



**Key Data**

H share Share price (HK\$)	5.28
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\$m)	1,316,120
- H shares (HK\$m)	1,269,403
- A shares (HK\$m)	46,717
3 months avg vol (HK\$m)	1,525
Major shareholder (%): Huijin	59.31

Source: Company, Bloomberg, ABCI Securities

**Operating income composition in FY11 (%)**

Corporate banking	49.9
Personal banking	28.8
Treasury business	19.7
Others	1.6

Source: Company

**Share performance (%)**

	Absolute	Relative*
1-mth	(0.2)	(2.1)
3-mth	(11.6)	(5.2)
6-mth	(14.8)	(12.6)

Source: Bloomberg

\*Relative to Hang Seng Index

**1 year price performance**



Source: Bloomberg

**Analyst:**

Johannes Au  
Tel: (852) 2147 8802  
Email: johannesau@abci.com.hk

**CCB (939 HK) – UNRATED**

**Diversified Banks Industry**

**Best position under rate cut cycle**

The continued anti-repo by the PBOC increased market expectations on RRR cuts, which we expect 2-3 RRR cuts in 2H12. Banks such as CCB with sufficient excess reserve and LDR buffer could grow their loan book easier. CCB could outperform peers under rate down cycle, with limited downside trading at 2s.d. below mean consensus 12E PB.

**Increasing RRR cut expectation.** PBOC operated anti-repo over the last 5 weeks accumulated over Rmb600bn, aiming to support economic growth by providing liquidity, market takes this a signal to upcoming required reserve ratio (RRR) cuts, we believe there will be 2-3 RRR cuts in 2H12, with 50-100bps each time, aggregate to 2-3ppt. This will reduce current large banks RRR from 20% to 17-18% level, fuelling economy growth by increasing liquidity through banking system.

**Loan growth drives earnings.** Under interest rate cut cycle, banks' earnings will be driven by interest earning assets growth to overcome weakening net interest margin (NIM). Higher excess reserve and lower loans to deposits ratio (LDR) allow banks to grow their loan book without overly expose to deposit fight, contributing to a more defensive profit position. We noticed that H-share Chinese banks have an average excess reserve ratio of 1.87%, of which CCB and BOC (3988 HK) ranked highest with over 3% excess reserve as of Dec 2011. On the other hand larger banks such as CCB, ICBC (1398 HK) and ABC (1288 HK) generally possessed lower LDR compare to peers ranged 58-65% by end Mar 2012, which increase their bargaining power in deposit competition when they grow their loan book.

**Best position.** Considered both factors, we think CCB has best position to drive future growth in the down interest rate cycle, which avoid hitting hard from surging deposit cost. CCB currently trading at 1x consensus 12E PB, close to 2 s.d. below mean, we believe further downside from here is limited compare to historical mean of 1.95x PB.

**Risk factors.** Further slowing of China economy growth and increasing credit quality concern.

**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)	--	--	--	--	6.5
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 PB band chart**



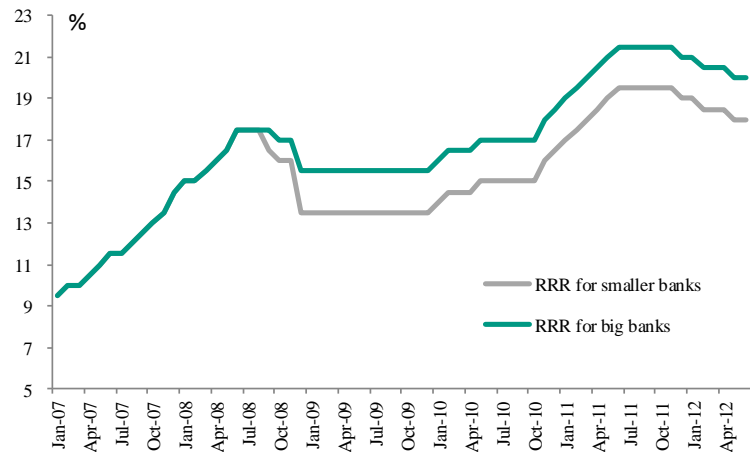
Source: Bloomberg, ABCI Securities estimates

**Exhibit 2: H share Chinese banks excess reserve and LDR**

Stock name	Ticker	2011			1Q12 LDR (%)
		Total reserve ratio (%)	RRR (%)	Excess reserve ratio (%)	
CCB	939 HK	23.1	20	3.10	64.3
BOC	3988 HK	24.0	20	4.02	69.2
ICBC	1398 HK	22.0	20	1.96	64.7
BOCOMM	3328 HK	22.0	20	1.95	79.2
ABC	1288 HK	21.9	20	1.93	58.1
CMB	3968 HK	17.9	18	(0.14)	75.4
MSB	1988 HK	19.9	18	1.89	73.8
CNCB	998 HK	18.2	18	0.22	72.3

Source: Bloomberg, ABCI Securities estimates

**Exhibit 3: China RRR trend**



Source: Wind, ABCI Securities estimates



---

## Disclosures

### Analyst Certification

I, Au Yu Hang Johannes, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Disclosures of Interests

ABCI Securities Company Limited and/or its member companies ("ABCI") may pursue financial interests to the companies mentioned in the report.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2012 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**