



March 25, 2014  
Equity Focus  
Rating: BUY  
TP: HK\$ 5.72

H-Share price (HK\$) 4.94  
Est. share price return 15.71%  
Est. dividend yield 5.40%  
Est. total return 21.11%

Previous Rating & TP BUY; HK\$ 5.72  
Previous Report Date Feb 13 2014

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**Key Data**

52Wk H/L(HK\$)	6.03/4.65
Issued shares (mn)	2,705.2
H-Shares (mn)	1,157.2
A-Shares (mn)	1,548.0
Market cap	
H-shares (HK\$ mn)	5,705
A-Shares (HK\$ mn)	7,632
3-mth avg daily turnover (HK\$ mn)	3.02
Major shareholder(s) (%):	
Yufu	17.1
DSB	17.0

Source(s): Company, Bloomberg, ABCI Securities

**2013 PBT breakdown (%)**

Corporate banking	82.19
Retail banking	13.54
Treasury operations	4.27

Source(s): Company, ABCI Securities

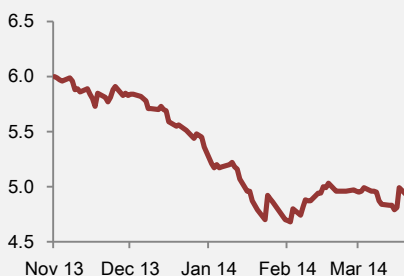
**Share performance (%)**

	Absolute	Relative*
1-mth	(2.2)	2.0
3-mth	(11.5)	(5.2)
6-mth	na	na

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg

**BoCQ (1963 HK)**

**Sustainable NIM supports brisk earnings growth**

- BoCQ reported FY13 net profit grew 21% yoy, which was in line with our forecast. The only variance came from larger-than-expected loan provision targeting to fulfill CBRC's requirement
- Supported by decent loan and deposit growth, NIM narrowed by 4bps to 2.81%. Better SME loan yield was able to reduce impacts of loan re-pricing
- Dividend payout ratio was in line with market practice at 25%, which we expect it to remain at similar levels going forward
- Trading at 0.67x FY14E P/B, the Group's current valuation has priced in most negative factors. Maintain **BUY** with TP at HK\$ 5.72, implying a 15.71% upside

**2013 earnings were in line with expectation.** BoCQ's reported its 2013 net profit at RMB 2,329mn (+21% yoy), which was in line with our forecast of RMB 2,328mn. Topline revenue was RMB 5,874mn (+26.1% yoy), slightly better than our forecast of RMB 5,828mn. Major variance to our earnings came from the larger-than-expected loan provision at RMB 536mn, compared to our forecast of RMB 295mn, despite NPL ratio remained low at 0.39%. The increased loan provision reflected the bank's continuous effort to fulfill the CBRC's provisioning ratio requirement. The Group's provisioning ratio increased from 1.8% in 2012 to 2.06% in 2013, and is targeting to reach 2.1%/2.3%/2.5% by 2014E/15E/16E, respectively.

**Sustainable NIM supported by balance sheet growth.** The Group's NIM was reported at 2.81%, in line with our forecast of 2.79%, and was 4bps lower than a year ago. The NIM was supported by decent loan and deposits growth at 17.8% and 30.5% yoy, which were in line with our expectation. SME loans grew 37.2% yoy, or accounted for 33.2% of total loan (2012: 28.6%). Loan yield dropped only by 11bps yoy to 7.1%, as improving SME loan yields were able to provide some buffer against the re-pricing impacts exerted by previous rate cuts. Deposit cost was up 21bps yoy to 2.45% in 2013. We expect BoCQ to control its deposit cost by optimizing its time deposit mix and deposit duration going forward.

**Dividend payout is consistent with market practice.** Dividend payout uncertainty was cleared after final results. BoCQ declared a dividend of RMB 0.224, equivalent to a 25% payout ratio, which is similar to the industry level. This represents a dividend yield of 5.4% for 2013. We expect BoCQ's dividend payout to remain similar going forward.

**Valuation at low end.** BoCQ's share price has fallen by 18% since IPO and is currently trading at 0.67x FY14E P/B, which is at the low end among peers. Maintain **BUY** with TP of HK\$ 5.72, which implies a 15.71% upside. While we believe the Group's current valuation has priced in most risks, the big banks would still be the first to experience a rebound should a re-rating occur.

**Risk factors:** 1) Asset quality deterioration in the region of operation; 2) Pricing competition from big banks to local regions; 3) Failure to optimize business mix of retail banking.

**Results and Valuation**

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	3,571	4,658	5,828	7,187	8,751
Chg (% YoY)	28.7	30.4	25.1	23.3	21.8
Net profit (RMB mn)	1,488	1,925	2,328	2,752	3,164
Chg (% YoY)	35.0	29.4	20.9	18.2	14.9
EPS (RMB)	0.74	0.95	1.12	1.01	1.16
Chg (% YoY)	35.0	29.4	17.5	(9.9)	14.9
BVPS (RMB)	3.2	4.1	4.9	5.9	7.0
Chg (% YoY)	28.3	28.0	20.2	20.3	17.8
P/E (x)	-	4.15	3.53	3.92	3.41
P/B (x)	-	0.97	0.80	0.67	0.57
ROE (%)	25.92	26.17	21.49	18.64	18.01
ROA (%)	1.26	1.36	1.30	1.22	1.17
DPS(RMB)	0.05	0.05	0.21	0.25	0.29
Yield (%)	-	1.27	5.40	6.38	7.33

Source(s): Bloomberg, ABCI estimates



Exhibit 1: BoCQ's P&L trend

(RMB mn)	1H12	2H12	1H13	2H13E	2H13	HoH (%)	A vs E	2012	2013E	2013	YoY (%)	A vs E
Net interest margin	<b>2.98</b>	<b>2.72</b>	<b>2.79</b>	<b>2.78</b>	<b>2.83</b>	<b>0.04</b>	<b>0.05</b>	<b>2.85</b>	<b>2.79</b>	<b>2.81</b>	<b>(0.04)</b>	<b>0.02</b>
Net interest income	2,051	2,099	2,474	2,420	2,704	9.3	11.8	4,150	4,894	5,179	24.8	5.8
Non-interest income	270	237	476	458	220	(53.9)	(52.1)	508	935	696	37.1	(25.5)
Topline	2,321	2,337	2,950	2,878	2,924	(0.9)	1.6	4,657	5,828	5,875	26.1	0.8
Operating expenses	(790)	(1,111)	(994)	(1,477)	(1,289)	29.7	(12.8)	(1,901)	(2,471)	(2,283)	20.1	(7.6)
Pre-provision profit	1,530	1,225	1,957	1,401	1,635	(16.4)	16.7	2,756	3,357	3,592	30.3	7.0
Loan loss provision	(98)	(141)	(102)	(193)	(434)	324.5	124.6	(240)	(295)	(536)	123.5	81.5
Profit before tax	1	0	1	0	1	(18.6)	57.5	1	1	1	23.5	19.6
Tax expenses	1,433	1,084	1,855	1,208	1,202	(35.2)	(0.5)	2,517	3,063	3,057	21.5	(0.2)
Minority interests	(322)	(271)	(445)	(291)	(284)	(36.2)	(2.4)	(593)	(735)	(728)	22.9	(1.0)
Net profit	1,111	814	1,411	917	919	(34.9)	0.1	1,925	2,328	2,329	21.0	0.1

Source(s): Company, ABCI Securities estimates



**Consolidated Income Statement (2011A-2015E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Interest income	6,107	8,309	9,678	12,143	14,773
Interest expense	(2,786)	(4,159)	(4,785)	(6,208)	(7,606)
<b>Net interest income</b>	<b>3,321</b>	<b>4,150</b>	<b>4,894</b>	<b>5,936</b>	<b>7,167</b>
Net fee and commission	290	368	718	969	1,259
Other operating income	(40)	140	217	282	324
<b>Operating income</b>	<b>3,571</b>	<b>4,658</b>	<b>5,828</b>	<b>7,187</b>	<b>8,751</b>
Operating expenses	(1,451)	(1,901)	(2,471)	(3,163)	(4,049)
Impairment losses	(184)	(240)	(295)	(404)	(541)
Investment in associates	0	1	1	1	2
<b>Profit before tax</b>	<b>1,936</b>	<b>2,518</b>	<b>3,063</b>	<b>3,621</b>	<b>4,163</b>
Income tax expenses	(448)	(593)	(735)	(869)	(999)
<b>Net profit</b>	<b>1,488</b>	<b>1,925</b>	<b>2,328</b>	<b>2,752</b>	<b>3,164</b>
<b>Growth (%)</b>					
Interest income	54.5	36.1	16.5	25.5	21.7
Interest expense	97.9	49.3	15.0	29.7	22.5
<b>Net interest income</b>	<b>30.5</b>	<b>25.0</b>	<b>17.9</b>	<b>21.3</b>	<b>20.7</b>
Net fee and commission	46.5	26.9	95.0	35.0	30.0
Other operating income	(225.0)	(450.0)	55.0	30.0	15.0
<b>Operating income</b>	<b>28.7</b>	<b>30.4</b>	<b>25.1</b>	<b>23.3</b>	<b>21.8</b>
Operating expenses	31.0	31.0	30.0	28.0	28.0
Impairment losses	(27.3)	30.4	23.0	36.7	34.1
Investment in associates	na	na	20.0	20.0	20.0
<b>Profit before tax</b>	<b>36.9</b>	<b>30.1</b>	<b>21.7</b>	<b>18.2</b>	<b>14.9</b>
Income tax expenses	43.6	32.4	24.0	18.2	14.9
<b>Net profit</b>	<b>35.0</b>	<b>29.4</b>	<b>20.9</b>	<b>18.2</b>	<b>14.9</b>
<b>Per share data</b>					
BVPS	3.2	4.1	4.9	5.9	7.0
EPS	0.74	0.95	1.12	1.01	1.16
DPS	0.05	0.05	0.21	0.25	0.29
<b>Key ratios (%)</b>					
Net interest margin	2.92	2.85	2.79	2.69	2.69
Net interest spread	2.77	2.66	2.58	2.46	2.46
CIR	40.6	40.8	42.4	44.0	46.3
Net fee to topline	8.1	7.9	12.3	13.5	14.4
Credit cost	0.31	0.34	0.35	0.40	0.45
ROA	1.26	1.36	1.30	1.22	1.17
ROE	25.92	26.17	21.49	18.64	18.01
Dividend payout	6.79	5.25	25.0	25.0	25.0
Core CAR	9.26	9.39	11.09	10.78	10.50
Total CAR	12.11	12.83	13.64	12.97	12.44
LDR	71.7	67.2	62.1	58.8	57.3
Provision coverage	526.7	537.7	476.2	488.9	480.0
Provisioning ratio	1.87	1.80	2.00	2.20	2.40
NPL ratio	0.35	0.33	0.42	0.45	0.50
Effective tax rate	23.1	23.6	24.0	24.0	24.0

Source(s): Company, ABCI Securities estimates



Consolidated Balance Sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Cash and bank	19,340	25,243	34,078	40,894	48,255
Due from bank and FIs	24,340	18,532	28,725	40,214	50,268
Total loans	64,022	76,634	92,029	109,782	130,698
- loan provision	(1,197)	(1,377)	(1,841)	(2,415)	(3,137)
<b>Net loans</b>	<b>62,825</b>	<b>75,257</b>	<b>90,189</b>	<b>107,367</b>	<b>127,562</b>
<b>Investment securities</b>	<b>17,091</b>	<b>32,132</b>	<b>43,913</b>	<b>52,370</b>	<b>61,368</b>
- L&R	5,769	21,232	32,910	41,137	49,364
- AFS	1,601	3,244	3,731	4,178	4,596
- HTM	9,721	7,656	7,273	7,055	7,408
<b>Total IEA</b>	<b>123,596</b>	<b>151,164</b>	<b>196,905</b>	<b>240,845</b>	<b>287,453</b>
Other assets	3,744	4,999	5,749	6,611	7,933
<b>Total assets</b>	<b>127,340</b>	<b>156,163</b>	<b>202,653</b>	<b>247,457</b>	<b>295,386</b>
Customer deposits	89,307	114,043	148,256	186,802	227,899
Due to bank and FIs	28,446	27,659	30,425	33,163	35,816
Subordinated debt	995	1,790	4,833	5,075	5,328
<b>Total IBL</b>	<b>118,748</b>	<b>143,492</b>	<b>183,514</b>	<b>225,040</b>	<b>269,044</b>
Other liabilities	2,140	4,413	5,736	6,292	7,342
<b>Total liabilities</b>	<b>120,888</b>	<b>147,905</b>	<b>189,249</b>	<b>231,332</b>	<b>276,386</b>
<b>Net assets</b>	<b>6,452</b>	<b>8,258</b>	<b>13,404</b>	<b>16,124</b>	<b>19,000</b>
Share capital	2,021	2,021	2,729	2,729	2,729
Retained earnings	3,122	4,554	6,300	8,364	10,737
Reserves	1,309	1,683	4,375	5,032	5,535
<b>Total equity</b>	<b>6,452</b>	<b>8,258</b>	<b>13,404</b>	<b>16,124</b>	<b>19,000</b>
<b>Growth (%)</b>					
Cash and bank	28.4	30.5	35.0	20.0	18.0
Due from bank and FIs	35.0	(23.9)	55.0	40.0	25.0
Total loans	20.9	19.7	20.1	19.3	19.1
- loan provision	18.2	15.0	33.7	31.2	29.9
<b>Net loans</b>	<b>20.9</b>	<b>19.8</b>	<b>19.8</b>	<b>19.0</b>	<b>18.8</b>
<b>Investment securities</b>	<b>(18.9)</b>	<b>88.0</b>	<b>36.7</b>	<b>19.3</b>	<b>17.2</b>
- L&R	(5.2)	268.0	55.0	25.0	20.0
- AFS	(68.5)	102.6	15.0	12.0	10.0
- HTM	(2.0)	(21.2)	(5.0)	(3.0)	5.0
<b>Total IEA</b>	<b>16.4</b>	<b>22.3</b>	<b>30.3</b>	<b>22.3</b>	<b>19.4</b>
Other assets	71.2	33.5	15.0	15.0	20.0
<b>Total assets</b>	<b>17.6</b>	<b>22.6</b>	<b>29.8</b>	<b>22.1</b>	<b>19.4</b>
Customer deposits	20.9	27.7	30.0	26.0	22.0
Due to bank and FIs	6.0	(2.8)	10.0	9.0	8.0
Subordinated debt	0.1	79.9	170.0	5.0	5.0
<b>Total IBL</b>	<b>16.8</b>	<b>20.8</b>	<b>27.9</b>	<b>22.6</b>	<b>19.6</b>
Other liabilities	33.2	106.2	30.0	9.7	16.7
<b>Total liabilities</b>	<b>17.0</b>	<b>22.3</b>	<b>28.0</b>	<b>22.2</b>	<b>19.5</b>
<b>Net assets</b>	<b>28.3</b>	<b>28.0</b>	<b>62.3</b>	<b>20.3</b>	<b>17.8</b>
Share capital	0.0	0.0	35.0	0.0	0.0
Retained earnings	49.1	45.9	38.3	32.8	28.4
Reserves	43.2	28.6	160.0	15.0	10.0
<b>Total equity</b>	<b>28.3</b>	<b>28.0</b>	<b>62.3</b>	<b>20.3</b>	<b>17.8</b>

Source(s): Company, ABCI Securities estimates



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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return – 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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