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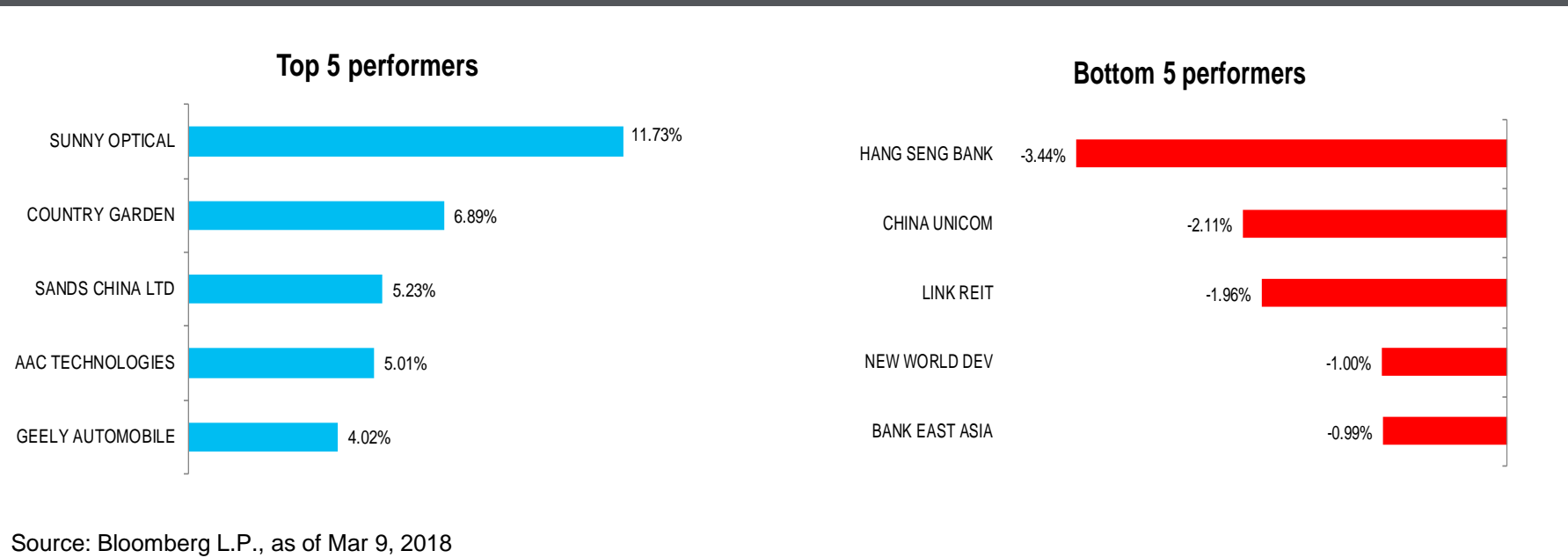
Stock Spotlight

Mar 12, 2018



HSI rose last week

Chart: Weekly HSI Top 5 & Bottom 5 Performers



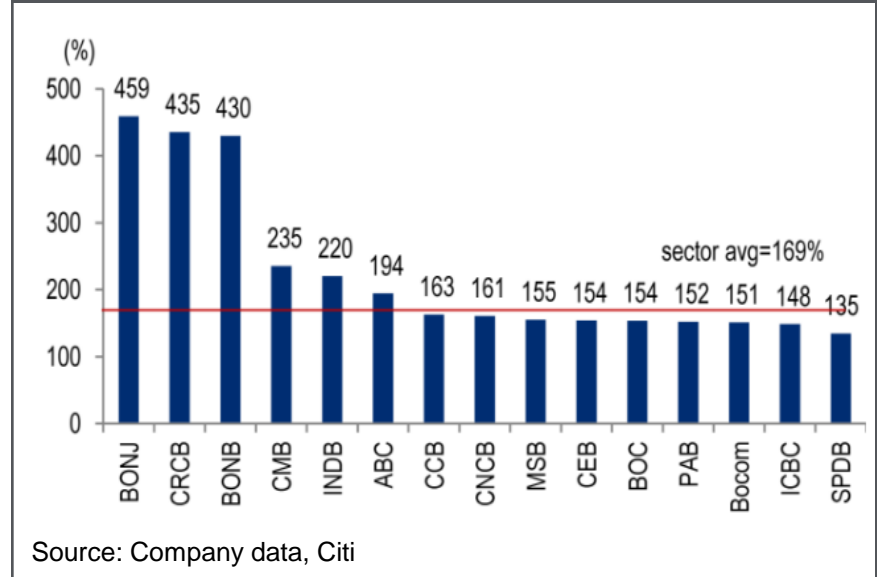
❖ The Hang Seng Index rose last week.

- ▶ Sunny Optical Technology rose by 11.73% last week with imminent smartphone model launches. Citi reiterates Buy with higher target price.
- ▶ HSBC fell by 3.44% last week and was the worst performer among blue chips.

- ❖ CBRC relaxed provisioning requirements for China banks on 6 March. Banks will be subjected to differentiated treatment, and banks with more stringent NPL recognition, more proactive NPL disposal and higher capital adequacy will enjoy lower NPL coverage ratio requirements from 150% to 120%-150%, and a lower loan loss coverage ratio requirement from 2.5% to 1.5%-2.5%.
- ❖ We see CBRC's key intention is to buffer the impact from upcoming new asset mgmt. rules, which will break out an implicit guarantee on WMP, forcing many NSCAs to be moved back onto B/Ss as loans or stopped rolling-over, thus increasing banks' NPL/provisioning pressure, especially for smaller banks.
- ❖ According to CBRC, banks enjoying lower NPL coverage requirements under the new rules will have to step up their NPL disposal effort (amount of NPL disposed must rise y-y), and cannot use incremental profit from lower provision requirements to boost dividend payout / bonus but must retain it as capital for boosting loss absorbing capability. This suggests CBRC's intention for the relaxed rules is really not to boost banks' earnings.
- ❖ Based on the three assessment criteria from CBRC to entitle lower NPL coverage requirements, we note that quality large banks with more conservative NPL recognition, more proactive NPL disposal and higher capital adequacy are clearly better off.

Please note and carefully read the Important Disclosure on the last part

NPL coverage ratio of China banks – 9M17



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