



April 1, 2015
 Equity Focus
 Rating: BUY
 TP: HK\$ 3.43

H-Share price (HK\$) 2.76
 Est. share price return 24.28%
 Est. FY14E dividend yield 4.66%
 Est. total return 28.94%

Previous Rating & TP BUY; HK\$ 3.43
 Previous Report Date Mar 5 2015

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Key Data

52Wk H/L(HK\$)	3.20/2.55
Issued shares (mn)	10,995.6
H-Shares (mn)	3,023.6
Unlisted shares (mn)	7,972.0
Market cap	
H-shares (HK\$ mn)	8,345.1
Unlisted shares (HK\$ mn)	22,002.8
3-mth avg daily turnover (HK\$ mn)	3.01
Major shareholder(s) (%):	
Harbin Economic Development	19.65

Source(s): Company, Bloomberg, ABCI Securities

2014 Operating income breakdown (%)

Corporate banking	33.6
Personal banking	23.7
Treasury	41.5
Others	1.2

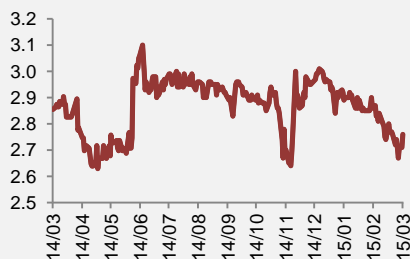
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(3.5)	(3.8)
3-mth	(7.7)	(12.5)
6-mth	(4.8)	(12.3)

*Relative to HSI
 Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

Harbin Bank Co., Ltd. (6138 HK)

Mobile finance and Russian business as two core growth engines in 2015; Maintain BUY

- HRB's 2014 net profit yoy up 13.62%; NIM expanded by 7bps on outstanding microcredit loan yield
- Overall NPL ratio stayed healthy at 1.13%. Management is confident that asset quality will remain stable despite mild pressure
- Mobile finance platform and Russia business will be the two core growth engines in 2015
- The counter is currently trading at 0.7x 15E P/B. Our TP implies a 24.28% upside; reiterate BUY

Outstanding asset yield supported by microcredit business. HRB reported its 2014 net profit at RMB 3,807mn, up 13.62% yoy, or 7.8% below our forecast. Major variances came from a slower-than-expected growth in balance sheet. On a positive note, HRB's NIM expanded by 7bps yoy to 2.71%. Supported by its extensive business focus on microcredit, HRB's average loan yield at 7.94% was the highest among peers (+ 32bps yoy). Meanwhile, contribution of net fee income to operating income rose 1.01ppt yoy to 15.61% on the 28.32% yoy growth in net fee income.

Manageable asset quality. Despite its core business in microcredit, HRB was able to maintain a relatively low NPL ratio at 1.13%. Management deems the NPL ratio of small enterprises loans at 1.19% as reasonable under the "new normal" economic outlook. Along with HRB's compliance with the principle of social responsibility and national policies, HRB increased its leniency in collection of farmers' loans, which as a result NPL ratio in loans to farmers rose to 7.15%. We expect a mild asset quality pressure for the Group in 2015.

Two core growth engines. Entering 2015, HRB will focus on developing its mobile finance platform, leveraging on its strong rural retail customer base to extend its business model from offline to online. Furthermore, management believes business in Russia will continue to grow rapidly. Evolving economy in Russia and depreciating RUB would bring new business opportunities and attract more capital from China into the Russian market. With its in-depth experience in Russia, the bank should be able to manage its credit and forex risks.

Reiterate BUY. The counter is currently trading at 0.7x 15E P/B. Our TP of HK\$ 3.43 implies a 24.28% upside; reiterate BUY.

Risk factors: 1) Asset quality deterioration in Heilongjiang; 2) Pricing competition from big banks entering the local regions; 3) Failure to optimize business mix and raise LDR; 4) Cross-region business development risk.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Revenue (RMB mn)	7,711	8,544	10,253	13,222	15,193
Chg (% YoY)	42.4	10.8	20.0	29.0	14.9
Net profit (RMB mn)	2,864	3,350	3,807	4,858	5,619
Chg (% YoY)	54.5	17.0	13.6	27.6	15.7
EPS (RMB)	0.37	0.41	0.37	0.44	0.51
Chg (% YoY)	8.8	10.8	-9.8	19.4	15.7
BVPS (RMB)	2.24	2.39	2.69	3.15	3.65
Chg (% YoY)	20.2	6.7	12.6	17.1	15.8
P/E (x)	5.97	5.39	5.97	5.00	4.32
P/B (x)	0.99	0.92	0.82	0.70	0.60
ROE (%)	20.35	18.36	15.46	15.10	15.03
ROA (%)	1.20	1.14	1.15	1.15	1.15
DPS(RMB)	0.02	0.04	0.10	0.10	0.13
Yield (%)	1.00	1.72	4.66	4.40	5.79

Source(s): Bloomberg, ABCI estimates



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Net interest income	6,658	6,818	8,398	10,448	11,630
Net fee and commission	679	1,247	1,600	2,027	2,554
Other operating income	374	479	255	747	1,009
Operating income	7,711	8,544	10,253	13,222	15,193
Operating expenses	(3,026)	(3,591)	(4,433)	(5,476)	(6,462)
Impairment losses	(836)	(506)	(709)	(1,247)	(1,217)
Investment in associates	9	3	17	4	5
Profit before tax	3,859	4,450	5,128	6,504	7,519
Income tax expenses	(987)	(1,079)	(1,287)	(1,626)	(1,880)
MI	(7)	(21)	(34)	(20)	(20)
Net profit	2,864	3,350	3,807	4,858	5,619
Growth (%)					
Net interest income	38.2	2.4	23.2	24.4	11.3
Net fee and commission	64.8	83.8	28.3	26.7	26.0
Other operating income	103.2	28.0	(46.8)	193.2	35.0
Operating income	42.4	10.8	20.0	29.0	14.9
Operating expenses	45.3	18.7	23.5	23.5	18.0
Impairment losses	1.5	(39.5)	40.1	75.8	(2.4)
Investment in associates	na	(65.7)	430.8	(75.1)	15.0
Profit before tax	53.9	15.3	15.2	26.8	15.6
Income tax expenses	51.7	9.3	19.3	26.4	15.6
MI	228.3	187.8	64.9	(41.6)	0.0
Net profit	54.5	17.0	13.6	27.6	15.7
Per share (RMB)					
EPS	0.37	0.41	0.37	0.44	0.51
BVPS	2.24	2.39	2.69	3.15	3.65
DPS	0.02	0.04	0.10	0.10	0.13
Key ratio (%)					
Net interest margin	3.09	2.64	2.71	2.51	2.42
Net interest spread	3.06	2.56	2.49	2.26	2.16
Cost to income ratio	39.24	35.85	35.04	41.42	42.53
Return on average assets	1.20	1.14	1.15	1.15	1.15
Return on average equity	20.35	18.36	15.46	15.10	15.03
Effective tax rate	25.59	24.25	25.09	25.00	25.00
Dividend payout	5.99	9.35	27.84	22.00	25.00

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Cash and bank	51,859	51,552	53,871	62,357	67,346
Due from bank and FIs	71,692	84,982	65,475	116,323	127,956
Net loans	85,298	103,515	121,014	146,386	170,075
Investment securities	51,180	71,036	86,647	120,461	143,642
Total IEA	260,029	311,085	327,007	445,528	509,019
Other assets	10,061	11,090	16,634	9,217	11,061
Total assets	270,090	322,175	343,642	454,746	520,080
Customer deposits	186,642	224,178	232,197	304,255	355,978
Due to bank and FIs	59,951	70,489	70,740	93,046	102,350
Subordinated debt	3,500	3,500	4,498	17,500	17,500
Total IBL	250,093	298,167	307,435	414,800	475,828
Other liabilities	3,060	4,081	6,044	5,298	4,117
Total liabilities	253,153	302,248	313,479	420,098	479,946
Share capital	7,560	8,247	10,996	10,996	10,996
Retained earnings	3,179	4,031	5,487	11,122	15,337
Reserves	6,025	7,450	13,048	12,186	13,405
MI	172	200	632	343	397
Total equity	16,937	19,927	30,163	34,647	40,135
Growth (%)					
Cash and bank	67.6	(0.6)	4.5	15.8	8.0
Due from bank and FIs	8.8	18.5	(23.0)	77.7	10.0
Net loans	27.3	21.4	16.9	21.0	16.2
Investment securities	42.0	48.0	22.0	39.0	19.2
Total IEA	30.1	21.4	5.1	36.2	14.3
Total assets	30.7	19.3	6.7	32.3	14.4
Customer deposits	27.9	20.1	3.6	31.0	17.0
Due to bank and FIs	29.8	17.6	0.4	31.5	10.0
Subordinated debt	250.0	0.0	28.5	289.0	0.0
Total IBL	29.5	19.2	3.1	34.9	14.7
Total liabilities	29.7	19.4	3.7	34.0	14.2
Total equity	46.9	17.7	51.4	14.9	15.8
Key ratio (%)					
Loan to deposits	46.75	47.26	53.37	49.35	49.03
CT1 CAR	11.94	10.68	13.94	12.04	11.85
Total CAR	12.97	11.95	14.64	14.01	13.59
NPL ratio	0.64	0.85	1.13	1.10	1.25
NPL growth	31.53	61.24	54.80	36.92	32.09
Net bad debt charge ratio	1.07	0.52	(0.63)	0.90	0.75
Provision to total loans	2.25	2.29	2.35	2.50	2.55
Provision coverage	352.06	269.44	208.33	227.27	204.00

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 2007-2011

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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