March 24, 2025 09:00 PM GMT

China Financials | Asia Pacific

Addressing questions on potential financial cycle bottom

WHAT'S CHANGED		
Bank of Ningbo Co. Ltd (002142.SZ)	From	To
Top Pick	1658.HK	**002142.SZ**

We recently met with investors in HK, Singapore and the US. We see more investors warming to the financial cycle bottom theme. In this report, we address some common questions from investors on the theme and a few key stocks.

Why do we think local government funding derived from property has bottomed at 2024 level – won't it go down further? Both the pace of LGFV leverage increases and net interest burdens have moderated to more sustainable levels. Land sale revenue could also stabilize if new home sales sustain at current pace.

Net interest burden for local governments only to decline modestly in coming years – will this contain LGFV risks? We believe the net interest burden turning from rising to declining shows moderating rather than expanding risks.

Will negative PPI remain a key risk to bank credit quality and long-term financial risks? Sectors representing ~60% of industrial liabilities have slowed down capex in relation to production HoH in 2H24. This, combined with less drag from the property market slowdown and local government funding decline, should also lead to narrowing long-term credit risks.

Will further rate declines be a risk to financial stocks given monetary policy tone shift to modestly loose? Most markets with similar loan and GDP growth have higher rates than China now as low loan and deposit rates were greatly influenced by window guidance. We believe long-term credit demand and still manageable net interest burden do not support an overly low rate environment in China. Additionally, a financial/risk cycle bottom could reduce risks of overly low rates, as evidenced by the recent rebound in government bond yields.

Why won't lowering interest rates stimulate credit demand and further delay PPI recovery? We estimate household financial assets rose 12% in 2024, notably outpacing income and consumption growth. This implies sharply lower interest rates in 2024 did not translate into either higher consumption or consumer loan growth amid growth slowdown and job market uncertainty.

Where will credit demand come from? Broad-based tech innovation in new materials, hard tech and AI will drive credit demand in infra investment upgrades and industrial upgrades through China's full industrial supply chain. Continued industrial upgrades should support income and consumer credit growth over time.

We address key questions on Ping An/HKEX/FUTU/CMB and switch our banks Top Pick to Ningbo. We still prefer insurance and keep Ping An as our Top Pick.

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CHINA FINANCIALS	
Asia Pacific	
Industry View	**Attractive**

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China's 3D Journey – Financials: Biggest drag in China credit risk cycle bottomed in 2024 (25 Feb 2025)

China Financials: Still strong household financial assets growth in 2024 aided by higher savings rate (10 Feb 2025)

Order of Preference

Exhibit 1: Order of preference - H share

H share

Order of preference

Name	Minsheng	CMB	PSBC	BOC	ICBC	CCB	ABC	Citic	BOCOM	CEB	CQRCB
Stock code	1988.HK	3968.HK	1658.HK	3988.HK	1398.HK	0939.HK	1288.HK	0998.HK	3328.HK	6818.HK	3618.HK
Rating	Overweight	Overweight	Overweight	Overweight	Overweight	Overweight	Overweight	Equal-Weight	Underweight	Underweight	Underweight
Currency	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD
Current price	3.85	48.45	5.26	4.59	5.57	6.87	4.93	6.18	7.01	3.28	5.18
Price target	5.20 HKD	58.20 HKD	6.80 HKD	6.00 HKD	7.80 HKD	9.20 HKD	6.10 HKD	6.20 HKD	6.50 HKD	2.60 HKD	3.60 HKD
Target upside (%)	**35**	**20**	**29**	**31**	**40**	**34**	**24**	**0**	**-7**	**-21**	**-31**
Market cap (RMB$mn)	174,911	1,129,529	453,139	1,487,621	2,273,389	1,621,629	1,638,055	315,800	511,859	201,958	54,858
Street view											
Blue - Overweight Yellow - Equal-weight Green - Underweight											
MS vs Consensus											
NPAT 24e	-2%	-2%	3%	0%	1%	2%	1%	0%	1%	0%	-2%
NPAT 25e	12%	-4%	6%	0%	0%	2%	2%	-2%	1%	-2%	-4%
PE											
2024e	4.6 e	6.7 e	5.1 e	5.0 e	4.9 e	4.6 e	5.5 e	3.9 e	5.2 e	4.5 e	4.4 e
2025e	4.8 e	7.8 e	5.5 e	5.7 e	5.2 e	4.7 e	5.8 e	4.3 e	5.7 e	4.9 e	4.8 e
PB											
2024e	0.26 e	0.92 e	0.51 e	0.48 e	0.47 e	0.48 e	0.52 e	0.37 e	0.46 e	0.31 e	0.38 e
2025e	0.28 e	1.01 e	0.54 e	0.52 e	0.47 e	0.47 e	0.53 e	0.39 e	0.47 e	0.32 e	0.39 e
ROE - %											
2024e	5.7	14.6	10.3	9.7	10.0	10.8	10.6	10.0	9.0	8.1	8.8
2025e	5.9	13.6	10.2	9.4	9.4	10.2	10.2	9.5	8.5	7.5	8.4

Price performance	Minsheng	CMB	PSBC	BOC	ICBC	CCB	ABC	Citic	BOCOM	CEB	CQRCB	HANG SENG COMPOSITE
1M Abs Perf	4%	9%	7%	6%	-1%	2%	8%	8%	7%	3%	5%	5%
3M Abs Perf	21%	26%	16%	21%	15%	10%	18%	24%	18%	17%	23%	20%
YTD Abs Perf	12%	21%	15%	16%	7%	6%	11%	15%	10%	9%	11%	18%

Source: FactSet, Morgan Stanley Research estimates (e). Close price as of March 21, 2025

Exhibit 2: Order of preference - A share

A share

Order of preference

Name	Ningbo	CMB	Chengdu	Industrial	PAB	Minsheng	Hangzhou	ABC	ICBC	BOC	CCB	Beijing	CITIC	BoCom	Huaxia	CEB	SPDB
Stock code	002142.SZ	600036.SS	601838.SS	601166.SS	000001.SZ	600016.SS	600926.SS	601288.SS	601398.SS	601988.SS	601939.SS	601169.SS	601998.SS	601328.SS	600015.SS	601818.SS	600000.SS
Rating	Overweight	Overweight	Overweight	Overweight	Overweight	Equal-Weight	Equal-Weight	Equal-Weight	Equal-Weight	Equal-Weight	Equal-Weight	Equal-Weight	Underweight	Underweight	Underweight	Underweight	Underweight
Currency	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Current price	25.99	44.70	17.13	21.63	11.42	4.09	14.66	5.09	6.76	5.36	8.49	5.99	7.21	7.21	7.52	3.84	10.47
Price target	39.20 HKD	57.20 HKD	22.30 HKD	27.50 HKD	15.20 HKD	5.10 HKD	17.00 HKD	6.00 HKD	7.60 HKD	5.90 HKD	9.10 HKD	6.50 HKD	6.10 HKD	6.40 HKD	5.50 HKD	2.60 HKD	7.40 HKD
Target upside (%)	**51**	**28**	**30**	**27**	**33**	**25**	**16**	**18**	**12**	**10**	**7**	**9**	**(15)**	**(11)**	**(27)**	**(32)**	**(29)**
Market cap (RMB$mn)	171,638	1,129,529	65,333	449,342	221,617	174,911	86,938	1,638,055	2,273,389	1,487,621	1,621,629	126,647	315,800	511,859	116,372	201,958	307,315
Market cap (RMB$mn)	171,638	1,129,529	65,333	449,342	221,617	174,911	86,938	1,638,055	2,273,389	1,487,621	1,621,629	126,647	315,800	511,859	116,372	201,958	307,315
Street view																	
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NPAT 25e	3%	-5%	2%	3%	4%	9%	-12%	1%	0%	0%	2%	4%	-8%	0%	1%	-4%	-9%
PE																	
2024e	6.1 e	7.0 e	5.0 e	5.5 e	5.1 e	5.9 e	5.7 e	7.1 e	7.0 e	7.4 e	6.6 e	5.8 e	5.4 e	6.8 e	4.8 e	6.1 e	8.2 e
2025e	5.8 e	7.7 e	4.4 e	6.0 e	4.9 e	5.5 e	5.3 e	6.5 e	6.8 e	7.2 e	6.3 e	5.6 e	5.4 e	6.2 e	4.5 e	6.1 e	8.2 e
PB																	
2024e	0.79 e	0.96 e	0.86 e	0.52 e	0.52 e	0.33 e	0.80 e	0.67 e	0.67 e	0.71 e	0.69 e	0.51 e	0.51 e	0.59 e	0.43 e	0.42 e	0.47 e
2025e	0.75 e	1.00 e	0.76 e	0.55 e	0.47 e	0.31 e	0.69 e	0.59 e	0.61 e	0.65 e	0.62 e	0.47 e	0.49 e	0.52 e	0.38 e	0.40 e	0.46 e
ROE - %																	
2024e	14.0	14.6	18.5	9.9	10.6	5.7	15.2	10.6	10.0	9.7	10.8	8.9	10.0	9.0	9.3	8.1	5.9
2025e	13.7	13.6	18.2	9.5	10.1	5.9	14.0	10.2	9.4	9.4	10.2	8.6	9.5	8.5	8.8	7.5	5.7

Price performance	Ningbo	CMB	Chengdu	Industrial	PAB	Minsheng	Hangzhou	ABC	ICBC	BOC	CCB	Beijing	CITIC	BoCom	Huaxia	CEB	SPDB	CSI 300
1M Abs Perf	4%	7%	3%	4%	-2%	-2%	0%	-3%	-5%	-3%	-3%	0%	9%	-3%	3%	0%	1%	0%
3M Abs Perf	11%	18%	7%	17%	-2%	1%	3%	1%	4%	2%	0%	2%	7%	-4%	-3%	4%	9%	0%
YTD Abs Perf	7%	14%	0%	13%	-2%	-1%	0%	-5%	-2%	-3%	-3%	-3%	3%	-7%	-6%	-1%	2%	-1%

Source: FactSet, Morgan Stanley Research estimates (e). Close price as of March 21, 2025

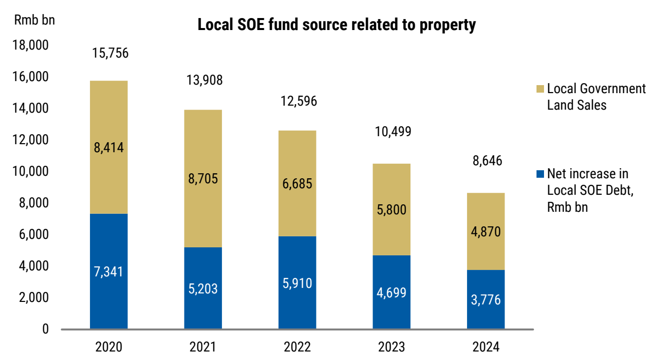
Q&A on key debates

Q1: Why do we think local government funding derived from property has bottomed at 2024's level – won't it go down further?

We think the most painful period of adjustment is likely behind us, with local government income from property areas shrinking by Rmb7tn, from Rmb15.7tn in 2020 to Rmb8.6tn in 2024. This represents a cumulative 6% impact to GDP. The biggest YoY decline happened in 1H24 and by 2H24 we started to see stabilization. We think Rmb8-9tn of annual income from property – roughly 50/50 split between land sales and leverage increase – is a sustainable level, for mainly two reasons:

First, collaborative research with our China Property team in 2024 (China Property and Financials: Thoughts on Inventory Digestion Paths: Financial Risks Largely Behind Us Now (4 Jun 2024)) highlighted that excluding the effective dead inventory, the viable inventory cycle could potentially bottom around the end of 2025, based on faster sales than new builds, even in the absence of major government purchase support. Based on NBS data, the gap between annual new starts and sales has continued to widen since 2021 and in 2024 new starts were 34% lower than sales. Our Property team's data shows national inventory months started to come down in 2H24, led by tier 1 cities, and was at ~15 months by early 2025.

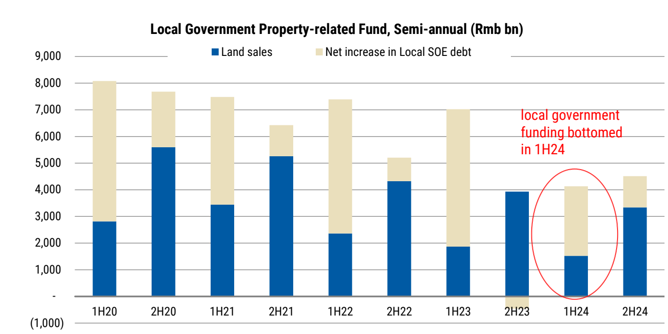
Exhibit 3: Painful but necessary adjustments to property-related funding at local governments should now be complete



Source: CEIC, PBOC, NAFR, MoF, Morgan Stanley Research

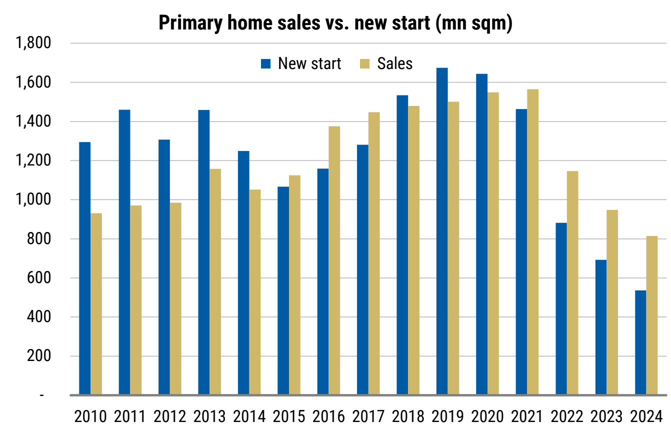
Therefore we think it is reasonable that we will see land sales stabilize to a similar level as in 2024, of Rmb4.8tn. This is also because our property analysts see 8-8.2mn units annual primary home sales as a sustainable level towards 2030, similar to ~8.1mn units sold

Exhibit 4: Fall in property-related income to local governments likely bottomed in 1H24



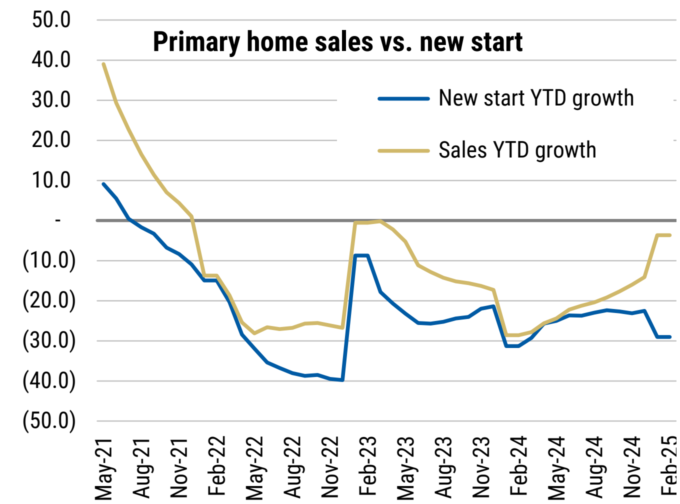
Source: CEIC, PBOC, NAFR, MoF, Morgan Stanley Research in 2024. While we acknowledge the risk of an over-correction near term – our property team still expects ~10% land sales decline in 2025 – we think the negative delta of Rmb500bn could easily be offset by more local government special bond issuance.

Exhibit 5: In 2024 new starts were 34% lower than sales



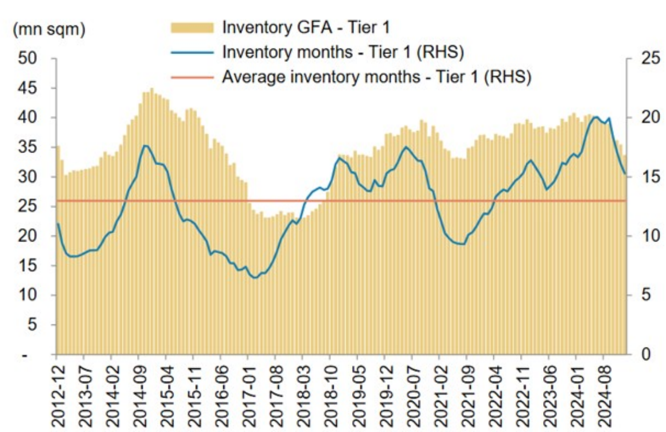
Source: CEIC, NBS

Exhibit 6: Home sales pickup leads new starts



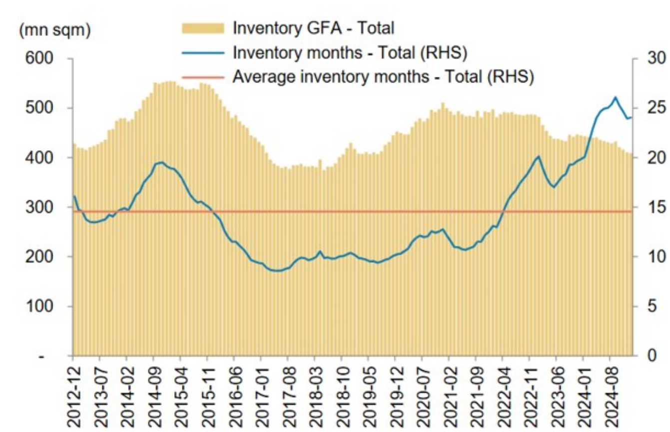
Source: CEIC, NBS

Exhibit 7: Inventory – Tier 1 cities



Source: CRIC, Morgan Stanley Research

Exhibit 8: Inventory – Total 70 cities



Source: CRIC, Morgan Stanley Research

Second, we think the bulk of the impact from containing local government leverage, especially hidden debt, already materialized in 2024 after Document 35 was implemented in late 2023. New local SOE debt declined ~Rmb1tn to Rmb3.77tn, implying a growth rate of 4.3%, much lower than total credit growth of 8%. Going forward we believe there will continue to be room for infrastructure investments in China along with ongoing urbanization and industrialization. This should support stable local SOE credit demand from here, particularly as local government debt and investment structure, as well as interest burden, have become more balanced after the needed adjustment (please see our report for more detailed analysis).

Q2: Net interest burden for local government will only decline modestly in coming years – will that be enough to contain LGFV risks?

There were also questions on whether the net interest burden decrease (of only 0.1% over 5 years) from 0.9% to 0.8%, per our estimate, will be enough to resolve the local government debt issue. As is common in other economies, investors usually focus on interest repayments for government related debt as the principal keeps rolling over. In our view, the net interest burden turning from rising to declining shows moderating, rather than expanding, risks.

On the other hand, we think keeping the interest burden at a certain level is actually needed to motivate local governments to improve the efficiency of the >Rmb300tn of local SOE assets.

Additionally, we think infrastructure will remain a main form of subsidy to households and businesses longer term, supporting productivity gains and strengthening the global competitiveness of China's supply chains. As such, the modestly narrowing interest burden will imply manageable costs for local and central governments to continue provide this subsidy.

Lastly, we also see infrastructure interest payments as a way for local and central governments to re-allocate/transfer income generated from the large SOE asset base. Because these are domestic debt, households and businesses in China are the ultimate receiver of such interest payments, via intermediaries like banks or other asset managers.

Exhibit 9: We expect net interest burden from infrastructure debt as % of GDP, could drop to 0.8% from 0.9% currently

Rational debt growth with efficiency improvement

Rmb bn	2024	CAGR	5 years from now
Local government-controlled assets	330,000	**3.0%**	382,560
EBIT	2,872		3,634
Return on asset	0.87%	Improving	0.95%
Total infrastructure debt	107,981	**5.0%**	137,815
Interest expense	4,103		4,937
saved from swap			300
Interest rate	3.80%	Stable	3.80%
EBIT interest coverage	70%		74%
Shortfall	**1,231**	**1.1%**	**1,303**
Interest burden as % of GDP	0.91%	Lower	0.82%

Source: CEIC, PBOC, State Council, MoF, Morgan Stanley Research estimate

Exhibit 10: China's government net interest burden in 2024 should decline to 2% after considering interest savings from debt swaps

Government net interest burden estimate		
2024, Rmb bn		
Treasury bond	756	*From MoF data*
Local government bond	1,354	
Interest payment	**2,110**	
Partly offset by:		
Government deposit average balance	42,944	*From PBOC data*
Interest rate	1.10%	*Blended demand and term rate*
Interest income	**472**	
Infrastructure debt interest payment gap	**1,236**	*Bottom up estimate*
Government net interest burden	**2,874**	
GDP	134,908	
Net interest burden as % of GDP	**2.1%**	
Potential interest saving from swap p.a.	120	Per MoF
Net interest burden after swap	2,754	
As % of GDP	**2.0%**	

Source: WIND, CEIC, NBS, MoF, PBOC, company data, Morgan Stanley Research

Q3: Are we seeing any relaxation of LGFV financing?

We think the overall requirements on LGFV financing remain tight, especially on new LGFV bond issuances, but we have seen some targeted relaxation in good regions.

Our meeting with a credit rating agency in Hangzhou indicated some relaxation of new LGFV bond issuance post-CNY, led by new entities formed using only higher quality assets. These new entities are usually of much smaller size than previous entities, thus the new debt they are taking on should also be more modest in our view. On the other hand, our meetings in Yiwu suggest it's still generally very difficult for LGFVs there to add new debt beyond existing rollovers.

In addition, large SOE banks in Hangzhou also indicated that demand from LGFV will continue to be constrained with some infrastructure loans shifting to special local government bonds.

China Financials: Zhejiang trip takeaways: Springing back to life (2 Mar 2025)

Q4: Will negative PPI remain as a key risk to bank credit quality and long term financial risks?

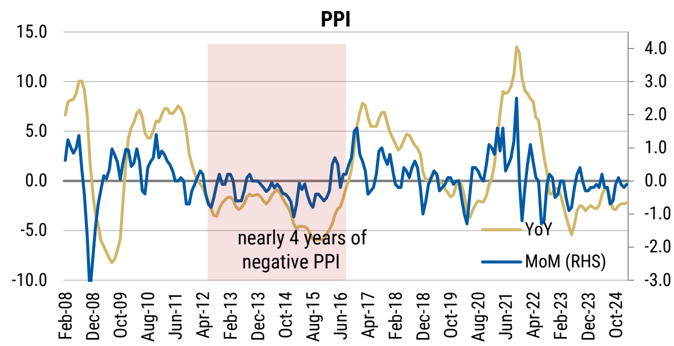
We believe credit risks related to negative PPI will largely come from credit related to oversupply, which can be reduced via more rational credit growth and industrial capacity expansion. We see a potential supply side reform 2.0 if the over-investments last longer, but think it is unlikely for this cycle as credit risks are much more modest now than in 2016 and we saw ongoing rationalization in industrial investment in 2024.

PPI has remained negative since 2023, which we think mainly results from supply-side issues – notably, industrial FAI growth started to outpace production from 2022, where the rebound in manufacturing FAI was supported by increased financing to the sector in 2021-2023. Manufacturing loan growth per year picked up from zero to low single digits before 2020, to 16-24% from 2021-2023, where medium- to long-term loans that support capex have been growing at close to 30% per year.

Positively, capex rationalization already started in 2H24 with the publication of Rules for Fair Competition Review by the State Council and abating loan window guidance, in our view. While there is still the gap to be closed between industrial capex and output to ease industrial profit pressure and credit risks, we have seen progress made on rationalization of industrial credit and investment growth. Notably, industrial mid-/long-term loan growth slowed to 12% in 2024 (28% in 2023) and total liabilities slowed to 4.8% in 2024 (+5.9% in 2023).

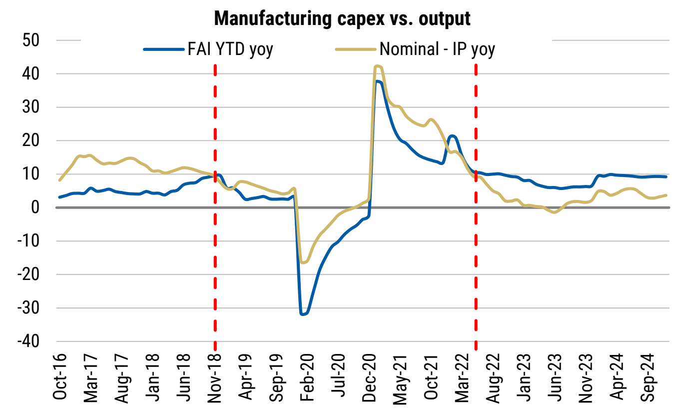
We expect further slowdown and rationalization of industrial credit growth as policies from the most recent two sessions have also focused on more rational competition. **We believe it will take time for industrial corporate profitability to rebound due to lack of major stimulus and more market oriented rationalization of capacity expansion. However, we believe potential credit risks should peak soon with high risk credits to be digested over multiple years without driving a notable surge in credit cost and NPL formation.** Notably, we estimate about 29% of the industrial sectors (by liabilities) slowed down capex sequentially in 2H24 and we saw an improvement in profitability; another 30% has since slowed but we might need more time to see the effect.

Exhibit 11: PPI



Source: NBS, CEIC, Morgan Stanley Research

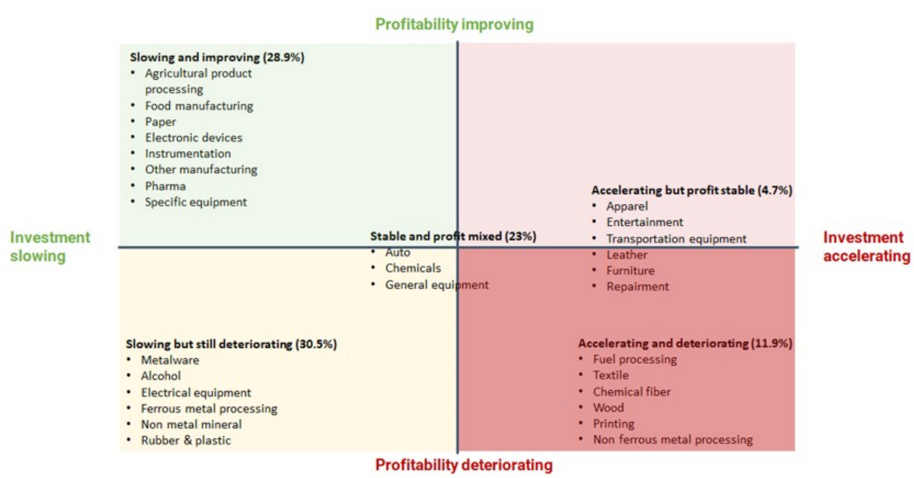
Exhibit 12: Manufacturing capex vs output



Source: NBS, CEIC, Morgan Stanley Research

Exhibit 13:

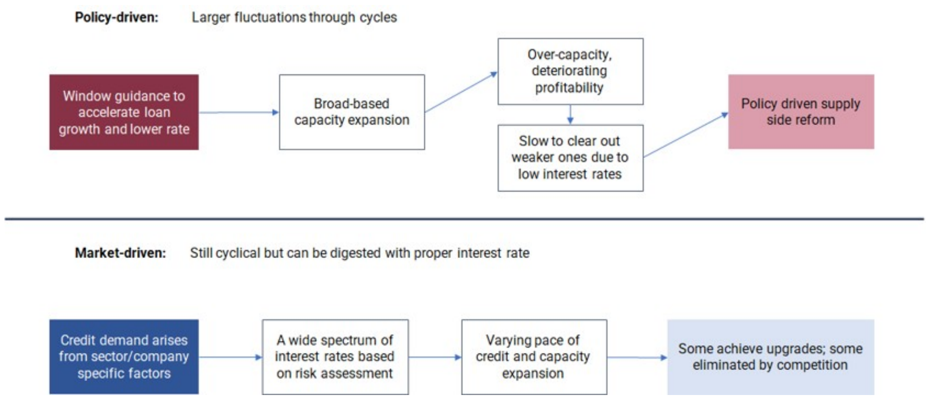
We estimate about 29% of the industrial sectors (by liabilities) slowed down capex sequentially in 2H24 and saw an improvement in profitability; another 30% has since slowed but we might need more time to see the effect



Source: NBS, CEIC, Morgan Stanley Research

Note: number in () represents their mix in total manufacturing liabilities.

Exhibit 14: Policy-driven and market-driven will lead to different paths of industrial development - we think the latter is more healthy and sustainable



Source: Morgan Stanley Research

China Financials: Tracking industrial risks – some progress on capex rationalization in 2H24 (20 Feb 2025)

China Financials: Correction: Tracking Industrial Risks: New Rules Announced to Control Irrational Capacity Expansion (31 Jul 2024)

China's 3D Journey – Financials: Assessing the cost of supporting ongoing industrial upgrades (21 May 2024)

Q5: Will further rate declines be a risk to financial stocks given monetary policy tone shift to modestly loose?

The short answer is no. We believe the low rate environment, particularly low loan and deposit rates, were driven by window guidance on both the pace of loan growth and repricing, rather than by a true supply and demand dynamic, and market-oriented drivers. As policy makers have reduced window guidance following the financial cycle bottom in 2024, we see more stable rates with a modest gradual rebound given the still relatively healthy credit demand in China.

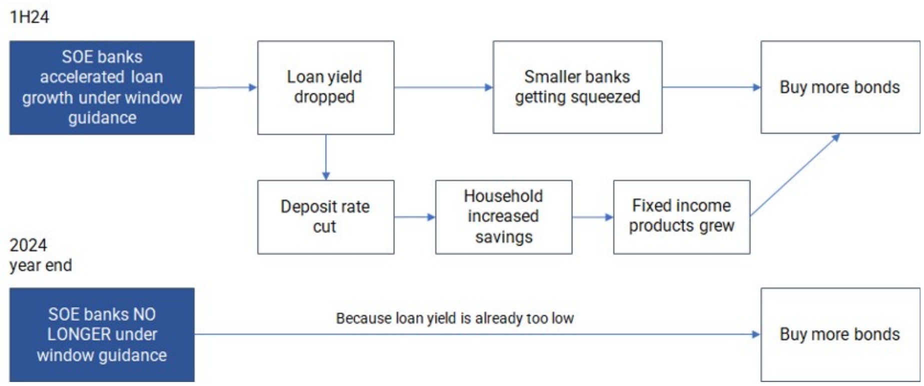
Government bond yields have rebounded following reduced window guidance on loan growth and pricing

Policy transmission is quite different in China's financial system from other major markets, in which policy rates such as the Fed funds rate and growth/inflation expectations will influence government bond yields first, which then gradually impact loan pricing. PBOC's monetary policies have long been more focused on quantitative targets instead of rate targets, particularly, window guidance on loan growth and loan pricing has been the effective key pillar for the rate environment in China, which then influences banks' investment behavior and then impacts on bond yields. Specifically, window guidance to SOE banks will push market loan yields lower, which have pushed more and more non-SOE banks to slow loan growth and shift asset allocations to government bonds, given the less favorable risk/reward for loans.

Notably, even though China's 10-year bond yield has shown some correlation with the interbank rate (DR007), this relationship broke down from late 2021 as PBOC intensified window guidance on loans, evidenced by rapidly falling 10 year yields against a largely stable interbank rate.

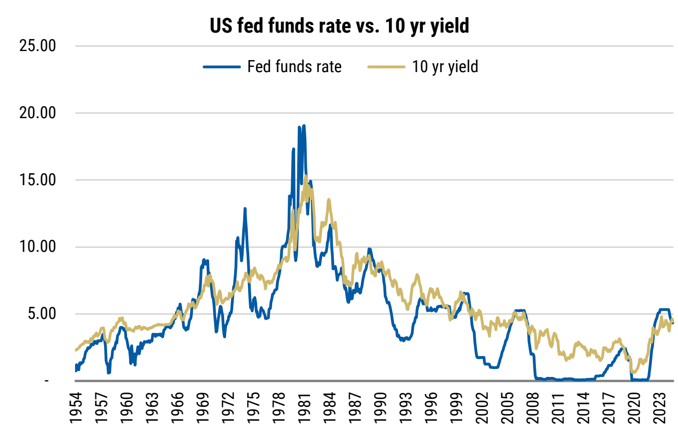
We show the mechanism in the below flow chart. In early 2025, we have seen the trend reversing, as loan growth – the major channel of liquidity creation – continues to slow down. PBOC has kept the policy rate and RRR unchanged while it has stopped buying T-bonds, and this has tightened interbank liquidity.

Exhibit 15: How we think loan window guidance has translated into lower bond yields



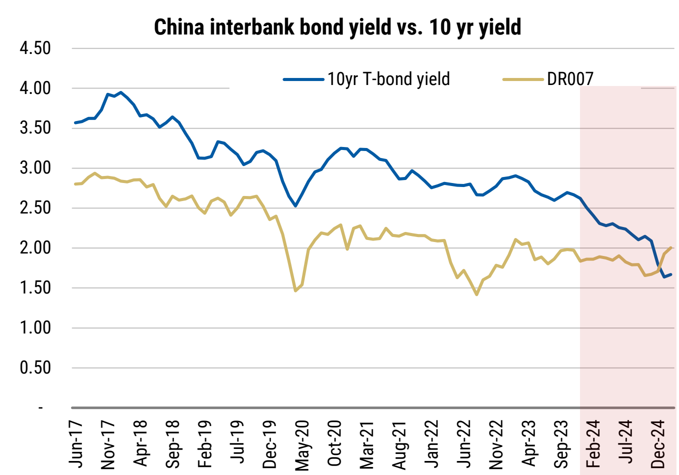
Source: Morgan Stanley Research

Exhibit 16: In US policy rate tends to have a strong influence on bond yields



Source: CEIC

Exhibit 17: In China the relationship between interbank rates and bond yields broke down after late 2023 given the rising influence from loan window guidance



Source: CEIC

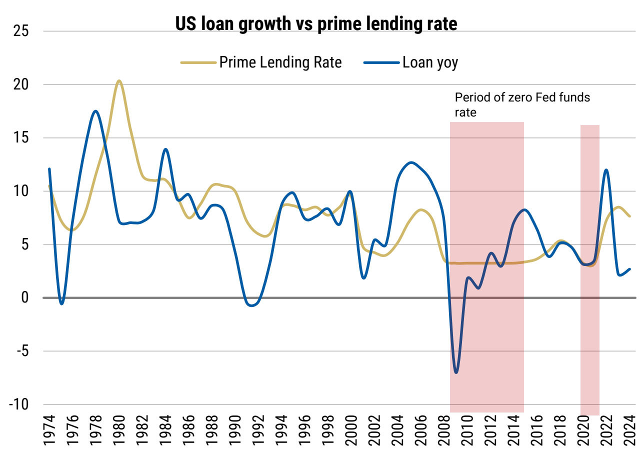
In addition, we noted in last December's monetary policy, a tone change from prudent to modestly loose merely matched the official language – with PBOC's action already taken. Hence, it doesn't mean notably more incremental easing, in our view. In March 2025, PBOC Governor Pan also indicated publicly that the new policy tone is a description of policy status, as PBOC has already acted in a supportive way.

Finally, loan rates and treasury bond yields have been higher in other major economies when they were experiencing similar loan/credit growth to China today, which

indicates room to rebound, in our view.

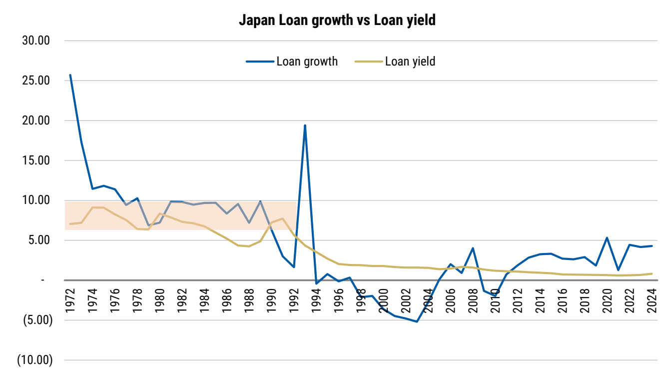
China's loan growth is currently rationalizing at ~7% while the average loan yield declined to 3.8% in 4Q24. In the past two decades, the US experienced a similar level of loan growth during 2008-2014, 2016-2021, 2023-2024. In these periods the US prime lending rate (short term) averaged 4.2%, which is notably higher than today's 1-year LPR in China which is at 3.1%. In particular, the prime lending rate in the US remained ~3% even when the Fed funds rate was cut to ~zero in 2009-2015 and in 2020-2021. When Japan experienced 6-10% loan growth in the 1970s and 1980s, the average loan yield was even higher at ~6%.

Exhibit 18: US prime lending rate (short term) averaged 4.2% during 2008-2014, 2016-2021, 2023-2024



Source: CEIC, Morgan Stanley Research

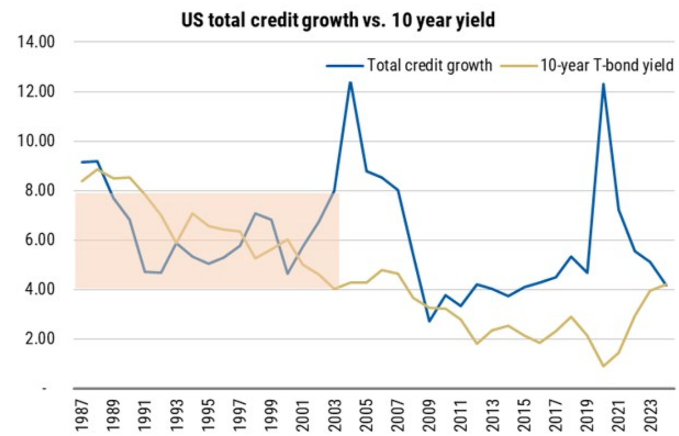
Exhibit 19: When Japan experienced 6-10% loan growth in the 1970s and 1980s, average loan yield was ~6%



Source: Bank of Japan, CEIC, Morgan Stanley Research

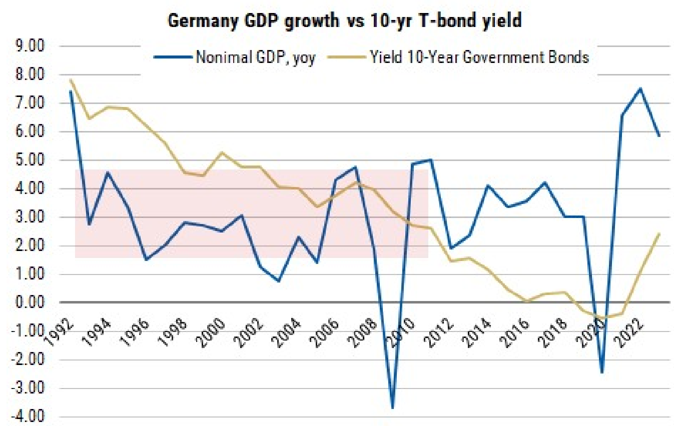
With total credit growth still at 8% and nominal GDP at ~5% in 2024, China's 10 year T-bond yield declined to <2%. When the US had similar total credit growth between late 1980s and 2003, 10 year T-bond yield was between 4-8%. For a long period (1992-2011) when Germany's nominal GDP growth stayed around or below 5%, its 10 year T-bond yield was also above 2%, before the ECB cut policy rates aggressively to counter the debt crisis.

Exhibit 20: When US had 7-8% total credit growth in 2003-2007, 10 year T-bond yield was >4%



Source: CEIC, Morgan Stanley Research

Exhibit 21: From 1992 to 2011 when Germany's nominal GDP growth stayed around or below 5%, its 10 year T-bond yield was also above 2%



Source: The Federal Statistical Office of Germany, CEIC, Morgan Stanley Research

China Financials: What does modestly loose monetary policy mean? (9 Dec 2024)

China Financials: Assessing the Impact of the New Monetary Framework (26 Jul 2024)

Finally, higher rates will also be manageable from a net interest burden perspective

There are concerns that investment returns are lower in China, which means that China can not afford higher interest rates. We disagree with this assessment. We believe it is important to assets' net interest burden for China given a majority of debt in China is internal debt and a portion of the debt is used effectively to reallocate resources between parties in China. Our study shows that net interest payments for most parties such as governments, corporates and households, are quite manageable, and 50-60 bps of rate increase will still keep the net interest burden in a reasonable range. In our view, higher rates in China will help improve credit allocation efficiency and overall resource allocation efficiency.

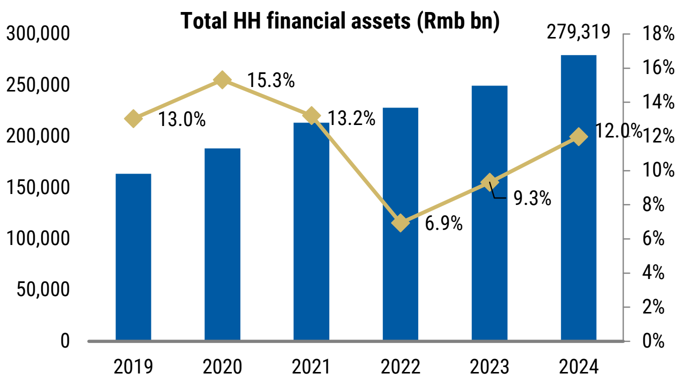
Q6: Why won't lowering interest rates stimulate credit demand and further delay PPI recovery?

First, our estimates show that household financial asset growth was strong in 2024, up 12% YoY, led by deposits and insurance products – notably outpacing income growth at ~4%. While we acknowledge that the slowdown in the housing market and income growth since 2021 are factors, we believe a key incremental factor is attributable to deposit rate cuts since 2H23. This has pushed households to save more and lock in yields which has led to a notable rise in saving rate in 2024, which did not occur in 2022 and 2023. Therefore we think lower interest rates in 2024 actually led households to spend less, evidenced by weak payment data.

Second, we think overly low interest rates will harm the ability of financial risk digestion. They do little to improve profitability on industrial corporates, as the net interest expense only makes up a very small portion (<1%) of total costs. However, the low cost credits could potentially keep capex growth at a rapid pace while delay the clearing of over capacity via competition – thus making negative PPI more entrenched.

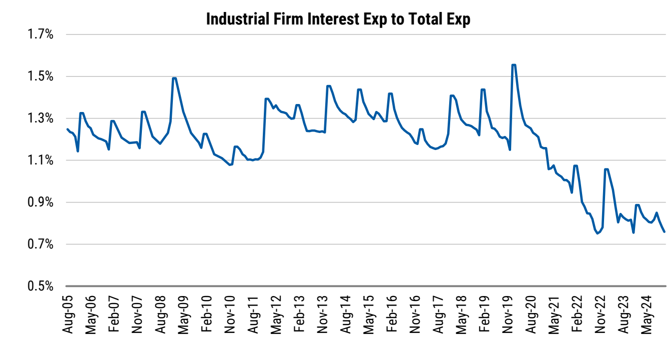
On the other hand, given how low the interest burden actually is to industrial corporates, we see very manageable pressure, even if loan yields rebound to more rational levels, from 3-4% currently, after abating window guidance.

Exhibit 22: China's household financial assets accelerated to 12% in 2024, vs 9.3% in 2023



Source: CEIC, WIND, PBOC, SSE, Trust Association, AMAC, NFRA, China Bank Association, Morgan Stanley Research

Exhibit 23: Interest expense is <1% of industrial firms' total expense, particularly after loan yield declines in recent years



Source: NBS, CEIC, Morgan Stanley Research

China Financials: Still strong household financial assets growth in 2024 aided by higher savings rate (10 Feb 2025)

Q7: Where will credit demand come from? How is it sustainable?

We expect total credit growth to rationalize to 7.5% in 2025 and further to 7% in 2026, compared to 8-12% over the past five years. Longer-term, room for additional infrastructure investments and government leverage should support total credit demand growth at 3-4%, which could be counter-cyclical, in our view.

We believe stabilizing local government funding would also put a stop to downward adjustments in the incomes of local government and local SOE employees (>48mn people government employees in 2023), who are an important group of borrowers for banks, particularly for non-collateralized consumer credits.

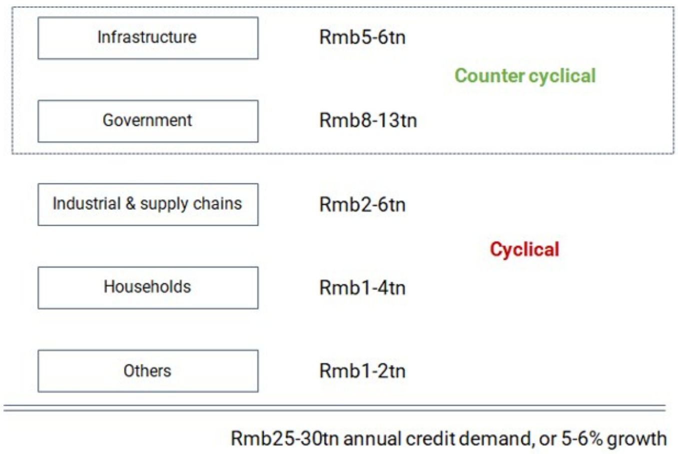
On the other hand, we think industrial and supply chain upgrades and expansions, along with household credits, which are also related to industrial upgrade-driven income growth, could drive another 1-3% credit growth, which would be cyclical.

Therefore we see 5-6% longer-term credit growth as a more sustainable level, which should be more in line with China's nominal GDP growth.

China Financials: 2025 Outlook: Brightening up – cycle bottom to outweigh potential US tariffs (16 Dec 2024)

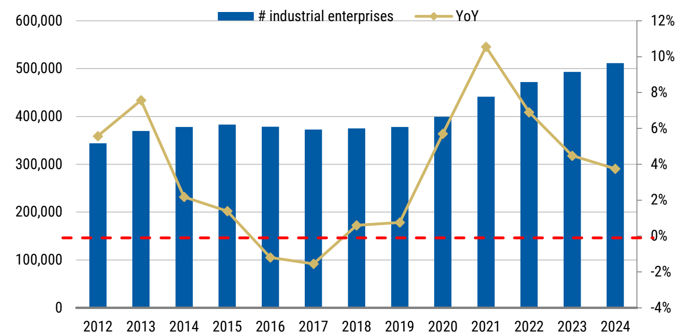
[China's 3D Journey – Financials: Biggest drag in China credit risk cycle bottomed in 2024 (25 Feb 2025)]

Exhibit 24: Illustration of longer-term credit demand



Source: Morgan Stanley Research estimates

Exhibit 25: The number of industrial enterprises reached 511,655 as of end 2024



Source: NBS, CEIC, Morgan Stanley Research

Q&A on single stocks

HKEx (0388.HK, OW, PT HK$450)

Q: What's the key rationale behind our recent upgrade?

Our recent upgrade of HKEx is in-line with our Strategy team's upgrade call on China, but we would like to highlight several factors that will support trading volumes in the Hong Kong market and revenue growth for HKEx.

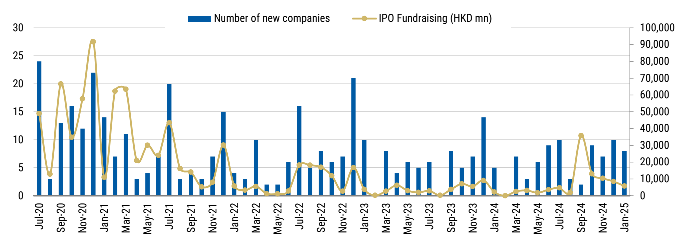
1) Financial risk and a credit cycle bottom should reduce most market concerns on investing in China, we think.

2) A gradual recovery of the IPO market in Hong Kong amid loosening IPO requirements and transition to more innovation-driven development models, especially the emergence of DeepSeek.

3) Higher revenue contribution from new revenue initiatives, including expanded derivative products, expanded scope under the Stock Connect program, and potentially expanded stock inclusion and SB trading eligible for the RMB counter.

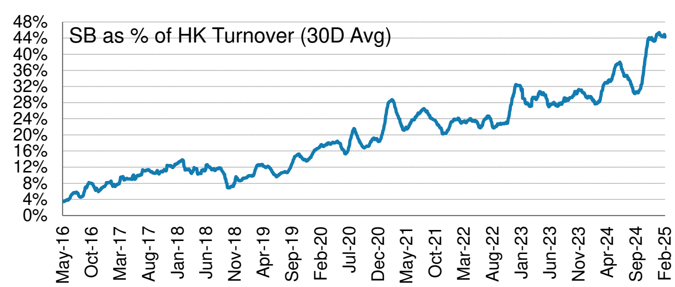
4) More funds flows from mainland China amid strong household asset growth and from overseas, if the Fed eventually cuts rates over time.

Exhibit 26: IPO volumes



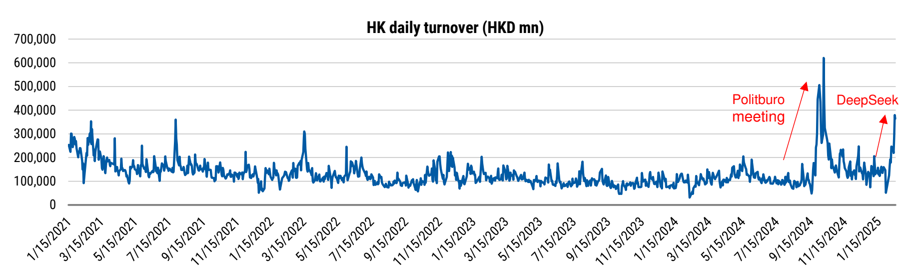
Source: HKEX, Morgan Stanley Research

Exhibit 27: Southbound total volume % of HK turnover has picked up



Source: HKEX, CEIC, as of February 14, 2025

Exhibit 28:
HK daily turnover



Source: HKEX, CEIC, Morgan Stanley Research

HK Exchanges & Clearing: Upgrade to OW on lower risk and more innovative China growth model (23 Feb 2025)

HK Exchanges & Clearing: 4Q24: Strong revenue and profit growth supported by ADV rebound; reiterate OW (27 Feb 2025)

China Equity Strategy: Getting Out of the Woods (19 Feb 2025)

Futu (FUTU.O, OW, PT US$130)

How will the US market correction impact on Futu's revenue and will it be offset by a higher HK ADT?

We think the 4Q24 results and color on 1Q25 shows that the impact has been limited so far. In 4Q24 HK volume mix rose to 26% of total trading volume from 18% in 3Q24, showing already shifting client interest. Meanwhile the company indicated 1Q25 so far looks better QoQ in client addition run rates, net inflows, trading velocity and mark-to-market impact – implying client activity has not been impacted by the US correction.

We estimate clients from Greater China still represent 86% of total client assets, so we see more room for trading velocity in HK shares to pick up from current levels.

Futu Holdings: Earnings growth to accelerate with healthy asset inflows; upgrade to OW (17 Nov 2024)

Futu Holdings Ltd: 4Q24 first take: clean beat and strong guidance (13 Mar 2025)

CICC-H (3908.HK, OW, PT HK$21)

What is the upside if CICC merges with Galaxy? Where could it realize synergies?

While we believe consolidation will be the trend for China's broker industry in the next 3-5 years, we have no view regarding the possibility or timing of a merger between CICC and Galaxy which has been reported from time-to-time. If such a merger occurs, it could imply more room for rightsizing the cost base which could create synergies, from a fundamental point of view. Both CICC and Galaxy have said they have no information regarding the reported merger.

China International Capital Corp. Ltd.: Geared to HK market recovery – upgrade CICC-H to OW (27 Feb 2025)

China Merchants Bank-H (3968.HK, OW, PT HK$58.2)

Q: What can drive profitability recovery over time?

We see four key drivers for a profit rebound beyond 2025:

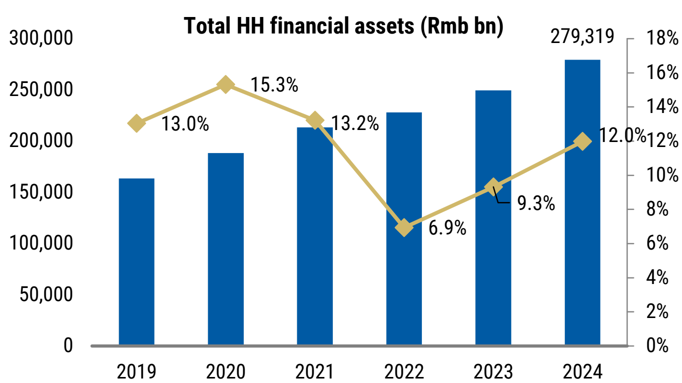
1) Some NIM recovery from stabilizing rates. We believe the new financing structure is more sustainable and reduces long-term risks of overly low rates. In addition, the abating of window guidance on loan volumes and pricing should help to restore more market-oriented loan pricing, in our view. The new monetary framework also showed strong support to bank NIM, with likely symmetric interest rate cuts going forward. We expect 1H25 NIM to see some repricing pressure again but stabilize in 2H25.

2) Less drag from mortgages. With relatively high exposure to mortgages (>20%), CMB has experienced more pressure from one-off mortgage rate adjustments. Positively, the impact should be largely gone and we expect mortgages to see some sequential improvement, especially with the property credit cycle bottoming in 2H25. This should also support overall loan growth and NII.

3) Improvement in fee income. As most fee rate cuts happened in 2H23 and FY24, 2025 should see an easier base. The resilient household financial asset growth, at 12% YoY in 2024, leaves more room for CMB's wealth management. While household preference remains for fixed income products for now, such as insurance and deposits, we see a potential asset mix shift towards equity products once there are signs of macro and capital market conditions improving. CMB still maintains its leading position in its retail business, with retail AUM and Sunflower client AUM up 9.7% YoY each in 3Q24.

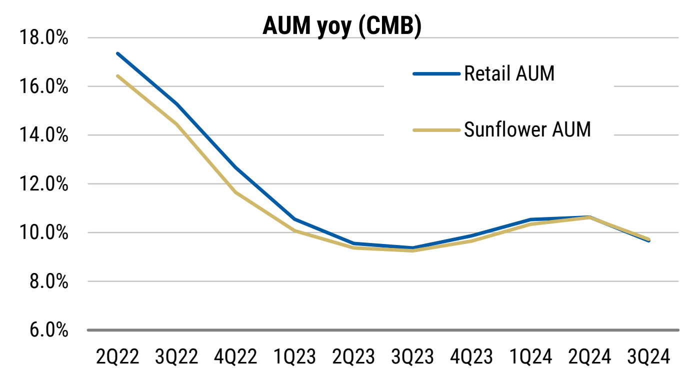
4) Our expectation of some pickup in loan growth as irrational competition from SOE banks abates, following reduced window guidance.

Exhibit 29: China household financial assets growth accelerated to 12% YoY in 2024, vs 9.3% in 2023



Source: CEIC, WIND, PBOC, SSE, Trust Association, AMAC, NFRA, China Bank Association, Morgan Stanley Research

Exhibit 30: Retail and Sunflower AUM growth remained resilient at CMB



Source: Company data, Morgan Stanley Research

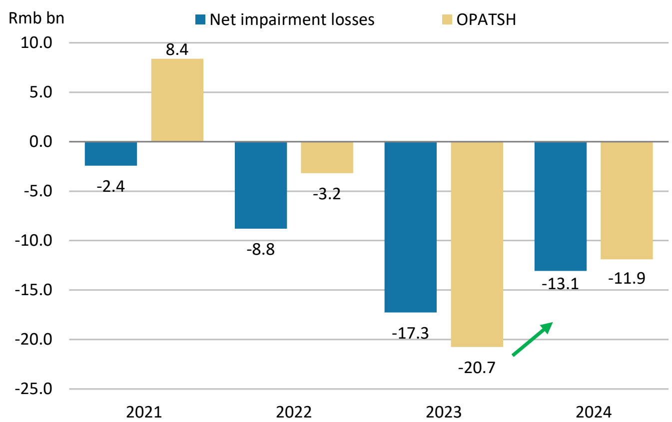
Ping An Insurance-H (2318.HK, OW, PT HK$67)

Q: What are the key catalysts behind our insurance Top Pick, Ping An, and how do we see its further provision pressure?

For the overall China life insurance industry, we do see some more positive feedback considering: 1) overall market sentiment has improved, as well as stock market performance. This could benefit insurers' bottom lines and ROE, as they have relatively high beta. 2) China's 10Y treasury bond yields bottomed in the past month, now up >30bps and close to 2.0% currently. This could alleviate many investor concerns on low interest rate spread loss risk. 3) Insurers are now more focused on business quality improvement and are promoting a lot of par products in 2025, which are more resilient under a low interest rate environment.

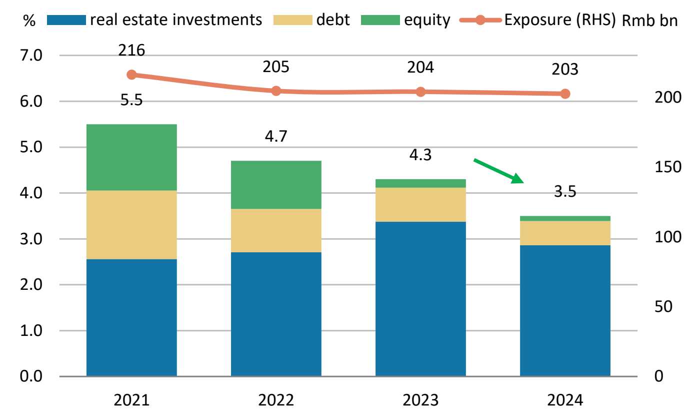
For Ping An specifically, we believe its life insurance business is healthy and high-quality, and we also have little concern on its property assets within insurance funds, as it only occupies ~3.5% of overall insurance funds and the majority (~80%, Exhibit 32) are real properties. Impairment losses in its Asset Management business are the key concern, and as we expect core city house prices and property inventories to gradually bottom out near end-2025, we believe this could continue to see a narrowed trend (Exhibit 31) and be a further upside catalyst for PingAn to regain its valuation premium vs. peers.

Exhibit 31: Asset management business net loss narrowed in FY24, and we believe the trend could continue



Source: Company data, Morgan Stanley Research

Exhibit 32: Ping An's property exposure among its insurance funds continue to decline, with >80% are real estate investment with decent rent yield income



Source: Company data, Morgan Stanley Research

Ping An Insurance Group Co of China Ltd: FY24 NDR shows negative adjustments could be behind if financial cycle bottoms (23 Mar 2025)

Hong Kong/China Insurance: Recent Feedback on Our Positive Industry View (18 Mar 2025)

Hong Kong/China Insurance: 2024 Results Preview: Solid Results Likely; We Remain Positive and Raise Our PTs

Change our Top Pick for banks from PSBC-H (1658.HK) to Bank of Ningbo (002142.SZ)

Credit cycles bottom and abating of window guidance should lead to more market-oriented competition, which should benefit Bank of Ningbo, in our view

First of all, we believe the bottoming of credit cycles should lead to more credit allocation to developed regions with higher productivity gains and population growth – in particular Zhejiang Province. In fact, Zhejiang still leads other regions in terms of loan growth – at 9.5% YoY in 2024 vs 7.2% nationwide, and we think this trend will continue. Despite moderating loan growth in Zhejiang and nationwide, Bank of Ningbo still managed to maintain ~18% YoY loan growth in 2024 with stable market share.

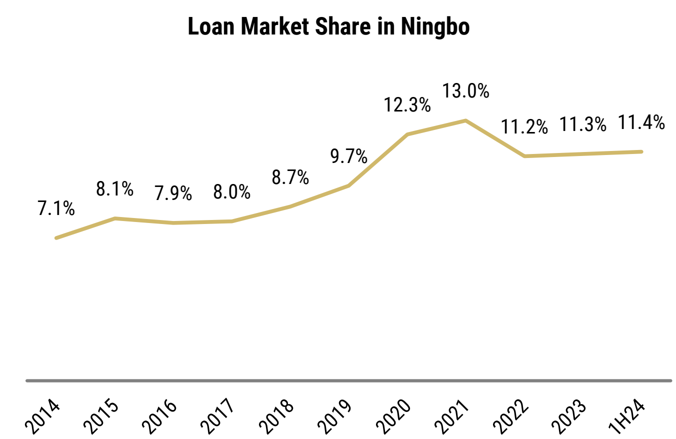
In addition, following our recent visit, we expect more market-oriented and rational competition in Zhejiang due to reduced window guidance on both loan growth and loan pricing to large SOE banks. This should create a better environment for Bank of Ningbo to leverage its competitive advantages (such as flexibility in loan mix, high-quality and customized service, and strong local presence) and accelerate market share gains. Meanwhile, the bank could also benefit from continued industrial upgrades given its focus on SMEs and relatively high exposure to manufacturing sectors.

Exhibit 33: Regional ranking by seven socioeconomic factors (as of 2023)

	Population Shift	Fiscal Self-Sufficiency	Gross Fiscal Revenue to Debt	Retail Sales Contribution Shift	Industrial Firm Risk-Adjusted ROE	Industrial Sector Contribution to GDP	R&D Shift
Beijing	5	2	6	23	11	29	8
Tianjin	11	6	31	26	19	13	10
Hebei	17	14	23	27	23	14	13
Shanxi	20	9	4	22	28	1	23
Inner Mongolia	23	13	21	25	21	2	20
Liaoning	29	16	18	31	24	10	22
Jilin	30	27	28	28	17	23	30
Heilongjiang	31	28	12	29	30	26	21
Shanghai	7	1	2	11	8	28	2
Jiangsu	6	5	3	7	10	5	6
Zhejiang	2	4	5	15	1	7	3
Anhui	28	12	19	1	13	16	4
Fujian	4	7	25	2	2	9	14
Jiangxi	21	18	14	3	9	8	15
Shandong	10	8	17	30	18	15	11
Henan	22	17	15	12	26	19	9
Hubei	25	20	13	10	7	17	12
Hunan	24	21	24	9	15	18	5
Guangdong	1	3	9	24	5	6	1
Guangxi	18	25	26	21	16	25	25
Hainan	9	19	22	14	20	30	18
Chongqing	8	11	27	8	6	22	7
Sichuan	27	15	8	4	4	21	17
Guizhou	14	22	29	5	3	24	24
Yunnan	19	24	30	6	12	27	19
Tibet	13	31	1	13	25	31	28
Shaanxi	15	10	10	18	14	4	31
Gansu	26	29	16	19	27	20	26
Qinghai	16	30	20	17	31	12	29
Ningxia	12	26	7	16	22	3	16
Xinjiang	3	23	11	20	29	11	27

Source: WIND, CEIC, NBS, MoF, Morgan Stanley Research

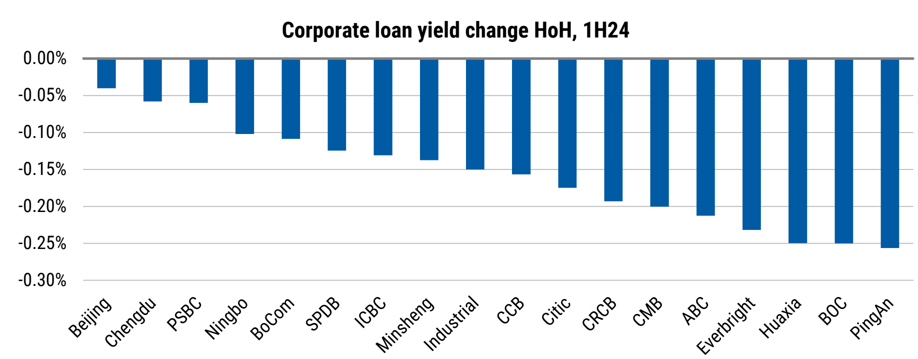
Exhibit 34: Bank of Ningbo is able to maintain market share in Ningbo and we see market share gains accelerating



Source: Company data, CEIC, Morgan Stanley Research.

What's more, higher flexibility in balance sheet growth and loan pricing at Ningbo Bank should also lead to loan yield recovery, especially if macro conditions improve. The bank reported below average declines in corporate loan yields in 1H24, resulting from high bargaining power on loan pricing (due to high-quality service offering) and low credit allocation to sectors with fierce competition (i.e. infrastructure).

Exhibit 35: Bank of Ningbo in 1H24 reported below average declines in corporate loan yields



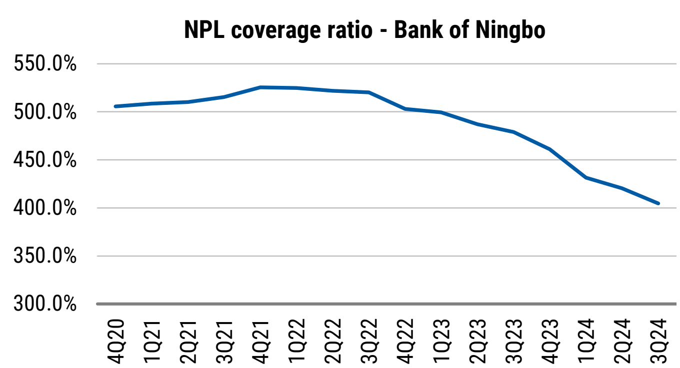
Source: Company data, Morgan Stanley Research

Concerns on credit quality trend should reduce amid a risk cycle bottom

While there are market concerns on asset quality for the bank, we think the risk buffer is still strong. Notably, NPL coverage ratio declined from 525% in 4Q21 to 405% in 3Q24 (but still remained at a high level compared to peers); loan loss reserve ratio declined to ~3% in 3Q24 from 4% in early 2022. We think these resulted from intensified efforts in NPL digestion – we estimate that NPL formation picked up to close to 1% in 2022-2023 from 0.6%-0.8% in 2019-2021 (partly due to stricter NPL recognition), but the NPL ratio remained below 0.8% since 2019 and was flat at 0.76% since 1Q23.

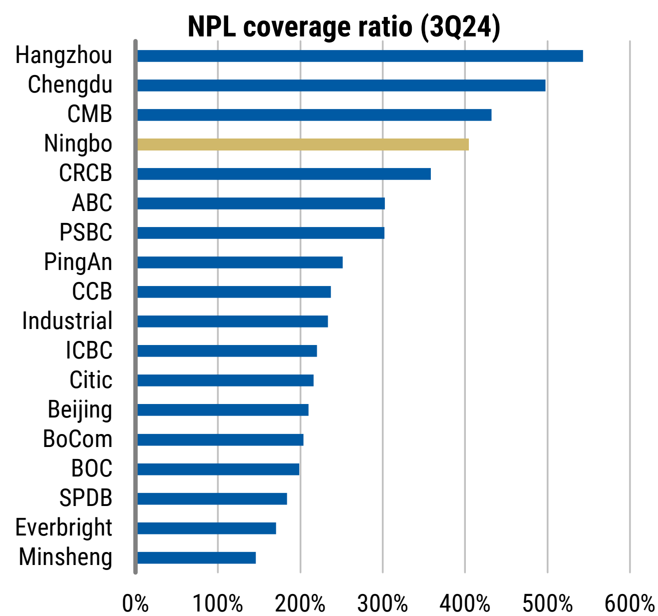
We think a major credit cycle bottom should reduce credit risks and release some pressure from NPL formation. Meanwhile, we see less profit pressure in coming years due to the aforementioned reasons, which should also lead to gradual recovery in provision charges.

Exhibit 36: NPL coverage ratio at Bank of Ningbo has declined since 4Q21...



Source: Company data, Morgan Stanley Research

Exhibit 37: ... but remains high among peers



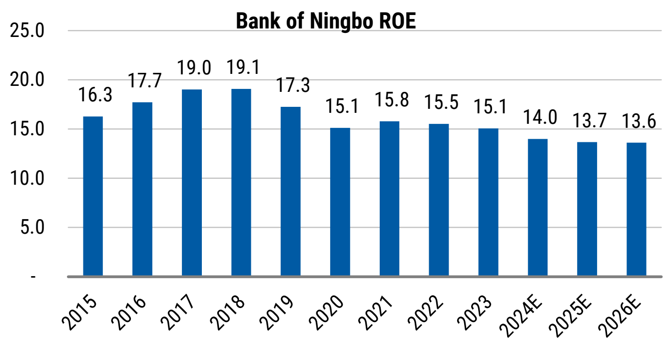
Source: Company data, Morgan Stanley Research

Valuation under pressure despite high ROE; more room for re-rating

The current valuation seems too low for Bank of Ningbo, with below 0.7x forward PB, much lower than ~2x in 2021; meanwhile loan growth remained resilient at double digits and ROE remained well above peers. We see strong local credit demand and reduced concerns on asset quality as mentioned above, and expect ROE for the bank to remain high at ~14% in the coming years from double-digit loan growth amid recovering local loan demand.

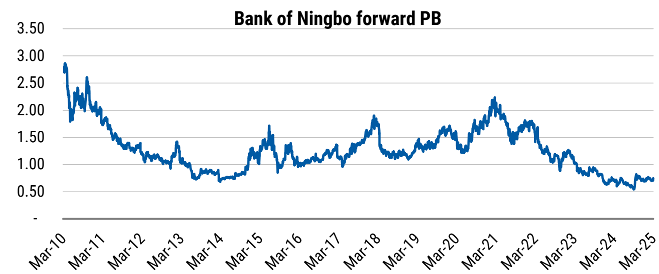
We expect a quick re-rating for the bank amid major credit cycles bottoming and rational monetary policies. Our target P/B remains conservative at 1.14x, a similar level to 2022. Our price target of Rmb39.2 suggests 50% upside, the highest amongst our banks coverage. We choose Bank of Ningbo as our Top Pick.

Exhibit 38: Bank of Ningbo - ROE



Source: Company data, Morgan Stanley Research estimates (E)

Exhibit 39: Bank of Ningbo - forward PB



Source: FactSet, Morgan Stanley Research

Exhibit 40: Bank of Ningbo Financial Summary

Bank of Ningbo

PROFIT & LOSS ACCOUNT				
Year end 31 Dec. (Rmb mil)	2023	2024E	2025E	2026E
Avg. Earning Assets	2,181,497	2,579,973	2,957,646	3,359,808
Net Interest Margin (%)	1.88	1.84	1.82	1.87
Interest Income	90,766	103,381	117,148	134,167
Interest Expense	(49,859)	(55,910)	(63,248)	(71,295)
Net Interest Income	40,907	47,470	53,900	62,872
Loan Loss Provision Exp.	(10,742)	(10,344)	(13,562)	(15,700)
Net Interest Inc. after LLPE	30,165	37,126	40,339	47,173
Non-interest Income				
Fees and Commissions	5,767	4,923	5,336	5,996
Forex gains	(390)	(473)	(428)	(440)
Other investment gains	14,248	14,845	15,406	16,023
Other Income	1,053	571	673	836
Total Non-interest Income	20,678	19,868	20,987	22,415
Non-interest Expense	(24,617)	(26,910)	(29,915)	(34,049)
Profit Before Tax	**27,898**	**30,229**	**32,863**	**36,612**
Effective Tax	(2,289)	(2,892)	(2,629)	(2,929)
Profit After Tax	**25,609**	**27,337**	**30,234**	**33,683**
Minority Interest	(74)	(76)	(76)	(76)
NPAT	**25,535**	**27,261**	**30,158**	**33,607**
BALANCE SHEET DATA				
Total Assets	2,711,662	3,141,908	3,546,557	4,010,723
Total Interbank Assets	76,082	121,520	130,798	140,760
Total Loans (Gross)	1,252,718	1,467,881	1,686,925	1,936,696
Total Customer Deposits	1,588,536	1,910,682	2,108,377	2,363,752
Other Interest Bearing Liab	1,956,702	2,283,079	2,566,067	2,842,266
Shareholders' Equity	176,385	202,577	227,490	255,088
ASSET QUALITY				
Non-performing Loans	9,499	11,241	13,176	15,324
NPL/Gross Loan(%)	0.76	0.77	0.78	0.79
Loan Loss Reserve	43,797	45,300	47,555	49,328
Coverage LLR/NPL (%)	461	403	361	322
LLR/Gross Loans(%)	3.50	3.09	2.82	2.55
Credit cost	8,940	10,084	12,035	14,544
Credit cost (%)	0.78	0.74	0.76	0.80
Credit cost /Net Int Inc (%)	21.9	21.2	22.3	23.1

SHARE RATIOS				
Year end 31 December	2023	2024E	2025E	2026E
ROAA (%)	1.01	0.93	0.90	0.89
ROAE (%)	15.1	14.0	13.7	13.6
Book Value Per Share (Rmb)	26.71	30.67	34.45	38.63
EPS (Rmb)	3.75	4.01	4.45	4.97
Gross Dividends (Rmb mil)	3,962	4,238	4,487	5,253
Gross DPS (Rmb)	0.60	0.64	0.68	0.80
Payout Ratio (%)	16	16	15	16
Issued Shares (mil)	6,604	6,604	6,604	6,604
PERFORMANCE RATIOS				
Growth (%)				
Net Interest Income	9	16	14	17
Non-interest Income	2	(4)	6	7
Non-interest Expense	12	9	11	14
Net Profit	11	7	11	11
Avg Interest-earning Assets	18	18	15	14
Avg Interest-bearing Liab.	16	14	14	13
Risk-weighted Assets	17	15	13	12
Revenue Breakdown (%)				
Net Interest Inc./Op Income	66.4	70.5	72.0	73.7
Fee-based Inc./Op Income	9.4	7.3	7.1	7.0
Efficiency (%)				
Cost/Income	40.0	40.0	39.9	39.9
Expenses/Avg Assets	1.0	0.9	0.9	0.9
Liquidity (%)				
Avg Loans/Avg Earning Assets	53.5	54.7	55.2	56.0
Avg Liquid Assets/AEA	3.6	4.1	4.4	4.2
Avg Loans/Avg Deposits	76.8	79.2	81.0	83.9
Avg Loan/Avg Deposit&Equity	69.3	71.6	73.2	75.7
Loans/Customer Deposits	78.9	76.8	80.0	81.9
Capital Information (%)				
Tier 1 Ratio	11.0	10.9	10.8	10.8
Core Tier 1 Ratio	9.6	9.6	9.6	9.6
Total CAR	15.0	15.3	15.3	15.3

Source: Company data, Morgan Stanley estimates (E)

Risk Reward – Bank of Ningbo Co. Ltd (002142.SZ) Top Pick

Our preferred city bank investment amid major credit cycles bottoming

PRICE TARGET Rmb39.20

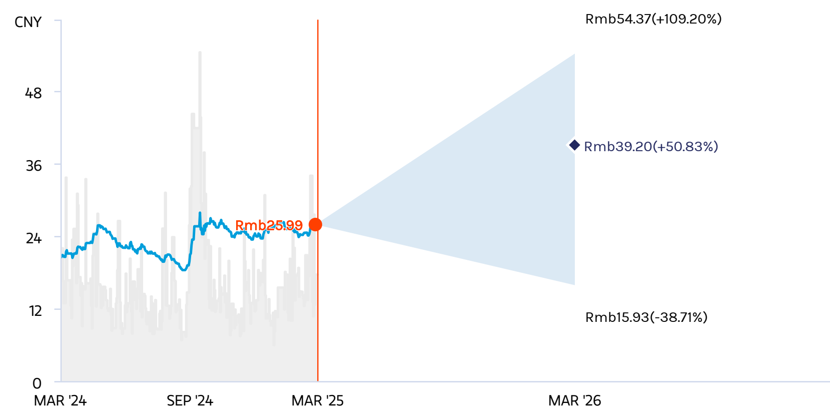
We continue to use a three-stage dividend discount model, probability-weighted 60% base, 20% bull, 20% bear. The discount rate is 12.2% in the base case, and we assume 13.8% for second-stage and 14.0% for long-term ROE with a 61% dividend payout ratio in the long run. Our price target implies 2025E P/B of 1.14x.

Consensus Price Target Distribution Rmb22.05 — Rmb30.34 — Rmb39.20 (MS PT)

Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Credit cycles bottom and abating of window guidance should lead to more market-oriented competition, which should benefit Bank of Ningbo in terms of loan growth and pricing.
- More credit allocation to developed regions with higher productivity gains and population growth – in particular Zhejiang Province. Bank of Ningbo should be able to accelerate market share gains with strong local presence, high-quality service and client-focused strategy.
- Concerns on credit quality trend should reduce amid a risk cycle bottom. NPL ratio remained at a very low level across multiple business cycles over the past 15 years. NPL coverage ratio remained high at >400% regardless of some decline.

Consensus Rating Distribution

88%	Overweight
6%	Equal-weight
6%	Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE Rmb54.37

Implies 1.58x 2025E BPS

Our bull case assumes quicker than expected bottom of major credit cycles and NIM rebound amid more favorable policy environment: 1) Resilient ROE and NIM rebound led by more sustainable growth; 2) Long-term ROE and dividend payout ratio of 15% and 64%, respectively.

BASE CASE Rmb41.97

Implies 1.22x 2025E BPS

Our base case reflects our outlook for a more balanced and sustainable growth model in China. 1) more balanced credit supply and demand, as well as more stable NIM would support banks earnings; and 2) Long-term ROE and dividend payout ratio of 14.0% and 61%, respectively.

BEAR CASE Rmb15.93

Implies 0.46x 2025E BPS

Our bear case assumes overinvestment in industrial sectors, negative PPI lasting for longer and weak global demand. 1) Banks NIM could be under pressure for longer; 2) Higher NPL formation in industrial sectors could weigh on banks' asset quality; 3) Long-term ROE and dividend payout ratio of 11% and 51%, respectively.

Risk Reward – Bank of Ningbo Co. Ltd (002142.SZ)

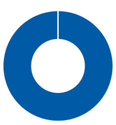
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Net interest margin (%)	1.88	1.84	1.82	1.87
Total asset growth (%)	14.6	15.9	12.9	13.1
Credit cost (%)	0.78	0.74	0.76	0.80
Cost-income ratio (%)	40.0	40.0	39.9	39.9

INVESTMENT DRIVERS

- Strong ability in retail expansion after the acquisition of Huarong Consumer Financing.
- Quality franchise evidenced by leading loan yield, superior funding cost and higher NIM.
- Strong asset quality control.

GLOBAL REVENUE EXPOSURE



100% Mainland China

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 **MOST**	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Noticeable reduction in policy intervention amid a rapid rebound in business fundamentals.
- Better-than-expected NIM and asset quality.
- Higher-than-expected non-interest income from stronger wealth management business revenue.

RISKS TO DOWNSIDE

- Risks from potential change in leadership.
- Higher default risks from SME and retail business expansion.
- Pricing pressure from destructive competition in the market.

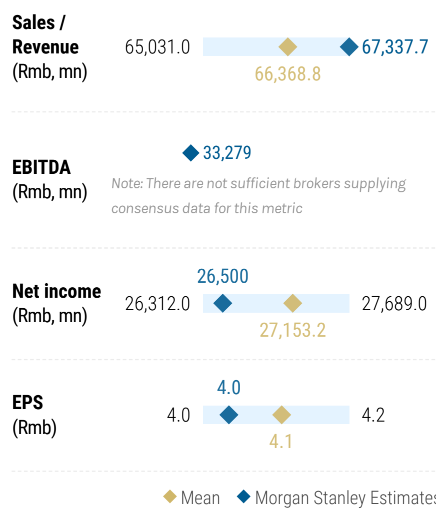
OWNERSHIP POSITIONING

Inst. Owners, % Active 97.9%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Valuation Comps

Exhibit 41: Valuation comps

		Ticker	Price	P/E 25E	P/E 26E	P/B 25E	P/B 26E	Div Yield 25E	Div Yield 26E	ROE 25E	ROE 26E	ROA 25E	ROA 26E
Chinese Banks								(%)	(%)	(%)	(%)	(%)	(%)
H Share Banks													
ABC	OW	1288.HK	5.02 HKD	5.9	5.7	0.54	0.50	5.2	5.4	10.2	9.8	0.6	0.6
ICBC	OW	1398.HK	5.61 HKD	5.2	5.1	0.47	0.44	5.9	6.0	9.4	8.9	0.7	0.7
CCB	OW	0939.HK	6.90 HKD	4.7	4.6	0.47	0.44	6.3	6.5	10.2	9.8	0.8	0.8
BOC	OW	3988.HK	4.69 HKD	5.8	5.7	0.53	0.49	5.5	5.6	9.4	8.9	0.6	0.6
BoCom	UW	3328.HK	7.01 HKD	5.6	5.5	0.47	0.43	5.8	5.9	8.5	8.1	0.6	0.6
PSBC	OW	1658.HK	5.29 HKD	5.5	5.1	0.54	0.50	5.8	6.2	10.2	10.2	0.5	0.5
CMB	OW	3968.HK	49.10 HKD	7.8	7.3	1.02	0.93	4.5	4.9	13.6	13.4	1.2	1.2
Citic	EW	0998.HK	6.25 HKD	4.3	4.0	0.40	0.37	6.4	6.8	9.5	9.5	0.7	0.7
Minsheng	OW	1988.HK	3.90 HKD	4.8	4.4	0.28	0.26	6.2	6.9	5.9	6.2	0.4	0.4
Everbright	UW	6818.HK	3.29 HKD	4.9	4.6	0.32	0.30	6.6	6.9	7.5	7.6	0.5	0.5
CRCB	UW	3618.HK	5.18 HKD	4.8	4.5	0.39	0.37	7.2	7.4	8.4	8.4	0.7	0.7
Average				**5.4**	**5.1**	**0.49**	**0.46**	**5.9**	**6.2**	**9.3**	**9.2**	**0.7**	**0.7**
A Share Banks													
PingAn	OW	000001.SZ	11.49	4.9	4.6	0.48	0.44	6.5	6.9	10.1	10.0	0.8	0.8
Industrial	OW	601166.SS	22.3	6.1	5.9	0.57	0.53	4.8	5.0	9.5	9.3	0.7	0.7
SPDB	UW	600000.SS	10.66	8.4	8.2	0.47	0.44	2.7	2.8	5.7	5.5	0.4	0.4
Huaxia	UW	600015.SS	7.65	4.6	4.5	0.39	0.36	5.5	5.5	8.8	8.3	0.6	0.6
ABC	EW	601288.SS	5.14	6.5	6.3	0.60	0.56	4.8	4.9	10.2	9.8	0.6	0.6
ICBC	EW	601398.SS	6.84	6.8	6.7	0.62	0.58	4.5	4.6	9.4	8.9	0.7	0.7
CCB	EW	601939.SS	8.54	6.3	6.1	0.62	0.58	4.8	4.9	10.2	9.8	0.8	0.8
BOC	EW	601988.SS	5.42	7.2	7.1	0.65	0.61	4.4	4.5	9.4	8.9	0.6	0.6
BoCom	UW	601328.SS	7.23	6.3	6.1	0.52	0.48	5.2	5.3	8.5	8.1	0.6	0.6
CMB	OW	600036.SS	45.24	7.8	7.2	1.01	0.92	4.5	4.9	13.6	13.4	1.2	1.2
CITIC	UW	601998.SS	7.43	5.5	5.1	0.51	0.47	5.0	5.3	9.5	9.5	0.7	0.7
Minsheng	EW	600016.SS	4.14	5.5	5.0	0.32	0.30	5.4	6.0	5.9	6.2	0.4	0.4
Everbright	UW	601818.SS	3.9	6.2	5.9	0.41	0.39	5.2	5.4	7.5	7.6	0.5	0.5
Ningbo	OW	002142.SZ	26.17	5.9	5.3	0.76	0.68	2.6	3.0	13.7	13.6	0.9	0.9
Chengdu	OW	601838.SS	17.34	4.5	4.1	0.76	0.64	6.8	7.5	18.2	17.2	1.1	1.1
Beijing	EW	601169.SS	6.04	5.7	5.6	0.47	0.45	5.3	5.4	8.6	8.1	0.5	0.5
Hangzhou	EW	600926.SS	14.76	5.3	4.8	0.70	0.61	4.7	5.2	14.0	13.5	0.8	0.8
Average				**6.1**	**5.8**	**0.58**	**0.53**	**4.9**	**5.1**	**10.2**	**9.9**	**0.7**	**0.7**

Source: FactSet, Morgan Stanley Research (E) estimates; closing prices as of March 20, 2025

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Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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(as of February 28, 2025)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1694	45%	370	45%	22%	810	47%
Not-Rated/Hold	3	0%	0	0%	0%	0	0%
Underweight/Sell	601	16%	83	10%	14%	230	13%
Total	3,794		831			1735	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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INDUSTRY COVERAGE: China Financials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/24/2025)
Chiyao Huang		
China International Capital Corp. Ltd. (3908.HK)	O (02/28/2025)	HK$15.32
China Merchants Securities Co Ltd (600999.SS)	U (09/29/2022)	Rmb18.02
China Merchants Securities Co Ltd (6099.HK)	U (10/29/2024)	HK$14.46
CITIC Securities Co. (6030.HK)	E (10/29/2024)	HK$21.90
CITIC Securities Co. (600030.SS)	E (05/20/2022)	Rmb27.19
East Money Information Co Ltd (300059.SZ)	O (08/22/2024)	Rmb23.27
Futu Holdings Ltd (FUTU.O)	O (11/18/2024)	US$106.36
Galaxy Securities (6881.HK)	E (02/27/2020)	HK$8.16
Galaxy Securities (601881.SS)	U (09/29/2022)	Rmb17.35
GF Securities (000776.SZ)	U (05/20/2022)	Rmb15.73
GF Securities (1776.HK)	E (01/06/2023)	HK$10.64
HTSC (601688.SS)	E (09/23/2024)	Rmb17.72
HTSC (6886.HK)	E (09/23/2024)	HK$14.12

Noah Holdings Ltd (NOAH.N)	E (11/28/2024)	US$11.11
Richard Xu, CFA		
Agricultural Bank of China Limited (601288.SS)	E (05/07/2019)	Rmb5.14
Agricultural Bank of China Limited (1288.HK)	O (10/19/2020)	HK$5.05
Bairong Inc. (6608.HK)	O (05/04/2021)	HK$9.68
Bank of Beijing Co Ltd (601169.SS)	E (08/17/2022)	Rmb6.00
Bank of Chengdu Co Ltd (601838.SS)	O (08/17/2022)	Rmb17.35
Bank of China Limited (601988.SS)	E (05/07/2019)	Rmb5.40
Bank of China Limited (3988.HK)	O (01/10/2020)	HK$4.65
Bank of Communications (3328.HK)	U (05/20/2022)	HK$7.10
Bank of Communications (601328.SS)	U (09/05/2014)	Rmb7.44
Bank of Hangzhou Co Ltd (600926.SS)	E (08/17/2022)	Rmb14.78
Bank of Ningbo Co. Ltd (002142.SZ)	O (08/17/2022)	Rmb25.90
China CITIC Bank Corporation Limited (601998.SS)	U (09/05/2014)	Rmb7.34
China CITIC Bank Corporation Limited (0998.HK)	E (05/12/2023)	HK$6.24
China Construction Bank Corp. (0939.HK)	O (10/11/2012)	HK$6.98
China Construction Bank Corp. (601939.SS)	E (05/07/2019)	Rmb8.58
China Everbright Bank Co Ltd (6818.HK)	U (05/12/2023)	HK$3.25
China Everbright Bank Co Ltd (601818.SS)	U (05/20/2022)	Rmb3.84
China Merchants Bank (600036.SS)	O (01/07/2019)	Rmb45.05
China Merchants Bank (3968.HK)	O (09/20/2018)	HK$48.85
China Minsheng Banking Corp. (600016.SS)	E (05/12/2023)	Rmb4.08
China Minsheng Banking Corp. (1988.HK)	O (05/12/2023)	HK$3.79
Chongqing Rural Commercial Bank (3618.HK)	U (05/12/2023)	HK$5.22
Hua Xia Bank (600015.SS)	U (06/30/2015)	Rmb7.60
Industrial and Commercial Bank of China (1398.HK)	O (08/09/2013)	HK$5.67
Industrial and Commercial Bank of China (601398.SS)	E (09/19/2022)	Rmb6.82
Industrial Bank Co. Ltd. (601166.SS)	O (02/25/2019)	Rmb21.83
Lufax (LU.N)		US$3.01
Ping An Bank (000001.SZ)	O (05/07/2019)	Rmb11.38
Postal Savings Bank of China Co Ltd (1658.HK)	O (11/01/2016)	HK$5.28
Qifu Technology Inc (QFIN.O)	O (08/25/2020)	US$44.89
Shanghai Pudong Development Bank (600000.SS)	U (12/07/2021)	Rmb10.61

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* Historical prices are not split adjusted.