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China Banks

Implications of Second Batch of Big-6 Banks' Recap

CITI'S TAKE

On 6-Sep-2026, the second batch of Big-6 banks' recap was launched with ABC/ICBC announcing plans to raise RMB160bn/RMB100bn new equity (not exceeding 15%/10% of existing share capital of ABC/ICBC) via A-shr private placements to MOF (RMB200bn, financed by special treasury bond issuance of RMB300bn in April 2026) and selective SOE shareholders (RMB100bn), with lock-up period of 5 years, subject to regulators' approval. The placement would be priced at no lower than the banks' last 20 days average trading price before issuance date (likely at premium to the latest spot price after ex-interim dividend date). We believe the second batch recap was well expected by the market, and the issuance size is lower than the 1st batch recap given the valuations. We estimate the recap will boost ABC/ICBC's CET1 ratio by +61bp/+34bp to 11.4%/13.5%.

Judy Zhang[AC]
+852-2501-2798
judy1.zhang@citi.com

Calvin Leung
+852-2501-2367
calvin.leung@citi.com

Issuance likely priced at premium, but premium is less vs. 1st batch — The issuance price will not be decided until Nov, but management indicated the issuance price will likely be at premiums vs. banks' last 20 days' average trading prices before the issuance date, unless the stocks are trading above 1x P/B on issuance date, by referencing the first batch big banks' practice; the premium will not be as high as the first batch given China banks were trading cheap when the 1st batch of big banks' recap was launched. We expect the issuance price will not be lower vs. the latest spot price of ABC-A/ICBC-A (RMB6.96 / RMB8.13, implying 0.88x /0.75x 2025 P/B). Considering the placement would only impact the share count for one month (i.e. Dec) in 2026E, and assuming ABC/ICBC to record earnings growth of 4.9%/3% y-y in 2026E and issuance price at past 20 days average trading price at Rmb6.74/RMB7.82 for ABC-A/ICBC-A, ABC expects 0.54%/1.1% dilution to EPS/BPS in 2026E, while ICBC expects minimal dilution to EPS. If we assume the issuance price at the latest spot price of ABC-A/ICBC-A, we estimate the recap could boost ABC/ICBC's CET1 ratio by +61bp/+34bp to 11.4%/13.5%, while diluting BPS by c.0.9%/0.9% and EPS by c.6.2%/3.3% on full year basis in FY27. In particular for ABC, we expect ABC's earnings growth to accelerate going forward and reach >5% y-y in 2026E (vs. +4.9% y-y in 1H26), driven by management incentive to offset the EPS dilution from recap and maintain above-peers EPS growth.

Why the Big-6 banks' recap now? — We believe the second batch of big-6 banks' recap was well expected by the market, following the 1st batch of big 6 banks' recap in 2025 and MoF's RMB300bn special treasury bond issuance in April 2026, Rmb200bn of which was used for ABC's and ICBC's recap. The reasons are the same as 1st batch big banks' recap including [1] offset ongoing NIM pressure and support lending capacity. We note ABC/ICBC's NIM (1.3%/1.29% in 2Q26) was similar to sustainable level of c. 1.3%, calculated based on the assumption that ABC/ICBC keep the same loan growth as in past 5 years average loan growth and a stable CET1/dividend payout ratio. [2] offset potential asset quality pressure down the road by enabling banks to accelerate NPL disposal & write-off.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliation

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Foreign Institutional Investors.



Why recapitalize big banks while lifting dividend payout ratio? – The plan to recapitalize big banks was raised back in Sep 2024 (more details in: China Banks - Our take on potential RMB1tn for Big-6 banks), when China banks still needed to maintain fast loan growth despite the notable NIM pressure, and MOF did not want big banks to cut dividend payout ratios. That said, with greater emphasis on quality (rather than quantity) of growth under China's anti-involution regime currently (and hence lower pressure on China banks to maintain fast loan growth), and weak credit demand, we believe the capital pressure on China big banks could start easing. Therefore, we don't think big banks' dividend payout ratio hike is contradictory for ABC's & ICBC's recap given i) MOF's increasing funding demand from big banks' dividend payment; ii) China's regulatory direction of encouraging A-shr listed companies to increase shareholder return via buyback / dividend; and iii) easing concern on China banks systematic asset quality risk (which used to hold China banks from lifting dividend payout), backed by 1) the tighter capital control, which could lead to a higher regulatory tolerance for 10-year treasury bond yield to go lower (10-yr China treasury bond yield fell below 1.7% on 14 Aug), in turn improving debt sustainability with lower interest burden, and lowering the system credit risk; 2) decent buffer for NPL risk, we estimate the accumulative write-off and provision China banks set aside since 2010 was equivalent to c. 9% of loan book, which can well cover the potential NPL (we estimate over the cycle real NPL ratio for China banking system is 7.2%). We believe China big banks should have room to gradually hike their dividend payout ratio going forward.

Implications – We expect muted share price reaction to ABC/ICBC announcement, given i) it was well-expected by the market after the first batch big banks (for CCB/BOC/BoCOM/PSBC) and special treasury bond issuance of RMB300bn in April 2026; ii) smaller-than-expected raising scale and dilution despite dilution on EPS/BPS; and iii) the acceleration growth in top line and earnings growth of big banks can largely offset the dilution impact on EPS. Looking ahead, as China GDP growth target has been revised down to 4.5%, we expect the sustainable loan growth will also slow to 5%. With China banks' sustainable ROE of 8%, we expect big China banks can hike their dividend payout ratio to 40%. With China banks' payout ratio catching up with global banks' c.40%, we believe H-shr China big banks should deserve a re-rating. With strong correlation between ROE and P/B for global banks, we think China big banks with a sustainable ROE of c.8% deserve 0.8x P/B. Considering H-shr China banks are trading at 0.63x 2026E P/B and 4.9% dividend yield in 2026E, this could translate to c.25% of total capital return. Besides, we expect China banks' share prices to see continuous fund flow support thanks to 1) the falling 10-year treasury bond yield, which widens the spread between China banks' dividend yield and 10-year treasury bond yield (the benchmark for southbound investors), making China banks stocks more attractive to southbound yield-seeking investors; 2) the issuance of asset and liability management new rules for insurance companies (source, 20 Aug 2026) should encourage onshore insurers to increase exposure to yield plays like China banks going forward. 3) Given China banks is one of few sectors to have strong negative share price correlation vs. AI- tech sector, we believe China and EM funds will continue to accumulate China bank stocks to protect against downside risk if tech-AI sector corrects. H/A shr China banks are currently trading at 0.63x/0.72x FY26 PB, with dividend yield of 4.9%/4.2% and FY26 ROE of 9.6%, which we see as attractive. Top picks among H shr China banks are BOC-H and CCB-H that have accelerated earnings growth/hiked dividend payout ratio same as ABC/ICBC but do not face EPS/DPS dilution risk, and BONJ is our top pick among A shr China banks.

Figure 1. China big 6 banks summary

	Issuance Size (RMB bn)	A-shr Private Placement to	Issue shares (mn)	Issue shares as % of enlarged capital (%)	Issue price (RMB)	Past 20 days A avg. shr price (RMB)	Implied premium to past 20 days avg. shr price (%)
First batch							
CCB	105	MOF (100%)	11,327	4.3%	9.27	8.53	8.7%
BOC	165	MOF (100%)	27,273	8.5%	6.05	5.41	11.8%
Bocom	120	MOF (93.7%, RMB112.4bn) China Tobacco (3.8%, RMB4.6bn) China Double Win Investment (2.5%, RMB3.0bn)	13,777	15.6%	8.71	7.25	20.1%
PSBC	130	MOF (90.5%, RMB117.9bn) China Mobile (6.2%, RMB7.9bn) China State Shipping (3.5%, RMB4.6bn)	20,570	17.2%	6.32	5.32	18.9%
1st batch avg. / total	**520**			**11.4%**			**14.9%**
Second batch *							
ICBC	100	MOF (70%, RMB70bn) China National Tobacco (10%, RMB10bn) Shanghai Tobacco (5%, RMB5bn) Yunnan Tobacco Industrial (5%, RMB5bn) Hunan Tobacco Industrial (5%, RMB5bn) China National Tobacco Hunan (5%, RMB5bn)	12,300	3.3%	8.13	7.82	3.9%
ABC	160	MOF (81%, RMB130bn) China National Tobacco (6.3%, RMB10bn) China National Tobacco Jiangsu (3.1%, RMB5bn) China National Tobacco Zhejiang (3.1%, RMB5bn) China National Tobacco Hubei (3.1%, RMB5bn) China National Tobacco Beijing (1.9%, RMB3bn) China Double Win Investment (1.3%, RMB2bn)	22,989	6.2%	6.96	6.74	3.2%
2nd batch avg. / total	**260**			**4.7%**			**3.6%**
Big 6 avg. / total	**780**			**9.2%**			**11.1%**

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*Note: Second batch based on Citi estimates and assume issuance price equals to latest spot price of ABC and ICBC on 4 Sep 2026

Source: Citi Research, Company data

Figure 2. China big 6 banks summary (cont)

	Issue price (RMB)	Implied 24A P/B (x)	Implied 25A P/B (x)	Implied dilution to EPS (%)	Implied dilution to BVPS (%)	CET 1 boost (ppt)	CET1 after placing (%)
First batch							
CCB	9.27	0.73	0.70	4.3%	1.3%	0.48ppt	15.0%
BOC	6.05	0.74	0.72	8.5%	2.3%	0.86ppt	13.1%
Bocom	8.71	0.67	0.67	15.6%	5.1%	1.27ppt	11.5%
PSBC	6.32	0.76	0.75	17.2%	4.3%	1.51ppt	11.1%
1st batch avg.		**0.72**	**0.71**	**11.4%**	**3.3%**	**1.03ppt**	
Second batch *							
ICBC	8.13	0.79	0.73	3.3%	0.9%	0.34ppt	13.5%
ABC	6.96	0.94	0.85	6.2%	0.9%	0.61ppt	11.4%
2nd batch avg.		**0.87**	**0.79**	**4.7%**	**0.9%**	**0.47ppt**	
Big 6 avg.		**0.77**	**0.74**	**9.2%**	**2.5%**	**0.84ppt**	

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*Note: Second batch based on Citi estimates and assume issuance price equals to latest spot price of ABC and ICBC on 4 Sep 2026

Source: Citi Research, Company data

Figure 3. China banks valuations comps & adjusted dividend yield

		Mkt Cap (US$ bn)	Last close price	Rating	Target Price	ETR (%)	Big6 Recap Dilution 2025	Big6 Recap Dilution 2026F	Big6 Recap Dilution 2027F	CB & Other Dilution 2026F	CB & Other Dilution 2027F	Adjusted DY 2026F	Adjusted DY 2027F	Adjusted ROE 2026F	Adjusted ROE 2027F	P / B (x) 2025	P / B (x) 2026F	P / B (x) 2027F
H-share listed banks																		
ICBC	1398.HK	349.8	7.70	Buy	8.97	21%	0%	-0.3%	-3.0%	0%	0%	4.9	5.0	9.2	8.7	0.65	0.58	0.55
CCB	0939.HK	325.6	9.76	Buy	11.26	20%	-4%	0%	0%	0%	0%	4.9	5.1	9.6	9.4	0.68	0.60	0.57
BOC	3988.HK	249.2	6.07	Buy	6.58	13%	-8%	0%	0%	0%	0%	4.6	4.8	8.6	8.6	0.66	0.60	0.57
ABC	1288.HK	291.9	6.54	Buy	7.00	12%	0%	-0.5%	-5.7%	0%	0%	4.7	4.7	10.0	9.4	0.76	0.68	0.63
PSBC	1658.HK	94.8	5.48	Buy	6.76	28%	-17%	0%	0%	0%	0%	4.8	5.0	8.0	7.9	0.60	0.54	0.51
BoCom	3328.HK	90.0	7.99	Buy	9.14	19%	-16%	0%	0%	0%	0%	5.0	5.3	7.9	7.8	0.57	0.51	0.49
CMB	3968.HK	171.6	53.35	Buy	59.63	16%	0%	0%	0%	0%	0%	4.5	4.7	13.0	12.6	1.13	0.99	0.91
MSB	1988.HK	20.2	3.61	Buy	4.37	26%	0%	0%	0%	0%	0%	5.3	5.4	4.2	4.2	0.26	0.24	0.23
CNCB	0998.HK	60.2	8.49	Buy	9.78	21%	0%	0%	0%	0%	0%	5.6	5.8	9.3	9.1	0.60	0.54	0.51
CEB	6818.HK	21.6	2.87	Buy	3.89	43%	0%	0%	0%	0%	0%	7.1	7.3	6.5	6.4	0.31	0.28	0.27
CRCB	3618.HK	2.1	6.58	Buy	8.37	33%	0%	0%	0%	0%	0%	6.1	6.7	9.8	10.1	0.52	0.47	0.43
Market Cap Weighted Average												4.9	5.0	9.5	9.2	0.71	0.63	0.59
A-share listed banks																		
ICBC	601398.SS	349.8	8.13	Buy	9.42	20%	0%	-0.3%	-3.0%	0%	0%	4.0	4.1	9.2	8.7	0.75	0.70	0.66
CCB	601939.SS	325.6	10.98	Buy	11.89	12%	-4%	0%	0%	0%	0%	3.8	4.0	9.6	9.4	0.83	0.78	0.73
BOC	601988.SS	249.2	6.57	Buy	7.03	11%	-8%	0%	0%	0%	0%	3.7	3.9	8.6	8.6	0.79	0.74	0.70
ABC	601288.SS	291.9	6.96	Neutral	7.43	11%	0%	-0.5%	-5.7%	0%	0%	3.9	3.9	10.0	9.4	0.88	0.82	0.77
PSBC	601658.SS	94.8	5.42	Buy	7.16	36%	-17%	0%	0%	0%	0%	4.3	4.4	8.0	7.9	0.64	0.61	0.58
BoCom	601328.SS	90.0	7.42	Buy	10.31	44%	-16%	0%	0%	0%	0%	4.7	4.9	7.9	7.8	0.57	0.54	0.52
CMB	600036.SS	171.6	41.69	Buy	54.34	35%	0%	0%	0%	0%	0%	5.0	5.3	13.0	12.6	0.96	0.88	0.81
MSB	600016.SS	20.2	3.61	Buy	4.78	37%	0%	0%	0%	0%	0%	4.6	4.7	4.2	4.2	0.28	0.27	0.26
INDB	601166.SS	57.5	18.22	Buy	22.62	30%	0%	0%	0%	0%	-9%	6.0	5.6	8.8	7.8	0.47	0.44	0.42
SPDB	600000.SS	46.8	9.43	Buy	11.59	28%	0%	0%	0%	0%	0%	4.8	5.3	6.7	6.9	0.43	0.41	0.39
CNCB	601998.SS	60.2	8.89	Buy	10.80	26%	0%	0%	0%	0%	0%	4.6	4.8	9.3	9.1	0.68	0.64	0.60
CEB	601818.SS	21.6	3.05	Buy	4.25	45%	0%	0%	0%	0%	0%	5.8	6.0	6.5	6.4	0.36	0.34	0.33
PAB	000001.SZ	34.4	11.89	Buy	15.38	34%	0%	0%	0%	0%	0%	4.9	5.0	9.4	9.1	0.51	0.48	0.45
BoBJ	601169.SS	17.6	5.60	Buy	6.06	13%	0%	0%	0%	0%	0%	5.3	5.7	6.3	6.5	0.43	0.42	0.40
BONJ	601009.SS	22.1	11.98	Buy	13.38	16%	0%	0%	0%	0%	0%	4.8	5.3	12.0	12.1	0.82	0.75	0.69
BONB	002142.SZ	33.9	34.50	Buy	40.86	23%	0%	0%	0%	0%	0%	4.1	4.6	13.4	13.5	1.02	0.93	0.84
BOCD	601838.SS	12.3	19.49	Buy	21.93	17%	0%	0%	0%	0%	0%	4.9	5.2	14.6	13.9	0.94	0.84	0.77
CSRCB	601128.SS	3.5	6.42	Buy	8.65	39%	0%	0%	0%	-9%	-24%	4.2	4.3	14.3	13.1	0.69	0.74	0.68
BOHZ	600926.SS	18.6	17.25	Buy	20.42	23%	0%	0%	0%	0%	0%	4.6	5.1	14.3	14.4	0.94	0.84	0.76
BOJS	600919.SS	33.6	12.28	Buy	13.05	11%	0%	0%	0%	0%	0%	5.0	5.5	13.0	13.1	0.87	0.80	0.73
Market Cap Weighted Average												4.2	4.4	9.6	9.3	0.77	0.72	0.67

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Note: ABC/ICBC's dilution impact is estimated assuming issuance price of equals to latest spot price of ABC/ICBC on 4 Sep 2026

Source: Citi Research, Company data