

Key Data

H-share price (HK\$)	5.24
52Wk H/L(HK\$)	6.59 / 4.44
Issued shares (mn)	250,011
- H shares (mn)	240,417
- A shares (mn)	9,594
Market cap (HK\$mn)	
- H shares (HK\$mn)	1,259,787
- A shares (Rmb mn)	38,567
3 months avg vol (HK\$mn)	1,265
Major shareholder (%):	
Huijin	59.31

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 1H12 (%)

Corporate banking	49.9
Personal banking	28.0
Treasury business	21.3
Others	0.8

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	6.1	3.2
3-mth	(0.2)	(5.8)
6-mth	(19.4)	(12.2)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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CCB (939 HK) – Unrated Diversified Banks Industry

Prudence power is showing

CCB reported a record high quarterly net profit at Rmb54.8bn for 2Q12. We are impressed by the bank's ability to expand NIM given its consistent prudence operating strategy with improved asset quality. Although further NIM expansion and asset quality improvement is not realistic, risk management excellence will allow CCB to outperform. At 2 s.d. below mean P/B, we believe CCB is defensive at current level.

Record high 2Q12 profit. CCB reported a record high net profit in 2Q12 of Rmb54.8bn, 6% QoQ growth. 1H12 net profit totaled Rmb106bn, 5% above consensus. With net interest income grew 16.5%, driven by better net interest margin (NIM). Despite a weaker NIM in 1Q12 at 2.65%, 2Q12 crawled back to 2.77%, with loan re-pricing effect and better bond yield. We expect NIM to narrow from 4Q12 which could result 5-7bps reduction for 2012 full year NIM.

Secret between NPL and overdue. The most eye catching point is the double reduction of non-performing loan (NPL), both in absolute amount and percentage, where NPL balance slightly down by 0.7% and NPL ratio reduced 9bps to 1%. Despite overdue loan grew by 33.5% HoH, over half were related to previous recognized NPL, while remaining were evenly distributed among corporate and personal loan, of which 60% of those new corporate overdue loan were recovered in Jul 2012.

Consistent prudence growth. New NPLs were geographic driven, mainly from wholesale and retail sector SMEs and micro business in Wenzhou, Zhejiang Province. Management expects a stable Wenzhou NPL trend in 2H12 drives by domestic consumptions. We give credit to CCB's consistent prudence growth strategy such as gradually lower weights of corporate property loan from 12% of total loan in 2008 to only 9.2% in 1H12, and a tighter NPL policy than regulatory requirement. Trading close to 2 s.d. below mean P/B, we think CCB is defensive under current operating environment.

Risk factors. Prolonged slowdown of China economy and sharp deterioration of asset quality.

Forecast and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Operating income (Rmb mn)	220,717	269,747	269,314	325,780	399,403
YoY chg (%)	36.3	22.2	(0.2)	21.0	22.6
Net profit (Rmb)	69,053	92,599	106,756	134,844	169,258
YoY chg (%)	21.9	34.1	15.3	26.3	25.5
EPS (Rmb)	0.31	0.40	0.46	0.54	0.68
BVPS (Rmb)	1.80	1.99	2.38	2.79	3.24
P/E (x)	--	--	--	--	6.4
P/B (x)	--	--	--	--	1.4
ROAE (%)	18.4	20.9	20.9	21.5	22.4

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: CCB quarterly result summary

(Rmb mn)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	QoQ (%)	1H11	1H12	YoY (%)
Net interest margin	2.69	2.63	2.68	2.80	2.65	2.77	0.12	2.66	2.71	0.05
Net interest income	71,630	74,076	77,304	81,562	82,101	87,591	7	145,706	169,692	16
Net fee income	23,154	24,517	21,121	18,202	24,302	24,941	3	47,671	49,243	3
Non-interest income	25,000	26,540	23,267	20,024	27,739	30,381	10	51,540	58,120	13
Topline	96,630	100,616	100,571	101,586	109,840	117,972	7	197,246	227,812	15
Operating expenses	(30,597)	(31,960)	(34,073)	(47,907)	(36,356)	(38,214)	5	(62,557)	(74,570)	19
PPOP	66,033	68,656	66,498	53,679	73,484	79,758	9	134,689	153,242	14
Loan loss provision	(4,794)	(9,131)	(6,905)	(14,953)	(6,686)	(8,052)	20	(13,925)	(14,738)	6
Other income	11	14	34	(35)	11	(3)	(127)	25	8	(68)
Profit before tax	61,250	59,539	59,627	38,691	66,809	71,703	7	120,789	138,512	15
Tax expenses	(14,017)	(13,819)	(13,373)	(8,459)	(15,200)	(16,818)	11	(27,836)	(32,018)	15
Minority interest	(48)	(80)	(67)	14	(97)	(114)	18	(128)	(211)	65
Net profit	47,185	45,640	46,187	30,246	51,512	54,771	6	92,825	106,283	14
EPS	0.19	0.18	0.18	0.13	0.21	0.22	5	0.37	0.43	16

Source: Companies, ABCI Securities estimates

Exhibit 2: CCB PB band chart



Source: Bloomberg, ABCI Securities estimates



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