



Sector rating: Overweight

Key Data

Average 13E PER (x)	6.0
Average 13E PBV (x)	1.1
Average Dividend Yield (%)	4.8
Sector 3 months avg vol (HK\$mn)	5,903

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 4Q12 (%)

Net interest income	80.2
Non-interest income	19.8

Source: CBRC

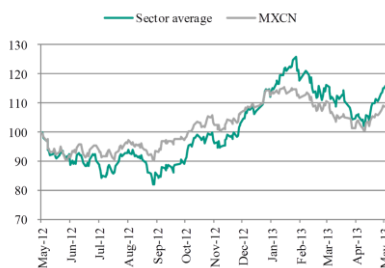
Share performance (%)

	Absolute	Relative*
1-mth	9.4	3.4
3-mth	(1.6)	0.9
6-mth	20.3	13.1

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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China Bank Sector Diversified Banks Industry

Mid-cap banks see higher NIM pressure

April system loan reported at Rmb793bn, Y-Y grew 14.9% and beating consensus by 6%. We regard the 25% M-M drop as a normal loan pattern, which loan growth in the month after each quarter-end would be slower. Social financing component remained stable with bank loans and trust loans accounted for 50% and 22% respectively. In view that system deposits slightly dropped by Rmb100bn, we expect mid-cap banks to face higher NIM pressure from deposit fights, reiterate our view to stick with low LDR big banks such as ICBC, CCB and ABC.

April loan data beating consensus. The PBOC reported April 2013 new loan at Rmb793bn, 6% higher than Bloomberg consensus and well matched with our expectation. This represented a 14.9% Y-Y growth, flat with March 2013. Although new loan dropped by 25% on M-M basis in April 2013, we regard this as a normal loan pattern, which loan growth in the month following each quarter-end would be relatively slow, as banks tend to put more effort in their loan figures for their quarter results.

Bank loans to social financing stayed clam. Both bank loans and trust loans as a percentage to total financing stable compared to previous month at 50% and 22% in April 2013 respectively. The use of corporate loan to total financing mildly reduced from 15% in March 2013 to 11% in April 2013.

Higher NIM pressure to mid-cap banks. Despite April 2013 loan grew by Rmb793bn, system Rmb deposits slightly dropped by Rmb100bn in the same month. We believe the slack deposits trend was mainly reflecting the reversal effect from actively short-term deposits absorption near end of March by banks. According to the 1Q13 results, mid-cap banks obviously put larger effort to grow their deposits base, in order lower their LDR, at the cost of larger NIM reduction. We expect this would continue to pose higher NIM pressure to mid-cap banks, reiterate our view to stick with low LDR big banks such as ICBC, CCB and ABC.

Risk factors. Acceleration of interest rate liberalization, sharp deterioration of asset quality and increasing competition from non-bank FIs.

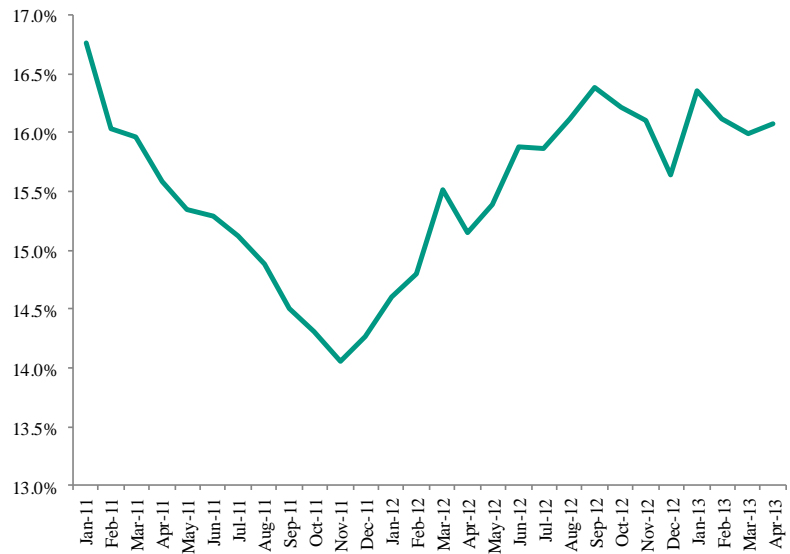
Sector Valuation Summary

Companies	Ticker	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	13E PER	13E PBV	13E Yield
CCB	939 HK	Buy	5.64	7.36	30.5	6.3	1.26	4.7
ICBC	1398 HK	Buy	6.64	8.74	31.6	6.3	1.27	5.6
ABC	1288 HK	Buy	3.87	5.55	43.4	6.2	1.19	5.0
MSB	1988 HK	Buy	10.64	14.02	31.8	6.0	1.33	3.9
BOC	3988 HK	Hold	3.82	4.33	13.4	6.6	0.98	4.7
BoCom	3328 HK	Hold	6.26	7.12	13.7	5.2	0.91	6.1
CMB	3968 HK	Hold	16.90	20.60	21.9	6.6	1.28	3.8
CITICB	998 HK	Hold	4.57	5.91	29.3	5.1	0.75	4.7

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: China Y-Y system loan growth



Source: PBOC, ABCI Securities

Exhibit 2: China bank loans to total social financing



Source: PBOC, ABCI Securities



Disclosures

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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 2008-2012

Time horizon of share price target: 12-month

Definition of share price risk

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

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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