

China Financial Services

Testing the 'Impossible Trinity' Part III: Increasing dividend risk; PSBC up to Buy, ICBC/ABC/Industrial down to Sell

In the third of our *Testing the 'Impossible Trinity'* series, we assess the dividend sustainability of banks in our coverage, based on adjusted book value incorporating the margin risk of local government debt and additional losses in bank credit portfolios (see [Parts I](#) and [II](#) in the series).

Our analysis suggests that 1) adjusted dividend yields of A/H covered banks will come in at ~4%/6% in 2023E, ~2ppt lower than before adjustment, and 2) dividend payout targets could come under increasing pressure, on weaker earnings growth and the need to maintain high CET1 ratio targets. Based on our framework, we see potential for **BoCom** and **Hua Xia** to miss dividend payout targets in 2023E, **Industrial Bank** in 2024E, and **ICBC** and **ABC** in 2025E ([Exhibit 10-Exhibit 11](#)).

Drawing parallels from the 2013-15 cycle, we note that banks struggled to maintain dividends at the beginning of the downcycle then gave up dividend targets in order to prioritize capital and risk buffers when the trinity of dividends, capital and provisions could not be well balanced. We expect banks to face similar challenges in 2023-25E, with a similar dividend pattern to repeat.

Consensus believes that large banks are trading at distressed valuation multiples (average ~2.5x P/PPOP), posing upside share performance risk. Fundamentally, however, we believe a further multiple correction is likely, driven by margin risk from local government debt and more losses within bank credit portfolios. This could weaken earnings growth, pressure capital accumulation and thus pressure dividend payout levels. We revise down our large bank PPOP estimates by -5%/-6% in 23E/24E reflecting margin risk. Our CAMELOT-based target P/PPOP (reflecting bank PPOP growth, ROE, capital and dividend levels) is cut to 2.4x/2.2x for A/H shares in order to capture squeezed bank earnings and notably incorporate dividend payout risk, and therefore we revise our A/H 12m TPs by an average of -5%/-1%.

That said, **PSBC**'s peer-leading earnings forecasts and stable dividend payouts are underappreciated, in our view, and we upgrade **PSBC-A/H** to Buy from Sell, on target P/PPOP of 3.75x/3.25x vs. 2.75x/2.25x prior and 3% PPOP increase vs. prior, with new 12m TPs of Rmb6.03/HK\$5.8 or 21%/19% upside. At the same time, we downgrade **ABC-A/H** to Sell from Neutral, on target P/PPOP of 1.875x/1.6x vs.

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2x/1.6x prior and -9% PPOP change vs. prior, with new 12m TPs of Rmb2.59/HK\$2.45 or -28%/-21% downside, given similarly rich deposits but diverging local government debt exposure. We model that **ABC**'s dividend is not at risk until 2025E, with DPS increases of 2%/1% vs. prior in 2023E/24E on provision release, but a 1ppt dividend payout cut in 2025E. With increasing target CET1 ratio (11.5% for ABC as G-SIB vs. 13.3% for ICBC), **ABC** will face more dividend risk.

We maintain Buy on **CCB** A/H on more local government bond for capital and tax savings to mitigate earnings risk. We downgrade **ICBC** A/H to Sell from Buy on large local government debt, with increasing dividend risk owing to the high CET-1 ratio target of 13% required as a G-SIB being difficult to maintain. We cut DPS by 3%/5% vs. prior in 2023E-24E and payout by 7ppts to 23% in 2025E and revise our target P/PPPOP to 2.25x/1.75x from 2.75x/2.25x and -10% PPOP change vs. prior, to derive 12m TPs of Rmb4.12/HK\$3.55 or -16%/-16% downside.

We downgrade **Industrial Bank** to Sell from Buy on a worsening balance sheet. We cut DPS by 4%/30% vs. prior in 2023E-24E, and revise target P/PPPOP to 1.5x from 2.25x and -4% PPOP change vs. prior, to derive our 12m TP of Rmb12.09 or -24% downside. Lastly, we remain Neutral on **CMB** with new TPs of Rmb32.65/HK\$36.24 or -3%/-2% downside due to more credit losses to digest.

In summary, our DPS are 8%/15% lower vs. prior, driven by an average 3-4ppts payout cut for covered banks. Having said that, we still see most banks able to maintain dividends, though divergence is set to widen on payouts. In our view, upside risk could come from new capital raises or lower CET1 ratio, which could allow banks such as **ICBC** and **ABC** to alleviate dividend risk and sustain payouts.

The author would like to thank Zihan Wang and Claire Ouyang for their contributions to this report.

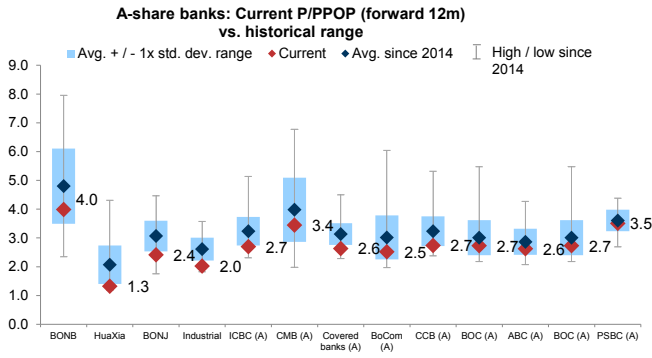
Exhibit 1: Valuation revisions

	Currency	Current price	Current TP	Previous TP	TP change	Rating	Previous rating	Target P/PPPOP	Previous Target multiple	Target multiple Change	PPOP change	Upside/downside (%)	Implied P/E		Implied P/B		Trading P/E		Trading P/B		Trading P/PPPOP	
													2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
H-share (HKD)																						
ICBC (H)	HK\$	4.24	3.55	4.98	↓ -29%	Sell	Buy	1.750x	2.250x	↓ -0.500x	↓ -10%	↓ -16%	3.1	3.0	0.3	0.3	3.7	3.6	0.4	0.4	2.2	2.1
BOC (H)	HK\$	3.19	2.83	2.72	↑ 4%	Neutral		1.750x	1.750x		↑ 2%	↓ -11%	3.2	3.0	0.3	0.3	3.6	3.4	0.4	0.3	2.1	2.0
CCB (H)	HK\$	5.12	5.81	6.07	↓ -4%	Buy		2.250x	2.250x		↓ -6%	↑ 13%	3.9	3.8	0.4	0.4	3.5	3.3	0.4	0.4	2.1	2.0
ABC (H)	HK\$	3.12	2.45	2.62	↓ -6%	Sell	Neutral	1.600x	1.600x		↓ -9%	↓ -21%	2.9	2.8	0.3	0.3	3.7	3.5	0.4	0.4	2.1	2.0
BoCom (H)	HK\$	5.20	3.88	3.97	↓ -2%	Sell		1.500x	1.500x		↓ -3%	↓ -25%	2.7	2.6	0.3	0.3	3.6	3.5	0.4	0.3	2.1	2.0
PSBC (H)	HK\$	4.87	5.80	4.06	↑ 43%	Buy	Sell	3.250x	2.250x	↑ 1.000x	↑ 3%	↑ 19%	5.2	4.7	0.6	0.6	4.4	4.0	0.5	0.5	3.0	2.7
CMB (H)	HK\$	37.05	36.24	40.85	↓ -11%	Neutral		3.250x	3.500x	↓ -0.250x	↓ -1%	↓ -2%	5.5	5.0	0.9	0.8	5.6	5.1	0.9	0.8	3.6	3.3
A-share (Rmb)																						
ICBC (A)	Rmb	4.88	4.12	5.29	↓ -22%	Sell	Buy	2.250x	2.750x	↓ -0.500x	↓ -10%	↓ -16%	4.0	3.5	0.4	0.4	4.7	4.5	0.5	0.5	2.8	2.7
BOC (A)	Rmb	3.98	3.46	2.71	↑ 28%	Neutral		2.375x	2.000x	↑ 0.375x	↑ 2%	↓ -13%	4.3	3.7	0.5	0.4	4.9	4.7	0.5	0.5	2.9	2.7
CCB (A)	Rmb	6.34	6.40	6.46	↓ -1%	Buy		2.750x	2.750x		↓ -6%	↑ 1%	4.8	4.1	0.5	0.5	4.8	4.6	0.5	0.5	2.9	2.7
ABC (A)	Rmb	3.62	2.59	2.85	↓ -9%	Sell	Neutral	1.875x	2.000x	↓ -0.125x	↓ -9%	↓ -28%	3.4	2.9	0.4	0.3	4.7	4.5	0.5	0.5	2.7	2.6
BoCom (A)	Rmb	5.89	3.79	3.74	↑ 1%	Sell		1.625x	1.625x		↓ -3%	↓ -36%	2.9	2.5	0.3	0.3	4.6	4.4	0.5	0.4	2.6	2.5
PSBC (A)	Rmb	4.98	6.03	4.31	↑ 40%	Buy	Sell	3.750x	2.750x	↑ 1.000x	↑ 3%	↑ 21%	6.0	4.9	0.7	0.7	4.9	4.5	0.6	0.6	3.4	3.1
CMB (A)	Rmb	33.72	32.65	35.52	↓ -8%	Neutral		3.250x	3.500x	↓ -0.250x	↓ -1%	↓ -3%	5.5	4.5	0.9	0.8	5.6	5.1	0.9	0.8	3.6	3.4
Industrial	Rmb	15.83	12.09	18.93	↓ -36%	Sell	Buy	1.500x	2.250x	↓ -0.750x	↓ -4%	↓ -24%	2.7	2.3	0.3	0.3	3.5	3.3	0.5	0.4	2.1	2.0
PAB	Rmb	11.49	13.12	16.84	↓ -22%	Buy		1.750x	2.250x	↓ -0.500x	↑ 0%	↑ 14%	5.0	4.0	0.6	0.6	4.3	3.9	0.5	0.5	1.7	1.5
HuaXia	Rmb	5.48	4.25	4.23	↑ 0%	Sell		1.000x	1.000x		↓ -3%	↓ -22%	2.5	2.2	0.2	0.2	3.3	3.1	0.3	0.3	1.3	1.3
BONB	Rmb	25.58	30.52	35.76	↓ -15%	Buy		4.500x	5.000x	↓ -0.500x	↓ -5%	↑ 19%	7.7	6.0	1.1	1.0	6.4	5.6	1.0	0.8	4.3	3.8
BONJ	Rmb	8.09	8.61	9.98	↓ -14%	Neutral		2.500x	2.750x	↓ -0.250x	↓ -16%	↑ 6%	4.5	3.8	0.6	0.6	4.2	3.9	0.6	0.5	2.5	2.3

TPs are on a 12-month timeframe; Priced as of July 3, 2023

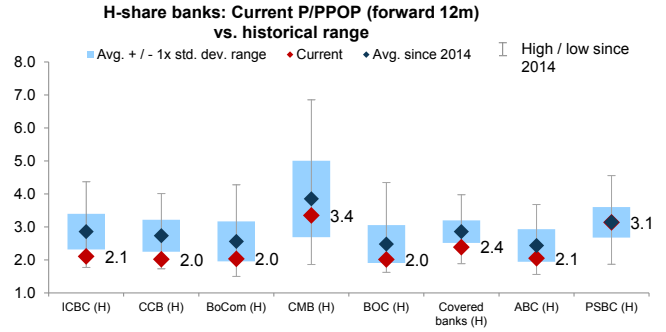
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 2: A-share banks current P/PPOP vs. historical range



Source: Wind

Exhibit 3: H-share banks current P/PPOP vs. historical range



Source: Wind

I. Dividend: Stress-tested bank dividend yield suggests ~2ppt lower yield and increasing risk of payout miss

With ongoing weakening of balance sheets expected for China banks, we stress tested dividend risk in 2023E-25E using an adjusted ROE, which assumes margin losses on local government debt and additional losses from banks' credit portfolios. The stress test implies average 2023E-25E adjusted dividend yields of 5.5%/7.2%, vs. 6.4%/8.3% pre-adjustment for our covered A/H shares. The test also suggests that banks like BoCom, Hua Xia, Industrial, ABC and ICBC are likely to face heightened dividend risk from weakening balance sheets and difficulty maintaining target CET1 ratios. Based on risk buffer shortfalls according to our framework (Exhibit 10), we see potential for BoCom and Hua Xia to miss dividend payout targets in 2023E, Industrial Bank in 2024E, and ICBC, PAB and ABC in 2025E.

As per our economists, local government debt risk has been a long-standing issue over the past decade, but recent reports have brought bond default risks back to investors' attention ([here](#), [here](#), [here](#)). With this in mind, we use adjusted ROE in our stress test, which assumes earnings cuts caused by the margin risk of local government debt and losses on bank credit portfolios. We further tested banks' dividend risk to assess the robustness of bank balance sheets and sustainable investor returns; of note, company strategies in Asia Pacific have recently moved toward reducing capital expenditures and increasing R&D investment and cash to shareholders per our Asia Pacific Strategy team ([here](#)). Amid this environment, we attempt to answer: 1) what's the adjusted bank dividend yield as the current market price appears to be implying a higher yield (non adjusted) in a declining rate environment at ~6%/8% for A/H shares, and; 2) which banks can sustainably pay a dividend amid challenging fundamentals.

Starting with adjusted ROE in 2023E, we adjust bank book value by taking prolonged margin loss led by a net balance increase of government debt in 2024E-25E. We flex the condition that the NPL coverage ratio is lowered to 150%, the minimum requirement. We can assume this, because we have built in most credit losses in 2023E for the stress test, though we expect banks in reality to manage the pace of loss digestion for their credit portfolios.

So for the stress test, bank balance sheets from 2024E should be cleaner and setting an NPL coverage ratio of 150% can allow for the maximum provision release banks can have to maintain capital and dividend. We expect banks to prioritize capital over dividend based on historical precedence, which means when the CET1 ratio cannot be maintained at the target level, we believe provision release would fill in the capital shortfall as the top priority over dividend payments.

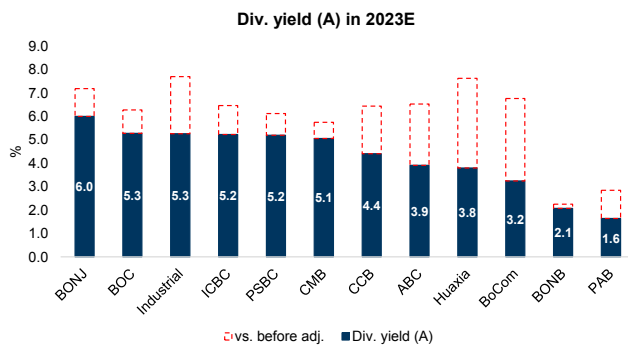
We summarize our stress-test results below:

- Adj. bank dividend works out to 5.5%/7.2% for our A/H shares vs. 6.4%/8.3% before adjustment on average for 2023-25E.
- From 2023E, **BoCom** and **Huaxia** could see heightened dividend payout risk, given

their lower adj. ROEs at 5.4%/4.9% respectively, and any provision release will likely not be sufficient to fill the capital shortfall. We bake in dividend payout cuts of 22ppts and 11ppts for **BoCom** and **Huaxia** in 2023E.

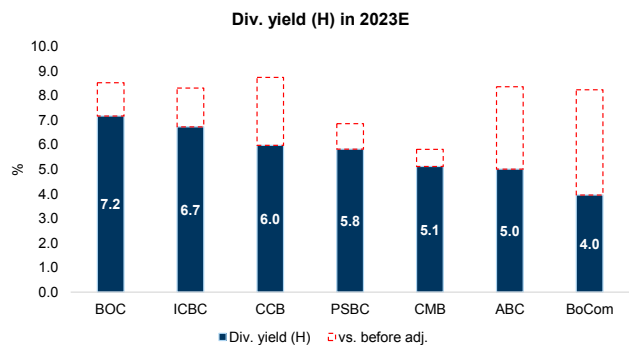
- **Industrial Bank** could miss its dividend payout target in 2024E, partly due to its high target CET1 ratio, but more likely given fundamentals e.g. a worsening balance sheet on larger local gov. debt exposure and potential for additional credit loss. Adj. ROE before dividends in 2023E/24E/25E is 9.4%/12.3%/11.9% vs. 13.4%/12.9%/12.5% pre-adjustment. We bake in dividend payout cuts of 28ppts, 13ppts and 7ppts for **BoCom**, **Huaxia** and **Industrial** in 2024E.
- **ICBC** and **ABC** could see heightened dividend risk in 2025E, mainly due to the prolonged margin loss on larger local gov. debt exposure. We expect **ICBC** and **ABC** to maintain their high target CET1 ratios at 13.3%/11.5% as G-SIBs, which have set an aggressive limit as the potential capital shortfall could be large and not covered by provision release. We note that during the 2013-15 cycle, banks lowered CET1 ratios to meet the demands of provisions and dividends but weakened the overall strength of their balance sheets, resulting in banks eventually cutting dividends to save capital. (See [Part II](#) for bank dividend history.) We bake in dividend payout cuts of 30ppts, 13ppts, 12ppts, 7ppts and 1ppts for **BoCom**, **Huaxia**, **Industrial**, **ICBC**, **PAB** and **ABC** in 2025E.

Exhibit 4: A-share dividend yield pre/post adjustment (2023E)



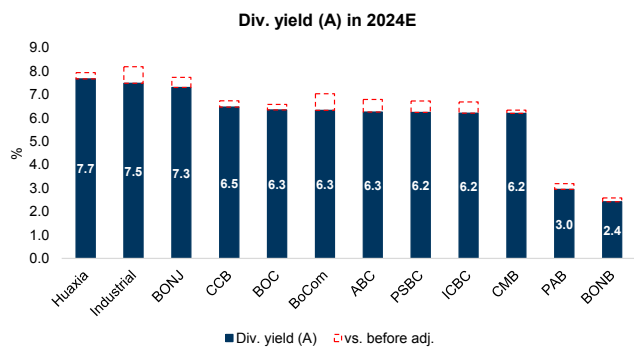
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 5: H-share dividend yield pre/post adjustment (2023E)



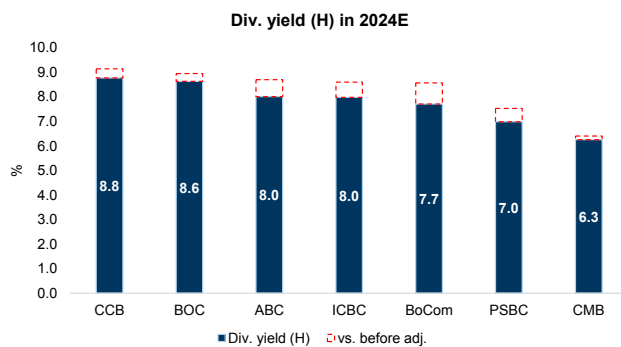
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 6: A-share dividend yield pre/post adjustment (2024E)



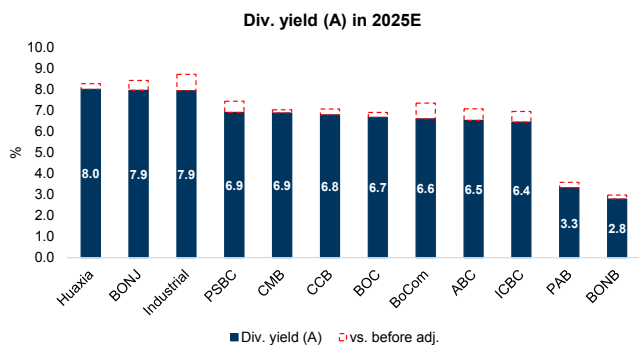
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 7: H-share dividend yield pre/post adjustment (2024E)



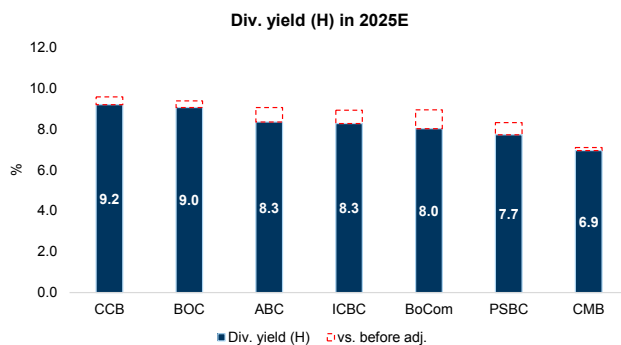
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 8: A-share dividend yield pre/post adjustment (2025E)



Source: Wind, Goldman Sachs Global Investment Research

Exhibit 9: H-share dividend yield pre/post adjustment (2025E)



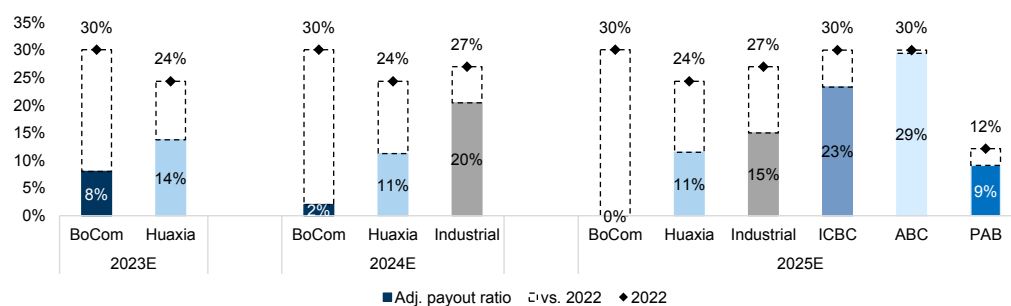
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 10: Dividend Stress test

Rmb bn	Large						Joint-stock				Regional	
	ICBC	CCB	BOC	ABC	BoCom	PSBC	CMB	PAB	Industrial	Huaxia	BONJ	BONB
2023E												
Adj.NPL coverage ratio	208%	231%	205%	300%	188%	292%	299%	223%	165%	142%	390%	451%
Required min.	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%
Diff. (ppts)	58	81	55	150	38	142	149	73	15	-8	240	301
Adj. NPL	398	398	249	338	130	96	112	66	115	72	12	10
Provision available to release	229	324	136	506	49	136	167	48	17	-6	29	31
Adj. CET-1 ratio after div. payout	13.0%	12.8%	11.2%	10.2%	9.5%	8.8%	12.7%	8.0%	9.3%	8.9%	9.2%	9.1%
Target	13.3%	13.3%	11.5%	11.5%	10.8%	9.7%	12.5%	8.7%	9.5%	9.1%	9.4%	9.6%
Diff. (ppts)	-0.3	-0.6	-0.3	-1.3	-1.3	-0.9	0.2	-0.7	-0.2	-0.2	-0.3	-0.5
RWA	24,852	21,891	18,651	22,447	9,064	8,080	6,643	4,580	7,419	3,023	1,452	1,847
CET-1 surplus (shortfall)	-74	-122	-62	-303	-120	-73	12	-33	-16	-6	-4	-9
Adj. CET-1 ratio with provision release	13.8%	14.0%	11.8%	12.1%	10.0%	10.4%	14.8%	8.8%	9.5%	8.8%	10.8%	10.7%
Total additional risk buffer	155	202	74	203	-70	64	179	15	2	-11	24	21
	YES	YES	YES	YES	NO	YES	YES	YES	YES	NO	YES	YES
2024E												
Adj.NPL coverage ratio	192%	221%	201%	289%	175%	288%	298%	198%	151%	134%	374%	435%
Required min.	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%
Diff. (ppts)	42	71	51	139	25	138	148	48	1	-16	224	285
Adj. NPL	462	445	279	375	150	101	116	79	119	80	14	12
Provision available to release	193	314	142	522	38	139	172	38	2	-13	32	33
Adj. CET-1 ratio after div. payout	12.8%	12.5%	11.1%	9.8%	9.2%	8.6%	12.9%	8.0%	9.2%	9.0%	9.0%	8.9%
Target	13.3%	13.3%	11.5%	11.5%	10.8%	9.7%	12.5%	8.7%	9.5%	9.1%	9.4%	9.6%
Diff. (ppts)	-0.5	-0.9	-0.4	-1.7	-1.6	-1.1	0.4	-0.7	-0.3	-0.1	-0.5	-0.7
RWA	27,113	24,048	20,219	24,889	9,825	8,948	7,276	5,107	8,152	3,194	1,629	2,151
CET-1 surplus (shortfall)	-141	-207	-75	-434	-152	-95	30	-35	-26	-4	-8	-15
Adj. CET-1 ratio with provision release	13.4%	13.6%	11.7%	11.5%	9.6%	10.1%	14.9%	8.6%	9.2%	8.7%	10.6%	10.3%
Total additional risk buffer	51	108	67	88	-114	43	202	2	-24	-17	24	18
	YES	YES	YES	YES	NO	YES	YES	YES	NO	NO	YES	YES
2025E												
Adj.NPL coverage ratio	173%	211%	196%	279%	164%	286%	291%	169%	135%	125%	352%	424%
Required min.	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%
Diff. (ppts)	23	61	46	129	14	136	141	19	-15	-25	202	274
Adj. NPL	548	498	312	416	172	105	123	97	125	90	17	13
Provision available to release	127	303	145	536	23	143	173	19	-19	-23	35	35
Adj. CET-1 ratio after div. payout	12.6%	12.4%	11.1%	9.5%	9.1%	8.5%	13.2%	8.1%	9.2%	9.2%	8.8%	8.8%
Target	13.3%	13.3%	11.5%	11.5%	10.8%	9.7%	12.5%	8.7%	9.5%	9.1%	9.4%	9.6%
Diff. (ppts)	-0.7	-1.0	-0.4	-2.0	-1.7	-1.2	0.7	-0.6	-0.4	0.0	-0.6	-0.9
RWA	29,588	26,245	21,860	27,415	10,644	9,904	7,983	5,693	8,972	3,357	1,829	2,507
CET-1 surplus (shortfall)	-216	-258	-79	-541	-177	-117	55	-35	-34	2	-12	-22
Adj. CET-1 ratio with provision release	13.0%	13.3%	11.7%	11.2%	9.3%	9.9%	15.0%	8.4%	9.0%	8.6%	10.4%	10.0%
Total additional risk buffer	-89	44	65	-6	-153	26	228	-16	-53	-21	23	13
	NO	YES	YES	NO	NO	YES	YES	NO	NO	NO	YES	YES

Source: Goldman Sachs Global Investment Research

Exhibit 11: We baked in dividend payout cut of BoCom, Huaxia, Industrial, PAB, ICBC, and ABC in out years given risk buffer shortfall built in our framework.



Source: Company data, Goldman Sachs Global Investment Research

II. Learning from previous bank dividend misses

We expect banks to repeat the cycle of 2013-15 in terms of dividend risk given deteriorating fundamentals. We believe that at the start of the down-cycle banks would likely try to maintain dividends rather than risk buffers, but swiftly change to cutting dividends and prioritizing provision release to secure capital. As such, we believe bank dividend risk is increasing and adj. dividend yield in 2023E could potentially be -2ppts lower vs. before adjustment.

In order to assess when the tipping point might be at which banks would cut dividends, we have back-tested data from past cycles, to see whether banks prioritized capital over investor returns, in order to strengthen balance sheets and maintain sustainable growth amid challenging times.

In the exhibits below we display the changes in dividend payout, NPL coverage ratio and CET1 ratio starting from 2010 until 2022, and note that at the beginning of the 2010-16 cycle, banks started to cut dividend payouts and release additional provisions to support capital.

From 2013-16, we see that banks struggled to prioritize dividend over risk buffers until their balance sheets were no longer able to maintain sufficient capital. Notably, 2013 was the most challenging year for banks, as NPL coverage ratios and CET1 ratios both declined by 35ppts/75bps on average, the largest drop in the 2010-2016 cycle, but average dividend payout was maintained. Bank valuations bottomed, with dividend yield peaking in 2013, likely suggesting that the market was expecting deteriorating bank balance sheets and dividend risk given the weakening risk buffers ([Exhibit 13](#)).

Moving into 2014 and 2015, banks cut dividends and further lowered NPL coverage ratios to accumulate earnings and support capital. We summarize the change over 2013-15 as:

- Banks could prioritize dividend at the beginning to support high dividend yield, despite weakening balance sheets;
- But approaching the tipping point when banks could not maintain the balance of provision, capital and dividend, banks shifted to prioritize capital over dividend to support the balance sheet.

We think the 2023E-25E cycle could largely repeat what happened in 2013-15. We model dividend payout risk, with lowering DPS by 8%/15% vs. prior, driven by an average 3-4ppts payout cut for covered banks. Having said that, we still see most banks able to maintain dividends, though divergence is set to widen on payouts ([Exhibit 14](#), [Exhibit 15](#)).

Exhibit 12: DPS

DPS (Rmb)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
ICBC	0.18	0.20	0.24	0.26	0.26	0.23	0.23	0.24	0.25	0.26	0.27	0.29	0.30	0.31	0.32	0.26
CCB	0.21	0.24	0.27	0.30	0.30	0.27	0.28	0.29	0.31	0.32	0.33	0.36	0.39	0.40	0.42	0.44
BOC	0.15	0.16	0.18	0.20	0.19	0.18	0.17	0.18	0.18	0.19	0.20	0.22	0.23	0.24	0.25	0.27
ABC	0.15	0.13	0.16	0.18	0.18	0.17	0.17	0.18	0.17	0.18	0.19	0.21	0.22	0.23	0.24	0.24
BoCom	0.12	0.10	0.24	0.26	0.27	0.27	0.27	0.29	0.30	0.32	0.32	0.35	0.37	0.10	0.03	0.00
PSBC							0.07	0.15	0.19	0.21	0.22	0.25	0.28	0.30	0.33	0.37
CMB	0.29	0.42	0.63	0.62	0.67	0.69	0.74	0.84	0.94	1.20	1.25	1.52	1.74	1.90	2.09	2.32
PAB			0.27	0.16	0.17	0.15	0.16	0.15	0.15	0.22	0.18	0.23	0.29	0.32	0.36	0.30
Industrial	0.46	0.37	0.57	0.46	0.57	0.61	0.67	0.65	0.69	0.76	0.80	1.03	1.19	1.21	0.97	0.76
Huaxia	0.20	0.25	0.47	0.43	0.43	0.36	0.18	0.15	0.17	0.25	0.30	0.34	0.40	0.23	0.20	0.21
BONJ	0.20	0.30	0.41	0.46	0.57	0.40	0.26	0.34	0.39	0.46	0.39	0.48	0.53	0.57	0.62	0.67
BONB	0.20	0.20	0.25	0.40	0.45	0.45	0.35	0.40	0.41	0.53	0.50	0.50	0.50	0.57	0.65	0.75

ΔDPS (Rmb)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
ICBC	0.01	0.02	0.04	0.02	0.00	-0.02	0.00	0.01	0.01	0.01	0.00	0.03	0.01	0.01	0.01	-0.06
CCB	0.01	0.02	0.03	0.03	0.00	-0.03	0.00	0.01	0.02	0.01	0.01	0.04	0.02	0.01	0.02	0.02
BOC	0.01	0.01	0.02	0.02	0.00	-0.02	-0.01	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01
ABC		-0.02	0.03	0.02	0.01	-0.02	0.00	0.01	0.00	0.01	0.00	0.02	0.02	0.01	0.01	0.00
BoCom	-0.09	-0.02	0.14	0.02	0.01	0.00	0.00	0.01	0.01	0.02	0.00	0.04	0.02	-0.27	-0.08	-0.03
PSBC								0.07	0.05	0.02	0.01	0.03	0.03	0.03	0.03	0.03
CMB	0.05	0.13	0.21	-0.01	0.05	0.02	0.05	0.10	0.10	0.26	0.05	0.27	0.22	0.16	0.19	0.23
PAB				-0.11	0.01	-0.02	0.01	-0.01	0.00	0.07	-0.04	0.05	0.06	0.04	0.04	-0.06
Industrial	-0.04	-0.09	0.20	-0.11	0.11	0.04	0.06	-0.02	0.04	0.07	0.04	0.23	0.15	0.02	-0.24	-0.21
Huaxia	0.07	0.05	0.22	-0.04	0.00	-0.07	-0.18	-0.03	0.02	0.08	0.05	0.04	0.06	-0.16	-0.03	0.01
BONJ	0.10	0.10	0.11	0.05	0.11	-0.17	-0.14	0.08	0.05	0.07	-0.07	0.08	0.06	0.04	0.04	0.05
BONB	0.00	0.00	0.05	0.15	0.05	0.00	-0.10	0.05	0.01	0.12	-0.03	0.00	0.00	0.07	0.08	0.10

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 13: Dividend payout ratio

Payout ratio (%)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
ICBC	39%	34%	35%	35%	33%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	23%
CCB	39%	35%	35%	35%	33%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
BOC	39%	35%	35%	35%	33%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
ABC	52%	35%	35%	35%	33%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	29%
BoCom	17%	12%	31%	31%	30%	30%	30%	30%	30%	30%	30%	30%	30%	8%	2%	0%
PSBC							15%	25%	30%	30%	30%	30%	30%	30%	30%	30%
CMB	24%	25%	30%	30%	30%	30%	30%	29%	33%	32%	32%	32%	32%	32%	32%	32%
PAB			10%	10%	10%	10%	12%	11%	10%	15%	12%	12%	12%	12%	12%	9%
Industrial	15%	16%	21%	21%	23%	23%	24%	24%	24%	24%	25%	26%	27%	27%	20%	15%
Huaxia	17%	19%	25%	25%	22%	21%	10%	10%	13%	17%	22%	22%	24%	14%	11%	11%
BONJ	26%	28%	30%	30%	30%	19%	19%	30%	30%	31%	30%	30%	30%	30%	30%	30%
BONB	25%	18%	18%	24%	26%	27%	17%	22%	19%	22%	20%	17%	14%	14%	14%	14%

ΔPayout ratio (ppts)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
ICBC	-5	-5	1	0	-2	-3	0	0	0	0	0	0	0	0	0	-7
CCB	-5	-4	0	0	-2	-3	0	0	0	0	0	0	0	0	0	0
BOC	-5	-4	0	0	-2	-3	0	0	0	0	0	0	0	0	0	0
ABC		-17	0	0	-2	-3	0	0	0	0	0	0	0	0	0	-1
BoCom	-18	-5	18	0	-1	0	0	0	0	0	0	0	0	-22	-6	-2
PSBC								10	5	0	0	0	0	0	0	0
CMB	-1	1	5	0	0	0	0	0	-1	3	0	0	0	0	0	0
PAB				0	0	0	2	-1	-1	5	-3	0	0	0	0	-3
Industrial	-4	1	5	0	2	0	0	0	0	0	1	1	1	0	-7	-5
Huaxia	-1	2	7	0	-3	-1	-11	0	3	5	4	0	2	-11	-3	0
BONJ	14	2	2	0	0	-11	0	11	0	1	-1	0	0	0	0	0
BONB	-9	-7	0	6	2	1	-9	4	-2	3	-2	-3	-3	0	0	0

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 14: Dividend yield (A-share)

Div. yield (A-share, %)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
ICBC	4.3	4.8	5.8	7.3	5.2	5.1	5.3	3.9	4.7	4.5	5.3	6.3	7.0	6.5	6.7	5.4
CCB	4.6	5.2	5.8	7.2	4.5	4.7	5.1	3.8	4.8	4.4	5.2	6.2	6.9	6.4	6.7	7.1
BOC	4.5	5.3	6.0	7.5	4.6	4.4	4.9	4.4	5.1	5.2	6.2	7.2	7.3	6.3	6.6	6.9
ABC	2.0	5.0	5.6	7.1	4.9	5.2	5.5	4.7	4.8	4.9	5.9	7.0	7.6	6.5	6.8	6.9
BoCom	2.2	2.2	4.9	6.8	4.0	4.2	4.7	4.6	5.2	5.6	7.1	7.7	7.9	1.8	0.5	0.0
PSBC										3.6	4.4	4.9	5.6	6.1	6.7	7.4
CMB	2.3	3.5	4.6	5.7	4.0	3.8	4.2	2.9	3.7	3.2	2.9	3.1	4.7	5.7	6.3	7.0
PAB			1.7	1.3	1.1	1.3	1.7	1.0	1.5	1.3	0.9	1.4	2.2	2.8	3.2	2.7
Industrial	1.9	3.0	3.4	4.5	3.5	3.6	3.8	3.8	4.6	3.8	3.8	5.4	6.8	7.7	6.2	4.8
Huaxia	1.8	2.2	4.5	5.1	3.2	3.0	1.7	1.7	2.4	3.2	4.8	6.0	7.4	4.3	3.7	3.9
BONJ	2.0	3.2	4.4	5.7	3.4	2.3	2.4	4.5	6.1	4.5	4.9	5.2	5.1	7.2	7.7	8.4
BONB	1.6	2.2	2.3	4.3	2.9	2.9	2.1	2.2	2.5	1.8	1.4	1.3	1.5	2.2	2.6	3.0

ΔDiv. yield (A-share, ppts)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
ICBC	1.2	0.4	1.0	1.6	-2.1	-0.2	0.2	-1.4	0.9	-0.3	0.9	1.0	0.7	-0.5	0.2	-1.3
CCB	1.4	0.6	0.6	1.4	-2.8	0.3	0.4	-1.3	1.0	-0.4	0.8	1.0	0.7	-0.5	0.3	0.3
BOC	1.3	0.8	0.7	1.5	-2.9	-0.2	0.5	-0.5	0.7	0.1	1.0	1.1	0.1	-1.1	0.3	0.3
ABC		3.0	0.6	1.5	-2.2	0.3	0.3	-0.8	0.2	0.1	1.0	1.1	0.6	-1.1	0.3	0.1
BoCom	0.1	0.0	2.6	1.9	-2.8	0.2	0.5	-0.1	0.6	0.4	1.5	0.6	0.2	-6.1	-1.3	-0.5
PSBC										3.6	0.8	0.5	0.7	0.5	0.6	0.7
CMB	1.1	1.3	1.0	1.1	-1.7	-0.2	0.4	-1.3	0.8	-0.5	-0.3	0.3	1.5	1.1	0.6	0.7
PAB				-0.4	-0.2	0.2	0.5	-0.7	0.5	-0.2	-0.4	0.5	0.8	0.7	0.3	-0.5
Industrial	0.7	1.0	0.5	1.1	-1.1	0.1	0.2	0.0	0.8	-0.8	0.0	1.6	1.3	0.9	-1.5	-1.4
Huaxia	0.8	0.4	2.3	0.5	-1.8	-0.2	-1.3	0.0	0.7	0.9	1.6	1.2	1.3	-3.1	-0.6	0.2
BONJ	1.5	1.2	1.2	1.3	-2.3	-1.2	0.1	2.1	1.6	-1.6	0.4	0.3	0.0	2.1	0.5	0.7
BONB	0.5	0.6	0.2	2.0	-1.5	0.0	-0.8	0.1	0.2	-0.7	-0.4	-0.1	0.2	0.7	0.3	0.4

Source: Wind, Goldman Sachs Global Investment Research

Exhibit 15: Dividend yield (H-share)

Div. yield (H-share, %)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
ICBC	3.8	5.4	5.4	6.3	5.7	5.9	5.8	4.6	5.1	4.8	6.4	7.8	8.6	8.3	8.6	6.9
CCB	3.7	5.4	5.4	6.5	6.0	6.1	5.4	4.8	5.4	5.2	6.6	7.9	9.1	8.7	9.1	9.6
BOC	4.2	6.7	6.3	6.9	5.5	6.0	5.6	5.5	6.2	6.3	9.0	9.2	9.3	8.5	8.9	9.4
ABC	1.7	4.8	5.1	5.8	5.9	6.2	6.1	6.1	5.8	5.8	7.9	9.0	9.4	8.4	8.7	8.9
BoCom	1.8	2.3	5.1	6.0	4.7	5.9	5.5	6.1	5.7	6.3	9.2	8.8	9.5	2.2	0.6	0.0
PSBC							2.0	4.3	5.3	4.3	5.7	5.3	6.1	6.9	7.5	8.3
CMB	1.8	3.3	4.6	4.7	4.4	4.4	4.6	3.3	3.7	3.3	3.1	2.9	4.6	5.8	6.4	7.1

ΔDiv. yield (H-share, ppts)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
ICBC	0.8	1.6	-0.1	0.9	-0.6	0.2	-0.1	-1.1	0.5	-0.3	1.6	1.4	0.8	-0.3	0.3	-1.7
CCB	0.2	1.7	0.1	1.0	-0.5	0.1	-0.7	-0.6	0.6	-0.2	1.4	1.3	1.2	-0.3	0.4	0.4
BOC	0.4	2.5	-0.4	0.7	-1.4	0.5	-0.4	-0.1	0.7	0.0	2.7	0.2	0.1	-0.8	0.4	0.4
ABC		3.2	0.3	0.7	0.0	0.3	0.0	-0.1	-0.3	0.0	2.1	1.1	0.4	-1.1	0.3	0.2
BoCom	-0.8	0.5	2.8	0.9	-1.3	1.2	-0.4	0.7	-0.4	0.5	2.9	-0.4	0.6	-7.3	-1.6	-0.6
PSBC								2.3	1.0	-1.0	1.4	-0.4	0.8	0.8	0.7	0.8
CMB	0.6	1.5	1.3	0.1	-0.4	0.1	0.2	-1.4	0.5	-0.5	-0.2	-0.1	1.6	1.2	0.6	0.7

Source: Wind, Goldman Sachs Global Investment Research

III. Rating changes: PSBC (A/H) up to Buy; ICBC (A/H), ABC (A/H) and Industrial down to Sell

Despite the distressed valuations large banks in China are trading at and likely stimulus policy to boost market sentiment and drive banks' share prices, we further cut our covered bank earnings and target P/PPOP multiples to bake in deteriorating fundamentals on margin risk from local government debt and credit loss, which could send capital and dividend at risk. We lower the ROE of our covered banks to 9.6% on average in 2023E (from 12.8%), expecting Industrial Bank to miss dividend payout targets in 2024E on a deteriorating balance sheet, and ICBC and ABC in 2025E given G-SIB requirements to prioritize capital over dividends. Therefore, we cut dividend payouts of BoCom, Huaxia, Industrial, ICBC, ABC and PAB in outer years, assuming no new capital raise or decrease in target CET1 ratio. We downgrade ICBC (A/H), Industrial Bank and ABC (A/H) to Sell. That said, we believe the market has underappreciated PSBC which could maintain its dividend on robust balance sheet. We upgrade PSBC A/H to Buy from Sell.

Given the expected overall weakening of balance sheets, making it more challenging for banks to maintain dividend targets in outer years, we further cut our covered banks' net profit by -1%~-4% in 2023E-25E to factor in the margin risk of local government debt and more losses within banks' credit portfolios. With this, we revise the ROE for our covered A/H banks to 10.9% on average for 2023-25E from 12.8% prior. Our revenue estimates on average are -1%/-3%/-5% below Visible Alpha consensus, and net profit is -1%/-2%/-2% below consensus. Average DPS is -8%/-15% vs. prior on payout cut of 3/4ppts vs. prior in 2023E-24E. We revise the target P/PPOP by -4%/+2% on average for A/H shares, and revise our 12m TPs by an average of -5%/-1% for A/H shares.

Having said that, we see two factors, namely local government debt and credit losses, that could further differentiate banks:

1. Divergence within large banks set to widen, with local government debt the key factor: We estimate large banks to have Rmb 29tn (USD 4.1tn) in local government debt, or 86% of total debt for our covered banks:

- **Size:** We expect **ICBC, ABC** and **BoCom** to have larger exposure to local government debt at 24%/20%/29% of IEA, compared with 18% on average for the large banks.
- **Mix:** Banks with more local government bonds could utilize tax savings and capital efficiency to offset the margin headwinds of local government debt. **CCB** has local government bonds worth Rmb 2.9tn, or 62% of total exposure in terms of local gov. debt, vs 38% for **ICBC**. **PSBC** has the largest local government bond exposure at 83%, the highest among covered banks, with tax and capital savings as a % of NPAT of 13% in 2023E vs. 9% on average for the covered banks.

2. Large banks look overall better positioned than smaller banks, as their larger balance sheets allow them to digest more credit losses. We estimate property exposure as a % of total assets for the large banks at 3% on average vs. 5% for other

covered banks, and reported NPL ratio of property loans at 4.5% vs. 1.8%. Given we assume large banks to have better reporting standards, we expect other banks could report a higher NPL ratio of property loans, and thus more losses. We upgrade **PSBC** to Buy from Sell with 2% property exposure, compared to Neutral rated **CMB** with 6% (see [here](#)), and **Industrial Bank** with 6%.

All in, with the adjusted ROE revisions we make, we further normalize bank dividend yield:

1. We expect **BoCom/Huaxia** to print the largest drop in normalized bank dividend yield also in 2023E, and **BONB/CMB** to show the smallest decrease in 2023E.
2. We expect **Industrial Bank** to miss its dividend target in 2024E, and **ICBC/ABC** in 2025E, assuming that maintaining the target CET1 ratio as G-SIBs is prioritized over paying dividends.

We believe a further multiple correction is likely, driven by margin risk from local government debt and the ongoing credit cycle, and as such, we recalibrate our CAMELOT scorecard and revise our target P/PPOPs by -4%/+2% on average in 2024E to 2.4x/2.2x for A/H shares, and further revise down PPOP by -3%/-4%/-2% in 2023E-25E. Given our more cautious sector view, the continued weak trend in retail demand and more divergence expected among large banks, we make one upgrade and three downgrades.

Upgrade

PSBC (A/H): We upgrade **PSBC A/H** to Buy from Sell on peer-leading earnings forecasts within the large bank group, a strong risk buffer and better NIM trajectory. Our new target P/PPOPs for A/H are 3.75x/3.25x in 2024E vs. 2.75x/2.25x prior, with a +2%~+3% change in PPOP in 2023E-25E. Our new 12m TPs are Rmb6.03/HK\$5.8 from Rmb4.31/HK\$4.06.

Downgrades

- **ICBC (A/H):** We downgrade **ICBC A/H** to Sell from Buy on increasing difficulty to maintain dividend payout ratio targets in 2025E, given the high CET1 ratio target that G-SIBs need to maintain. We lower our target P/PPOP to 2.25x/1.75x from 2.75x/2.25x prior, with our PPOP cut -8%/-10% in 2023E/24E. Our new 12m TPs for A/H are Rmb4.12/HK\$3.55 from Rmb5.29/HK\$4.98.
- **Industrial Bank:** We downgrade **Industrial Bank** to Sell from Buy, on a double squeeze of both top and bottom line growth, due to more margin dilution and credit loss digestion. Our target P/PPOP moves lower to 1.5x in 2024E from 2.25x, with PPOP down -3%~-5% in 2023E-25E. Our new 12m TP is Rmb12.09, from Rmb18.93.
- **ABC (A):** We downgrade **ABC A/H** shares to Sell from Neutral on long-term dividend uncertainty, on top of year-to-date outperformance (+21%/+15% vs. +3.2%/+4.2% average of our covered banks). Our target P/PPOPs for A/H are 1.875x/1.6x vs. 2x/1.6x prior, with PPOP down -8%/-9% in 2023E/24E. Our new 12m TPs for A/H are Rmb 2.59/HK\$2.45 from Rmb2.85/HK\$2.62.

Others

For those banks we make no rating changes to, we lower the target P/PPOP multiples of some to rebalance their relative position in terms of expected share price changes.

CMB (A/H): We maintain Neutral ratings on **CMB A/H** on continued soft retail growth and more credit losses to contain provision releases per our framework (see [Part II](#)). Our new target P/PPOPs for A/H decline to 3.25x/3.25x in 2024E vs. 3.5x/3.5x prior, with no change to PPOP in 2023E-25E. Our 12m TPs decline to Rmb32.65/HK\$36.24 from Rmb35.52/HK\$40.85.

BOC (A/H): We maintain Neutral ratings on **BOC A/H** on relatively low local government debt exposure and an improving balance sheet as suggested by 1Q23 results. Our target P/PPOP for A/H moves to 2.375x/1.75x vs. 2x/1.75x prior, with our PPOP estimates in 2023E/24E changing by +3%/+2%. Our 12m TPs move to Rmb3.46/HK\$2.83 from Rmb2.71/HK\$2.72.

PAB: We maintain a Buy rating on **PAB**, with a lower target P/PPOP of 1.75x vs. 2.25x prior, to reflect increased credit losses needed to digest and a lower rank as suggested by our CAMELOT framework. Our 12m TP declines to Rmb13.12 from Rmb16.84.

BONJ: We maintain a Neutral rating on **BONJ**, with a lower target P/PPOP of 2.5x vs. 2.75x prior, to reflect the lower rank suggested by our CAMELOT framework. Our 12m TP declines to Rmb8.61 from Rmb9.98.

BONB: We maintain a Buy rating on **BONB**, with a lower target P/PPOP of 4.5x vs. 5x prior, to factor in sector headwinds. Our 12m TP declines to Rmb 30.52 from Rmb 35.76.

Exhibit 16: GSe vs. Consensus

Rmb bn

Company	Revenue								
	GSe growth yoy			Consensus growth yoy			GSe - consensus growth		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
ICBC	3%	4%	5%	5%	8%	8%	-3%	-4%	-3%
CCB	3%	5%	5%	5%	9%	8%	-1%	-4%	-3%
BOC	5%	5%	5%	3%	8%	7%	2%	-3%	-2%
ABC	2%	5%	5%	2%	9%	8%	0%	-4%	-3%
BoCom	3%	4%	5%	3%	6%	8%	0%	-1%	-2%
PSBC	6%	10%	9%	7%	11%	11%	-1%	-1%	-1%
CMB	5%	9%	9%	5%	9%	10%	0%	-1%	-1%
PAB	5%	8%	7%	6%	9%	8%	-1%	-1%	-1%
Industrial	1%	7%	7%	4%	8%	9%	-2%	-2%	-1%
Huaxia	0%	2%	3%	4%	7%	3%	-5%	-5%	-1%
BONB	11%	13%	13%	11%	13%	14%	0%	-1%	-2%
BONJ	8%	8%	9%	10%	10%	11%	-2%	-2%	-2%
Aggregate									
Total	4%	6%	6%	4%	9%	8%	-1%	-3%	-2%
Large	3%	5%	6%	4%	8%	8%	-1%	-3%	-3%
Joint-stock	3%	7%	8%	5%	9%	8%	-1%	-1%	-1%
Regional	10%	11%	11%	11%	12%	13%	-1%	-1%	-2%

Company	Revenue								
	GSe			Consensus			Diff		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
ICBC	867	901	945	890	961	1036	-3%	-6%	-9%
CCB	785	823	865	794	862	935	-1%	-5%	-7%
BOC	596	625	657	582	629	675	2%	-1%	-3%
ABC	702	737	777	700	762	823	0%	-3%	-6%
BoCom	249	259	273	248	262	282	0%	-1%	-3%
PSBC	354	390	427	359	399	441	-1%	-2%	-3%
CMB	356	386	421	355	388	425	0%	0%	-1%
PAB	188	203	218	190	206	223	-1%	-2%	-2%
Industrial	225	240	258	230	249	271	-2%	-4%	-5%
Huaxia	93	95	98	98	104	108	-4%	-8%	-9%
BONB	64	72	82	64	73	83	0%	0%	-2%
BONJ	48	52	57	49	54	59	-1%	-3%	-4%
Aggregate									
Total	4528	4785	5076	4557	4946	5358	-1%	-3%	-5%
Large	3553	3735	3943	3572	3873	4189	-1%	-4%	-6%
Joint-stock	863	925	995	872	948	1027	-1%	-2%	-3%
Regional	112	124	138	113	126	142	-1%	-2%	-3%

Company	NPAT								
	GSe growth yoy			Consensus growth yoy			GSe - consensus growth		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
ICBC	3%	3%	4%	3%	4%	5%	0%	0%	-1%
CCB	3%	4%	5%	3%	5%	6%	-1%	-1%	-1%
BOC	5%	5%	5%	4%	5%	5%	0%	0%	0%
ABC	3%	4%	4%	5%	6%	5%	-1%	-1%	-1%
BoCom	4%	4%	4%	5%	4%	4%	0%	0%	0%
PSBC	9%	10%	10%	9%	11%	10%	0%	-1%	0%
CMB	9%	10%	11%	11%	13%	12%	-2%	-3%	-1%
PAB	13%	12%	12%	15%	14%	13%	-2%	-2%	-1%
Industrial	2%	6%	6%	5%	9%	9%	-3%	-3%	-3%
Huaxia	3%	4%	4%	6%	5%	7%	-3%	-1%	-3%
BONB	14%	15%	15%	15%	17%	16%	-1%	-2%	-1%
BONJ	8%	8%	9%	9%	10%	10%	-1%	-2%	-2%
Aggregate									
Total	4%	5%	6%	5%	7%	7%	-1%	-1%	-1%
Large	4%	5%	5%	4%	5%	5%	0%	-1%	-1%
Joint-stock	7%	9%	9%	10%	11%	11%	-3%	-2%	-1%
Regional	11%	12%	12%	12%	14%	14%	-1%	-2%	-1%

Company	NPAT								
	GSe			Consensus			Diff		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
ICBC	370	383	397	370	384	402	0%	0%	-1%
CCB	333	347	364	335	353	373	-1%	-2%	-2%
BOC	238	250	262	238	249	260	0%	0%	0%
ABC	268	279	290	271	286	301	-1%	-3%	-4%
BoCom	96	100	104	96	101	105	0%	-1%	0%
PSBC	93	102	113	93	104	115	0%	-1%	-1%
CMB	151	166	184	154	173	193	-2%	-4%	-5%
PAB	51	58	65	52	59	67	-2%	-3%	-4%
Industrial	93	99	105	96	105	114	-3%	-6%	-8%
Huaxia	26	27	28	28	29	30	-7%	-7%	-7%
BONB	26	30	35	27	31	36	-1%	-3%	-4%
BONJ	20	21	23	20	22	24	-1%	-3%	-5%
Aggregate									
Total	1765	1862	1970	1777	1893	2018	-1%	-2%	-2%
Large	1398	1461	1530	1403	1476	1555	0%	-1%	-2%
Joint-stock	321	350	382	327	364	403	-2%	-4%	-5%
Regional	46	51	58	47	53	60	-1%	-3%	-4%

Source: Visible Alpha Consensus Data, Goldman Sachs Global Investment Research

Exhibit 17: Valuation revisions

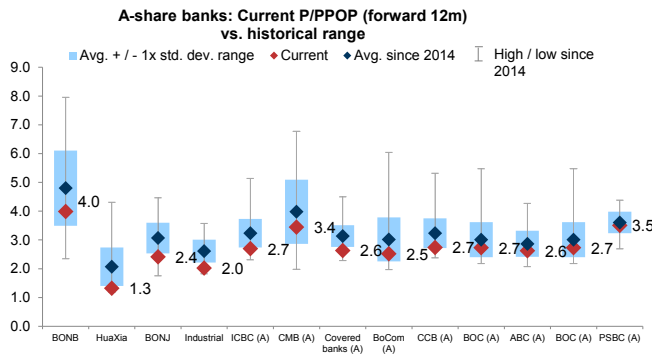
price as of July 3

	Currency	Current price	Current TP	Previous TP	TP change	Rating	Previous rating	Target P/POP	Previous Target multiple	Target multiple Change	PPOP change	Upside/downside (%)	Implied P/E		Implied P/B		Trading P/E		Trading P/B		Trading P/POP	
													2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
H-share (HKD)																						
ICBC (H)	HK\$	4.24	3.55	4.98	↓ -29%	Sell	Buy	1.750x	2.250x	↓ -0.500x	↓ -10%	↓ -16%	3.1	3.0	0.3	0.3	3.7	3.6	0.4	0.4	2.2	2.1
BOC (H)	HK\$	3.19	2.83	2.72	↑ 4%	Neutral		1.750x	1.750x		↑ 2%	↑ -11%	3.2	3.0	0.3	0.3	3.6	3.4	0.4	0.3	2.1	2.0
CCB (H)	HK\$	5.12	5.81	6.07	↓ -4%	Buy		2.250x	2.250x		↓ -6%	↑ 13%	3.9	3.8	0.4	0.4	3.5	3.3	0.4	0.4	2.1	2.0
ABC (H)	HK\$	3.12	2.45	2.62	↓ -6%	Sell	Neutral	1.600x	1.600x		↓ -9%	↓ -21%	2.9	2.8	0.3	0.3	3.7	3.5	0.4	0.4	2.1	2.0
BoCom (H)	HK\$	5.20	3.88	3.97	↓ -2%	Sell		1.500x	1.500x		↓ -3%	↓ -25%	2.7	2.6	0.3	0.3	3.6	3.5	0.4	0.3	2.1	2.0
PSBC (H)	HK\$	4.87	5.80	4.06	↑ 43%	Buy	Sell	3.250x	2.250x	↑ 1.000x	↑ 3%	↑ 19%	5.2	4.7	0.6	0.6	4.4	4.0	0.5	0.5	3.0	2.7
CMB (H)	HK\$	37.05	36.24	40.85	↓ -11%	Neutral		3.250x	3.500x	↓ -0.250x	↓ -1%	↓ -2%	5.5	5.0	0.9	0.8	5.6	5.1	0.9	0.8	3.6	3.3
A-share (Rmb)																						
ICBC (A)	Rmb	4.88	4.12	5.29	↓ -22%	Sell	Buy	2.250x	2.750x	↓ -0.500x	↓ -10%	↓ -16%	4.0	3.5	0.4	0.4	4.7	4.5	0.5	0.5	2.8	2.7
BOC (A)	Rmb	3.98	3.46	2.71	↑ 28%	Neutral		2.375x	2.000x	↑ 0.375x	↑ 2%	↑ -13%	4.3	3.7	0.5	0.4	4.9	4.7	0.5	0.5	2.9	2.7
CCB (A)	Rmb	6.34	6.40	6.46	↓ -1%	Buy		2.750x	2.750x		↓ -6%	↑ 1%	4.8	4.1	0.5	0.5	4.8	4.6	0.5	0.5	2.9	2.7
ABC (A)	Rmb	3.62	2.59	2.85	↓ -9%	Sell	Neutral	1.875x	2.000x	↓ -0.125x	↓ -9%	↓ -28%	3.4	2.9	0.4	0.3	4.7	4.5	0.5	0.5	2.7	2.6
BoCom (A)	Rmb	5.89	3.79	3.74	↑ 1%	Sell		1.625x	1.625x		↓ -3%	↓ -36%	2.9	2.5	0.3	0.3	4.6	4.4	0.5	0.4	2.6	2.5
PSBC (A)	Rmb	4.98	6.03	4.31	↑ 40%	Buy	Sell	3.750x	2.750x	↑ 1.000x	↑ 3%	↑ 21%	6.0	4.9	0.7	0.7	4.9	4.5	0.6	0.6	3.4	3.1
CMB (A)	Rmb	33.72	32.65	35.52	↓ -8%	Neutral		3.250x	3.500x	↓ 0.250x	↓ -1%	↓ -3%	5.5	4.5	0.9	0.8	5.6	5.1	0.9	0.8	3.6	3.4
Industrial	Rmb	15.83	12.09	18.93	↓ -36%	Sell	Buy	1.500x	2.250x	↓ -0.750x	↓ -4%	↓ -24%	2.7	2.3	0.3	0.3	3.5	3.3	0.5	0.4	2.1	2.0
PAB	Rmb	11.49	13.12	16.84	↓ -22%	Buy		1.750x	2.250x	↓ -0.500x	↓ 0%	↑ 14%	5.0	4.0	0.6	0.6	4.3	3.9	0.5	0.5	1.7	1.5
Huaxia	Rmb	5.48	4.25	4.23	↑ 0%	Sell		1.000x	1.000x		↓ -3%	↓ -22%	2.5	2.2	0.2	0.2	3.3	3.1	0.3	0.3	1.3	1.3
BONB	Rmb	25.58	30.52	35.76	↓ -15%	Buy		4.500x	5.000x	↓ -0.500x	↓ -5%	↑ 19%	7.7	6.0	1.1	1.0	6.4	5.6	1.0	0.8	4.3	3.8
BONJ	Rmb	8.09	8.61	9.98	↓ -14%	Neutral		2.500x	2.750x	↓ -0.250x	↓ -16%	↑ 6%	4.5	3.8	0.6	0.6	4.2	3.9	0.6	0.5	2.5	2.3

TPs are on a 12-month time frame; Priced as of July 3, 2023

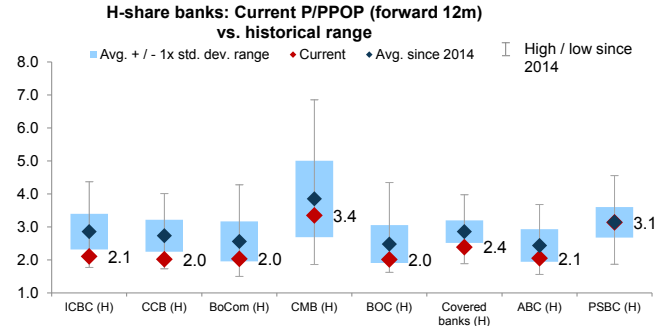
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 18: A-share banks current P/PPOP vs. historical range



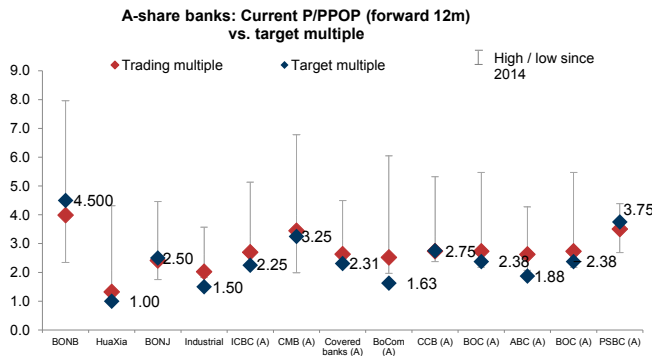
Source: Wind

Exhibit 19: H-share banks current P/PPOP vs. historical range



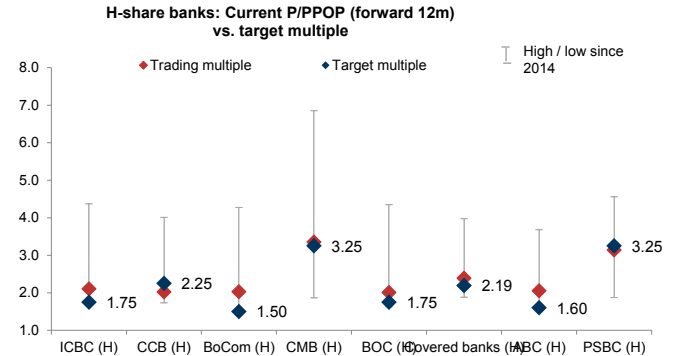
Source: Wind

Exhibit 20: A-share banks trading multiple vs target multiple: P/PPOP



Source: Wind, Goldman Sachs Global Investment Research

Exhibit 21: H-share banks trading multiple vs target multiple: P/PPOP



Source: Wind, Goldman Sachs Global Investment Research

Exhibit 22: New vs. Old: PPOP
Rmb bn

Company	PPOP						
	New			Old		Change	
	2023E	2024E	2025E	2023E	2024E	2023E	2024E
ICBC	631	652	683	685	725	(8%)	(10%)
CCB	555	582	612	587	620	(5%)	(6%)
BOC	408	429	450	398	421	3%	2%
ABC	461	483	508	499	531	(8%)	(9%)
BoCom	166	173	182	171	179	(3%)	(3%)
PSBC	135	148	162	133	145	2%	3%
CMB	233	253	276	236	256	(1%)	(1%)
Industrial	157	167	180	162	175	(3%)	(4%)
HuaXia	64	65	67	65	67	(2%)	(3%)
PAB	135	145	156	135	145	(0%)	0%
BONB	40	45	50	42	47	(4%)	(5%)
BONJ	33	36	39	37	42	(12%)	(16%)
Aggregate							
Total	3,018	3,179	3,366	3,150	3,352	(4%)	(5%)
Large	2,356	2,466	2,597	2,473	2,619	(5%)	(6%)
Joint-stock	589	632	679	598	643	(2%)	(2%)
Regional	73	80	89	79	90	(8%)	(10%)

Company	PPOP growth						
	New			Old		Change	
	2023E	2024E	2025E	2023E	2024E	2023E	2024E
ICBC	4%	3%	5%	6%	6%	(1)	(2)
CCB	3%	5%	5%	5%	6%	(2)	(1)
BOC	5%	5%	5%	5%	6%	0	(1)
ABC	2%	5%	5%	6%	6%	(4)	(2)
BoCom	3%	4%	5%	4%	5%	(1)	(0)
PSBC	6%	10%	9%	5%	9%	2	1
CMB	5%	9%	9%	6%	8%	(1)	0
Industrial	1%	7%	7%	5%	8%	(3)	(1)
HuaXia	(0%)	2%	3%	(1%)	3%	1	(1)
PAB	5%	8%	8%	5%	8%	(0)	0
BONB	11%	13%	12%	16%	14%	(5)	(1)
BONJ	8%	8%	9%	13%	13%	(6)	(5)
Average							
Total	5%	7%	7%	6%	8%	(2)	(1)
Large	4%	5%	6%	5%	6%	(2)	(1)
Joint-stock	3%	6%	7%	4%	7%	(2)	(1)
Regional	10%	10%	11%	15%	13%	(2)	(1)

Source: Goldman Sachs Global Investment Research

Exhibit 23: New vs. Old: NPAT

Rmb bn

NPAT								NPAT growth							
Company	New			Old		Change		Company	New			Old		Change	
	2023E	2024E	2025E	2023E	2024E	2023E	2024E		2023E	2024E	2025E	2023E	2024E	2023E	2024E
ICBC	370	383	397	383	404	(3%)	(5%)	ICBC	3%	3%	4%	5%	5%	(2)	(2)
CCB	333	347	364	327	342	2%	2%	CCB	3%	4%	5%	4%	5%	(1)	(0)
BOC	238	250	262	237	249	0%	0%	BOC	5%	5%	5%	4%	5%	0	(0)
ABC	268	279	290	264	275	2%	1%	ABC	3%	4%	4%	4%	4%	(1)	(0)
BoCom	96	100	104	94	98	2%	2%	BoCom	4%	4%	4%	3%	4%	1	(0)
PSBC	93	102	113	93	104	0%	(1%)	PSBC	9%	10%	10%	9%	12%	0	(2)
CMB	151	166	184	153	173	(1%)	(4%)	CMB	9%	10%	11%	11%	13%	(2)	(3)
Industrial	93	99	105	97	106	(4%)	(7%)	Industrial	2%	6%	6%	6%	10%	(4)	(4)
HuaXia	26	27	28	26	26	1%	2%	HuaXia	3%	4%	4%	4%	3%	(1)	1
PAB	51	58	65	54	61	(5%)	(6%)	PAB	13%	12%	12%	18%	14%	(5)	(2)
BONB	26	30	35	27	30	(1%)	0%	BONB	14%	15%	15%	15%	14%	(1)	1
BONJ	20	21	23	22	25	(8%)	(14%)	BONJ	8%	8%	9%	15%	14%	(7)	(7)
Aggregate								Aggregate							
Total	1,765	1,862	1,970	1,775	1,893	(1%)	(2%)	Total	6%	7%	7%	8%	9%	(2)	(1)
Large	1,398	1,461	1,530	1,398	1,472	(0%)	(1%)	Large	4%	5%	5%	5%	6%	(2)	(1)
Joint-stock	321	350	382	329	367	(2%)	(5%)	Joint-stock	7%	8%	8%	10%	10%	(2)	(1)
Regional	46	51	58	48	55	(4%)	(6%)	Regional	11%	11%	12%	15%	14%	(2)	(2)

Source: Goldman Sachs Global Investment Research

Exhibit 24: New vs. Old: DPS & div. payout ratio

DPS (Rmb)								Dividend payout ratio (%)							
Company	New			Old		Change		Company	New			Old		Change	
	2023E	2024E	2025E	2023E	2024E	2023E	2024E		2023E	2024E	2025E	2023E	2024E	2023E	2024E
ICBC	0.31	0.32	0.26	0.32	0.34	(3%)	(5%)	ICBC	30	30	23	30	30	(0)	(0)
CCB	0.40	0.42	0.44	0.39	0.41	2%	2%	CCB	30	30	30	30	30	0	0
BOC	0.24	0.25	0.27	0.24	0.25	0%	0%	BOC	30	30	30	30	30	(0)	(0)
ABC	0.23	0.24	0.24	0.23	0.24	2%	1%	ABC	30	30	29	30	30	0	0
BoCom	0.10	0.03	0.00	0.38	0.40	(73%)	(93%)	BoCom	8	2	0	30	30	(22)	(28)
PSBC	0.30	0.33	0.37	0.30	0.34	0%	(1%)	PSBC	30	30	30	30	30	0	(0)
CMB	1.90	2.09	2.32	1.93	2.18	(2%)	(4%)	CMB	32	32	32	32	32	(0)	(0)
Industrial	1.21	0.97	0.76	1.26	1.38	(4%)	(30%)	Industrial	27	20	15	27	27	0	(7)
HuaXia	0.23	0.20	0.21	0.37	0.38	(37%)	(48%)	HuaXia	14	11	11	22	22	(8)	(11)
PAB	0.32	0.36	0.40	0.34	0.38	(5%)	(6%)	PAB	12	12	12	12	12	0	0
BONB	0.57	0.65	0.75	0.58	0.65	(1%)	0%	BONB	14	14	14	14	14	0	(0)
BONJ	0.57	0.62	0.67	0.63	0.72	(9%)	(14%)	BONJ	30	30	30	30	30	0	0
Average								Average							
Total	0.53	0.54	0.56	0.58	0.64	(8%)	(15%)	Total	24	23	21	26	26	(3)	(4)
Large	0.26	0.27	0.26	0.31	0.33	(15%)	(19%)	Large	26	25	24	30	30	(4)	(5)
Joint-stock	0.92	0.91	0.92	0.97	1.08	(6%)	(16%)	Joint-stock	21	19	18	23	23	(2)	(4)
Regional	0.57	0.64	0.71	0.60	0.69	(5%)	(7%)	Regional	22	22	22	22	22	0	0

Source: Goldman Sachs Global Investment Research

Downgrade ICBC A/H to Sell from Buy on uncertainties of dividend and capital

1398.HK	12m Price Target: HK\$3.55	Price: HK\$4.24	Downside: 16.3%
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Sell		GS Forecast			
		12/22	12/23E	12/24E	12/25E
Market cap: HK\$1.5tr / \$192.9bn	Net inc. (attributable to equity)	360,483.0	369,923.6	382,652.7	396,991.9
3m ADTV :HK\$1.0bn/ \$132.2mn	Net inc. (Rmb mn) Old	366,367.2	383,241.5	403,635.4	--
China	EPS (Rmb) New	1.01	1.04	1.07	1.11
China Financials	EPS (Rmb) Old	1.03	1.08	1.13	--
	EPS growth (%)	3.5	2.6	3.4	3.7
M&A Rank: 3	P/E (X)	3.6	3.8	3.7	3.5
	P/B (X)	0.4	0.4	0.4	0.4
	Price/PPOP (X)	2.3	2.2	2.1	2.0
	Dividend yield (%)	8.3	7.9	8.2	6.6
		3/23	6/23E	9/23E	12/23E
	EPS (Rmb)	0.25	0.23	0.27	0.28

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 03 Jul 2023 close.

601398.SS	12m Price Target: Rmb4.12	Price: Rmb4.88	Downside: 15.6%
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Sell		GS Forecast			
		12/22	12/23E	12/24E	12/25E
Market cap: Rmb1.7tr / \$240.0bn	Net inc. (attributable to equity)	360,483.0	369,923.6	382,652.7	396,991.9
3m ADTV :Rmb1.6bn/ \$227.9mn	Net inc. (Rmb mn) Old	366,367.2	383,241.5	403,635.4	--
China	EPS (Rmb) New	1.01	1.04	1.07	1.11
China Financials	EPS (Rmb) Old	1.03	1.08	1.13	--
	EPS growth (%)	3.5	2.6	3.4	3.7
M&A Rank: 3	P/E (X)	4.5	4.7	4.5	4.4
	P/B (X)	0.5	0.5	0.5	0.4
	Price/PPOP (X)	2.9	2.8	2.7	2.5
	Dividend yield (%)	6.7	6.4	6.6	5.3
		3/23	6/23E	9/23E	12/23E
	EPS (Rmb)	0.25	0.23	0.27	0.28

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 03 Jul 2023 close.

We downgrade **ICBC A/H** to Sell from Buy on increasing dividend risk given the high CET1 ratio of ~13% required to maintain on the G-SIB list. Our stress-test which includes margin risk of local gov. debt and loss of credit portfolio suggests that the adjusted ROE of **ICBC** could be much lower than we previously expected at

9.2%/10.3%/9.9% or 207/56/50 bps lower vs. before adjustment in 2023E/24E/25E. This in turn could pose dividend risk to **ICBC** if the target CET1 ratio of ~13% is to be maintained in 2025E. Our new target A/H share 2024E-based P/PPOP is 2.25x/1.75x vs. 2.75x/2.25x prior, to factor in uncertainties of dividend and capital. Our new TP is Rmb 4.12/HK\$ 3.55 of A/H share vs. Rmb 5.29/HK\$ 4.98 prior. Since we added **ICBC-H** to our Buy list on April 5, 2018, the H-share has fallen -14% vs. Hang Seng China Ent index of -46%. Since we added the **ICBC-A** to our Buy list on March 12, 2017, it has risen +38% vs. CSI 300 index of +12%.

From our framework, we assess that:

1) **ICBC** could have a larger book of local gov. debt of Rmb 9.5tn, or 24% total IEA, vs. 18% average of large banks. As such, our stress test on margin loss from both stock and flow of local gov. debt suggests 85/69/63 bps ROE markdown and a -8%/-7%/-7% net profit decrease, with a dilution of CET1 ratio by -8bps/-15bps/-20bps, leading to an adjusted ROE of 10.5%/10.1%/9.8% in 2023E/24E/25E. We expect both the stock and flow of local gov. debt to lower rates, so with the net balance increase, the margin loss is likely to persist and hurt bank book value, ROE and CET1 ratio. (More details can be found in [Part I](#) of our series.)

2) **ICBC** has disclosed a high property NPL ratio of 6.1%, and better mix with 89% loan of property credit exposure, vs. 3.2%/79% average of covered banks (as of 2022). But given the backdrop of weak macro, we expect **ICBC** like other banks to see higher losses in their credit portfolio. We stress test the FY23E total loss and estimate it at Rmb 30bn, with Rmb 11bn from property loans and Rmb 19bn from assets under stage 3, and the provisions required would be Rmb 49bn, with Rmb 16bn from property loans and Rmb 33bn from assets under stage 3, assuming 150% coverage ratio for additional property NPL and 89%/100% (sample max) for the loan/debt portfolio. (Details for this test are in [Part II](#).)

All in, we forecast the adjusted ROE to be 9.2%/10.3%/9.9% by taking the aforementioned margin dilution and credit loss, compared with 11.3%/10.8%/10.4% before adjustment in 2023E/24E/25E. Assuming our adjusted NPL coverage ratio and CET1 ratio, we think there is a risk to **ICBC's** current dividend payout as the risk buffer release cannot support our forecast dividend and capital in 2025E based on the target ~13% CET 1 ratio that we expect ICBC to maintain in order to remain as a G-SIB. We model a dividend payout cut by 7ppts in 2025E, assuming no new capital raise or decrease in target CET1 ratio. DPS is 3%/5% lower vs. prior in 2023E-24E.

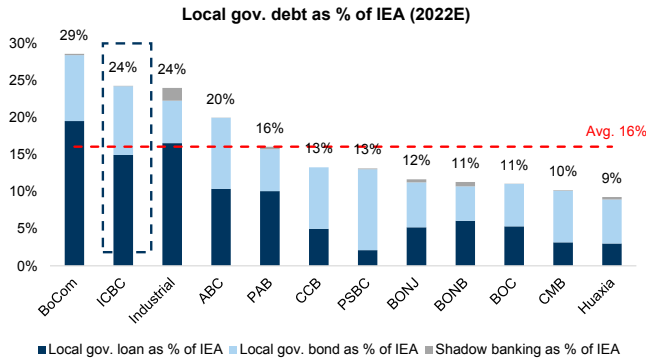
GSe NPAT in 2023E-25E is -3%/-6%/-9% below Visible Alpha consensus data, which we attribute to our more cautious view on potential margin loss from local gov. debt and credit risk.

Upside risks and what would make us more positive:

- Better than expected NIM to drive NII growth, which may come from more deposit cost savings: Potential factors would include a further deposit rate cut, a further policy rate cut, a smaller proportion of time deposits, and smaller margin risk from local gov. debt on less exposure or an improved macro environment.

- Stronger-than-expected retail recovery to drive retail loan growth and fee income (such as fees from credit card and consumption loans): Such a recovery could be supported by more retail consumption demand and better than expected household wealth growth.
- Larger dividend payout to improve cash return of investors.

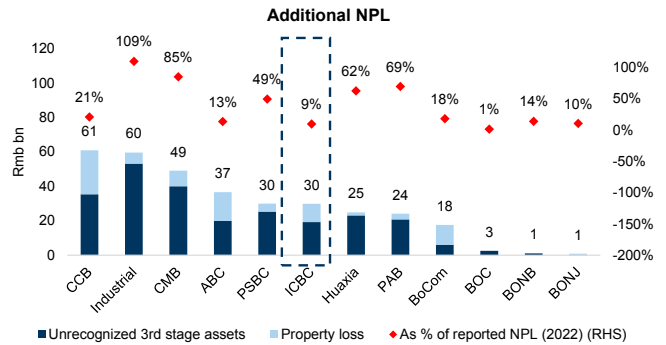
Exhibit 25: We estimate ICBC has a larger book of local gov. debt of Rmb 9.5tn, or 24% total IEA, vs. 18% average of large banks.



Source: Goldman Sachs Global Investment Research

Exhibit 26: We expect ICBC to have additional NPL of Rmb 30bn, with Rmb 11bn from property loans and Rmb 19bn from assets under stage 3.

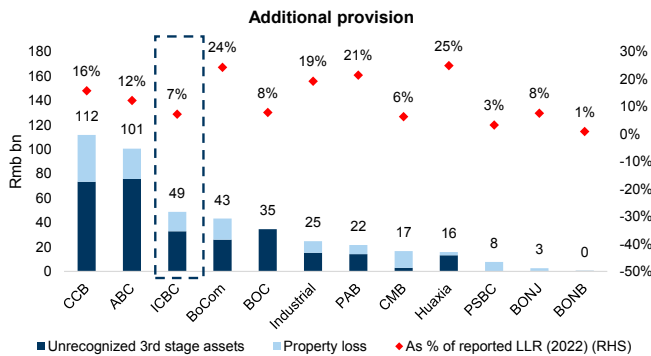
As of 2023E



Source: Goldman Sachs Global Investment Research

Exhibit 27: We expect ICBC to have additional provisions of Rmb 49bn, with Rmb 16bn from property loans and Rmb 33bn from assets under stage 3.

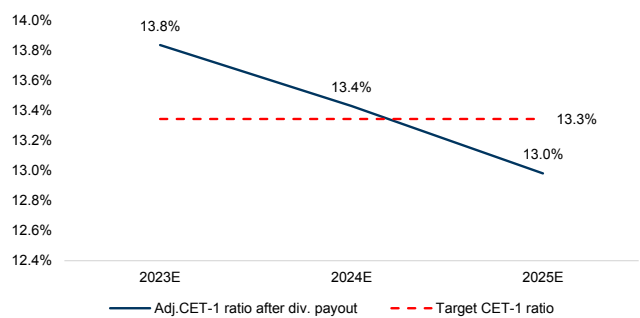
As of 2023E



Source: Goldman Sachs Global Investment Research

Exhibit 28: With adjusted NPL coverage ratio and CET1 ratio, we see a dividend risk for ICBC as risk buffer release cannot support dividend and capital in 2025E on a target ~13% CET 1 ratio which we expect ICBC to maintain as a G-SIB.

ICBC adj. CET-1 ratio after div. and provision release



Source: Goldman Sachs Global Investment Research

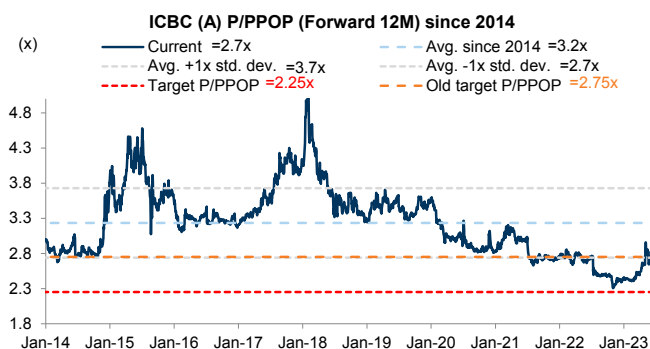
Exhibit 29: Model revisions (we introduce 2025E)

Rmb mn

Rmb mn	FY2023E		FY2024E		FY2025E	Changes(%)	
	Prior	Revised	Prior	Revised		2023E	2024E
Key items (Rmb mn)							
Net interest income	757,581	710,373	805,602	739,015	778,150	(6.2)	(8.3)
Non-interest income	174,356	156,584	179,775	161,606	167,221	(10.2)	(10.1)
Net fee income	137,367	129,099	142,418	133,227	137,699	(6.0)	(6.5)
Investment income	40,855	38,791	41,632	40,500	42,289	(5.1)	(2.7)
Operating revenues	931,937	866,957	985,377	900,621	945,372	(7.0)	(8.6)
Operating expenses	246,583	235,502	260,762	248,764	262,593	(4.5)	(4.6)
Preprov operating profits	685,354	631,455	724,615	651,857	682,778	(7.9)	(10.0)
Provision charges	227,405	196,389	242,468	201,749	215,907	(13.6)	(16.8)
Pretax profits	457,949	435,066	482,148	450,108	466,871	(5.0)	(6.6)
Taxes	72,580	63,142	76,384	65,455	67,880	(13.0)	(14.3)
Net profits	385,369	371,924	405,763	384,653	398,992	(3.5)	(5.2)
Net profits to common shareholders	374,495	355,114	394,889	367,843	382,182	(5.2)	(6.8)
Key assumptions (%)							
Revenue growth	5.5	2.6	5.7	3.9	5.0	(2.8)	(1.9)
PPOP growth	5.6	4.4	5.7	3.2	4.7	(1.2)	(2.5)
NPAT growth	4.6	3.0	5.3	3.4	3.7	(1.6)	(1.9)
Net interest margin (bp)	183	172	178	161	156	(11.6)	(16.7)
Loan growth	11.6	12.3	11.0	11.5	11.5	0.7	0.5
Deposit growth	10.3	13.0	9.9	10.0	10.0	2.7	0.1
Earning assets growth	11.8	12.6	9.4	10.6	9.3	0.8	1.2
Non-interest income growth	5.7	3.7	3.1	3.2	3.5	(2.0)	0.1
Operating expenses growth	5.2	(1.8)	5.8	5.6	5.6	(7.0)	(0.1)
Credit cost	0.79	0.72	0.76	0.66	0.63	(0.1)	(0.1)
ROA	0.9	0.8	0.9	0.8	0.8	(0.0)	(0.1)
ROE	11.7	10.9	11.4	10.4	10.0	(0.9)	(1.0)
New NPL formation rate	0.7	0.7	0.7	0.7	0.7	(0.1)	(0.0)
NPL coverage ratio	195.4	202.2	185.3	186.1	167.5	6.8	0.7
NII growth	5.4	2.4	6.3	4.0	5.3	(3.0)	(2.3)

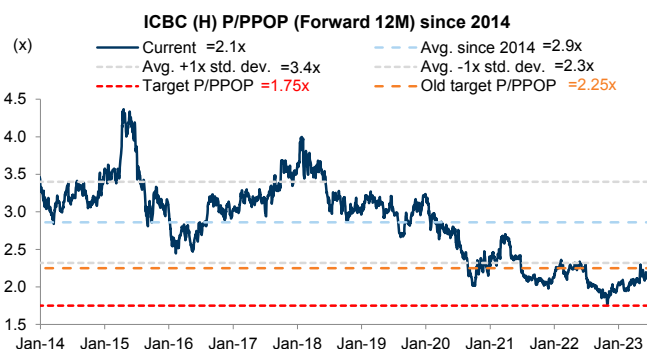
Source: Goldman Sachs Global Investment Research

Exhibit 30: ICBC(A) P/PPOP since 2014



Source: Wind

Exhibit 31: ICBC(H) P/PPOP since 2014



Source: Wind

Exhibit 32: ICBC Summary Table

Rmb mn

Factors driving earnings performance	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	Profit and loss (Rmb mn)	2019	2020	2021	2022	2023E	2024E	2025E
Loans	8.4%	9.0%	8.3%	8.7%	11.1%	11.0%	12.3%	12.3%	11.5%	11.5%	Net interest income	606,926	646,765	690,600	693,637	710,373	739,015	773,150
Customer deposits	9.5%	7.9%	11.4%	7.3%	9.4%	5.2%	13.0%	13.0%	10.0%	10.0%	Non-interest income	170,547	153,401	172,105	151,012	156,984	161,608	167,221
Net interest margin	2.10	2.14	2.18	2.14	2.08	2.06	1.89	1.72	1.61	1.56	Net fee income	155,600	131,215	133,024	129,265	129,099	133,227	137,699
Net interest income	-7.1%	10.6%	9.7%	6.0%	6.6%	6.8%	0.4%	2.4%	4.0%	5.3%	Investment income	20,812	42,762	48,472	28,662	38,791	40,500	42,289
Non-interest income	5.7%	-9.5%	-0.8%	10.5%	-10.1%	12.2%	-12.3%	3.7%	3.2%	3.5%	Operating income	777,473	800,166	862,785	844,699	866,957	900,621	945,372
Investment income	7.4%	-21.9%	7.3%	74.9%	105.5%	13.4%	-40.9%	35.3%	4.4%	4.4%	Operating expense	206,727	205,372	235,263	239,715	235,502	246,764	262,593
Net fee income	1.1%	-3.7%	4.1%	7.1%	-15.7%	1.4%	-2.8%	-0.1%	3.2%	3.4%	Preprovision operating profits	570,746	594,794	627,522	604,984	631,455	651,857	682,778
Operating revenues	-4.0%	5.3%	7.3%	7.0%	2.9%	7.8%	-2.1%	2.6%	3.9%	5.0%	Provision charges	178,957	202,668	202,623	182,419	196,389	201,749	215,807
Operating expenses	-12.6%	-3.8%	4.1%	7.2%	-0.7%	14.6%	1.9%	-1.8%	5.6%	5.6%	Pre-tax profits	391,789	392,126	424,899	422,565	435,066	450,108	466,871
Preprovision operating profits	0.2%	9.1%	8.4%	6.9%	4.2%	5.5%	-3.6%	4.4%	3.2%	4.7%	Tax	78,428	74,441	74,683	61,527	63,142	65,455	67,880
Provision charges	1.0%	45.4%	26.5%	10.7%	13.2%	0.0%	-10.0%	7.7%	2.7%	7.0%	Net profits	313,361	317,685	350,216	361,038	371,924	384,653	398,992
Net profits to common shareholders	-0.4%	2.9%	4.1%	5.0%	-0.2%	10.3%	2.0%	2.7%	3.6%	3.9%	Minority interest	1,137	1,779	1,878	555	2,000	2,000	2,000
Dividend	0.4%	2.8%	4.1%	4.9%	1.2%	10.3%	3.5%	2.6%	3.4%	-19.4%	Dividends to preferred shareholders	4,525	8,839	9,607	14,810	14,810	14,810	14,810
Average interest earning assets	7.7%	8.4%	7.8%	8.0%	9.4%	7.9%	9.7%	12.6%	10.6%	9.9%	Net profits to common shareholders	307,699	307,067	338,731	345,673	355,114	367,843	382,182
CAMEL ratios (%)											Balance sheet (Rmb mn)							
C: Core Tier1 CAR	13.4	12.8	13.0	13.2	13.2	13.3	14.0	13.6	13.5	13.4	Gross lending	16,761,319	18,624,308	20,667,245	23,212,312	26,061,695	29,049,175	32,382,263
C: Total CAR	14.6	15.1	15.4	16.8	16.9	18.0	19.3	18.3	17.7	17.3	Total gross earning assets	29,069,373	31,979,294	33,847,453	38,334,965	42,987,567	46,988,654	51,388,095
C: Asset/Equity	7.8	7.8	8.1	8.2	8.0	8.3	7.9	7.7	7.6	7.5	Total LLR	476,498	530,300	603,764	672,762	744,800	804,653	867,937
C: RWIA density	60	61	62	62	60	62	56	56	56	56	Total interest earning assets	29,547,871	32,509,594	34,451,217	39,007,727	43,732,367	47,793,307	52,236,032
A: NFL ratio	1.6	1.6	1.5	1.4	1.6	1.4	1.4	1.4	1.5	1.6	Other non-interest earning assets	1,040,063	1,365,764	1,323,930	1,274,692	1,303,644	1,331,093	1,390,557
A: LLR/NPL	137	154	176	199	180	206	209	202	186	168	Total assets	30,109,436	33,345,058	35,171,383	39,609,657	44,291,211	48,319,747	52,758,652
A: LLR/total loans (%)	2.2	2.4	2.7	2.9	2.8	2.9	2.9	2.9	2.8	2.7	NPLs	240,187	293,978	293,429	321,170	368,290	432,423	518,104
A: Credit cost (%)	0.66	0.87	0.96	0.97	0.92	0.81	0.62	0.72	0.66	0.63	Customer deposits	22,977,655	25,134,726	26,441,774	29,870,491	33,753,655	37,129,020	40,841,922
E: ROA	1.2	1.1	1.1	1.1	1.0	1.0	0.9	0.9	0.8	0.8	Total interest-bearing liabilities	26,251,393	29,065,520	30,559,844	34,662,567	38,997,347	42,678,495	46,729,401
E: ROE	15.2	14.3	13.7	13.1	12.0	12.2	11.4	10.9	10.4	10.0	Non-interest-bearing liabilities	1,166,040	1,370,023	1,336,281	1,413,264	1,519,116	1,596,673	1,678,235
E: Cost to income	29.9	27.3	26.5	26.6	25.7	27.3	28.4	27.2	27.6	27.8	Total liabilities	27,417,433	30,435,543	31,896,125	36,095,831	40,516,463	44,275,168	48,407,636
L: Loan/deposits	73.2	74.0	72.0	72.9	74.1	78.2	77.7	77.2	78.2	79.3	Share capital	356,407	356,407	356,407	356,407	356,407	356,407	356,407
L: Avg loans/earning assets	55.9	53.8	54.6	54.5	54.4	57.0	56.2	56.3	57.7	58.8	Total common equity	2,470,054	2,667,683	2,903,424	3,140,840	3,401,762	3,671,593	3,978,030
L: Avg earning assets/assets	96.8	93.4	94.8	94.2	93.1	95.2	92.7	93.4	94.7	94.8	Preferred share/perpetual bond	206,132	225,819	354,331	354,331	354,331	354,331	354,331
ROA/ROE DuPont analysis											Total liabilities and equity	30,093,619	33,329,045	35,153,880	39,591,002	44,272,556	48,301,082	52,739,997
ROE	15.2	14.3	13.7	13.1	12.0	12.2	11.4	10.9	10.4	10.0	RWA	18,616,886	20,124,139	21,690,349	22,225,272	24,852,128	27,112,568	29,603,271
/ leverage (x)	12.9	12.8	12.6	12.3	12.4	12.3	12.4	12.8	13.1	13.2								
= ROA	1.18	1.12	1.09	1.06	0.97	0.99	0.92	0.85	0.79	0.76								
NII as % of assets	2.04	2.08	2.13	2.10	2.04	2.02	1.86	1.69	1.60	1.54								
Non-interest inc. as % of assets	0.74	0.62	0.57	0.59	0.46	0.50	0.40	0.37	0.35	0.33								
Net fee income as % of assets	0.63	0.56	0.54	0.54	0.41	0.39	0.35	0.31	0.29	0.27								
Oper. rev. as % of assets	2.78	2.70	2.70	2.69	2.52	2.52	2.26	2.07	1.94	1.87								
Oper. exp. as % of assets	0.83	0.74	0.72	0.72	0.65	0.69	0.64	0.56	0.54	0.52								
PPDP ROA	1.95	1.96	1.99	1.97	1.87	1.83	1.62	1.51	1.41	1.35								
Loan prov. as % of assets	0.38	0.51	0.60	0.62	0.64	0.59	0.49	0.47	0.44	0.43								
Pre-tax profits	1.57	1.45	1.38	1.36	1.24	1.24	1.13	1.04	0.97	0.92								
Tax	0.36	0.31	0.27	0.27	0.23	0.22	0.18	0.15	0.14	0.13								
Net profits	1.20	1.14	1.11	1.08	1.00	1.02	0.97	0.89	0.83	0.79								
Net profits to common shareholders	1.18	1.12	1.09	1.06	0.97	0.99	0.92	0.85	0.79	0.76								
Net profit/RWA	1.97	1.85	1.77	1.72	1.59	1.62	1.57	1.51	1.42	1.36								
PPDP/RWA	3.25	3.23	3.23	3.19	3.07	3.00	2.78	2.68	2.51	2.41								

Source: Company data, Goldman Sachs Global Investment Research

Downgrade Industrial Bank to Sell from Buy on worsening balance sheet

601166.SS

12m Price Target: Rmb12.09

Price: Rmb15.83

Downside: 23.6%

Sell		GS Forecast			
		12/22	12/23E	12/24E	12/25E
Market cap: Rmb328.9bn / \$45.4bn	Net inc. (attributable to equity)	91,377.0	92,964.4	98,829.8	105,047.0
3m ADTV :Rmb1.2bn/ \$168.1mn	Net inc. (Rmb mn) Old	91,377.0	96,801.7	106,368.6	115,085.3
China	EPS (Rmb) New	4.40	4.48	4.76	5.06
China Financials	EPS (Rmb) Old	4.40	4.66	5.12	5.54
	EPS growth (%)	10.5	1.7	6.3	6.3
M&A Rank: 3	P/E (X)	4.3	3.5	3.3	3.1
	P/B (X)	0.6	0.5	0.4	0.4
	Price/PPOP (X)	2.1	2.1	2.0	1.8
	Dividend yield (%)	6.3	7.6	6.1	4.8
		3/23	6/23E	9/23E	12/23E
	EPS (Rmb)	1.21	0.91	1.37	1.28

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 03 Jul 2023 close.

We downgrade **Industrial Bank** to Sell, from Buy, on a worsening balance sheet, its larger exposure to local government debt vs. our other covered banks and further losses from bank credit portfolios. We estimate the adjusted ROE before dividend could be 9.4%/12.3%/11.9% in 2023E/24E/25E vs. 13.4%/12.9%/12.5% before adjustment. Based on this stressed scenario, we think dividend risk is high starting in 2024E. We have changed our PPOP estimates by -3%/-4%/-5% vs. previously, with a new target P/PPOP of 1.5x vs. 2.25x prior resulting in a new 12-month TP of Rmb 12.09 vs. Rmb 18.93 prior.

From our framework, we assess that **Industrial Bank** has:

1) Larger local government debt exposure, with Rmb 2.2tn as of 2022, or 24% of total IEA vs. avg 16% of our covered banks. The margin dilution assuming declining rates of local government debt could drive net profit to decrease by -8%/-9%/-9% in 2023E-25E, resulting in adj. ROE of 12.3%/11.9%/11.6% vs. 13.4%/12.9%/12.5% before adjustment, and the book value to change by -0.8%/-1.5%/-2.1% vs. before adjustment in 2023E-25E, all else being equal.

2) Additional losses on credit portfolio could be Rmb 60bn in total (as of 2023E), including Rmb 6bn of property loans, and Rmb 53bn of assets under stage 3. This also requires more provision to set aside against the additional losses, which we estimate to be Rmb 25bn in total, with Rmb 10bn for property loans and Rmb 15bn for assets under stage 3. Hence we calculate the adjusted NPL coverage ratio would change to 165% from 215%, with net profit further decreasing by -23%, and ROE by -300bps, and book value decreasing -2% in 2023E.

3) All in, the adjusted ROE/CET1 ratio could be 9.4%/9.6% vs. 13.4%/9.9% before

adjustment in 2023E. As a result, we think the dividend is likely to miss the target starting from 2024, as the adjusted NPL coverage ratio may not be able to support both dividend and capital maintenance.

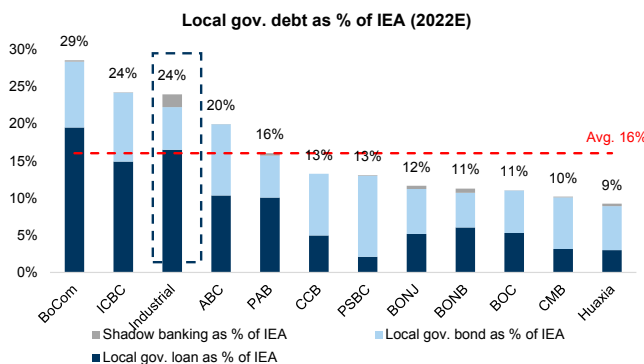
Thus, we have changed the PPOP by -3%/-4%/-5% vs. previously in 2023E/24E/25E. Our new target P/PPOP is 1.5x vs. 2.25x prior, and our new TP is Rmb 12.09 vs. Rmb 18.93 previously, implying -24% downside vs. average -6% downside of our A-share covered banks. Since being added to the Buy list on 8 June 2018, the stock has gained 31% vs the CSI300 up 0.3%. We model dividend payout to cut by 7ppts/12ppts in 2024/25E, assuming no new capital raise or lowering target CET1 ratio. DPS will be -4%/-30% vs. prior in 2023E-24E.

Our NPAT estimates for 2023E-25E are -2%/-4%/-5% below Visible Alpha consensus as we take into account Industrial’s larger exposure to local government debt vs. our other covered banks and further losses from bank credit portfolios.

Upside risks and what could make us turn positive again:

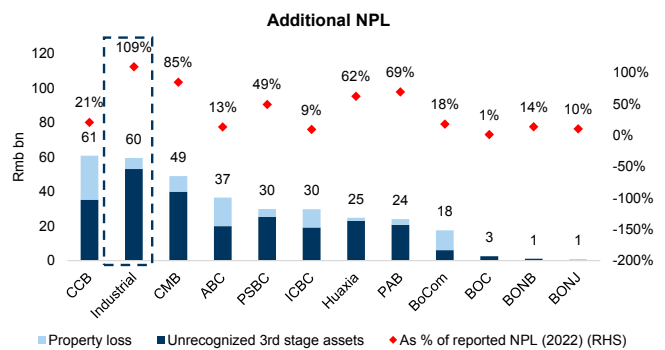
- Better than expected asset quality, especially in property and local government debt, which offer more room to release profit by lowering NPL coverage ratio.
- Better than expected NIM on deposit cost saving and improving funding mix: Potential factors would include a further deposit rate cut, a further policy rate cut, or a smaller proportion of time deposits.
- Stronger than expected retail finance growth supported by retail lending balance increase and fee income growth: This growth could be driven by more retail consumption demand and better than expected household wealth growth.

Exhibit 33: We calculate Industrial Bank has larger local gov. debt exposure, with Rmb 2.2tn, or 24% of total IEA vs. avg 16% of our covered banks



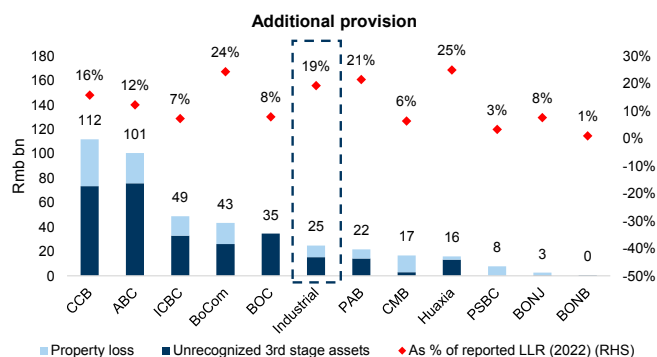
Source: Goldman Sachs Global Investment Research

Exhibit 34: We estimate Industrial Bank to have Rmb 60bn additional losses on credit portfolio in total, including Rmb 6bn of property loans and Rmb 53bn of assets under stage 3... As of 2023E



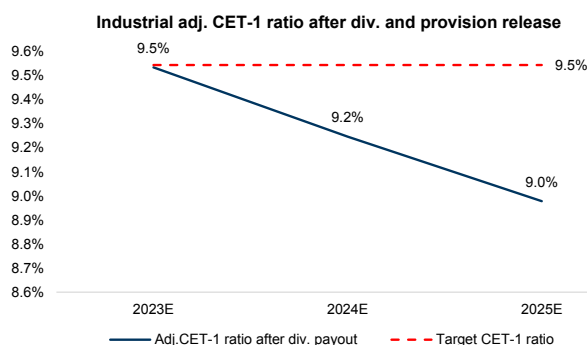
Source: Goldman Sachs Global Investment Research

Exhibit 35: ...and additional provision of Rmb 25bn in total, with Rmb 10bn for property loans and Rmb 15bn for assets under stage 3
As of 2023E



Source: Goldman Sachs Global Investment Research

Exhibit 36: All in, the adjusted CET1 ratio/ROE could be 9.4%/9.6% vs. 13.4%/9.9% before adjustment in 2023E; So we think the dividend is likely to miss target starting in 2024



Source: Goldman Sachs Global Investment Research

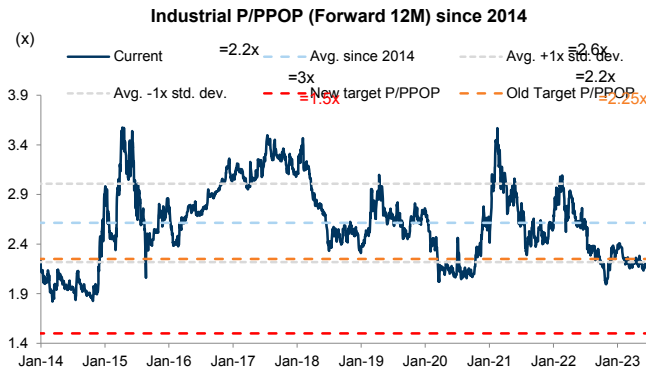
Exhibit 37: Model revision

Rmb mn

	FY2023E		FY2024E		FY2025E		Changes(%)		
	Prior	Revised	Prior	Revised	Prior	Revised	2023E	2024E	2025E
Key items (Rmb mn)									
Net interest income	151,492	146,914	161,577	155,441	172,773	166,331	(3.0)	(3.8)	(3.7)
Non-interest income	81,145	78,352	89,248	84,893	99,231	92,005	(3.4)	(4.9)	(7.3)
Net fee income	48,225	42,084	53,116	45,228	59,567	48,615	(12.7)	(14.8)	(18.4)
Operating revenues	232,637	225,266	250,825	240,334	272,004	258,336	(3.2)	(4.2)	(5.0)
Operating expenses	70,492	68,376	76,006	72,876	82,472	78,423	(3.0)	(4.1)	(4.9)
PPOP	162,145	156,890	174,818	167,458	189,532	179,913	(3.2)	(4.2)	(5.1)
Provision charges	49,429	48,589	51,100	52,412	55,796	57,722	(1.7)	2.6	3.5
Pretax profits	112,716	108,301	123,718	115,045	133,736	122,190	(3.9)	(7.0)	(8.6)
Taxes	14,648	14,071	16,083	14,949	17,385	15,877	(3.9)	(7.1)	(8.7)
NPAT	98,068	94,230	107,635	100,096	116,351	106,313	(3.9)	(7.0)	(8.6)
Key assumptions (%)									
Revenue growth	4.8	1.5	7.8	6.7	8.4	7.5	(3.3)	(1.1)	(1.0)
PPOP growth	4.7	1.3	7.8	6.7	8.4	7.4	(3.4)	(1.1)	(1.0)
NPAT growth	6.1	2.0	9.8	6.2	8.1	6.2	(4.2)	(3.5)	(1.9)
Net interest margin (bp)	159.1	154.0	154.8	148.1	151	144	(5.2)	(6.7)	(6.7)
Loan growth	12.3	11.2	12.4	11.4	12.6	11.7	(1.2)	(1.1)	(1.0)
Deposit growth	11.8	11.1	12.1	11.5	12.5	11.8	(0.7)	(0.6)	(0.7)
Earning assets growth	8.7	9.0	9.6	10.0	9.8	10.0	0.2	0.4	0.2
Non-interest income growth	5.8	2.2	10.0	8.3	11.2	8.4	(3.6)	(1.6)	(2.8)
Operating expenses growth	5.0	1.9	7.8	6.6	8.5	7.6	(3.2)	(1.2)	(0.9)
Credit cost	0.6	0.6	0.5	0.6	0.52	0.55	(0.0)	0.0	0.0
ROA	0.95	0.91	0.96	0.88	0.9	0.9	(0.0)	(0.1)	(0.1)
ROE	13.4	12.8	13.3	12.4	13.0	12.0	(0.5)	(0.9)	(1.0)
New NPL formation rate	1.0	0.9	1.0	0.9	1.1	0.9	(0.1)	(0.1)	(0.2)
NPL coverage ratio	199.1	215.3	150.8	185.1	104.5	150.4	16.2	34.2	45.9
NII growth	4.3	1.1	6.7	5.8	6.9	7.0	(3.2)	(0.9)	0.1

Source: Goldman Sachs Global Investment Research

Exhibit 38: Industrial P/PPOP since 2014



Source: Wind

Exhibit 39: Industrial Bank Summary Table

Rmb mn

Factors driving earnings performance	2019	2020	2021	2022	2023E	2024E	2025E	Profit and loss (Rmb mn)	2019	2020	2021	2022	2023E	2024E	2025E
Loans	17%	15%	12%	13%	11%	11%	12%	Net interest income	102,985	143,515	145,679	145,273	146,914	155,441	166,331
Customer deposits	15%	8%	7%	10%	11%	12%	12%	Non-interest income	77,924	58,897	74,316	76,689	78,352	84,893	92,005
Net interest margin	1.53	1.96	1.81	1.66	1.54	1.48	1.44	Net fee income	49,679	37,710	42,680	45,041	42,084	45,228	48,615
Net interest income	8%	39%	2%	0%	1%	6%	7%	Investment income	26,614	19,887	30,656	29,591	34,559	37,874	41,513
Non-interest income	25%	-24%	26%	3%	2%	8%	8%	Operating income	180,912	202,412	219,995	221,962	225,266	240,334	258,336
Investment income	-9%	-25%	54%	-3%	17%	10%	10%	Operating expense	48,313	50,348	57,675	67,121	68,376	72,876	78,423
Net fee income	16%	-24%	13%	6%	-7%	7%	7%	Provision operating profits	132,599	152,064	162,320	154,841	156,890	167,458	179,913
Operating revenues	15%	12%	9%	1%	1%	7%	7%	Provision charges	58,096	75,427	67,010	48,620	48,589	52,412	57,722
Operating expenses	11%	4%	15%	16%	2%	7%	8%	Pretax profits	74,503	76,637	95,310	106,221	108,301	115,045	122,190
Provision operating profits	16%	15%	7%	-8%	1%	7%	7%	Tax	7,801	8,956	11,494	13,807	14,071	14,949	15,877
Provision charges	25%	30%	-11%	-27%	0%	8%	10%	Net profits	66,702	67,681	83,816	92,414	94,230	100,096	106,313
Net profits to common shareholders	9%	1%	24%	11%	2%	8%	6%	Minority interest	834	1,055	1,136	1,037	1,266	1,266	1,266
Dividend	10%	5%	29%	15%	2%	-20%	-22%	Dividends to preferred shareholders	1,462	2,549	4,260	4,212	4,212	4,212	4,212
Average interest earning assets	6%	9%	10%	9%	9%	10%	10%	Net profits to common shareholders	64,386	64,077	78,420	87,165	88,752	94,618	100,835
CAMEL ratios (%)								Balance sheet (Rmb mn)							
C: Core Tier1 CAR	9.5	9.3	9.8	9.8	9.9	9.9	10.0	Gross lending	3,441,451	3,965,674	4,428,183	4,982,987	5,540,250	6,171,319	6,892,361
C: Total CAR	13.4	13.5	14.4	14.4	14.1	13.8	13.5	Total gross earning assets	6,875,583	7,566,514	8,297,494	8,952,310	9,882,500	10,879,839	11,995,875
C: Asset/Equity	6.8	6.7	6.9	7.1	7.1	7.2	7.3	Total LLR	105,581	108,661	130,909	128,834	119,653	110,060	98,049
C: RWA density	72	72	71	73	73	73	73	Total interest earning assets	6,981,164	7,675,175	8,428,403	9,081,144	10,002,153	10,989,899	12,093,924
A: NPL ratio	1.5	1.3	1.1	1.1	1.0	1.0	0.9	Other non-interest earning assets	270,098	327,486	305,530	314,361	307,911	324,403	346,824
A: LLR/NPL	199.1	218.8	268.7	236.4	215.3	185.1	150.4	Total assets	7,145,681	7,894,000	8,603,024	9,266,671	10,190,411	11,204,242	12,342,699
A: Credit cost (%)	1.4	1.2	1.0	0.8	0.6	0.6	0.6	NPLs	53,022	49,656	48,714	54,488	55,572	59,473	65,191
E: ROA	0.9	0.9	1.0	1.0	0.9	0.9	0.9	Customer deposits	3,794,832	4,084,242	4,355,748	4,788,754	5,321,263	5,933,209	6,633,327
E: ROE	13.9	12.6	13.9	13.9	12.8	12.3	11.8	Total interest-bearing liabilities	6,481,866	7,112,850	7,721,874	8,300,530	9,138,465	10,055,787	11,085,717
E: Cost to income	28.7	24.9	26.2	30.2	30.4	30.3	30.4	Non-interest-bearing liabilities	114,163	156,347	186,852	208,843	224,219	240,838	258,810
L: Loan/deposits	90.7	97.1	101.7	104.1	104.1	104.0	103.9	Total liabilities	6,596,029	7,269,197	7,908,726	8,509,373	9,362,684	10,296,625	11,344,522
L: Avg loans/earning assets	45.7	48.3	49.8	51.8	52.6	53.3	54.0	Share capital	20,774	20,774	20,774	20,774	20,774	20,774	20,774
L: Avg earning assets/assets	94.5	92.8	93.6	94.5	93.6	93.7	93.5	Total common equity	465,518	529,784	595,151	657,227	727,423	807,313	897,873
ROA/ROE DuPont analysis								Preferred share/perpetual bond	55,842	55,802	85,960	85,960	85,960	85,960	85,960
ROE	13.9	12.6	13.9	13.9	12.8	12.3	11.8	Total liabilities and equity	7,137,389	7,884,783	8,592,837	9,255,560	10,179,067	11,192,898	12,331,365
/ leverage (x)	15.0	14.8	14.7	14.3	14.1	13.9	13.8	RWA	5,123,362	5,663,756	6,102,620	6,746,229	7,418,721	8,156,800	8,985,608
= ROA	0.93	0.85	0.95	0.98	0.91	0.88	0.86								
NII as % of assets	1.49	1.91	1.77	1.63	1.51	1.45	1.41								
Non-interest inc. as % of assets	1.12	0.78	0.90	0.86	0.81	0.79	0.78								
Net fee income as % of assets	0.72	0.50	0.52	0.50	0.43	0.42	0.41								
Oper. rev. as % of assets	2.61	2.69	2.67	2.48	2.32	2.25	2.19								
Oper. exp. as % of assets	0.70	0.67	0.70	0.75	0.70	0.68	0.67								
PPOP ROA	1.91	2.02	1.97	1.73	1.61	1.57	1.53								
Loan prov. as % of assets	0.84	1.00	0.81	0.54	0.50	0.49	0.49								
Pretax profits	1.08	1.02	1.16	1.19	1.11	1.08	1.04								
Tax	0.11	0.12	0.14	0.15	0.14	0.14	0.13								
Net profits	0.96	0.90	1.02	1.03	0.97	0.94	0.90								
Net profits to common shareholders	0.93	0.85	0.95	0.96	0.91	0.88	0.86								
Net profit/RWA	1.31	1.19	1.33	1.36	1.25	1.21	1.18								
PPOP/RWA	2.69	2.82	2.76	2.41	2.22	2.15	2.10								

Source: Company data, Goldman Sachs Global Investment Research

Downgrade ABC-A/H to Sell on relative valuation and risk

1288.HK	12m Price Target: HK\$2.45	Price: HK\$3.12	Downside: 21.5%		
Sell		GS Forecast			
		12/22	12/23E	12/24E	12/25E
Market cap: HK\$1.1tr / \$139.4bn	Net inc. (attributable to equity)	259,140.0	267,868.3	278,705.9	289,993.3
3m ADTV :HK\$416.3mn/ \$53.1mn	Net inc. (Rmb mn) Old	253,435.5	263,782.0	275,086.0	--
China	EPS (Rmb) New	0.74	0.77	0.80	0.83
China Financials	EPS (Rmb) Old	0.72	0.75	0.79	--
	EPS growth (%)	7.4	3.4	4.0	4.0
M&A Rank: 3	P/E (X)	3.1	3.8	3.6	3.5
	P/B (X)	0.4	0.4	0.4	0.4
	Price/PPOP (X)	2.2	2.2	2.1	2.0
	Dividend yield (%)	9.5	8.0	8.3	8.4
		3/23	6/23E	9/23E	12/23E
	EPS (Rmb)	0.20	0.18	0.20	0.19

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 03 Jul 2023 close.

601288.SS	12m Price Target: Rmb2.59	Price: Rmb3.62	Downside: 28.5%		
Sell		GS Forecast			
		12/22	12/23E	12/24E	12/25E
Market cap: Rmb1.3tr / \$174.8bn	Net inc. (attributable to equity)	259,140.0	267,868.3	278,705.9	289,993.3
3m ADTV :Rmb1.7bn/ \$239.2mn	Net inc. (Rmb mn) Old	253,435.5	263,782.0	275,086.0	--
China	EPS (Rmb) New	0.74	0.77	0.80	0.83
China Financials	EPS (Rmb) Old	0.72	0.75	0.79	--
	EPS growth (%)	7.4	3.4	4.0	4.0
M&A Rank: 3	P/E (X)	4.0	4.7	4.5	4.4
	P/B (X)	0.5	0.5	0.5	0.5
	Price/PPOP (X)	2.8	2.7	2.6	2.5
	Dividend yield (%)	7.6	6.3	6.6	6.7
		3/23	6/23E	9/23E	12/23E
	EPS (Rmb)	0.20	0.18	0.20	0.19

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 03 Jul 2023 close.

We downgrade **ABC** A/H to Sell, from Neutral, as we believe relative outperformance YTD (+21%/+15% vs. +3.2%/+4.2% average of covered A/H banks) does not take into account increasing uncertainties around dividend and capital. Given the structural headwinds the banking system is facing, namely local government debt risk and a credit downcycle on weaker macro, we think ABC's relatively large local government debt exposure (20% of IEA), in addition to more losses to digest in its credit portfolio

(Rmb37bn estimated additional loss, or 13% of reported losses) and below average CET1 ratio among large banks, will increase its challenges maintaining its dividend, and thus a dividend payout miss is likely in 2025E. Our new target P/PPOPs for the A/H shares are 1.875x/1.6x vs. 2x/1.6x prior, and our PPOP growth forecasts are 2%/5%/5% in 2023E/24E/25E. Based on these, we revise our 12m TPs for the A/H shares to Rmb2.59/HK\$2.45, from Rmb2.85/HK\$2.62 prior. We consider A/H valuations stretched, with our TPs offering -28%/-21% downside vs. banks coverage averages of -7%/-6%, respectively. GSe NPAT in 2023E-25E is -0%/-3%/-6% below Visible Alpha consensus, which we attribute to our more cautious view on potential margin loss from local gov. debt and credit risk.

Based on our framework, we estimate that **ABC** could have Rmb6.8tn of local government debt on its balance sheet, with Rmb3.5tn of loans and Rmb3.3tn of bonds. Our test is based on the margin loss from 1) debt rollover on 1% lower rates each year; and 2) the opportunity cost due to a spread existing between the weighted bank loan rate and the local government debt yield. Also, assuming that 20% of existing local government debt will roll over and that new local government debt growth will be in line with the pace of balance sheet expansion, we model adjusted ROE for ABC in 2023E/24E/25E at 10.6%/10.4%/10.0%.

To adjust the book value, we stress test **ABC's** balance sheet by including potential losses from property loans and assets under stage 3. Our analysis suggests a potential Rmb37bn total loss, which would mark down book value by -2%. In this scenario, adjusted ROE would be 8.0% vs. 11.6% before adjustment in 2023E.

Thus, with a target CET 1 ratio set at 11.5%, we believe the bank could face dividend risk in 2025E, as provision release from the adjusted NPL coverage ratio is unlikely to support capital and the dividend. We do not see **ABC** dividend at risk until 2025E, with DPS increases of 2%/1% vs. prior in 2023E/24E on provision release, but dividend payout cut in 2025E. With increasing target CET1 ratio (11.5% for ABC as G-SIB vs. 13.3% for ICBC), **ABC** will face more dividend risk.

Revising down our PPOP estimates by -8%/-9% for 2023E/24E and adjusting our target P/PPOPs for the A/H shares to 1.875x/1.6x vs. 2x/1.6x prior, we arrive at new 12m TPs of Rmb2.59/HK\$2.45 vs. Rmb 2.85/HK\$ 2.62 prior.

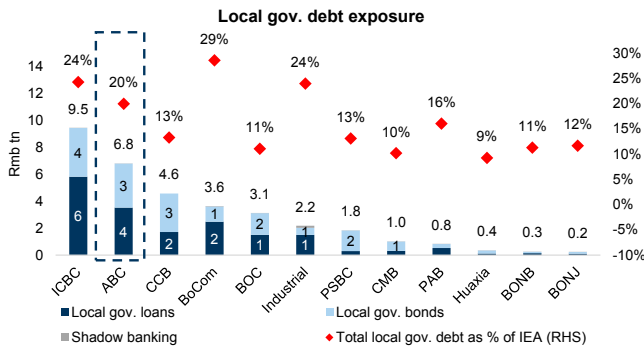
Upside risks and what could make us more constructive

- Better than expected NIM to drive NII growth, which may come from deposit cost saving and improving the funding structure: Potential factors would include a further deposit rate cut, a further policy rate cut, and a smaller proportion of time deposits.
- Lower than expected local government debt rollover risk: This could be driven by a lower than expected local gov. debt rate cut, and/or less than expected rollover scale.
- Better than expected asset quality on improving macro: Potential drivers would include less than expected property NPL formation and fewer than expected assets moved to stage 3, which would require less additional provisioning and allow more room for provision release to boost earnings.

- Stronger-than-expected retail recovery to drive retail loan growth and fee income (such as fees from credit card and consumption loans): Such a recovery could be supported by more retail consumption demand and better than expected household wealth growth.

Exhibit 40: We estimate that ABC could have Rmb6.8tn of local gov. debt on its balance sheet, with Rmb3.5tn of loans and Rmb3.3tn of bonds

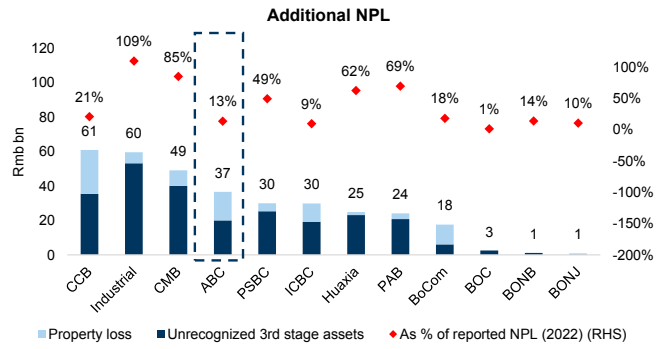
As of 2022, GSe



Source: Goldman Sachs Global Investment Research

Exhibit 41: We estimate that ABC has Rmb37bn of additional losses in the credit portfolio in total, comprising Rmb17bn of property loans and Rmb20bn of assets under stage 3...

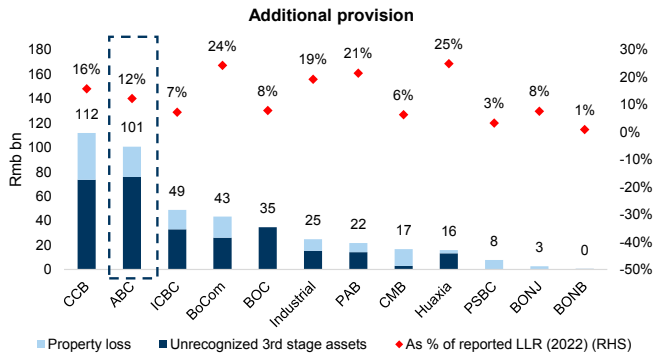
As of 2023E



Source: Goldman Sachs Global Investment Research

Exhibit 42: ...and additional provisions of Rmb101bn in total, comprising Rmb25bn for property loans and Rmb76bn for assets under stage 3

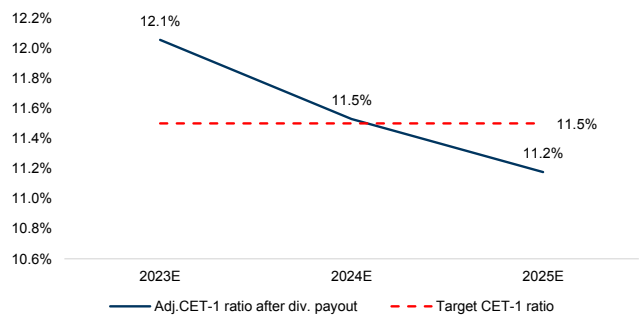
As of 2023E



Source: Goldman Sachs Global Investment Research

Exhibit 43: We believe ABC could face dividend risk in 2025E, as provision release from the adjusted NPL coverage ratio is unlikely to support capital and the dividend

ABC adj. CET-1 ratio after div. and provision release



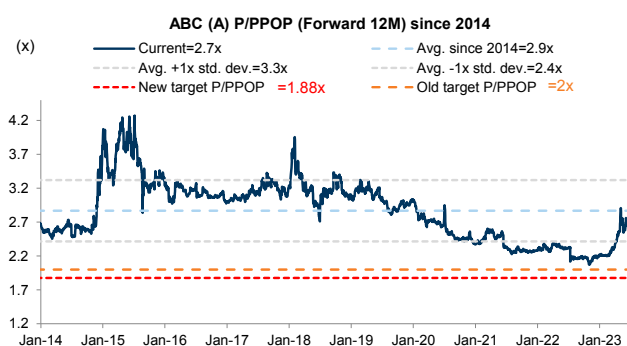
Source: Goldman Sachs Global Investment Research

Exhibit 44: Model revisions (we introduce 2025E)

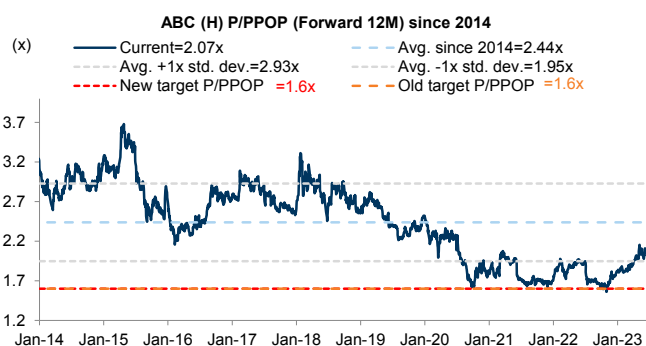
Rmb mn

Rmb mn	FY2023E		FY2024E		FY2025E	Changes(%)	
	Prior	Revised	Prior	Revised	Revised	2023E	2024E
Key items (Rmb mn)							
Net interest income	651,965	592,576	695,535	625,017	660,403	(9.1)	(10.1)
Non-interest income	91,831	109,674	95,105	111,747	116,213	19.4	17.5
Net fee income	84,954	82,571	88,170	85,692	88,946	(2.8)	(2.8)
Investment income	7,926	22,735	7,926	20,966	21,385	186.8	164.5
Operating revenues	743,796	702,250	790,640	736,764	776,617	(5.6)	(6.8)
Operating expenses	236,341	241,398	250,929	254,250	268,199	2.1	1.3
PPOP	507,455	460,851	539,711	482,514	508,418	(9.2)	(10.6)
Provision charges	181,489	144,855	199,608	153,802	166,370	(20.2)	(22.9)
Pretax profits	317,510	315,997	331,126	328,712	342,048	(0.5)	(0.7)
Taxes	53,718	49,042	56,030	50,921	52,968	(8.7)	(9.1)
NPAT	263,792	266,954	275,096	277,792	289,079	1.2	1.0
Key assumptions (%)							
Revenue growth	6.6	2.2	6.3	4.9	5.4	(4.46)	(1.38)
PPOP growth	6.4	2.1	6.4	4.7	5.4	(4.32)	(1.66)
NPAT growth	4.1	3.2	4.3	4.1	4.1	(0.89)	(0.23)
Net interest margin (bp)	182	163	176	154	147	(18.40)	(22.00)
Loan growth	12.7	14.3	11.3	12.0	10.9	1.64	0.74
Deposit growth	11.9	15.0	11.0	12.0	11.0	3.12	1.05
Earning assets growth	13.5	14.9	10.3	12.0	10.6	1.40	1.73
Non-interest income growth	(3.3)	12.6	3.6	1.9	4.0	15.93	(1.68)
Operating expenses growth	7.2	2.4	6.2	5.3	5.5	(4.81)	(0.85)
Credit cost	0.79	0.61	0.78	0.58	0.56	(0.18)	(0.20)
ROA	0.7	0.7	0.7	0.6	0.6	(0.02)	(0.03)
ROE	11.2	10.8	10.8	10.5	10.1	(0.38)	(0.35)
New NPL formation rate	0.5	0.7	0.6	0.7	0.7	0.15	0.14
NPL coverage ratio	264.0	296.1	243.3	284.7	273.6	32.12	41.46
NII growth	8.2	0.4	6.7	5.5	5.7	(7.76)	(1.21)

Source: Goldman Sachs Global Investment Research

Exhibit 45: ABC (A) P/PPOP since 2014

Source: Wind

Exhibit 46: ABC (H) P/PPOP since 2014

Source: Wind

Exhibit 47: ABC Summary Table

Rmb mn

Key items growth yoy	2019	2020	2021	2022	2023E	2024E	2025E
Loans	12%	14%	13%	15%	14%	12%	11%
Customer deposits	7%	10%	8%	15%	15%	12%	11%
Net interest margin	2.06	2.10	2.06	1.87	1.63	1.54	1.47
Net interest income	2%	12%	8%	2%	0%	5%	6%
Non-interest income	12%	-28%	32%	-11%	13%	2%	4%
Investment income	11%	-75%	261%	-1%	0%	-8%	2%
Net fee income	11%	-14%	8%	1%	2%	4%	4%
Operating revenues	4%	4%	10%	0%	2%	5%	5%
Operating expenses	2%	1%	14%	4%	2%	5%	5%
Provision operating profits	4%	6%	7%	-2%	2%	5%	5%
Provision charges	1%	19%	1%	-12%	0%	6%	8%
Net profits to common shareholders	5%	2%	12%	7%	3%	4%	4%
Dividend	5%	2%	12%	7%	3%	4%	2%
Average interest earning assets	9%	10%	8%	12%	15%	12%	11%
CAMEL ratios (%)							
C: Core Tier1 CAR	11.2	11.0	11.4	11.2	10.7	10.4	10.2
C: Total CAR	16.1	16.6	17.1	17.2	16.1	15.3	14.6
C: Asset/Equity	7.0	6.9	7.1	6.6	6.3	6.1	6.0
C: RWA density	62	62	61	59	59	59	59
A: NPL ratio	1.4	1.6	1.4	1.4	1.3	1.3	1.4
A: LLR/NPL	288.8	260.6	299.7	302.6	296.1	284.7	273.6
A: LLR/total loans (%)	4.1	4.1	4.3	4.2	4.0	3.8	3.7
A: Credit cost (%)	1.0	0.9	1.0	0.7	0.6	0.6	0.6
E: ROA	0.9	0.8	0.8	0.8	0.7	0.6	0.6
E: ROE	12.4	11.4	11.5	11.3	10.8	10.5	10.1
E: Cost to income	32.7	31.5	32.8	34.3	34.4	34.5	34.5
L: Loan/deposits	71.9	74.3	78.2	78.5	78.0	78.0	78.0
L: Avg loans/earning assets	50.8	52.5	55.4	54.1	54.8	55.9	56.5
L: Avg. earning assets/assets	95.2	95.5	96.7	93.1	94.6	95.6	96.0
ROA/ROE DuPont analysis							
ROE	12.4	11.4	11.5	11.3	10.8	10.5	10.1
/ leverage (x)	14.2	14.3	14.3	14.7	15.6	16.2	16.6
= ROA	0.87	0.79	0.81	0.77	0.69	0.65	0.61
NII as % of assets	2.05	2.09	2.05	1.87	1.64	1.55	1.48
Non-interest inc. as % of assets	0.49	0.32	0.39	0.31	0.30	0.28	0.28
Net fee income as % of assets	0.37	0.29	0.29	0.26	0.23	0.21	0.20
Oper. rev. as % of assets	2.54	2.41	2.44	2.18	1.94	1.82	1.74
Oper. exp. as % of assets	0.83	0.76	0.80	0.75	0.67	0.63	0.60
PPOP ROA	1.71	1.65	1.64	1.43	1.28	1.19	1.14
Loan prov. as % of assets	0.58	0.63	0.59	0.46	0.40	0.38	0.37
Pretax profits	1.12	1.02	1.05	0.97	0.87	0.81	0.77
Tax	0.23	0.19	0.19	0.15	0.14	0.13	0.12
Net profits	0.90	0.83	0.86	0.82	0.74	0.69	0.65
Net profits to common shareholders	0.87	0.79	0.81	0.77	0.69	0.65	0.61
Net profit/RWA	1.42	1.27	1.31	1.28	1.18	1.10	1.04
PPOP/RWA	2.78	2.65	2.65	2.39	2.18	2.04	1.94
Profit and loss (Rmb mn)							
Net interest income	486,871	545,079	577,987	589,966	592,576	625,017	660,403
Non-interest income	115,340	83,035	109,807	97,374	109,674	111,747	116,213
Net fee income	96,926	74,545	80,329	81,282	82,571	85,692	88,946
Investment income	25,480	6,375	23,025	22,704	22,735	20,966	21,385
Operating income	602,211	628,114	687,794	687,340	702,250	736,764	776,617
Operating expense	196,912	198,161	225,914	235,798	241,398	254,250	268,199
Provision operating profits	405,299	429,953	461,880	451,542	460,851	482,514	508,418
Provision charges	138,723	164,903	166,000	145,326	144,855	153,802	166,370
Pretax profits	266,576	265,050	295,880	306,216	315,997	328,712	342,048
Tax	53,652	48,650	53,944	47,528	49,042	50,921	52,968
Net profits	212,924	216,400	241,936	258,688	266,954	277,792	289,079
Minority interest	826	475	753	-452	-914	-914	-914
Dividends to preferred shareholders	4,600	9,530	13,798	17,239	17,239	17,239	17,239
Net profits to common shareholders	207,498	206,395	227,385	241,901	250,629	261,467	272,754
Balance sheet (Rmb mn)							
Gross lending	13,329,546	15,136,121	17,135,752	19,722,721	22,541,141	25,247,092	28,009,415
Total gross earning assets	24,286,341	26,499,104	28,378,985	33,218,003	37,645,133	41,791,190	46,088,231
Total LLR	540,578	618,009	736,687	820,233	891,504	963,279	1,038,835
Total interest earning assets	24,826,919	27,117,113	29,115,672	34,038,236	38,536,637	42,754,468	47,127,066
Other non-interest earning assets	591,947	705,943	690,170	709,530	696,781	721,998	741,002
Total assets	24,878,288	27,205,047	29,069,155	33,927,533	38,341,915	42,513,188	46,829,233
NPLs	187,210	237,113	245,782	271,082	301,044	338,294	379,623
Customer deposits	18,542,861	20,372,901	21,907,127	25,121,040	28,889,196	32,355,900	35,915,048
Total interest-bearing liabilities	22,142,078	24,376,278	26,111,501	30,728,266	34,937,313	38,882,257	42,960,349
Non-interest-bearing liabilities	776,448	618,023	536,295	524,816	555,120	587,295	621,466
Total liabilities	22,918,526	24,994,301	26,647,796	31,253,082	35,492,433	39,469,552	43,581,815
Share capital	349,983	349,983	349,983	349,983	349,983	349,983	349,983
Total common equity	1,748,469	1,884,914	2,054,733	2,228,412	2,402,811	2,596,965	2,800,747
Preferred share/perpetual bond	199,886	319,875	359,872	440,000	440,000	440,000	440,000
Total liabilities and equity	24,866,881	27,199,090	29,062,401	33,921,494	38,335,244	42,506,517	46,822,562
RWA	15,485,352	16,989,668	17,849,566	19,862,505	22,446,857	24,888,883	27,415,665

Source: Company data, Goldman Sachs Global Investment Research

Upgrade PSBC to Buy from Sell on robust balance sheet to maintain dividend

1658.HK	12m Price Target: HK\$5.8	Price: HK\$4.87	Upside: 19.1%
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Buy		GS Forecast			
		12/22	12/23E	12/24E	12/25E
Market cap: HK\$482.9bn / \$61.7bn	Net inc. (attributable to equity)	85,224.0	93,162.6	102,326.8	112,992.4
3m ADTV :HK\$232.1mn/ \$29.6mn	Net inc. (Rmb mn) Old	85,224.0	92,914.0	103,823.1	115,116.7
China	EPS (Rmb) New	0.92	1.01	1.11	1.22
China Financials	EPS (Rmb) Old	0.92	1.01	1.12	1.25
	EPS growth (%)	11.9	9.3	9.8	10.4
M&A Rank: 3	P/E (X)	5.0	4.5	4.1	3.7
	P/B (X)	0.6	0.6	0.5	0.5
	Price/PPOP (X)	3.5	3.3	3.0	2.8
	Dividend yield (%)	6.0	6.7	7.4	8.1
		6/22	12/22	6/23E	12/23E
	EPS (Rmb)	0.51	0.41	0.55	0.46

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 03 Jul close.

601658.SS	12m Price Target: Rmb6.03	Price: Rmb4.98	Upside: 21.1%
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Buy		GS Forecast			
		12/22	12/23E	12/24E	12/25E
Market cap: Rmb493.8bn / \$68.1bn	Net inc. (attributable to equity)	85,224.0	93,162.6	102,326.8	112,992.4
3m ADTV :Rmb887.3mn/ \$127.0mn	Net inc. (Rmb mn) Old	85,224.0	92,914.0	103,823.1	115,116.7
China	EPS (Rmb) New	0.92	1.01	1.11	1.22
China Financials	EPS (Rmb) Old	0.92	1.01	1.12	1.25
	EPS growth (%)	11.9	9.3	9.8	10.4
M&A Rank: 3	P/E (X)	5.4	4.9	4.5	4.1
	P/B (X)	0.7	0.6	0.6	0.5
	Price/PPOP (X)	3.9	3.7	3.3	3.0
	Dividend yield (%)	5.6	6.1	6.7	7.4
		3/23	6/23E	9/23E	12/23E
	EPS (Rmb)	0.27	0.27	0.32	0.14

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 03 Jul 2023 close.

We upgrade **PSBC** A/H share to Buy, despite sector headwinds. Based on our framework, we expect PSBC to maintain its dividend and healthy ROE due to its robust balance sheet. We forecast an adjusted 2023E ROE before dividends of 11.1%, or -187bps vs. prior. With 292% adjusted NPL coverage ratio and 9.1% adjusted CET1

ratio, we believe **PSBC** should be able to maintain dividends in our forecast years. We also estimate 6%/10%/9% PPOP growth vs. 4%/5%/6% of large banks in 2023E/24E/25E, to factor in **PSBC's** growth potential. Our new TP of A/H share is Rmb 6.03/HK\$ 5.8 vs. Rmb 4.31/HK\$ 4.06 prior. Since our Sell rating in March 2023, PSBC A/H share prices changed by +10%/+4% vs. +4%/+3% average of covered A/H share banks, mainly due to greater than expected deposit cost savings leading to upbeat NIMs. Since we added **PSBC-H** to our Sell list on March 2, 2023, its return has been -0.2% vs. Hang Seng China Ent index at -7%. Since we added the A-share to our Sell list on March 2, 2023, it has returned +6.5% vs. CSI 300 index of -7%. We think the outperformance was mainly due to funding cost saving with deposit rate cut, given its large deposits (96% of total liability).

From the framework we built in to assess the adjusted ROE of banks, we find that **PSBC's** robust balance sheet is due to:

1) The smaller gov. debt exposure, which we estimate at Rmb 1.8tn, or 13% of total IEA with Rmb 0.3tn local gov. loans and Rmb 1.5tn local gov. bonds. Our analysis shows that the margin dilution could lead to a 92/83/76 bps ROE markdown in 2023E/24E/25E vs. 77/67/61bps average of large banks, if we treat local gov. bonds and loans equally, meaning no tax and capital benefits of local gov. bonds.

As we estimate **PSBC** holds more local gov. bonds (83% of total vs. 52% average of large banks) than loans, the tax and capital benefits could be larger and thereby offset the negative impact of margin risk of local gov. debt.

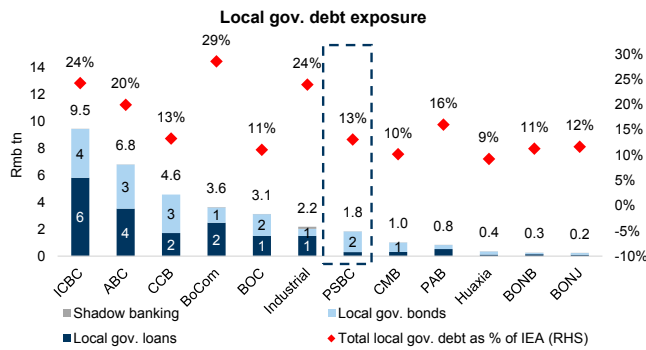
2) The smaller property exposure and likely recognition of a small loss. We estimate that **PSBC** could have additional losses of Rmb 30bn to digest in total, with Rmb 5bn from property loans and Rmb 25bn from assets under stage 3, and will set aside Rmb 8bn in provisions with all of it for the property loan losses and Rmb 0bn against the assets under stage 3. With this, we have adjusted our FY23E NPL coverage ratio and ROE for **PSBC** to 292%/12%, -78ppts/-97bps vs. before adjustment, and this compares with -6ppts/-245bps change on average of large banks.

Taking into account our adjusted key drivers, namely ROE, NPL coverage ratio and target CET1 ratio, we note that **PSBC** should be able to continue to pay dividends in outer years, provided the target CET1 ratio remains at the historical average. We forecast the adjusted dividend yield in 2023E/24E/25E to be 5.2%/6.2%/6.9% vs. 4.5%/6.3%/6.6% of larger banks' average for A-share, and 5.8%/7.0%/7.7% vs. 5.8%/8.0%/8.4% of larger banks' average for H-share. We think **PSBC's** robust balance sheet will enable it to maintain its trading P/PPOP valuation multiple, despite sector headwinds. Our PPOP growth is 6%/10%/9% yoy vs. 4%/5%/6% average of large banks in 2023E/24E/25E. We increase our estimated PPOP by +2%/+3%/+3% vs. prior to factor in its robust balance sheet, and apply target P/PPOPs of A/H to 3.75x/3.25x, slightly above the historical avg, to reflect both its robust balance sheet due to lower local gov. debt exposure and fewer additional losses to recognize in its credit portfolio, vs. 2.75x/2.25x prior. Our target price of A/H rises to Rmb 6.03/HK\$ 5.8 vs. Rmb 4.31/HK\$ 4.06 prior, implying 21%/19% upside.

Downside Risk:

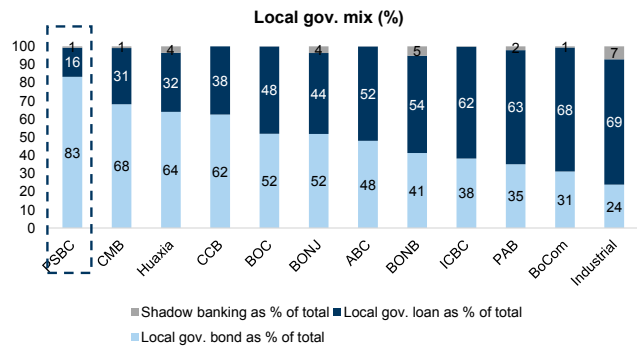
- Worsening asset quality, especially in property sector, which will require more provisions and thus less room to release profit.
- Greater than expected NIM dilution, which may come from further LPR cuts, faster than expected mortgage repricing, higher than expected mortgage early repayments and weaker than expected retail loan demand.
- Weaker fee income growth due to a weaker than expected retail recovery.
- Recapitalization risk which dilutes ROE and poses downward pressure on share price.

Exhibit 48: We estimate PSBC has smaller gov. debt exposure, which we estimate Rmb 1.8tn, or 13% of total IEA with Rmb 0.3tn local gov. loans and Rmb 1.5tn local gov. bonds.
As of 2022, GSe



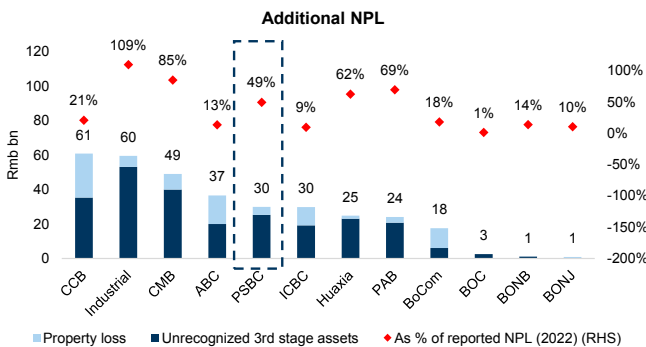
Source: Goldman Sachs Global Investment Research

Exhibit 49: As PSBC holds more local gov. bonds per our estimation (83% of total vs. 52% average of large banks) than loans, the tax and capital benefits could be larger to offset the negative impact of margin risk of local gov. debts.
As of 2022



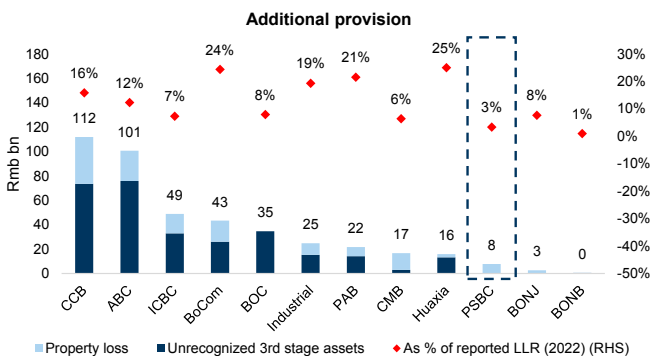
Source: Goldman Sachs Global Investment Research

Exhibit 50: We estimate that PSBC could have Rmb 30bn more loss to digest in total, with Rmb 5bn from property loans and Rmb 25bn from assets under stage 3...
As of 2023E



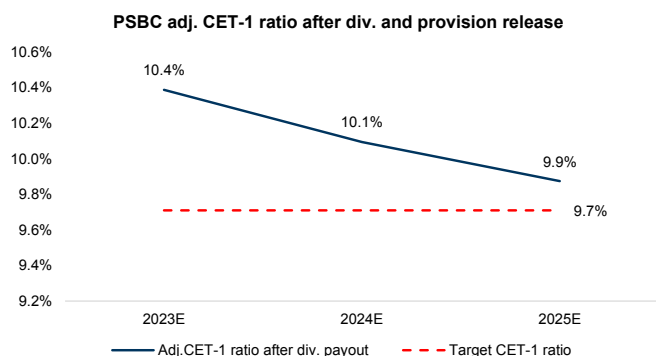
Source: Goldman Sachs Global Investment Research

Exhibit 51: ...and Rmb 8bn provision to beef up in total, with Rmb 8bn set aside against the property loan loss and Rmb 0bn against the asset under stage 3.
As of 2023E



Source: Goldman Sachs Global Investment Research

Exhibit 52: Taking the adjusted key drivers, namely ROE, NPL coverage ratio and target CET1 ratio, we note that PSBC could continue to pay dividends in outer years, provided the target CET1 ratio remains at historical average.



Source: Goldman Sachs Global Investment Research

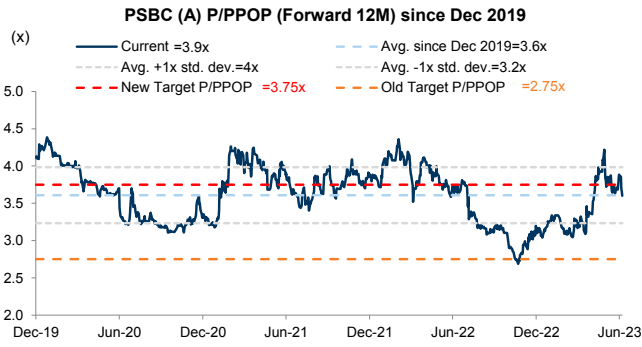
Exhibit 53: Model revisions

Rmb mn

Rmb mn	FY2023E		FY2024E		FY2025E		Changes(%)		
	Prior	Revised	Prior	Revised	Prior	Revised	2023E	2024E	2025E
Key items (Rmb mn)									
Net interest income	280,865	288,893	304,442	316,718	328,729	345,210	2.9	4.0	5.0
Non-interest income	72,585	65,521	81,525	73,575	91,657	81,458	(9.7)	(9.8)	(11.1)
Net fee income	34,633	34,220	38,528	38,154	42,911	42,590	(1.2)	(1.0)	(0.7)
Investment income	32,991	28,909	37,658	31,800	42,996	34,980	(12.4)	(15.6)	(18.6)
Operating revenues	353,450	354,414	385,968	390,294	420,386	426,668	0.3	1.1	1.5
Operating expenses	220,909	219,634	241,144	241,828	262,571	264,319	(0.6)	0.3	0.7
PPOP	132,541	134,779	144,823	148,466	157,815	162,349	1.7	2.5	2.9
Provision charges	32,997	34,972	33,626	38,826	34,520	41,330	6.0	15.5	19.7
Pretax profits	99,544	99,807	111,197	109,640	123,295	121,019	0.3	(1.4)	(1.8)
Taxes	6,480	6,494	7,224	7,113	8,028	7,827	0.2	(1.5)	(2.5)
NPAT	93,064	93,313	103,973	102,527	115,267	113,192	0.3	(1.4)	(1.8)
Attributable profit	86,206	86,455	97,115	95,619	108,409	106,284	0.3	(1.5)	(2.0)
Key assumptions (%)									
Revenue growth	5.5	5.8	9.2	10.1	8.9	9.3	0.3	0.9	0.4
PPOP growth	4.6	6.4	9.3	10.2	9.0	9.4	1.8	0.9	0.4
NPAT growth	9.0	9.3	11.7	9.9	10.9	10.4	0.3	(1.8)	(0.5)
Net interest margin (bp)	189	194	185	192	180	189	5.4	7.5	9.1
Loan growth	11.5	11.5	10.9	10.9	11.0	11.0	0.0	(0.1)	0.1
Deposit growth	11.5	11.5	11.0	11.0	10.9	10.9	0.0	0.0	0.0
Earning assets growth	11.5	11.5	10.9	10.9	10.7	10.7	0.0	(0.0)	0.0
Non-interest income growth	18.1	6.6	12.3	12.3	12.4	10.7	(11.5)	(0.0)	(1.7)
Operating expenses growth	6.0	5.4	9.2	10.1	8.9	9.3	(0.6)	0.9	0.4
Credit cost	0.39	0.41	0.36	0.41	0.33	0.40	0.0	0.1	0.1
ROA	0.6	0.6	0.6	0.6	0.6	0.6	0.0	(0.0)	(0.0)
ROE	12.0	12.1	12.4	12.2	12.6	12.3	0.0	(0.2)	(0.2)
New NPL formation rate	0.4	0.4	0.4	0.4	0.4	0.3	(0.0)	(0.0)	(0.0)
NPL coverage ratio	361.9	370.8	352.3	359.0	332.8	351.6	8.9	6.7	18.8
NII growth	2.7	5.6	8.4	9.6	8.0	9.0	2.9	1.2	1.0

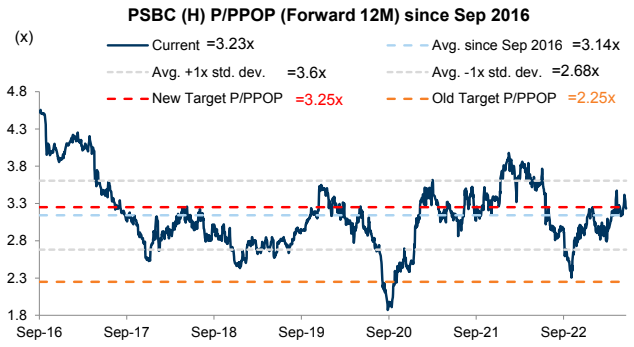
Source: Goldman Sachs Global Investment Research

Exhibit 54: PSBC (A) P/PPOP since 2019



Source: Wind

Exhibit 55: PSBC (H) P/PPOP since 2016



Source: Wind

Exhibit 56: PSBC Summary Table

Rmb mn

Key items growth yoy	2019	2020	2021	2022	2023E	2024E	2025E	Profit and loss (Rmb mn)	2019	2020	2021	2022	2023E	2024E	2025E
Loans	16%	15%	13%	12%	11%	11%	11%	Net interest income	240,224	253,378	269,382	273,593	288,893	318,718	345,210
Customer deposits	8%	11%	10%	12%	12%	11%	11%	Non-interest income	37,511	33,011	49,300	61,443	65,521	73,575	81,458
Net interest margin	2.44	2.35	2.25	2.05	1.94	1.92	1.89	Net fee income	17,085	16,495	22,007	28,434	34,220	38,154	42,590
Net interest income	3%	5%	6%	2%	6%	10%	9%	Investment income	16,323	19,181	26,973	26,155	28,909	31,800	34,980
Non-interest income	38%	-12%	49%	25%	7%	12%	11%	Operating income	277,735	286,389	318,682	335,036	354,414	390,294	426,668
Investment income	332%	18%	41%	-3%	11%	10%	10%	Operating expense	158,595	167,836	190,570	206,325	219,634	241,828	264,319
Net fee income	18%	-3%	33%	29%	20%	11%	12%	Preprovision operating profits	119,140	118,553	128,112	126,711	134,779	148,466	162,349
Operating revenues	6%	3%	11%	5%	6%	10%	9%	Provision charges	55,395	50,417	46,658	35,347	34,972	38,826	41,330
Operating expenses	4%	6%	14%	9%	5%	10%	9%	Pretax profits	63,745	68,136	81,454	91,364	99,807	109,640	121,019
Preprovision operating profits	9%	0%	8%	-1%	6%	10%	9%	Tax	2,709	3,818	4,922	6,009	6,494	7,113	7,827
Provision charges	0%	-9%	-7%	-24%	-1%	11%	6%	Net profits	61,036	64,318	76,532	85,355	93,313	102,527	113,192
Net profits to common shareholders	16%	5%	19%	12%	9%	10%	10%	Minority interest	103	119	362	131	150	200	200
Dividend	16%	5%	19%	12%	9%	10%	10%	Dividends to preferred shareholders	2,501	2,584	5,276	6,708	6,708	6,708	6,708
Average interest earning assets	7%	9%	11%	11%	12%	11%	11%	Net profits to common shareholders	58,432	61,815	70,894	78,516	86,455	95,619	106,284
CAMEL ratios (%)								Balance sheet (Rmb mn)							
C: Core Tier1 CAR	9.9	9.6	9.9	9.4	9.2	9.1	9.1	Gross lending	4,974,196	5,716,258	6,454,099	7,210,433	8,039,115	8,911,894	9,894,796
C: Total CAR	13.5	13.9	14.8	13.8	13.2	12.8	12.3	Total gross earning assets	10,039,377	11,148,851	12,362,836	13,845,013	15,402,950	17,070,339	18,905,258
C: Asset/Equity	4.9	4.8	5.1	4.9	4.8	4.7	4.7	Total LLR	166,124	203,897	216,900	232,723	244,102	253,393	264,908
C: RWA density	49	50	51	52	52	52	52	Total interest earning assets	10,205,501	11,352,748	12,579,736	14,077,736	15,647,052	17,323,732	19,170,166
A: NPL ratio	0.9	0.9	0.8	0.8	0.8	0.8	0.8	Other non-interest earning assets	177,329	204,412	226,037	222,289	240,115	253,725	269,127
A: LLR/NPL	387.7	404.8	411.7	383.2	370.8	359.0	351.6	Total assets	10,216,706	11,353,263	12,587,873	14,067,282	15,643,065	17,324,063	19,174,385
A: LLR/total loans (%)	3.3	3.6	3.4	3.2	3.0	2.8	2.7	NPLs	42,844	50,367	52,685	60,736	65,830	70,574	75,340
A: Credit cost (%)	1.0	0.9	0.4	0.5	0.4	0.4	0.4	Customer deposits	9,314,066	10,358,029	11,354,073	12,714,485	14,176,651	15,741,753	17,464,216
E: ROA	0.6	0.6	0.6	0.6	0.6	0.6	0.6	Total interest-bearing liabilities	9,582,751	10,583,080	11,684,832	13,146,325	14,650,535	16,253,548	18,018,022
E: ROE	12.7	11.8	12.0	11.9	12.1	12.2	12.3	Non-interest-bearing liabilities	89,076	97,253	107,492	95,143	101,359	107,524	114,086
E: Cost to income	57.1	58.6	59.8	62.2	62.0	62.0	61.9	Total liabilities	9,671,827	10,680,333	11,792,324	13,241,468	14,751,895	16,361,073	18,132,108
L: Loan/deposits	53.4	55.2	56.8	56.7	56.7	56.6	56.7	Share capital	86,203	86,979	92,384	92,384	92,384	92,384	92,384
L: Avg loans/earning assets	45.3	47.1	48.4	48.5	48.7	48.9	49.1	Total common equity	495,998	543,941	636,236	684,239	749,595	821,416	900,702
L: Avg. earning assets/assets	98.4	94.9	95.1	94.7	95.0	95.2	95.2	Preferred share/perpetual bond	47,869	127,858	157,855	139,986	139,986	139,986	139,986
ROA/ROE DuPont analysis	2019	2020	2021	2022	2023E	2024E	2025E	Total liabilities and equity	10,215,894	11,352,132	12,586,415	14,065,893	15,641,476	17,322,474	19,172,796
ROE	12.7	11.8	12.0	11.9	12.1	12.2	12.3	RWA	4,969,658	5,651,439	6,400,338	7,266,134	8,080,069	8,948,350	9,904,092
/leverage (x)	21.4	20.7	20.3	20.2	20.7	21.0	21.2								
=ROA	0.59	0.57	0.59	0.58	0.58	0.58	0.58								
NII as % of assets	2.43	2.35	2.25	2.05	1.94	1.92	1.89								
Non-interest inc. as % of assets	0.38	0.31	0.41	0.46	0.44	0.45	0.45								
Net fee income as % of assets	0.17	0.15	0.18	0.21	0.23	0.23	0.23								
Oper. rev. as % of assets	2.81	2.66	2.66	2.51	2.39	2.37	2.34								
Oper. exp. as % of assets	1.61	1.56	1.59	1.56	1.48	1.47	1.45								
PPOP ROA	1.21	1.10	1.07	0.95	0.91	0.90	0.89								
Loan prov. as % of assets	0.56	0.47	0.39	0.27	0.24	0.24	0.23								
Pretax profits	0.65	0.63	0.68	0.69	0.67	0.67	0.66								
Tax	0.03	0.04	0.04	0.05	0.04	0.04	0.04								
Net profits	0.62	0.60	0.64	0.64	0.63	0.62	0.62								
Net profits to common shareholders	0.59	0.57	0.59	0.59	0.58	0.58	0.58								
Net profit/RWA	1.26	1.16	1.18	1.15	1.13	1.12	1.13								
PPOP/RWA	2.57	2.23	2.13	1.85	1.76	1.74	1.72								

Source: Company data, Goldman Sachs Global Investment Research

Appendix I: Various bank indicators

Exhibit 57: New vs. Old: NIM and Loan growth

Company	NIM (%)									Company	Loan growth										
	New			Old			Change(bps)				New			Old			Change(ppts)				
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E		2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E		
ICBC	1.72	1.61	1.56	1.83	1.78		(12)	(17)		ICBC	12%	11%	11%	12%	11%				1	0	
CCB	1.78	1.69	1.62	1.87	1.81		(9)	(12)		CCB	11%	11%	10%	11%	10%				0	1	
BOC	1.51	1.46	1.42	1.65	1.61		(14)	(15)		BOC	11%	9%	8%	11%	9%				1	0	
ABC	1.63	1.54	1.47	1.82	1.76		(18)	(22)		ABC	14%	12%	11%	13%	11%				2	1	
BoCom	1.27	1.22	1.19	1.32	1.27		(5)	(5)		BoCom	11%	10%	10%	12%	10%				(1)	(1)	
PSBC	1.94	1.92	1.89	1.89	1.85	1.80	5	7	9	PSBC	11%	11%	11%	11%	11%	11%			-	(0)	0
CMB	2.20	2.16	2.14	2.20	2.16	2.14	(0)	-	-	CMB	11%	11%	11%	11%	11%				-	-	-
Industrial	1.54	1.48	1.44	1.59	1.55	1.51	(5)	(7)	(7)	Industrial	11%	11%	12%	12%	12%	13%			(1)	(1)	(1)
HuaXia	1.79	1.72	1.67	1.83	1.75		(4)	(3)		HuaXia	5%	5%	5%	6%	5%				(0)	(0)	
PAB	2.44	2.43	2.40	2.45	2.42	2.39	(0)	1	2	PAB	11%	10%	10%	11%	10%	10%			-	-	-
BONB	1.71	1.68	1.66	1.78	1.75	1.74	(6)	(7)	(8)	BONB	15%	16%	16%	21%	21%				(6)	(5)	(5)
BONJ	1.37	1.33	1.31	1.45	1.42		(8)	(9)		BONJ	15%	15%	15%	18%	16%				(3)	(2)	
Average										Average											
Total	1.74	1.69	1.65	1.81	1.76		(6)	(7)		Total	12%	11%	11%	12%	12%				(1)	(1)	
Large	1.64	1.57	1.52	1.73	1.68		(6)	(6)		Large	12%	11%	10%	11%	11%				(1)	(1)	
Joint-stock	1.99	1.95	1.91	2.02	1.97		(6)	(6)		Joint-stock	9%	9%	10%	10%	10%				(1)	(1)	
Regional	1.54	1.51	1.49	1.61	1.58		(5)	(5)		Regional	15%	15%	15%	19%	19%				(1)	(1)	

Source: Goldman Sachs Global Investment Research

Exhibit 58: New vs. Old: Credit cost and Provisions

Company	Credit cost (%)									Company	Provision charges										
	New			Old			Change(bps)				New			Old			Change				
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E		2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E		
ICBC	0.72	0.66	0.63	0.79	0.76		(7)	(10)		ICBC	208	228	254	227	242				-9%	-6%	
CCB	0.60	0.57	0.56	0.74	0.72		(15)	(15)		CCB	148	158	171	184	198				-20%	-20%	
BOC	0.72	0.66	0.63	0.48	0.47		24	19		BOC	110	116	123	96	103				15%	12%	
ABC	0.61	0.58	0.56	0.79	0.78		(18)	(20)		ABC	145	154	166	181	200				-20%	-23%	
BoCom	0.75	0.72	0.70	0.85	0.81		(10)	(9)		BoCom	64	67	72	73	76				-12%	-12%	
PSBC	0.41	0.41	0.40	0.39	0.36	0.33	2	6	7	PSBC	35	39	41	33	34	35			6%	15%	20%
CMB	0.75	0.70	0.65	0.75	0.64	0.55	0	6	9	CMB	53	55	56	53	50	48			0%	10%	16%
Industrial	0.58	0.56	0.55	0.58	0.54	0.52	(0)	2	3	Industrial	49	52	58	49	51	56			-2%	3%	3%
HuaXia	1.17	1.11	1.07	1.19	1.16		(2)	(5)		HuaXia	29	29	30	31	32				-5%	-8%	
PAB	1.80	1.70	1.59	1.72	1.59	1.46	8	12	13	PAB	70	73	75	67	68	69			4%	8%	9%
BONB	0.72	0.66	0.63	0.69	0.67	0.66	3	(1)	(2)	BONB	11	12	13	12	14	16			-12%	-17%	-23%
BONJ	0.84	0.80	0.77	1.02	0.98		(19)	(18)		BONJ	10	10	11	12	13				-19%	-21%	
Average										Aggregate											
Total	0.80	0.76	0.73	0.83	0.79		(3)	(3)		Total	930	993	1,070	1,018	1,081				-9%	-8%	
Large	0.63	0.60	0.58	0.67	0.65		(4)	(5)		Large	709	761	827	794	853				-11%	-11%	
Joint-stock	1.07	1.02	0.96	1.06	0.98		1	4		Joint-stock	201	209	219	200	201				0%	4%	
Regional	0.78	0.73	0.70	0.86	0.82		(8)	(10)		Regional	20	22	24	24	28				-15%	-19%	

Source: Goldman Sachs Global Investment Research

Exhibit 59: Time series: PPOP growth

	PPOP growth											Change (yoy, ppts)												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	
Large banks																								
ICBC	11%	8%	0%	9%	8%	7%	4%	6%	-4%	4%	3%	5%	(3)	(7)	9	(1)	(2)	(3)	1	(9)	8	(1)	2	
BOC	18%	4%	7%	0%	6%	7%	4%	4%	2%	5%	5%	5%	(15)	3	(7)	6	2	(4)	1	(2)	3	(0)	0	
CCB	12%	9%	-1%	10%	7%	7%	7%	4%	-2%	3%	5%	5%	(3)	(10)	11	(2)	(1)	1	(4)	(6)	5	2	0	
ABC	12%	5%	-1%	8%	15%	4%	6%	7%	-2%	2%	5%	5%	(7)	(6)	8	7	(11)	2	1	(10)	4	3	1	
BoCom	9%	7%	1%	-1%	13%	8%	6%	9%	-1%	3%	4%	5%	(2)	(5)	(3)	14	(5)	(2)	3	(10)	5	1	1	
PSBC	37%	12%	-11%	30%	40%	9%	0%	8%	-1%	6%	10%	9%	(24)	(23)	41	10	(31)	(10)	9	(9)	7	4	(1)	
Joint stock banks																								
CMB	34%	28%	8%	4%	11%	7%	5%	14%	4%	5%	9%	9%	(6)	(20)	(4)	8	(5)	(1)	9	(11)	1	4	0	
Industrial	19%	25%	6%	-13%	14%	16%	15%	7%	-5%	1%	7%	7%	6	(19)	(19)	27	2	(1)	(8)	(11)	6	5	1	
PAB	53%	44%	29%	-4%	10%	20%	12%	12%	7%	5%	8%	8%	(9)	(15)	(33)	14	10	(8)	(0)	(4)	(3)	3	(1)	
HuaXia	24%	13%	17%	9%	9%	21%	17%	-1%	-4%	0%	2%	3%	(11)	4	(8)	(0)	12	(4)	(18)	(3)	3	3	0	
Regional banks																								
BONB	27%	24%	27%	9%	15%	21%	11%	31%	9%	11%	13%	12%	(3)	3	(18)	6	6	(10)	20	(22)	2	2	(0)	
BONJ	60%	52%	21%	-9%	11%	20%	4%	18%	8%	8%	8%	9%	(9)	(30)	(31)	21	9	(16)	14	(10)	(2)	0	1	
Aggregate																								
Total	26%	19%	9%	4%	13%	12%	8%	10%	1%	5%	7%	7%	(7)	(10)	(5)	9	(1)	(5)	2	(9)	4	2	0	
Large	16%	7%	-1%	9%	15%	7%	4%	6%	-1%	4%	5%	6%	(9)	(8)	10	6	(8)	(3)	2	(8)	5	1	0	
Joint-stock	33%	28%	15%	-1%	11%	16%	12%	8%	1%	3%	6%	7%	(5)	(12)	(16)	12	5	(4)	(4)	(7)	2	4	0	
Regional	43%	38%	24%	0%	13%	21%	8%	24%	8%	10%	10%	11%	(6)	(14)	(25)	14	8	(13)	17	(16)	1	1	0	

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 60: Time series: NIM

	NIM											Change (yoy, bps)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Large banks																							
ICBC	2.55	2.43	2.10	2.14	2.18	2.14	2.08	2.06	1.89	1.72	1.61	1.56	(12)	(33)	4	4	(4)	(6)	(2)	(17)	(17)	(10)	(6)
BOC	2.30	2.15	1.84	1.87	1.83	1.59	1.67	1.58	1.57	1.51	1.46	1.42	(15)	(31)	4	(4)	(24)	8	(9)	(1)	(6)	(5)	(4)
CCB	2.76	2.65	2.17	2.15	2.17	2.11	2.17	2.09	1.99	1.78	1.69	1.62	(11)	(48)	(2)	3	(6)	5	(8)	(10)	(22)	(9)	(7)
ABC	2.85	2.61	2.16	2.20	2.20	2.06	2.10	2.06	1.87	1.63	1.54	1.47	(23)	(45)	4	(0)	(15)	4	(4)	(19)	(24)	(10)	(7)
BoCom	2.28	2.23	1.80	1.52	1.45	1.51	1.52	1.48	1.41	1.27	1.22	1.19	(5)	(43)	(28)	(7)	6	1	(4)	(7)	(14)	(5)	(3)
PSBC	2.85	2.66	2.05	2.20	2.54	2.44	2.35	2.25	2.05	1.94	1.92	1.89	(19)	(62)	15	34	(10)	(9)	(10)	(20)	(11)	(2)	(3)
Joint stock banks																							
CMB	2.60	2.71	2.38	2.39	2.48	2.46	2.37	2.35	2.28	2.20	2.16	2.14	12	(33)	1	9	(2)	(9)	(2)	(7)	(8)	(4)	(2)
Industrial	2.42	2.55	2.04	1.46	1.50	1.53	1.96	1.81	1.66	1.54	1.48	1.44	13	(51)	(58)	4	2	43	(15)	(15)	(12)	(6)	(4)
PAB	2.70	2.94	2.93	2.52	2.35	2.51	2.43	2.62	2.58	2.44	2.43	2.40	24	(1)	(41)	(18)	16	(8)	19	(3)	(14)	(2)	(2)
HuaXia	2.64	2.39	2.25	1.95	1.99	2.27	2.55	2.25	1.97	1.79	1.72	1.67	(25)	(14)	(29)	4	27	29	(30)	(28)	(18)	(7)	(5)
Regional banks																							
BONB	2.67	2.49	2.17	1.77	1.85	1.66	1.95	1.84	1.74	1.71	1.68	1.66	(18)	(32)	(40)	8	(20)	29	(11)	(11)	(2)	(3)	(2)
BONJ	2.71	2.77	2.30	1.85	1.84	1.67	1.67	1.67	1.42	1.37	1.33	1.31	6	(47)	(45)	(1)	(17)	(0)	0	(25)	(5)	(4)	(2)
Average																							
Total	2.61	2.55	2.18	2.00	2.03	2.00	2.07	2.01	1.87	1.74	1.69	1.65	(6)	(37)	(18)	3	(4)	7	(6)	(14)	(13)	(6)	(4)
Large	2.60	2.46	2.02	2.01	2.06	1.98	1.98	1.92	1.80	1.64	1.57	1.52	(14)	(44)	(0)	5	(9)	1	(6)	(12)	(15)	(7)	(5)
Joint-stock	2.59	2.65	2.40	2.08	2.08	2.19	2.33	2.26	2.12	1.99	1.95	1.91	6	(25)	(32)	(0)	11	14	(7)	(13)	(13)	(5)	(3)
Regional	2.69	2.63	2.24	1.81	1.84	1.66	1.81	1.76	1.58	1.54	1.51	1.49	(6)	(40)	(43)	4	(18)	15	(5)	(18)	(4)	(4)	(2)

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 61: Time series: Loan growth

	Loan growth											Change (yoy, ppts)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Large banks																							
ICBC	11%	8%	9%	9%	8%	9%	11%	11%	12%	12%	11%	11%	(3)	1	(0)	(1)	0	2	(0)	1	(0)	(1)	0
BOC	12%	8%	9%	9%	8%	10%	9%	11%	12%	11%	9%	8%	(4)	1	0	(1)	2	(1)	2	1	(0)	(2)	(1)
CCB	10%	11%	12%	10%	7%	9%	12%	12%	13%	11%	11%	10%	0	1	(2)	(3)	3	3	0	1	(1)	0	(1)
ABC	12%	10%	9%	10%	11%	12%	14%	13%	15%	14%	12%	11%	(2)	(1)	1	1	1	2	(0)	2	(1)	(2)	(1)
BoCom	5%	8%	10%	9%	9%	9%	10%	12%	11%	11%	10%	10%	3	2	(2)	0	0	1	2	(1)	(1)	(1)	(0)
PSBC	26%	32%	22%	21%	18%	16%	15%	13%	12%	11%	11%	11%	6	(10)	(1)	(3)	(2)	(1)	(2)	(1)	(0)	(1)	0
Joint stock banks																							
CMB	14%	12%	15%	9%	10%	14%	12%	11%	9%	11%	11%	11%	(2)	3	(6)	1	4	(2)	(1)	(2)	2	0	0
Industrial	17%	12%	17%	17%	21%	17%	15%	12%	13%	11%	11%	12%	(6)	5	(0)	4	(3)	(2)	(4)	1	(1)	0	0
PAB	21%	19%	21%	15%	17%	16%	15%	15%	9%	11%	10%	10%	(2)	3	(6)	2	(1)	(2)	0	(6)	2	(1)	0
HuaXia	14%	14%	14%	15%	16%	16%	13%	5%	3%	5%	5%	5%	(0)	0	1	1	0	(3)	(8)	(2)	3	(0)	0
Regional banks																							
BONB	23%	22%	18%	14%	24%	23%	30%	25%	21%	15%	16%	16%	(1)	(3)	(4)	9	(1)	7	(5)	(4)	(6)	1	(0)
BONJ	19%	44%	32%	17%	23%	18%	19%	17%	20%	15%	15%	15%	25	(12)	(15)	6	(5)	0	(1)	3	(5)	0	0
Aggregate																							
Total	12%	11%	12%	11%	10%	11%	12%	12%	12%	12%	11%	10%	1	(1)	(3)	1	(0)	0	(1)	(1)	(1)	(0)	(0)
Large	11%	10%	11%	10%	9%	10%	11%	12%	13%	12%	11%	10%	0	(1)	(1)	(1)	1	1	0	0	(1)	(1)	(1)
Joint-stock	16%	13%	17%	13%	15%	16%	14%	11%	9%	10%	10%	10%	(3)	3	(3)	2	(0)	(2)	(3)	(2)	1	(0)	0
Regional	21%	32%	25%	16%	24%	21%	24%	21%	21%	15%	15%	15%	12	(8)	(9)	8	(3)	3	(3)	(1)	(6)	1	0

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 62: Time series: NPAT growth

	NPAT growth											Change (yoy, ppts)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Large banks																							
ICBC	5%	0%	0%	3%	4%	5%	1%	10%	3%	3%	3%	4%	(5)	(0)	2	1	1	(4)	9	(7)	(1)	1	0
BOC	8%	1%	-4%	5%	4%	4%	3%	12%	5%	5%	5%	5%	(7)	(4)	8	(0)	(0)	(1)	9	(7)	(0)	0	(0)
CCB	6%	0%	1%	5%	5%	5%	2%	12%	7%	3%	4%	5%	(6)	1	3	0	(0)	(3)	10	(5)	(4)	2	0
ABC	8%	1%	2%	5%	5%	5%	2%	12%	7%	3%	4%	4%	(7)	1	3	0	(0)	(3)	10	(4)	(4)	1	0
BoCom	6%	1%	1%	4%	5%	5%	1%	12%	5%	4%	4%	4%	(5)	(0)	3	0	0	(4)	11	(7)	(1)	(0)	0
PSBC	10%	7%	14%	20%	10%	16%	5%	19%	12%	9%	10%	10%	(3)	7	6	(10)	7	(11)	13	(7)	(3)	1	1
Joint stock banks																							
CMB	8%	3%	8%	13%	15%	15%	5%	23%	15%	9%	10%	11%	(5)	4	5	2	0	(10)	18	(8)	(6)	1	1
Industrial	14%	7%	7%	6%	6%	9%	1%	24%	11%	2%	6%	6%	(8)	1	(1)	(0)	3	(8)	23	(14)	(9)	5	(0)
PAB	30%	10%	3%	3%	7%	14%	3%	26%	25%	13%	12%	12%	(20)	(7)	(1)	4	7	(11)	23	(0)	(12)	(1)	0
HuaXia	16%	5%	4%	1%	5%	5%	-3%	11%	6%	3%	4%	4%	(11)	(1)	(3)	5	(0)	(8)	13	(4)	(3)	1	(0)
Regional banks																							
BONB	16%	16%	19%	20%	20%	23%	10%	30%	18%	14%	15%	15%	0	3	0	0	3	(13)	20	(12)	(4)	1	(0)
BONJ	25%	25%	18%	17%	15%	12%	5%	21%	16%	8%	8%	9%	0	(7)	(1)	(2)	(2)	(7)	16	(5)	(9)	0	1
Aggregate																							
Total	13%	6%	6%	8%	8%	10%	3%	18%	11%	6%	7%	7%	(6)	(0)	2	0	1	(7)	15	(7)	(5)	1	0
Large	7%	2%	3%	7%	6%	7%	2%	13%	7%	4%	5%	5%	(5)	1	4	(1)	1	(4)	10	(6)	(2)	1	0
Joint-stock	17%	6%	6%	6%	8%	11%	1%	21%	14%	7%	8%	8%	(11)	(1)	0	3	2	(9)	19	(7)	(7)	1	0
Regional	20%	21%	19%	18%	17%	18%	7%	25%	17%	11%	11%	12%	0	(2)	(0)	(1)	0	(10)	18	(8)	(6)	1	1

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 63: Time series: Credit cost

	Credit cost											Change (yoy, bps)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Large banks																							
ICBC	0.51	0.72	0.66	0.87	0.96	0.97	0.92	0.81	0.62	0.72	0.66	0.63	21	(6)	21	8	1	(4)	(11)	(20)	10	(6)	(3)
BOC	0.55	0.61	0.87	0.77	0.91	0.76	0.73	0.63	0.53	0.72	0.66	0.63	6	26	(10)	14	(16)	(3)	(10)	(10)	19	(6)	(3)
CCB	0.63	0.88	0.76	0.96	1.04	0.99	1.00	0.85	0.66	0.60	0.57	0.56	26	(12)	19	8	(5)	0	(14)	(19)	(7)	(2)	(1)
ABC	0.80	0.92	0.81	0.87	1.09	0.99	0.92	0.99	0.71	0.61	0.58	0.56	12	(11)	5	23	(10)	(7)	7	(27)	(10)	(3)	(1)
BoCom	0.60	0.73	0.69	0.67	0.88	0.93	0.96	0.97	0.79	0.75	0.72	0.70	13	(4)	(3)	21	5	4	1	(17)	(4)	(3)	(2)
PSBC	1.09	1.04	0.67	0.58	1.01	0.95	0.92	0.45	0.52	0.41	0.41	0.40	(5)	(36)	(9)	43	(5)	(4)	(47)	8	(11)	0	(2)
Joint stock banks																							
CMB	1.24	2.04	1.98	1.68	1.51	1.21	0.93	0.66	0.75	0.75	0.70	0.65	79	(6)	(29)	(18)	(30)	(28)	(27)	8	1	(5)	(5)
Industrial	1.23	2.08	2.23	1.18	1.30	1.36	1.24	1.03	0.76	0.58	0.56	0.55	85	15	(105)	12	6	(12)	(21)	(27)	(18)	(2)	(1)
PAB	1.43	2.46	3.08	2.39	2.19	2.29	1.62	1.94	1.93	1.80	1.70	1.59	103	62	(68)	(21)	11	(68)	32	(1)	(13)	(9)	(11)
HuaXia	0.56	0.82	1.10	1.18	1.25	1.56	1.72	1.16	1.19	1.17	1.11	1.07	27	28	8	7	31	16	(56)	3	(2)	(6)	(4)
Regional banks																							
BONB	1.15		1.67	1.65	0.92	1.23	1.12	1.12	1.02	0.72	0.66	0.63	(115)	167	(2)	(73)	32	(12)	1	(10)	(30)	(6)	(3)
BONJ	1.47	2.50	2.15	0.97	1.37	1.41	1.14	1.01	1.05	0.84	0.80	0.77	103	(35)	(118)	40	4	(28)	(12)	3	(21)	(4)	(3)
Average																							
Total	0.94	1.35	1.39	1.15	1.20	1.22	1.10	0.97	0.88	0.80	0.76	0.73	30	16	(24)	5	2	(12)	(13)	(9)	(7)	(4)	(3)
Large	0.70	0.82	0.75	0.79	0.98	0.93	0.91	0.78	0.64	0.63	0.60	0.58	12	(7)	4	19	(5)	(2)	(13)	(14)	(1)	(3)	(2)
Joint-stock	1.11	1.85	2.10	1.61	1.56	1.61	1.38	1.20	1.16	1.07	1.02	0.96	74	25	(49)	(5)	4	(23)	(18)	(4)	(8)	(6)	(6)
Regional	1.31	2.50	1.91	1.31	1.15	1.32	1.13	1.07	1.03	0.78	0.73	0.70	(6)	66	(60)	(16)	18	(20)	(6)	(4)	(26)	(5)	(3)

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 64: Time series: NPL coverage ratio

	NPL coverage ratio											Change (yoy, ppts)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Large banks																							
ICBC	207	156	137	154	176	199	180	206	209	202	186	168	(51)	(20)	17	21	24	(19)	25	4	(7)	(16)	(19)
BOC	188	153	163	159	182	183	178	187	189	189	187	184	(34)	10	(4)	23	1	(5)	9	2	0	(2)	(3)
CCB	222	151	150	171	208	227	213	240	242	228	216	205	(71)	(1)	21	37	19	(14)	27	2	(14)	(12)	(11)
ABC	287	189	173	208	252	289	261	300	303	296	285	274	(97)	(16)	35	44	37	(28)	39	3	(6)	(11)	(11)
BoCom	179	156	151	153	173	172	144	166	181	176	164	152	(23)	(5)	3	20	(1)	(28)	23	14	(5)	(12)	(12)
PSBC	364	298	272	325	345	388	405	412	383	371	359	352	(65)	(26)	53	20	43	17	7	(29)	(12)	(12)	(7)
Joint stock banks																							
CMB	233	179	180	262	358	427	438	484	451	437	428	403	(54)	1	82	96	69	11	46	(33)	(14)	(9)	(24)
Industrial	250	210	211	212	207	199	219	269	236	215	185	150	(40)	0	1	(5)	(8)	20	50	(32)	(21)	(30)	(35)
PAB	201	166	155	151	155	183	201	288	290	262	216	173	(35)	(10)	(4)	4	28	18	87	2	(29)	(46)	(43)
HuaXia	233	167	159	157	159	140	146	151	160	147	134	122	(66)	(8)	(2)	2	(19)	6	5	9	(13)	(13)	(12)
Regional banks																							
BONB	285	309	351	493	522	524	506	526	505	476	455	441	23	43	142	29	2	(19)	20	(21)	(28)	(21)	(14)
BONJ	326	431	457	463	463	418	392	397	397	368	355	335	105	26	5	0	(45)	(26)	6	(0)	(29)	(12)	(20)
Average																							
Total	248	214	213	242	267	279	274	302	295	281	264	247	(34)	(1)	29	24	12	(5)	29	(7)	(15)	(16)	(18)
Large	241	184	174	195	223	243	230	252	251	244	233	222	(57)	(10)	21	28	20	(13)	22	(1)	(7)	(11)	(10)
Joint-stock	229	181	176	195	220	237	251	298	284	265	241	212	(49)	(4)	19	24	17	14	47	(14)	(19)	(24)	(29)
Regional	305	370	404	478	492	471	449	461	451	422	405	388	64	35	74	14	(21)	(22)	13	(10)	(29)	(17)	(17)

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 65: Time series: CET-1 ratio

	CET-1 Ratio											Change (yoy, ppts)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Large banks																							
ICBC	11.9%	12.9%	12.9%	12.8%	13.0%	13.2%	13.2%	13.3%	14.0%	13.6%	13.5%	13.5%	0.9	0.0	(0.1)	0.2	0.2	(0.0)	0.1	0.7	(0.4)	(0.1)	0.0
BOC	10.6%	11.1%	11.4%	11.2%	11.4%	11.2%	11.3%	11.3%	11.8%	11.6%	11.6%	11.6%	0.5	0.3	(0.2)	0.3	(0.2)	0.1	0.0	0.5	(0.2)	0.0	0.0
CCB	12.1%	13.1%	13.0%	13.1%	13.8%	14.4%	13.6%	13.6%	13.7%	13.4%	13.2%	13.2%	1.0	(0.2)	0.1	0.7	0.6	(0.8)	(0.0)	0.1	(0.3)	(0.2)	0.0
ABC	9.1%	10.2%	10.4%	10.6%	11.6%	11.2%	11.0%	11.4%	11.2%	10.7%	10.4%	10.4%	1.2	0.1	0.3	0.9	(0.3)	(0.2)	0.4	(0.3)	(0.5)	(0.3)	0.0
BoCom	11.3%	11.1%	11.0%	10.8%	11.2%	11.2%	10.9%	10.6%	10.1%	10.2%	10.4%	10.4%	(0.2)	(0.1)	(0.2)	0.4	0.1	(0.4)	(0.3)	(0.6)	0.2	0.2	0.0
PSBC	8.4%	8.5%	8.6%	8.6%	9.8%	9.9%	9.6%	9.9%	9.4%	9.2%	9.1%	9.1%	0.1	0.1	(0.0)	1.2	0.1	(0.3)	0.3	(0.6)	(0.1)	(0.1)	0.0
Joint stock banks																							
CMB	10.4%	10.8%	11.5%	12.1%	11.8%	12.0%	12.3%	12.7%	13.7%	13.5%	13.8%	13.8%	0.4	0.7	0.5	(0.3)	0.2	0.3	0.4	1.0	(0.2)	0.3	0.0
Industrial	8.5%	8.4%	8.6%	9.1%	9.3%	9.5%	9.3%	9.8%	9.8%	9.9%	9.9%	9.9%	(0.0)	0.1	0.5	0.2	0.2	(0.1)	0.5	0.0	0.0	0.1	0.0
PAB	8.6%	9.0%	8.4%	8.3%	8.5%	9.1%	8.7%	8.6%	8.6%	8.5%	8.6%	8.6%	0.4	(0.7)	(0.1)	0.3	0.6	(0.4)	(0.1)	0.0	(0.2)	0.1	0.0
HuaXia	8.5%	8.9%	8.4%	8.3%	9.5%	9.3%	8.8%	8.8%	9.2%	9.4%	9.7%	9.7%	0.4	(0.5)	(0.2)	1.2	(0.2)	(0.5)	(0.0)	0.5	0.2	0.2	0.0
Regional banks																							
BONB	10.1%	9.0%	8.6%	8.6%	9.2%	9.6%	9.5%	10.2%	9.8%	9.4%	9.3%	9.3%	(1.0)	(0.5)	0.1	0.6	0.5	(0.1)	0.6	(0.4)	(0.3)	(0.1)	0.0
BONJ	8.6%	9.4%	8.2%	8.0%	8.5%	8.9%	10.0%	10.2%	9.7%	9.7%	9.5%	9.5%	0.8	(1.2)	(0.2)	0.5	0.4	1.1	0.2	(0.4)	(0.1)	(0.1)	0.0
Average																							
Total	9.8%	10.2%	10.1%	10.1%	10.6%	10.8%	10.7%	10.9%	10.9%	10.8%	10.8%	10.8%	0.4	(0.1)	0.0	0.5	0.2	(0.1)	0.2	0.1	(0.2)	0.0	0.0
Large	10.6%	11.2%	11.2%	11.2%	11.8%	11.9%	11.6%	11.7%	11.5%	11.4%	11.4%	11.4%	0.6	0.0	(0.0)	0.6	0.1	(0.3)	0.1	(0.0)	(0.2)	(0.1)	0.0
Joint-stock	9.0%	9.3%	9.2%	9.4%	9.8%	9.9%	9.8%	10.0%	10.3%	10.3%	10.5%	10.5%	0.3	(0.1)	0.2	0.4	0.2	(0.2)	0.2	0.4	(0.0)	0.2	0.0
Regional	9.3%	9.2%	8.4%	8.3%	8.8%	9.2%	9.7%	10.2%	9.7%	9.5%	9.4%	9.4%	(0.1)	(0.8)	(0.1)	0.5	0.4	0.5	0.4	(0.4)	(0.2)	(0.1)	0.0

Source: Company data, Goldman Sachs Global Investment Research

Appendix II: Updated Investment Theses for 4 banks

Investment Thesis - Industrial and Commercial Bank of China

ICBC (Industrial and Commercial Bank of China) is a state-owned commercial bank, providing corporate and personal banking, asset management and financial market business services. We are Sell rated on increasing dividend risk. That said, our stress-test including margin risk of local gov. debt and loss of credit portfolio suggests that the adjusted ROE of ICBC could be much lower than we previously expected, which in turn could pose dividend risk to ICBC if the target CET1 ratio of ~13% is to be maintained in 2025E. Upside risks include better than expected NIM to drive NII growth, stronger-than-expected retail recovery to drive retail loan growth and fee income and larger dividend payout to improve cash return of investors.

Investment Thesis - Industrial Bank

Industrial Bank is one of the first joint-stock commercial banks in China, with businesses including trust, financial lease, funds, futures, asset management, consumer finance, research and consulting, and digital finance. We are Sell rated on a worsening balance sheet, its larger exposure to local government debt and further losses from bank credit portfolios. Upside risks include better than expected asset quality especially in property and local government debt, better than expected NIM on deposit cost saving and improving funding mix, and stronger than expected retail finance growth.

Investment Thesis - Agricultural Bank of China

Agricultural Bank of China (ABC) is one of China's big four banks providing corporate and retail banking products and services, asset management, while conducting treasury operations. ABC is well-positioned in the fast-growing county areas of China, in our view, with a strong deposit franchise. We are Sell rated on ABC A/H shares on increasing dividend and capital uncertainties, on top of year-to-date share price outperformance. That said, we think ABC's relatively large local government debt exposure, in addition to more losses to digest in its credit portfolio and below average CET1 ratio among large banks, will increase its challenges maintaining its dividend. Upside risks include better than expected NIM to drive NII growth, lower than expected local government debt rollover risk, better than expected asset quality on improving macro and stronger-than-expected retail recovery to drive retail loan growth and fee income.

Investment Thesis - Postal Savings Bank of China

Postal Savings Bank of China (PSBC) is a commercial retail bank strategically focused on providing financial services to Sannong (agriculture, rural areas and rural residents) customers, urban and rural residents and SMEs. We are Buy-rated on PSBC A/H on peer-leading earnings forecasts within the large bank group, a strong risk buffer and better NIM trajectory. Downside risks include worsening asset quality especially in property sector, greater than expected NIM dilution, faster than expected mortgage repricing, higher than expected mortgage early repayments, weaker than expected retail

recovery and recapitalization risk.

Price Target Risks and Methodology - Bank of China

Valuation: We are Neutral rated on BOC H/A shares with 12-month target prices of HK\$2.83/Rmb3.46. Our 2024E-based target P/PPOP multiples are 1.75x/2.375x for H/A shares.

Key risks: Weaker/stronger-than-expected funding cost control; worse/better-than-expected NPLs; slower/faster-than-expected NIM expansion, lower/higher-than-expected tax rate; FX volatility due to high overseas exposure.

Price Target Risks and Methodology - China Merchants Bank

Valuation methodology: We are Neutral rated on CMB H/A shares with 12m TPs of HK\$36.24/Rmb32.65. Our 2024E-based target P/PPOP multiple for both H/A shares is 3.25x. **Upside risks:** Better than expected NIM; stronger-than-expected retail recovery; better than expected asset quality; larger dividend payout. **Downside risks:** Worsening asset quality; greater than expected NIM dilution; faster than expected mortgage repricing; weaker fee income growth; recapitalization risk.

Price Target Risks and Methodology - Bank of Communications

Valuation: We are Sell rated on BoCom H/A shares with 12-month target prices of HK\$3.88/Rmb3.79. Our 2024E-based target P/PPOP multiples for BoCom H/A are 1.5x/1.625x.

Key risks: Lower-than-expected funding cost; better-than-expected asset quality; higher operating efficiency with lower CIR

Price Target Risks and Methodology - Bank of Ningbo

Valuation: We are Buy rated on BONB with a 12-month target price of Rmb30.52. Our 2024E-based target P/PPOP multiple is 4.5x.

Key risks: Worse-than-expected NIM, asset quality and more-than-expected investment loss. Deposit outflow.

Price Target Risks and Methodology - Bank of Nanjing

Valuation: We are Neutral rated on BONJ with a 12-month target price of Rmb8.61. Our 2024E-based target P/PPOP multiple is 2.5x.

Key risks: 1) developer risk moderates, 2) greater-than-expected loan growth; 3) margin dilution; 2) worsening asset quality.

Price Target Risks and Methodology - Hua Xia Bank

Valuation: We are Sell rated on Hua Xia with a 12-month target price of Rmb4.25. Our 2024E-based target P/PPOP multiple is 1x.

Key risks: better-than-expected asset quality, margin expansion and trading income recovery.

Price Target Risks and Methodology - Ping An Bank Co.

Valuation: We are Buy rated on PAB with a 12-month target price of Rmb13.12. Our 2024E-based target P/PPOP multiple is 1.75x.

Key risks: 1) worse-than-expected asset quality and fee income; 2) margin dilution; 3) developer risk.

Price Target Risks and Methodology - China Construction Bank

Valuation: We are Buy rated on CCB H/A shares with 12-month target prices of HK\$5.81/Rmb6.4. Our 2024E-based target P/PPOP multiples for CCB H/A are 2.25x/2.75x.

Key risks: 1) Weakening NIMS; 2) credit costs becoming more sensitive to net profit given increasingly large loan book due to strong loan growth.

Disclosure Appendix

Reg AC

I, Shuo Yang, Ph.D., hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my 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).

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