

## AN INTERNATIONAL COMPARATIVE STUDY ON THE INVESTMENT VALUE OF LISTED BANKS IN CHINA

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**ABSTRACT:** As China's financial market continues to deepen its openness to the outside world, the banking industry, as the core pillar of the financial system, has not only attracted extensive attention from domestic investors, but also increasingly become an important target in global asset allocation. This paper takes the investment value of listed banks in China and listed banks in major international economies as the research object, constructs a multidimensional comparative analysis framework from five dimensions: valuation level, profit characteristics, asset quality, risk resistance and dividend return. Combining with the macro background of global banking development, the paper systematically compares the investment value differences of listed banks in China and the United States, European developed economies and some emerging market countries, and deeply analyzes the institutional background, market environment and business model reasons for the differences. The study found that the listed banks in China are currently in a low-value and high-dividend value depression, with stronger earnings growth resilience than their counterparts in developed economies and controllable asset quality as a whole, but the market has excessive bias in pricing systemic risks; From the perspective of international comparison, the core operating indicators of the head-listed banks in China have reached the international advanced level, the investment value is significantly underestimated, and they have high medium and long-term allocation value. Finally, this paper puts forward specific suggestions for domestic and foreign investors to optimize the investment strategy of bank shares and regulators to improve the capital market pricing mechanism.

**KEYWORDS:** Key words: listed banks; The value of the investment; International comparisons; Value investment; Bank valuation

### I. INTRODUCTION

#### 1.1 Research Background and Significance

Since the Shenzhen Development Bank (now Ping An Bank) was listed on the Shenzhen Stock Exchange in 1991, opening the prelude to the integration of banking industry and capital market in China. After more than 30 years of development, the listed banking system in China has been gradually improved, forming a multi-level listing echelon including large state-owned commercial banks, national joint-stock commercial banks, urban commercial banks and rural commercial banks. Up to the end of 2025, there were more than 60 listed banks with a total market value of more than RMB1,000 billion, accounting for about 8% of the total market value of A shares. It is one of the segments with the highest market value and the largest dividend contribution in the capital market.

In recent years, with the continuous advancement of the two-way opening up of the capital market in China, the entry threshold for foreign investment has been continuously lowered, and the connectivity mechanisms such as Shanghai-Shenzhen-Hong Kong Link and Bond Link have been continuously improved. The listed banks in China have become one of the core targets for overseas institutions to allocate assets in China, while domestic institutional investors and individual investors have increasingly taken bank shares as the core choice for value investment and long-term investment. Under this background, a systematic analysis of the investment value of listed banks in China from the perspective of international comparison and clarification of the differences in operating efficiency, profitability, risk indicators and valuation levels between listed banks in China and those in major global economies will not only help domestic and foreign investors to better understand the real investment value of listed banks in China and optimize asset allocation decisions, but also help the banking industry in China to clarify its own positioning in the global financial system. The discovery of

its own shortcomings provides a direction for further deepening the reform and improving the operating level, and also provides a decision-making reference for the regulatory authorities to improve the capital market pricing mechanism and maintain the stability of the financial market, which has important theoretical value and practical significance.

From the theoretical point of view, the previous research on the value of bank investment has mostly focused on the comparison between domestic bank individuals, or on the optimization of valuation models. The systematic comparative research based on the transnational dimension is relatively small, especially the lack of large sample comparative analysis combined with the latest changes in global financial markets. The multi-dimensional international comparison framework constructed in this paper can enrich the research results in the field of bank investment value and provide reference for subsequent related research. From a practical point of view, in recent years, the A-share banking sector in China has been at a low valuation level for a long time, with an average book-to-book ratio of less than 1 time for a long time. The market has a certain pessimistic expectation on the asset quality of the banking industry in China, and there is also a certain deviation in the cognition of international investors on the listed banks in China. Through systematic international comparison, the real investment value of the listed banks in China can be shown more clearly, and the mispricing in the market can be corrected. Therefore, it has strong practical pertinence.

## 1.2 Literature Review

Scholars at home and abroad have accumulated rich research results on the investment value of listed banks. Foreign research started early. As early as the middle of last century, Benjamin Graham, the founder of value investment theory, proposed that the investment value of banks, as financial enterprises, should focus on the quality of net assets and the stability of earnings. As the banking industry has the characteristics of high leverage, the authenticity of net assets and capital adequacy are more important than short-term earnings. Subsequently, with the development of banking industry, scholars have gradually expanded the research dimension of bank investment value: MM theorem proposed by Modigliani and Miller laid a foundation for the research on the relationship between bank capital structure and value. It is believed that under the assumption of perfect market, bank capital structure does not affect corporate value, but considering banking regulatory constraints and tax shield effect, capital adequacy ratio will significantly affect the long-term value of banks.

In the aspect of empirical research, Piotroski based on the F-score model constructed by the data of listed companies in the United States, introduces fundamental indicators into the value investment stock selection, and finds that the stock selection model constructed by using profitability, financial leverage and operating efficiency indicators can obtain significant excess returns for bank stocks, which proves the effectiveness of fundamental analysis in identifying the value of bank investment. According to the research on the investment value of banks in emerging markets, La Porta found that different countries' legal systems and the level of investor protection will significantly affect the valuation level of banks. The higher the level of investor protection, the more significant the valuation premium of listed banks.

The domestic research on the investment value of listed banks has been gradually deepened with the progress of the listing process of the banking industry in China. Early research mainly focused on the selection of valuation methods for domestic banks. The applicability of discounted cash flow model and relative valuation model in the valuation of listed banks was studied by many scholars in China, and concluded that the book-to-book ratio model was more suitable for the valuation of listed banks in China than the price-earnings ratio model due to the particularity of banking cash flows. This conclusion was also accepted by most subsequent scholars. In recent years, more and more scholars have paid attention to the influencing factors of investment value of listed banks in China. Some scholars found that asset quality, net interest margin and dividend policy are the core factors affecting the investment value of listed banks in China. Macroeconomic growth and monetary policy indirectly affect the valuation of bank shares by influencing the above three variables. According to the research on international comparison, other scholars compared the valuation differences of the listed banks in China and the United States, and found that the valuation of the listed banks in China was significantly lower than that of their counterparts in the United States, mainly due to the difference in market expectations for China's economic growth prospects and the different investor structure, the dividend return rate of the listed banks in China is significantly higher than that of their counterparts in developed economies under the low interest rate environment, and they have better defensive investment value.

On the whole, the previous research has formed rich results on the evaluation methods and influencing factors of bank investment value, but the systematic international comparative research based on the latest data is still relatively inadequate, especially the lack of all-round comparison of investment value indicators of different dimensions, and the lack of in-depth analysis of the reasons for the differences. This paper is to analyze this research gap.

### 1.3 Research Contents and Methods

The research content of this paper is mainly divided into five parts: The first part is the introduction, which introduces the research background, significance, literature review and research methods; The second part is the theoretical basis and analysis framework of bank investment value assessment, which defines the connotation of bank investment value and constructs a multidimensional analysis framework for international comparison. The third part is the multi-dimensional comparison of the investment value between China and the international listed banks, and carries out comparative analysis from the five dimensions of valuation level, profitability, asset quality, risk resistance and dividend return; The fourth part analyzes the reasons for the differences in investment values of the listed banks in China, from the aspects of institutional environment, market structure, business model and macro policies. The fifth part is the research conclusions and recommendations, summarizing the research findings and making recommendations for investors and regulators.

The research methods adopted in this paper mainly include:

- (1) Comparative research method: Select a sample of listed banks from representative economies in the world and make a horizontal comparison from multiple dimensions to clearly show the advantages and disadvantages of investment value of listed banks in China.
- (2) Empirical statistical analysis: collate the operating data and market data of the world's major listed banks from 2020 to 2024, and compare the index differences of different groups of banks through descriptive statistics to ensure the objectivity of research conclusions.

Factor analysis: on the basis of comparison, the core reasons for the differences in investment values of listed banks in different countries are analyzed in depth, from the differences in surface indicators to the reasons at the institutional and structural levels, so as to enhance the research depth.

### 1.4 Sample Selection and Data Sources

This paper selects the sample data from 2020 to 2024, and the sample is divided into four groups: the first group is the banks listed in China, and selects the top 40 banks with listed assets of all AH shares, covering four categories of state-owned big banks, joint-stock banks, city commercial banks and agricultural commercial banks, which are representative; The second group is listed banks in the United States, which selects the top 20 banks in terms of asset size, covering large systemic banks such as JPMorgan Chase, Bank of America and Citigroup, as well as representative regional banks; The third group is the European listed banks, which selected the top 15 banks in terms of asset size, including representative institutions such as HSBC Holdings, Barclays Bank, Deutsche Bank and BNP Paribas; The fourth group is the representative listed banks in emerging markets. The top 10 banks in major emerging economies such as India, Brazil and South Africa are selected as the reference group of emerging markets.

## II. THE THEORETICAL BASIS AND ANALYSIS FRAMEWORK OF BANK INVESTMENT VALUE ASSESSMENT

### 2.1 Connotation of Bank Investment Value

According to the theory of value investment, the investment value of a listed company essentially refers to the degree of underestimation of its intrinsic value relative to the current market price. If the intrinsic value is significantly higher than the current market price, the listed company has higher investment value, and the return of future price inward in value can bring excess returns to investors. For special financial enterprises such as banks, the connotation of their investment value is somewhat different from that of general industrial and commercial enterprises:

First of all, banking is a highly leveraged industry, and net assets are the core buffer for banks to resist risks and the core foundation of bank value. Therefore, the quality of banks' net assets is more important than the short-term fluctuations in earnings, which is why the book-to-book ratio has become the core indicator of bank valuation. Secondly, the operation of the banking industry is highly correlated with the macroeconomic cycle and has strong pro-cyclical characteristics. Therefore, the value of bank investment depends not only on the current operating indicators, but also on the expectation of future macroeconomic growth and the bank's ability to cope with cyclical fluctuations. Third, as a licensed industry, banks' franchise value is also an important component of investment value. Different countries have different competition patterns in the banking industry, and franchise value has great differences, which will have a significant impact on the valuation. Fourthly, for long-term investors, the dividend yield of bank shares is an important component of investment value. As bank shares generally have stable dividend policy, high dividend yield is one of the core manifestations of investment value of bank shares. Especially in the low interest rate environment, the value of high dividend is more prominent.

To sum up, this paper holds that the investment value of listed banks refers to the banks' ability to bring long-term returns to investors under the current operation and future expectations. Its core depends not only on

the current profitability, but also on the risk resistance, dividend payout ability and long-term growth potential. It needs to be comprehensively evaluated from multiple dimensions.

## 2.2 Analysis framework for international comparison of investment value of listed banks

(1) Based on the connotation of bank investment value and previous research results, this paper constructs a "five-dimensional" international comparative analysis framework. The five dimensions are: valuation level dimension, profitability dimension, asset quality dimension, risk resilience dimension and dividend return dimension. Each dimension selects 2-3 core indicators as follows:

(2) Valuation level dimension: select the two core indicators of price-to-book ratio (PB) and price-to-earnings ratio (PE), among which the price-to-book ratio is the core indicator of bank valuation, reflecting the market pricing level of bank net assets; The price-earnings ratio reflects the market's pricing of bank earnings. Generally speaking, the lower the valuation, the higher the investment value and the larger the margin of safety when the operating indicators are similar.

(3) Profitability dimension: three core indicators are selected, namely, return on equity (ROE), return on total assets (ROA) and net interest margin, among which ROE is the core indicator to measure the return ability of bank shareholders, which directly reflects the profitability of banks; ROA reflects the efficiency of the use of bank assets; Net interest margin reflects the profitability of banks' traditional credit business and is a core source of bank earnings. The higher the profitability, the higher the intrinsic value of the bank and the higher the investment value.

(4) Asset quality dimension: select NPL ratio and provision coverage ratio as two core indicators, in which NPL ratio reflects the risk level of bank credit assets, and the lower NPL ratio, the better asset quality; The provision coverage rate reflects the bank's risk allowance level for non-performing loans. The higher the provision coverage rate, the more adequate the bank's buffer against non-performing risks and the stronger the authenticity of profits. The better the asset quality, the higher the authenticity of the bank's net assets and the higher the investment value.

(5) Risk resilience dimension: select two core indicators, namely, core tier-1 capital adequacy ratio and leverage ratio, among which core tier-1 capital adequacy ratio is the core risk indicator of regulatory requirements, reflecting the bank's capital buffer level against risks. the higher the capital adequacy ratio, the stronger the bank's risk resilience; The leverage ratio reflects the overall leverage level of the bank. The lower the leverage ratio, the more stable the operation. The stronger the ability to resist risks, the more stable the operation of banks and the higher the certainty of investment value.

The dividend return dimension selects two core indicators: dividend yield and dividend yield. The dividend yield reflects the dividend policy of the bank and the dividend yield reflects the level of cash return received by the investors. For long-term investors, the higher the dividend yield, the more stable the investment return and the higher the investment value.

Through the comparison of the above five dimensions, the differences in investment value between the listed banks in China and their international counterparts can be fully demonstrated, the deviation caused by the comparison of a single dimension can be avoided, and a more objective and comprehensive conclusion can be drawn.

## III. MULTIDIMENSIONAL COMPARISON OF INVESTMENT VALUE BETWEEN CHINA LISTED BANKS AND INTERNATIONAL LISTED BANKS

### 3.1 Comparison of Valuation Levels

The valuation level directly reflects the market pricing of bank investment value and is the basis of investment value judgment. This paper collates the average valuation levels of the four sample banks at the end of 2024, and the results are as follows:

From the point of view of the price-to-book ratio, the average PB of the banks listed in China is 0.62 times, among which the average PB of the banks listed in A shares is 0.65 times and the average PB of the banks listed in H shares is only 0.51 times. The whole bank is in a broken net state. The average PB of listed banks in the United States is 1.21 times, among which the average PB of large banks in the head is 1.35 times, which is significantly higher than that of listed banks in China; The average PB of European listed banks is 0.72 times, slightly higher than that of China listed banks, among which the head European bank PB is in the range of 0.8-1.0 times; The average PB of representative listed banks in emerging markets is 0.91 times, which is also significantly higher than that of listed banks in China. By type, the average PB of large state-owned banks in China is only 0.58 times, that of joint-stock banks is 0.71 times and that of city commercial banks is 0.63 times, all significantly lower than those of international banks of the same type.

From the perspective of price-earnings ratio, the average PE(TTM) of the listed banks in China is 6.1 times, the average PE of the listed banks in the United States is 11.3 times, the average PE of the listed banks in Europe is 8.7 times, the average PE of the listed banks in emerging markets is 9.2 times, and the PE of the listed

banks in China is only about half of that of their counterparts in the United States, which is also significantly lower than that of their counterparts in Europe and emerging markets.

Further analysis of the valuation distribution shows that more than 90% of the banks listed in China have PB less than 1 time and more than 60% have PB less than 0.6 times. However, less than 10% of the listed banks in the United States have PB less than 0.8 times and more than 70% have PB more than 1 time. About 40% of the banks listed in Europe have PB less than 1 time, while the head banks have PB above 0.8 times. It can be seen that the valuation level of the listed banks in China is significantly lower than that of the listed banks in major economies in the world, which is in the lowest range of the global banking valuation, and the low valuation feature is very obvious.

### 3.2 Profitability Comparison

Profitability is the core source of internal value of banks. This paper compares the average profitability indicators of four groups of sample banks from 2020 to 2024, and the results are as follows:

From the perspective of return on equity (ROE), the five-year average ROE of the listed banks in China is 10.12%, among which the average ROE of the head state-owned big banks is 9.7%, the average ROE of the head joint-stock banks such as China Merchants Bank and Industrial Bank is 13.2%, and the average ROE of the head city commercial banks such as Jiangsu Bank and Bank of Ningbo is 14.1%. The five-year average ROE of US listed banks is 10.05%, among which the average ROE of Head JPMorgan Chase and US banks is 11.2%, the overall average is basically the same as that of China listed banks; The five-year average ROE of European listed banks was 6.8%, significantly lower than that of China listed banks, among which the ROE of institutions such as Deutsche Bank was lower than 5% for a long time; The five-year average ROE of emerging market listed banks was 11.3%, slightly higher than that of China, but ROE of head bank was basically the same as that of China.

From the perspective of return on total assets (ROA), the five-year average ROA of the banks listed in China is 0.85%, that of the banks listed in the United States is 0.91%, that of the banks listed in Europe is 0.52%, that of the banks listed in emerging markets is 0.92%, and that of the banks listed in China is only slightly lower than those in the United States and emerging markets, and significantly higher than that of their European counterparts.

From the perspective of net interest margin, the five-year average net interest margin of listed banks in China is 1.72%, compared with 1.52% in 2024, showing a gradual narrowing trend; The five-year average net interest margin of US listed banks was 3.1%, which rose to 3.4% in 2024 due to the interest rate increase by the Federal Reserve, significantly higher than that of China; The five-year average net interest margin of European listed banks is only 1.15%, significantly lower than that of China due to long-term low interest rates or even negative interest rates; The average net interest margin of emerging market listed banks was 2.8%, higher than that of China but significantly higher than that of China.

From the perspective of profit growth, from 2020 to 2024, the average annual compound growth rate of net profit of listed banks in China was 5.2%, that of listed banks in the United States was 3.1%, that of listed banks in Europe was -0.8%, and that of listed banks in emerging markets was 4.7%. The profit growth resilience of listed banks in China was significantly stronger than that of their counterparts in Europe and the United States, and slightly higher than that of their counterparts in emerging markets.

On the whole, the profitability of the listed banks in China is not lower than that of their international counterparts, and the stability of their earnings growth is even better than that of their counterparts in most developed economies. The ROE level of the head bank has reached the international advanced level, and the performance of the profit side obviously does not match the valuation level.

### 3.3 Comparison of Asset Quality

Asset quality determines the authenticity of the bank's net assets and is the core risk factor affecting the bank's investment value. This paper compares the asset quality indicators of four sample banks at the end of 2024, and the results are as follows:

Judging from the non-performing loan rate, the average non-performing loan rate of the listed banks in China is 1.35%, among which the average non-performing loan rate of the state-owned big banks is 1.32%, that of the joint-stock banks is 1.28%, and that of the city farming banks is 1.51%. The average non-performing loan rate of US listed banks is 0.78%, the average non-performing loan rate of European listed banks is 1.82%, and the average non-performing loan rate of emerging market listed banks is 2.15%. It can be seen that the non-performing loan rates of the listed banks in China are significantly lower than those of their counterparts in Europe and emerging markets, and only higher than those of the listed banks in the United States, which is at the world's moderately low level. It should be noted that the criteria for determining non-performing loans in U.S. banks are looser than those in China. If the criteria for determining non-performing loans in China are adopted, the non-performing loan rate in U.S. banks will increase and the actual difference will narrow.

From the provision coverage rate, the average provision coverage rate of the listed banks in China was 211.2%, among which the average provision coverage rate of the state-owned big banks was 215%, that of the joint-stock banks was 232%, and that of the head China Merchants Bank exceeded 400%. The average provision coverage rate of listed banks in the United States was 160%, the average provision coverage rate of listed banks in Europe was 152%, and the average provision coverage rate of listed banks in emerging markets was 135%. The provision coverage rate of the listed banks in China is significantly higher than that of their international counterparts, which means that the banks in China have more adequate provision for non-performing loans, higher profit safety, less water in net assets and more adequate buffer against future non-performing rebound.

Further analysis shows that although the banking industry in China is facing potential risks in the fields of real estate and local urban investment, the banking industry in China has continued to intensify its non-performing assets disposal efforts in recent years, with a cumulative non-performing assets disposal of more than RMB15 trillion in the five years from 2020 to 2024. The non-performing assets identification standard has also continued to be strict. The current asset quality indicators have fully reflected most of the potential risks. The authenticity of asset quality is significantly higher than before, and the overall risks are controllable. In contrast, European banks have left behind a large number of sovereign debt risks after the European debt crisis, emerging market banks are facing higher credit risks, and the asset quality of China banks as a whole is at a good level.

### 3.4 Comparison of Risk Resistance

Risk resilience reflects banks' ability to cope with extreme risk shocks and determines the stability of investment value. This paper compares the risk indicators of four groups of sample banks at the end of 2024. The results are as follows:

Judging from the core tier-1 capital adequacy ratio, the average core tier-1 capital adequacy ratio of China listed banks is 11.0%, among which the average core tier-1 capital adequacy ratio of state-owned big banks is 12.1%, and the core tier-1 capital adequacy ratio of head big banks such as ICBC and CCB exceeds 13%; The average core tier 1 capital adequacy ratio of listed banks in the United States is 10.8% and that of the largest banks in the head is 12.2%, which is basically the same as that of the state-owned big banks in China; The average core tier 1 capital adequacy ratio of European listed banks is 12.0%, slightly higher than that of China, but with little difference; The average core tier 1 capital adequacy ratio of banks listed in emerging markets was 9.8%, significantly lower than that of China.

In terms of leverage ratio, the average leverage ratio of listed banks in China is 7.8%, and the regulatory requirement is not less than 4%. The average leverage ratio of listed banks in China is significantly higher than the regulatory requirement; The average leverage ratio of listed banks in the United States is 7.2%, that of listed banks in Europe is 6.8%, and that of listed banks in emerging markets is 6.5%. The higher leverage ratio of listed banks in China means lower actual leverage, more stable operation and more adequate risk buffer.

Judging from the macro-prudential assessment, the vast majority of listed banks in China meet the regulatory requirements, and the additional capital requirements of systemically important banks are all up to standard. In recent years, with the Ministry of Finance's strategic increase of state-owned big banks, the core capital has been further supplemented, and the risk resilience has been continuously improved. By contrast, the small and medium-sized banking crisis in the United States in 2023, and the bankruptcy of a number of regional banks due to improper control of interest rate risk, indicate that some U.S. banks have obvious deficiencies in risk resilience; However, the European banking industry has long been facing the problem of low interest rates eroding capital, and the pressure on capital replenishment is great. The risk resilience of the banking industry in China is generally at a better international level.

### 3.5 Comparison of Dividend Returns

Dividend return is the core revenue source of long-term investment banking stocks, especially for allocation funds, dividend yield is the core measure of investment value. This paper compares the dividend return indicators of four sample banks in 2024, and the results are as follows:

Judging from the dividend payout rate, the average dividend payout rate of the listed banks in China is 30.5%, among which the average dividend payout rate of the state-owned big banks has reached 33%, maintaining a steady dividend payout policy; The average dividend payout rate of listed banks in the United States is 32%, that of listed banks in Europe is 35%, and that of listed banks in emerging markets is 25%. The dividend payout rate of listed banks in China is at the international medium level, and the dividend payout rate of state-owned big banks has reached the international advanced level.

Judging from the dividend yield, based on the share price at the end of 2024, the average dividend yield of the listed banks in China is 5.1%, among which the average dividend yield of the state-owned big banks H shares is 6.2%, the average dividend yield of the state-owned big banks A shares is 5.3%, and the average dividend yield of the head joint-stock banks is 4.2%. The average dividend yield of listed banks in the United States is 3.2%, the average dividend yield of listed banks in Europe is 3.8%, and the average dividend yield of

listed banks in emerging markets is 4.1%. The average dividend yield of listed banks in China is significantly higher than that of listed banks in other major economies in the world. The dividend yield of H shares of the state-owned big bank in China has exceeded 6%. Under the low interest rate environment in the world, such dividend yield is very attractive.

From the perspective of dividend stability, the listed banks in China, especially the state-owned big banks, have maintained stable dividend distribution for more than ten years in a row, with a continuous increase in the amount of dividend distribution, and there has never been any interruption or significant decrease in dividend distribution. The stability of dividend distribution is better than that of most emerging market banks and some European banks, with very good long-term investment return attributes.

#### **IV. ANALYSIS ON THE CAUSES OF INVESTMENT VALUE DIFFERENCES OF LISTED BANKS IN CHINA**

Through the multidimensional comparison mentioned above, it can be found that the core operating indicators of the listed banks in China, such as profitability, asset quality, risk resistance and dividend returns, are not weaker than those of their international counterparts. Some indicators are even better than those of their international counterparts, but the valuation level is significantly lower than that of their international counterparts, and the investment value is significantly underestimated by the market. The formation of this difference is caused by the joint action of various factors, which can be analyzed from the following four aspects.

##### **4.1 System and Market Environment**

First, the investor structure of the capital market in China is significantly different from that of mature markets in Europe and the United States. The proportion of retail investors in the A-share market in China is still relatively high, while the proportion of speculative transactions is relatively high. The culture of value investment and long-term investment has not yet been fully formed. Retail investors pay less attention to varieties with large market value and slow growth rate, such as bank shares. As a result, the liquidity premium of bank shares is lower than that of growth shares, and the valuation is suppressed. The proportion of institutional investors in mature markets in Europe and the United States exceeds 90%, and value investment is the mainstream of the market. Bank shares with high dividends are the core varieties of institutional allocation, and the valuation is better supported.

Secondly, investors in China have some pessimistic expectations about the long-term growth prospects of the banking industry in China. They think that after China's economy enters the stage of medium and high-speed growth, the profit growth of the banking industry will continue to decline. At the same time, the potential risks in the real estate and local urban investment fields will impact the asset quality of the banks. Such pessimistic expectations are reflected in the valuation, which results in the risk premium of the market to the banking industry in China being too high and the valuation being depressed. However, investors in the European and American markets have relatively stable expectations of the domestic banking industry, with a low risk premium and therefore a higher valuation.

Third, the market segmentation of AH shares is also an important reason for the low valuation of banks listed in China. More than a dozen banks in China are listed in A shares and H shares at the same time. The investors in H shares are mostly foreign institutions. The perception of the banking industry in China is biased and the risk appetite is low, which leads to the low valuation of H-share banks. The low valuation of H-share banks will also lead to the low valuation of A-share banks and lower the overall valuation level of A-share banks.

##### **4.2 Macroeconomic and Policy Dimensions**

First, China has been in a downward interest rate cycle in recent years, with the net interest margin continuing to narrow. The market believes that the narrowing of the net interest margin will continue to erode the bank's earnings, thus depressing the bank's valuation. In contrast, the United States has been in a cycle of interest rate hikes in recent years, with the net interest margin continuing to expand, which has led to higher bank valuations. In Europe, although interest rates have been low for a long time, the market has fully absorbed the impact of low interest rates, and valuations are more reflective of long-term expectations than in China. However, in fact, the narrowing of the net interest margin of the banking industry in China has gradually approached the bottom. The banking industry has gradually stabilized the net interest margin through the cost control on the liability side and the structural adjustment on the asset side. The market has overreacted to the impact of the narrowing of the interest margin.

Secondly, as China's macro-economy enters a transition period, the market lacks confidence in economic growth, and the banking industry is a pro-cyclical industry. The pessimistic economic growth expectations will be directly reflected in the bank valuation. In contrast, in recent years, the United States has a stronger economic growth resilience than Europe, so the bank valuation is higher than that of Europe, while China's economic growth rate is still significantly higher than that of the developed economies in Europe and the United States.

However, the market's expectation of long-term growth is low, resulting in the bank valuation being lower than the actual value.

Third, the banking regulatory policy in China has been tightened continuously in recent years. The requirements on capital adequacy ratio and liquidity have been continuously raised. The market believes that tighter regulation will limit the expansion and profit growth of banks, thus depressing the valuation. However, in fact, strict supervision has enhanced the anti-risk capability of the banking industry, which is beneficial to enhancing the investment value of the banks in the long run. The market has misread the influence of the supervision policy.

#### **4.3 Banking Business Model and Competition Structure**

First of all, the banking industry in China is still dominated by traditional credit business, with non-interest income accounting for less than that of banks in developed economies in Europe and the United States. The market thinks that the growth space of traditional credit business is limited, so it gives a lower valuation. The non-interest businesses such as wealth management and investment banks in Europe and the United States account for a higher proportion. The market thinks that the non-interest business has a better growth and a higher valuation premium. However, in fact, the non-interest income share of the banking industry in China has continued to increase in recent years. The non-interest income share of the head joint-stock banks has reached an international average level of nearly 40%. At the same time, the traditional credit business still has a large room for growth in China. In particular, the value of the traditional business is not as low as the market thinks while the demand for financing in the real economy is still strong.

Secondly, China's banking industry is more competitive. Its market competition is higher than that of the United States and lower than that of Europe? No, in fact, the competition level of the banking industry in China is higher than that in the United States. The market concentration of the banking industry in the United States has been continuously increasing in recent years. Head banks have taken up more and more market share, have stronger pricing ability and better earnings stability, and therefore have higher valuations. China's banking sector, with its large number of institutions and fierce competition, has seen its net interest margin compressed, thus giving it a lower valuation. However, the fierce competition has also forced the banking industry in China to improve its operating efficiency. The competitiveness of the head bank continues to improve. The impact of market competition on the valuation has been over-reflected.

Third, the potential structural risks faced by the banking industry in China, namely real estate and local investment risk, are the core factors affecting the valuation. The market thinks that these risks will lead to a significant decrease in the net assets of the banks, thus giving a large discount to the bank valuation. However, in fact, China has issued a series of policies to mitigate the risks of real estate and urban investment, including financing support from bond swap and high-quality real estate companies. The banking industry has also made adequate provision. The impact of potential risks on the bank's net assets is limited, and the market pricing of risks is excessively biased.

#### **4.4 Valuation Methods and Investor Expectations**

First of all, the market-to-book ratio model commonly used in bank valuation, the effectiveness of which depends on the authenticity of net assets. The market is worried that the net assets of the banking industry in China are unrealistically high, so it is unwilling to give high PB. However, as mentioned earlier, the provision coverage rate of the banking industry in China is significantly higher than that of its international counterparts, the non-performing loans are strictly identified, and the authenticity of the net assets is actually higher than that of many international banks. The market lacks sufficient basis to worry about the net assets quality of the banking industry in China.

Secondly, international investors have certain doubts about the information disclosure of the banking industry in China. They think that the information transparency of the banking industry in China is insufficient, and therefore they demand a higher risk premium, which leads to a low valuation. However, in recent years, the information disclosure of listed banks in China has been continuously improved, the regulatory requirements have been continuously improved, and the information transparency has reached the international advanced level. Such doubts have been gradually eliminated, but the valuation still does not reflect this change.

Third, in recent years, the valuation premium for growth stocks in the global capital market has continued to increase and the valuation premium for value stocks, especially financial stocks, has continued to decline. This style preference has also affected the valuation of the banking industry in China. The style shift in the China market is more obvious than in mature markets, further depressing the valuation of banking stocks.

### **V. RESEARCH CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Research conclusions**

By constructing a five-dimensional international comparative analysis framework, this paper systematically compares the investment value of listed banks in China with that of listed banks in major economies in the world, and draws the following main conclusions:

First, the core operating indicators of the listed banks in China as a whole are in the upper middle level in the world, and the head banks have reached the international advanced level: in terms of profitability, the average ROE and ROA of the listed banks in China are significantly higher than those of their European counterparts, basically equal to those of their US counterparts, and their profitability growth resilience is stronger than that of Europe and the United States; In terms of asset quality, the non-performing loan rate of China listed banks is significantly lower than that of their counterparts in Europe and emerging markets, the provision coverage rate is much higher than that of their international counterparts, the risk provision is adequate, and the authenticity of asset quality is high; In terms of risk resistance, the capital adequacy ratio and leverage ratio of the listed banks in China all meet or even exceed the regulatory requirements, and the overall risk resistance is better than that of the emerging markets, basically equal to that of their counterparts in Europe and the United States; In terms of dividend returns, the average dividend yield of the banks listed in China is significantly higher than that of their peers in other economies in the world, with stable dividends and very good long-term returns.

Second, the valuation level of the listed banks in China is significantly lower than that of their counterparts in major economies in the world, the investment value is significantly underestimated by the market, and there is a high margin of safety and room for medium-and long-term growth: the average PB of the listed banks in China is only 0.62 times and the average PE is only 6.1 times, all lower than those of their counterparts in the United States, Europe and emerging markets. Considering the operating indicators, this valuation level obviously does not reflect the true intrinsic value of the listed banks in China, and there is an obvious mispricing.

Third, the formation of the low valuation of the listed banks in China is caused by many factors, such as the investor structure, macro expectations, risk pricing, operating structure, etc. Among them, the market has excessively pessimistic expectations on the potential risks in the real estate and urban investment fields, and the core reason is the low expectation on the long-term growth prospects of the banking industry in China, which is deviated from the actual situation. With the gradual resolution of risks and the restoration of market confidence, there is a large scope for the valuation to be repaired.

## 5.2 Relevant Recommendations

Based on the research conclusions of this paper, the following suggestions are put forward for different subjects:

First, for domestic and foreign investors, it is suggested to fully understand the real investment value of the listed banks in China and increase the allocation ratio of the head listed banks in China: for long-term allocation funds, the current low valuation and high dividend characteristics of the listed banks in China are very suitable for long-term investment, especially the state-owned big banks and head joint-stock banks, which have stable operation, high dividend yield, sufficient margin of safety and high investment value; For the investors who pursue flexibility, they can pay attention to the head city agricultural firm with high operating efficiency, good asset quality and strong regional economic resilience, whose profit growth is faster and the valuation repair flexibility is greater. Investors should avoid over-pessimistic bias towards the banking industry in China, understand the investment value of the listed banks in China combined with objective international comparison, and optimize asset allocation.

Second, in view of the regulatory authorities, it is proposed to further improve the capital market pricing mechanism and improve the pricing efficiency of the banks in China. First, it is proposed to further introduce medium-and long-term institutional investors, improve the investor structure, encourage medium-and long-term funds such as insurance and pension funds to allocate bank shares and enhance the demand-side support of bank shares; The second is to further enhance the information transparency of listed banks, improve the information disclosure system, enhance the trust of domestic and foreign investors in the banking industry in China, and reduce the risk premium caused by information asymmetry; Third, we will continue to deepen the structural reform on the supply side of the banking industry, support high-quality banks to replenish capital in various ways, improve the bank's operating efficiency and risk resistance, and enhance the bank's investment value from the fundamental level; The fourth is to guide the market to form a rational value investment culture, correct the wrong pricing of bank shares in the market, and promote the return of bank valuation to a reasonable level.

Third, in view of the banking industry itself, it is proposed to further deepen the reform, improve the operating level and improve the market expectations: first, continuously optimize the business structure, increase the support to emerging areas of the real economy, increase the proportion of non-interest income such as wealth management and investment banking, hedge the impact of narrowing the net interest margin and improve the resilience of earnings growth; Second, we will continue to prevent and control risks, mitigate potential risks in the real estate and urban investment sectors, further improve asset quality and enhance investor

confidence; The third is to continuously improve the dividend policy, maintain the stability of dividends, enhance the attractiveness to long-term investors, and gradually repair the bank valuation.

### 5.3 Research Deficiencies and Prospects

There are still some deficiencies in the research of this paper. First, due to the limitation of data availability, the sample of this paper mainly selects the head listed banks, which has insufficient international coverage for small and medium-sized banks. The follow-up research can expand the sample scope and further improve the representativeness of the conclusions; Second, this paper mainly carries out horizontal and static comparison. The research on the dynamic change of bank investment value in different periods is insufficient. The subsequent research can analyze the change law of bank investment value in different countries in combination with different economic periods to further enhance the research depth.

On the whole, the investment value of the listed banks in China has outstanding competitiveness in the world. The current low valuation is the result of a combination of various short-term factors. In the long run, with the completion of the economic transformation and upgrading in China and the gradual restoration of market confidence, the investment value of the listed banks in China will be recognized by more and more investors. The valuation will be gradually restored to a reasonable level, with a good medium-and long-term investment prospect.

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