth (%)	12/16	12/17E	12/18E	12/19E
Customer deposits	15.6	13.0	9.0	8.4
Loans	21.8	22.7	18.6	16.3
Net interest income	(12.1)	18.8	15.4	12.5
Fee income	32.6	18.7	17.3	16.0
Non-interest income	181.5	(7.9)	(3.4)	11.2
Operating revenue	(0.5)	14.3	12.9	12.3
Operating expenses	(5.0)	(6.3)	(6.3)	(3.5)
Preprovision operating profit	(10.7)	31.6	24.4	25.4
Provision charges	(12.4)	32.7	30.6	31.7
Pretax profit	3.7	19.2	21.3	22.1
Net profit	14.2	14.8	16.1	19.4
EPS	(8.9)	1.7	16.1	19.4
DPS	(47.0)	(15.0)	177.9	19.4
Market dimensions	12/16	12/17E	12/18E	12/19E
No of branches	--	--	--	--
No of staff (000)	169.7	--	--	--
Revenues/staff (US\$)	168,133.9	NM	NM	NM
Net profit/staff (US\$)	35,294.4	NM	NM	NM
DuPont analysis (%)	12/16	12/17E	12/18E	12/19E
ROE	12.9	12.5	13.2	14.2
x leverage	4.0	4.2	4.3	4.4
=ROA	0.51	0.53	0.57	0.62
% of assets	12/16	12/17E	12/18E	12/19E
Net interest income	2.03	2.17	2.30	2.39
Fee income	0.15	0.16	0.17	0.18
Non-interest income	0.41	0.34	0.30	0.31
Operating revenue	2.44	2.51	2.61	2.70
Operating expenses	1.67	1.60	1.56	1.49
Preprovision operating profit	0.77	0.91	1.04	1.21
Loan loss provisions	0.26	0.31	0.38	0.46
Pretax profits	0.55	0.59	0.66	0.74
Taxes	0.04	0.06	0.10	0.12
Balance sheet (Rmb mn)	12/16	12/17E	12/18E	12/19E
Gross loans	3,010,648.0	3,699,330.2	4,395,811.2	5,125,646.1
NPLs	26,291.0	29,713.3	35,833.5	44,667.4
Loan loss reserves	71,431.0	93,113.1	118,835.5	150,547.9
Total interest earning assets	8,104,287.0	8,844,093.7	9,579,369.3	10,402,810.4
Other non-interest earning assets	161,335.0	151,382.9	190,682.1	164,446.3
Total assets	8,265,622.0	8,995,476.6	9,770,051.4	10,567,256.7
Customer deposits	7,286,311.0	8,235,577.9	8,976,244.6	9,727,376.8
Total interest-bearing liabilities	7,766,888.0	8,452,484.6	9,185,683.2	9,937,091.0
Total equity	346,888.0	383,873.4	422,067.2	467,864.8
CAMEL ratios (%)	12/16	12/17E	12/18E	12/19E
C: Tier 1 capital ratio	8.6	8.5	8.2	8.1
C: Equity/loans	11.8	10.6	9.9	9.4
C: Equity/assets	4.2	4.3	4.3	4.4
A: NPL ratio	0.9	0.8	0.8	0.9
A: Loan loss reserves/NPLs	271.7	313.4	331.6	337.0
E: Net interest margin	2.05	2.19	2.32	2.40
E: Non int inc/oper revenues	16.89	13.61	11.65	11.54
E: Cost-income ratio	68.4	63.7	60.0	55.3
E: ROAA	0.51	0.53	0.57	0.62
L: Loan/deposit ratio	40.3	43.8	47.6	51.1
Loan portfolio (%)	12/16	12/17E	12/18E	12/19E
Commercial & corporate	35.9	38.4	38.6	38.4
Mortgages/home loans	NM	NM	NM	NM
Consumer	52.6	54.3	55.2	56.3
Valuation (current price)	12/16	12/17E	12/18E	12/19E
P/E basic (X)	7.0	6.6	5.7	4.8
P/B (X)	0.90	0.79	0.72	0.65
P/POP (X)	5.1	3.8	3.1	2.5
Dividend yield (%)	2.2	1.9	5.3	6.3
EPS, basic (Rmb)	0.55	0.56	0.65	0.78
EPS, fully-diluted (Rmb)	0.55	0.56	0.65	0.78
EPS, basic growth (%)	(8.9)	1.7	16.1	19.4
EPS, fully diluted growth (%)	(8.9)	1.7	16.1	19.4
BVPS (Rmb)	4.28	4.73	5.20	5.77
DPS (Rmb)	0.08	0.07	0.20	0.23

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

CEB (601818.SS): Weaker NIM and NPL coverage; initiate at Sell

Source of opportunity

We initiate on China Everbright Bank (CEB) at Sell with our 12-m target price of Rmb4.2 implying 0% upside vs. an average of 7% for our A-share covered banks. We forecast average just 5% NPAT yoy growth through 2018-2020E vs. the sector average of 14% due to CEB's: 1) slower NIM recovery on relatively weaker loan pricing power vs. peers and its reliance on interbank funding; 2) low NPL coverage ratio to buffer the asset quality risk; and 3) large WMP exposure which is facing regulatory headwinds and could put pressure on deposit funding. While we are in-line with Bloomberg consensus on CEB's NPAT (+2%/3%/1% for 2017-19E), we expect it to grow at a slower pace vs peers.

Catalyst

We forecast 6%/6%/5% net profit growth in 2018E/19E/20E on:

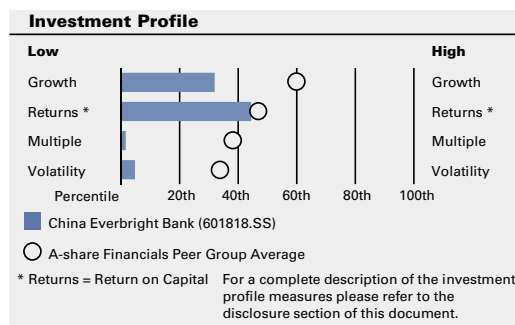
- Slower NIM recovery due to relatively weak loan pricing power and reliance on interbank funding.** Interbank funding (including NCD) currently accounts for 32% of CEB's total liabilities, the second highest among our China Banks coverage, posing pressure to funding cost during times of elevated interbank rates and tight liquidity. On the asset side, 3Q17 asset yield increased by 16bp from 2016, which compares to 42bp for mid/small-size banks, likely due to relatively weaker loan pricing power. We forecast CEB's NIM to edge up to 1.58% in 2020E vs. 1.53% in 9M17.
- Low NPL coverage ratio.** As of 3Q17, CEB's LLR/NPL ratio was relatively low vs peers at 154%, close to the regulatory line at 150%, and relatively low for a bank with an NPL ratio at 1.58%, vs 241%/1.41% NPL coverage/NPL ratio average of our covered banks.
- Large WMP exposure subject to regulatory headwinds and putting pressure on deposit funding.** As of 1H17, WMP accounted for 31% of CEB's total assets vs. 22% for our coverage average, making the bank susceptible to regulatory headwinds. Additionally, on its balance sheet, WMP accounts for 18% of total deposits, the second highest within our coverage after BoCom, putting pressure on its deposit funding with the implementation of new AMP rules.

We could become more positive on CEB under the following scenarios:

- significant adjustment of its lending portfolio towards higher yield products, leading to an accelerated NIM recovery; 2) if it were to undertake a strategy to significantly expand its deposit franchise; and 3) if the interbank interest rate significantly comes down.

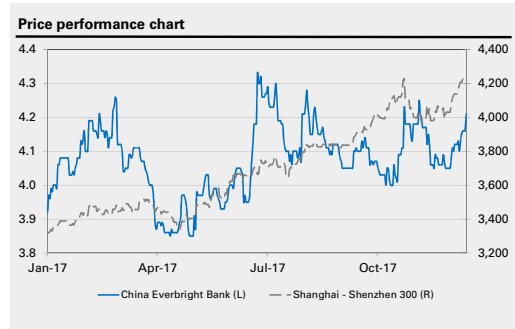
Valuation

Our 12-m target price of Rmb4.2 for CEB-A is derived from 2019E P/POP, with our target multiple of 3.0x (see pages 10-13 for details). This implies a 0.73x FY18E P/B multiple vs. currently trading at 0.73x 18E P/B.



Key data	Current
Price (Rmb)	4.21
12 month price target (Rmb)	4.20
6818.HK Price (HK\$)	3.78
6818.HK 12 month price target (HK\$)	4.10
Market cap (Rmb mn / US\$ mn)	196,518.6 / 30,383.2
Foreign ownership (%)	--

	12/16	12/17E	12/18E	12/19E
EPS (Rmb)	0.65	0.68	0.72	0.75
EPS growth (%)	2.7	4.1	5.7	5.5
6818.HK EPS (Rmb)	0.65	0.68	0.72	0.75
6818.HK EPS growth (%)	2.7	4.1	5.7	5.5
P/E (X)	5.8	6.2	5.9	5.6
6818.HK P/E (X)	4.6	4.6	4.4	4.1
Dividend yield (%)	2.6	4.7	4.8	5.1
ROE (%)	12.8	11.9	11.4	11.1



Share price performance (%)	3 month	6 month	12 month
Absolute	2.7	0.7	7.4
Rel. to Shanghai - Shenzhen 300	(4.7)	(11.7)	(15.6)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/15/2018 close.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Sell list

Coverage View: Neutral

China Everbright Bank: Summary financials

Profit model (Rmb mn)	12/16	12/17E	12/18E	12/19E
Net interest income	65,288.0	60,822.8	67,249.4	73,192.5
Non-interest income	28,765.0	30,872.0	31,471.6	32,528.0
Operating revenue	94,053.0	91,694.8	98,720.9	105,720.5
Non-interest expense	(29,942.0)	(29,759.7)	(32,777.9)	(36,733.5)
Provision operating profit	64,111.0	61,935.1	65,943.1	68,986.9
Total provision charge	(23,931.0)	(20,450.2)	(21,421.5)	(22,009.5)
Associates	0.0	0.0	0.0	0.0
Pretax profit	40,180.0	41,484.9	44,521.6	46,977.4
Tax	(9,792.0)	(9,902.2)	(11,130.4)	(11,744.4)
Minorities	--	--	--	--
Net profit	30,388.0	31,582.7	33,391.2	35,233.1
Dividends	(4,574.6)	(9,177.3)	(9,439.7)	(9,991.1)
Dividends payout (%)	15.1	29.1	28.3	28.4
Earnings growth drivers (%)	12/16	12/17E	12/18E	12/19E
Net interest margin	1.82	1.54	1.57	1.58
Provision charge/total loans	1.37	1.02	0.96	0.89
YoY Growth (%)				
Customer deposits	6.4	5.0	9.0	9.2
Loans	18.7	13.9	12.0	10.5
Net interest income	(1.8)	(6.8)	10.6	8.8
Fee income	6.9	14.1	4.3	3.2
Non-interest income	7.7	7.3	1.9	3.4
Operating revenue	0.9	(2.5)	7.7	7.1
Operating expenses	6.9	0.6	(10.1)	(12.1)
Preprovision operating profit	5.1	(3.4)	6.5	4.6
Provision charges	12.1	--	--	--
Pretax profit	2.1	3.2	7.3	5.5
Net profit	2.7	3.9	5.7	5.5
EPS	2.7	4.1	5.7	5.5
DPS	(48.4)	100.6	2.9	5.8
Market dimensions	12/16	12/17E	12/18E	12/19E
No of branches	--	--	--	--
No of staff (000)	42.3	--	--	--
Revenues/staff (US\$)	335,065.5	NM	NM	NM
Net profit/staff (US\$)	108,257.8	NM	NM	NM
DuPont analysis (%)	12/16	12/17E	12/18E	12/19E
ROE	12.8	11.9	11.4	11.1
x leverage	6.6	6.4	6.6	6.6
=ROA	0.85	0.77	0.76	0.74
% of assets	12/16	12/17E	12/18E	12/19E
Net interest income	1.82	1.48	1.53	1.53
Fee income	0.78	0.78	0.76	0.72
Non-interest income	0.80	0.75	0.71	0.68
Operating revenue	2.62	2.23	2.24	2.21
Operating expenses	0.83	0.72	0.74	0.77
Preprovision operating profit	1.78	1.50	1.50	1.44
Loan loss provisions	0.62	NM	NM	NM
Pretax profits	1.12	1.01	1.01	0.98
Taxes	0.27	0.24	0.25	0.25
Balance sheet (Rmb mn)	12/16	12/17E	12/18E	12/19E
Gross loans	1,795,278.0	2,045,833.6	2,291,047.4	2,531,488.5
NPLs	28,702.0	32,395.9	35,612.1	38,915.9
Loan loss reserves	43,634.0	50,122.9	56,359.8	62,780.9
Total interest earning assets	3,870,675.0	4,035,804.7	4,389,171.8	4,715,857.3
Other non-interest earning assets	149,367.0	177,103.2	209,130.6	234,921.4
Total assets	4,020,042.0	4,212,907.9	4,598,302.4	4,950,778.7
Customer deposits	2,120,887.0	2,225,876.9	2,426,061.2	2,649,319.5
Total interest-bearing liabilities	3,687,437.0	3,821,663.4	4,161,302.9	4,462,449.2
Total equity	251,068.0	280,804.7	305,071.6	330,922.2
CAMEL ratios (%)	12/16	12/17E	12/18E	12/19E
C: Tier 1 capital ratio	9.3	9.6	9.3	9.1
C: Equity/loans	14.3	14.0	13.6	13.4
C: Equity/assets	6.2	6.6	6.6	6.7
A: NPL ratio	1.6	1.6	1.6	1.5
A: Loan loss reserves/NPLs	152.0	154.7	158.3	161.3
E: Net interest margin	1.82	1.54	1.57	1.58
E: Non int inc/oper revenues	30.58	33.67	31.88	30.77
E: Cost-income ratio	31.8	32.5	33.2	34.7
E: ROAA	0.85	0.77	0.76	0.74
L: Loan/deposit ratio	82.6	89.7	92.1	93.2
Loan portfolio (%)	12/16	12/17E	12/18E	12/19E
Commercial & corporate	59.9	59.9	58.5	57.1
Mortgages/home loans	16.2	16.7	14.9	13.5
Consumer	36.9	38.8	40.2	41.7
Valuation (current price)	12/16	12/17E	12/18E	12/19E
P/E basic (X)	5.8	6.2	5.9	5.6
P/B (X)	0.70	0.70	0.65	0.60
P/POP (X)	3.1	3.2	3.0	2.8
Dividend yield (%)	2.6	4.7	4.8	5.1
EPS, basic (Rmb)	0.65	0.68	0.72	0.75
EPS, fully-diluted (Rmb)	0.65	0.68	0.72	0.75
EPS, basic growth (%)	2.7	4.1	5.7	5.5
EPS, fully diluted growth (%)	2.7	3.9	5.7	5.5
BVPS (Rmb)	5.37	6.00	6.52	7.07
DPS (Rmb)	0.10	0.20	0.20	0.21

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Impact on related securities

We initiate on CEB-H (6818.HK) at Neutral with our 12-month target price of HK\$4.1 – derived from 2019E P/PPOP with a target multiple of 2.5x (see pages 10-13 for details) – implying 8% potential upside, in-line with the average of 10% for our H-share bank coverage. CEB-H currently trades on just 0.56x FY18E P/B (vs. H-share peer average of 0.80x and our TP-implied P/B of 0.60x), which we believe is already pricing in the issues discussed above.

Key Risks

Upside risks:

- 1) Better-than expected net interest margin. Due to CEB's relatively weaker loan pricing power and reliance on interbank funding vs peers, its NIM hasn't recovered from 2014/15 levels (NIM 2.27/2.27/1.82bps for FY14/15/16). Higher-than-expected NIM would effectively serve to boost its net profit.
- 2) Faster deposit growth, which would help stabilize and gradually bring down CEB's funding cost and boost NIM. Additionally, it would reduce potential regulatory headwinds on interbank funding requirements (regulatory red line is 30% vs CEB at 28% as of 3Q17) and increase funding stability.

Downside risks:

- 1) Worse-than-expected asset quality. As of 3Q17, CEB's NPL ratio had stabilized at 1.58% and we forecast this ratio to go down to 1.53% in 2020E.
- 2) Slower fee income growth which may dampen this as a growth driver for the bank.

Financials

- We forecast CEB to deliver 5% net profit CAGR through 2018-2020E vs. 2%/3% in 2015/2016, supported by moderate net interest income growth.
- We expect 11% loan CAGR, contributing to 9% CAGR net interest income growth. Specifically, we expect higher retail loan growth at 15% CAGR vs. corporate loan growth at 8% CAGR due to strong retail loan demand and a lower base.
- We expect the bank to slow down asset growth to 8% CAGR through 2018-2020E, from 27% yoy in 2016, due to tighter regulations and MPA test.
- CEB could see its deposit growth increase to 10% CAGR (2018-2020E) vs. 6.4% yoy in 2016, in response to regulations that include NCD into interbank liability and also due to elevated interbank funding cost.
- We forecast NIM to only edge up to 1.58% in 2020E vs. 1.51%/1.53% for 3Q17/ 9M17, due to its relatively weak loan pricing power and reliance on interbank funding vs. peers.
- We estimate 4% net fee income CAGR through 2018-2020E due to regulatory headwinds on WMP, off balance sheet activities, bank-trust cooperation, etc.
- Cost-income ratio (CIR) to rise up to 36.8% in 2020E, vs. 31.6% for trailing 4-month CIR as of 3Q17, with the fading impact of value added tax reform and more retail loan business which has higher CIR.
- Credit cost to drop to 0.78% in 2020E from 1.27%/0.94% in 2016/9M17, due to improving asset quality and profit growth pressure on the bottom line.
- Effective tax rate and dividend payout ratio are forecast at 25%/30% across our forecast period, both based on its history.

Exhibit 36: CEB – income statement

INCOME STATEMENT								YOY growth						
Rmb mn	2014	2015	2016	2017E	2018E	2019E	2020E	2014	2015	2016	2017E	2018E	2019E	2020E
Interest Income	133,926	141,907	143,450	159,505	177,820	194,189	209,723	12%	6%	1%	11%	11%	9%	8%
Interest Expense	75,667	75,448	78,162	98,682	110,571	120,996	131,258	9%	0%	4%	26%	12%	9%	8%
Net Interest Income	58,259	66,459	65,288	60,823	67,249	73,192	78,464	15%	14%	-2%	-7%	11%	9%	7%
Gross fees & commissions	20,445	27,745	29,932	34,065	35,791	37,233	38,738	30%	36%	8%	14%	5%	4%	4%
Fee expenses	(1,288)	(1,444)	(1,820)	(1,988)	(2,319)	(2,705)	(3,155)	59%	12%	26%	9%	17%	17%	17%
Net fees & commissions	19,157	26,301	28,112	32,077	33,472	34,528	35,582	28%	37%	7%	14%	4%	3%	3%
Non-fee non-NII	1,124	416	653	(1,205)	(2,000)	(2,000)	(2,000)	-312%	-63%	57%	-285%	66%	0%	0%
Total Operating Revenues	78,540	93,176	94,053	91,695	98,721	105,720	112,046	20%	19%	1%	-3%	8%	7%	6%
Staff costs	13,360	14,268	15,171	15,867	17,136	18,850	20,735	14%	7%	6%	5%	8%	10%	10%
General and Admin Expense	4,073	4,479	4,690	4,895	5,629	6,473	7,444	21%	10%	5%	4%	15%	15%	15%
Others	5,983	6,323	7,196	7,896	8,843	10,170	11,695	7%	6%	14%	10%	12%	15%	15%
Business tax and surcharge	6,361	7,096	2,885	1,102	1,169	1,241	1,316	13%	12%	-59%	-62%	6%	6%	6%
Total Operating Expenses	29,777	32,166	29,942	29,760	32,778	36,734	41,191	14%	8%	-7%	-1%	10%	12%	12%
Pre-provision operating profit	48,763	61,010	64,111	61,935	65,943	68,987	70,856	25%	25%	5%	-3%	6%	5%	3%
Loan Loss Provisions	10,209	21,652	23,931	20,450	21,421	22,010	21,741	120%	112%	11%	-15%	5%	3%	-1%
Profit before tax	38,554	39,358	40,180	41,485	44,522	46,977	49,115	12%	2%	2%	3%	7%	6%	5%
Taxes	9,626	9,781	9,792	9,902	11,130	11,744	12,279	26%	2%	0%	1%	12%	6%	5%
Net profits	28,928	29,577	30,388	31,583	33,391	35,233	36,837	8%	2%	3%	4%	6%	6%	5%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 37: CEB – balance sheet

Balance sheet								YOY growth						
Rmb mn	2014	2015	2016	2017E	2018E	2019E	2020E	2014	2015	2016	2017E	2018E	2019E	2020E
ASSETS														
Cash and due from central bank	354,185	326,735	381,620	419,934	486,020	550,850	622,208	13%	-8%	17%	10%	16%	13%	13%
Interbank deposit	40,316	86,311	232,630	113,202	104,327	94,155	88,440	-40%	114%	170%	-51%	-8%	-10%	-6%
Interbank lending	132,733	132,361	126,305	146,247	138,050	116,846	96,760	7%	0%	-5%	16%	-6%	-15%	-17%
Reverse repo	286,682	153,045	67,000	111,829	139,004	148,901	157,969	69%	-47%	-56%	67%	24%	7%	6%
Gross loans	1,299,455	1,513,543	1,795,278	2,045,834	2,291,047	2,531,488	2,798,445	11%	16%	19%	14%	12%	10%	11%
Net loans	1,271,430	1,475,424	1,751,644	1,995,711	2,234,688	2,468,708	2,729,324	11%	16%	19%	14%	12%	10%	11%
Corporate loans	820,139	917,327	1,075,974	1,224,517	1,339,762	1,444,906	1,550,811	8%	12%	17%	14%	9%	8%	7%
Discounted bills	20,931	71,196	56,173	28,009	30,294	32,139	34,762	55%	240%	-21%	-50%	8%	6%	8%
Individual loans	458,385	525,020	663,131	793,308	920,991	1,054,443	1,212,873	17%	15%	26%	20%	16%	14%	15%
Loan loss reserves	(28,025)	(38,119)	(43,634)	(50,123)	(56,360)	(62,781)	(69,122)	16%	36%	14%	15%	12%	11%	10%
Derivative financial instruments	1,082	1,625	4,950	1,928	1,562	999	809	-42%	50%	205%	-61%	-19%	-36%	-19%
Investments, including	588,544	903,871	1,318,143	1,257,028	1,324,282	1,397,124	1,476,094	19%	54%	46%	-5%	5%	6%	6%
Interest receivables	14,621	18,546	25,339	28,379	30,692	32,403	33,713	12%	27%	37%	12%	8%	6%	4%
Fixed assets	13,043	12,646	14,228	14,504	14,795	15,093	15,396	3%	-3%	13%	2%	2%	2%	2%
Intangible assets	2,203	2,227	2,231	2,164	2,121	2,079	2,037	8%	1%	0%	-3%	-2%	-2%	-2%
Deferred income tax assets	3,034	3,923	5,622	7,613	8,393	9,254	9,628	-24%	29%	43%	35%	10%	10%	4%
Other assets	29,137	50,996	90,330	114,368	114,368	114,368	114,368	-60%	75%	77%	27%	0%	0%	0%
TOTAL ASSETS	2,737,010	3,167,710	4,020,042	4,212,908	4,598,302	4,950,779	5,346,746	13%	16%	27%	5%	9%	8%	8%
LIABILITIES														
Due to the Central Bank	30,040	14,840	187,000	217,500	217,500	217,500	217,500	NA	-51%	1160%	16%	0%	0%	0%
Interbank deposit	507,187	541,066	830,354	597,271	657,954	684,535	712,190	16%	7%	53%	-28%	10%	4%	4%
Interbank borrowing	36,744	60,305	95,501	133,943	143,453	146,336	149,277	-28%	64%	58%	40%	7%	2%	2%
Repo	51,772	58,873	41,195	9,866	7,251	5,330	3,917	-18%	14%	-30%	-76%	-27%	-27%	-27%
Derivatives	781	1,391	4,368	3,378	4,087	4,506	4,968	-68%	78%	214%	-23%	21%	10%	10%
Customer deposits	1,785,337	1,993,843	2,120,887	2,225,877	2,426,061	2,649,319	2,934,784	11%	12%	6%	5%	9%	9%	11%
Payroll payable	9,668	11,217	7,776	8,700	9,961	11,404	13,301	19%	16%	-31%	12%	14%	14%	17%
Tax payable	3,829	6,392	4,501	5,418	5,418	5,418	5,418	47%	67%	-30%	20%	0%	0%	0%
Interest payable	29,950	30,612	33,576	39,415	47,692	57,708	72,388	43%	2%	10%	17%	21%	21%	25%
Bonds payable	89,676	210,061	412,500	637,207	709,084	759,429	766,872	112%	134%	96%	54%	11%	7%	1%
Other liabilities	12,543	15,063	31,316	53,529	64,770	78,371	98,309	-55%	20%	108%	71%	21%	21%	25%
TOTAL LIABILITIES	2,557,527	2,943,663	3,768,974	3,932,103	4,293,231	4,619,856	4,978,925	13%	15%	28%	4%	9%	8%	8%
EQUITY														
Share Capital	46,679	46,679	46,679	46,679	46,679	46,679	46,679	1%	0%	0%	0%	0%	0%	0%
Capital reserve	33,587	37,294	33,874	32,486	32,486	32,486	32,486	17%	11%	-9%	-4%	0%	0%	0%
Revenue reserve	12,050	14,964	17,951	17,951	17,951	17,951	17,951	31%	24%	20%	0%	0%	0%	0%
General reserve	33,903	40,271	51,447	51,448	51,448	51,448	51,448	14%	19%	28%	0%	0%	0%	0%
Retained earnings	52,756	64,320	70,557	96,471	120,685	146,478	183,315	36%	22%	10%	37%	25%	21%	25%
TOTAL EQUITY	179,483	224,047	251,068	280,805	305,072	330,922	367,820	17%	25%	12%	12%	9%	8%	11%
TOTAL EQUITY AND LIABILITIES	2,737,010	3,167,710	4,020,042	4,212,908	4,598,302	4,950,779	5,346,746	13%	16%	27%	5%	9%	8%	8%

Source: Company data, Goldman Sachs Global Investment Research

Industrial (601166.SS): Sequential NIM improvement, up to Neutral

What happened

Since being added to the Sell list on March 13, 2017, Industrial Bank is +8%, vs. +23% for the Shanghai Composite index and +27% for our A share coverage. We upgrade Industrial Bank to Neutral (from Sell) on our expectation of sequential NIM expansion due to the decreasing marginal impact from regulatory headwinds as the bank adjusts and stabilizes its funding mix through 2018-2020E. Our P/PPOP-based 12-m target price is Rmb19.4, implying 8% potential upside, in-line with the average of A-share peers (7%).

Current view

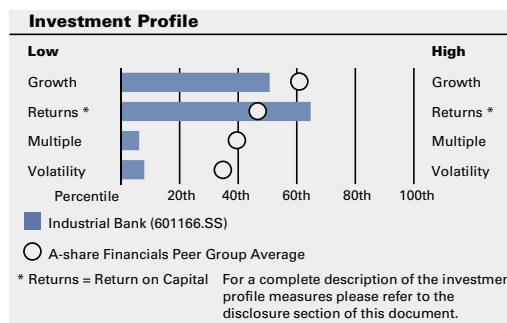
- Improved and stabilized funding mix and hence more stable funding cost**, as Industrial is in the process of switching interbank liabilities to deposits. This results in a decreasing marginal impact from regulatory headwinds and an elevated interbank market rate. 3Q17 interbank funding (incl. NCD) as a percentage of total liabilities already dropped to 44% as of 3Q17 vs. 48% in 2016 and we expect this ratio to further drop to 41% in 2020E.
- Sequentially recovering NIM** with stabilizing funding cost and asset yield being continuously revised-up. Industrial's NIM improved to 1.51% in 1Q17 from 1.45% in 2Q17 and we expect this recovery to continue amid a tight liquidity situation.
- Pressure from tight regulations remains.** The increasing oversight on WMP by the regulator would press on Industrial's funding cost as total WMP accounted for 23% of its total assets as of 1H17, while principle-guaranteed WMP accounted for 14% of total WMP, which will face a cut-back with the implementation of new AMP rules. On the other hand, tightening regulations on interbank NSCA and IFRS9 implementation will put pressure on Industrial by adding an additional risk buffer, which will lower bottom line growth. As of 3Q17, interbank NSCA accounted for 27% of its assets, the highest among our coverage (10% average).

Valuation

Our 12-m target price of Rmb19.4 is derived from 2019E P/PPOP, with our target multiple of 3.0x (see pages 10-13 for details). This implies a 0.91x FY18E P/B multiple vs. the current valuation at 0.85x.

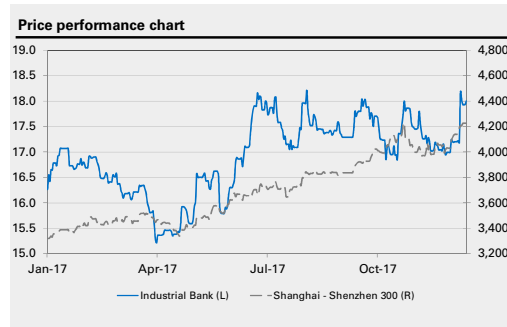
Key risks

Upside: better-than expected net interest margin and asset quality, faster funding mix adjustment. Downside: slower deposit increase resulting in high funding cost, worse-than-expected NPL performance.



Key data	Current
Price (Rmb)	18.00
12 month price target (Rmb)	19.40
Market cap (Rmb mn / US\$ mn)	373,932.0 / 57,812.6
Foreign ownership (%)	--

	12/16	12/17E	12/18E	12/19E
EPS (Rmb)	2.83	2.84	3.05	3.39
EPS growth (%)	7.3	0.5	7.2	11.1
EPS (diluted) (Rmb)	2.83	2.84	3.05	3.39
EPS (basic pre-ex) (Rmb)	2.83	2.84	3.05	3.39
P/E (X)	5.6	6.3	5.9	5.3
P/B (X)	0.9	0.9	0.8	0.8
EV/EBITDA (X)	NM	NM	NM	NM
Dividend yield (%)	4.2	3.5	3.6	4.9
ROE (%)	17.6	16.1	15.2	15.0
CROCI (%)	NM	NM	NM	NM



Share price performance (%)	3 month	6 month	12 month
Absolute	1.1	0.6	10.7
Rel. to Shanghai - Shenzhen 300	(6.2)	(11.9)	(13.0)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/15/2018 close.

INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

Industrial Bank: Summary financials

Profit model (Rmb mn)	12/16	12/17E	12/18E	12/19E
Net interest income	112,319.0	93,550.9	107,386.3	119,631.0
Non-interest income	44,950.0	48,523.6	52,588.2	56,514.6
Operating revenue	157,269.0	142,074.5	159,974.5	176,145.6
Non-interest expense	(42,068.0)	(34,747.5)	(38,374.1)	(41,544.6)
Preprovision operating profit	115,201.0	107,327.1	121,600.4	134,601.0
Total provision charge	(51,276.0)	(36,077.7)	(39,254.5)	(43,157.3)
Associates	0.0	0.0	0.0	0.0
Pretax profit	63,925.0	71,249.4	82,345.9	91,443.6
Tax	(9,598.0)	(12,929.1)	(18,527.8)	(20,574.8)
Minorities	--	--	--	--
Net profit	53,850.0	57,774.3	63,272.1	70,322.8
Dividends	(12,672.0)	(13,086.6)	(13,440.5)	(18,194.5)
Dividends payout (%)	23.5	22.2	21.2	25.9
Earnings growth drivers (%)	12/16	12/17E	12/18E	12/19E
Net interest margin	2.03	1.50	1.57	1.61
Provision charge/total loans	2.55	1.47	1.47	1.43
YoY Growth (%)				
Customer deposits	8.5	17.7	18.0	18.2
Loans	16.4	17.0	13.8	13.3
Net interest income	(6.3)	(16.7)	14.8	11.4
Fee income	13.6	4.4	14.3	9.0
Non-interest income	30.4	8.0	8.4	7.5
Operating revenue	1.9	(9.7)	12.6	10.1
Operating expenses	8.2	17.4	(10.4)	(8.3)
Preprovision operating profit	6.2	(6.8)	13.3	10.7
Provision charges	13.3	(29.6)	8.8	9.9
Pretax profit	1.1	11.5	15.6	11.0
Net profit	7.3	7.3	9.5	11.1
EPS	7.3	0.5	7.2	11.1
DPS	9.0	(5.3)	2.7	35.4
Market dimensions	12/16	12/17E	12/18E	12/19E
No of branches	2,003.0	2,003.0	2,003.0	2,003.0
No of staff (000)	54.2	54.2	54.2	54.2
Revenues/staff (US\$)	436,680.2	387,768.6	453,998.2	502,387.1
Net profit/staff (US\$)	149,522.3	157,685.2	179,562.3	200,568.6
DuPont analysis (%)	12/16	12/17E	12/18E	12/19E
ROE	17.6	16.1	15.2	15.0
x leverage	5.4	5.6	6.0	6.1
=ROA	0.95	0.91	0.91	0.92
% of assets	12/16	12/17E	12/18E	12/19E
Net interest income	1.97	1.47	1.54	1.57
Fee income	0.64	0.60	0.63	0.62
Non-interest income	0.79	0.76	0.76	0.74
Operating revenue	2.76	2.23	2.30	2.31
Operating expenses	0.74	0.55	0.55	0.54
Preprovision operating profit	2.02	1.69	1.75	1.76
Loan loss provisions	0.90	0.57	0.56	0.57
Pretax profits	1.12	1.12	1.18	1.20
Taxes	0.17	0.20	0.27	0.27
Balance sheet (Rmb mn)	12/16	12/17E	12/18E	12/19E
Gross loans	2,079,814.0	2,438,803.5	2,773,606.0	3,142,361.6
NPLs	34,416.0	38,817.9	43,024.5	47,948.0
Loan loss reserves	72,447.9	90,235.7	101,236.6	114,067.7
Total interest earning assets	5,852,282.0	6,451,553.7	7,029,377.7	7,665,118.9
Other non-interest earning assets	233,613.0	186,897.0	245,309.7	332,176.0
Total assets	6,085,895.0	6,638,450.7	7,274,687.4	7,997,294.8
Customer deposits	2,694,751.0	3,172,877.1	3,743,260.3	4,422,932.3
Total interest-bearing liabilities	5,625,206.0	6,053,162.2	6,630,922.9	7,288,464.0
Total equity	354,410.0	424,725.3	473,356.4	528,684.4
CAMEL ratios (%)	12/16	12/17E	12/18E	12/19E
C: Tier 1 capital ratio	9.2	9.6	9.5	9.4
C: Equity/loans	16.2	16.7	16.5	16.4
C: Equity/assets	5.3	5.9	6.1	6.2
A: NPL ratio	1.7	1.6	1.6	1.5
A: Loan loss reserves/NPLs	210.5	232.5	235.3	237.9
E: Net interest margin	2.03	1.50	1.57	1.61
E: Non int inc/oper revenues	28.58	34.15	32.87	32.08
E: Cost-income ratio	26.7	24.5	24.0	23.6
E: ROAA	0.95	0.91	0.91	0.92
L: Loan/deposit ratio	74.5	74.0	71.4	68.5
Loan portfolio (%)	12/16	12/17E	12/18E	12/19E
Commercial & corporate	61.1	61.5	59.6	58.0
Mortgages/home loans	24.9	25.4	26.1	26.8
Consumer	36.1	37.3	39.3	41.1
Valuation (current price)	12/16	12/17E	12/18E	12/19E
P/E basic (X)	5.6	6.3	5.9	5.3
P/B (X)	0.93	0.93	0.85	0.75
P/PPOP (X)	3.2	3.5	3.1	2.8
Dividend yield (%)	4.2	3.5	3.6	4.9
EPS, basic (Rmb)	2.83	2.84	3.05	3.39
EPS, fully-diluted (Rmb)	2.83	2.84	3.05	3.39
EPS, basic growth (%)	7.3	0.5	7.2	11.1
EPS, fully diluted growth (%)	7.3	0.5	7.2	11.1
BVPS (Rmb)	17.02	19.33	21.27	23.94
DPS (Rmb)	0.67	0.63	0.65	0.88

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Disclosure Appendix

Reg AC

We, Tian Lu, CFA and Shuo Yang, Ph.D., hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

GS Factor Profile

The Goldman Sachs Factor Profile provides investment context for a stock by comparing key attributes to the market (i.e. our coverage universe) and its sector peers. The four key attributes depicted are: Growth, Financial Returns, Multiple (e.g. valuation) and Integrated (a composite of Growth, Financial Returns and Multiple). Growth, Financial Returns and Multiple are calculated by using normalized ranks for specific metrics for each stock. The normalized ranks for the metrics are then averaged and converted into percentiles for the relevant attribute. The precise calculation of each metric may vary depending on the fiscal year, industry and region, but the standard approach is as follows:

Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics). For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

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