



Key Data

| | |
|---------------------------------|-------|
| Average PER (x) | 5.6 |
| Average PBV (x) | 1.1 |
| Average Dividend Yield (%) | 5.2 |
| Sector 3 months avg vol (HK\$m) | 4,692 |

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 1H12 (%)

| | |
|---------------------|------|
| Net interest income | 79.5 |
| Non-interest income | 20.5 |

Source: CBRC

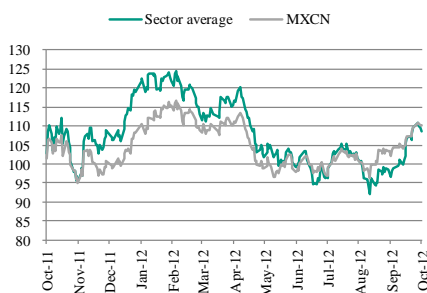
Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 11.6 | 4.7 |
| 3-mth | 12.3 | (1.2) |
| 6-mth | (5.8) | (5.9) |

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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China Bank Sector – Neutral
Diversified Banks Industry

Asset quality still a concern

We believe NIM narrowing and asset quality concerns are the major focuses of 3Q12 results in the next few days, which we forecast the remaining five banks to report 2-14% Q-Q net profit reduction. MSB could see Q-Q NIM improvement from its SME edge, while CNCB may hit hardest on provisions as we believe its 1H12 optimistic provisioning policy may not be sustainable. We continue prefer big banks under current challenging environment with CCB and ABC being our top picks.

Profits shall slightly go down in 3Q12. We expect the impact from previous two rate cuts in earlier 2012 and asset quality overhang are the main topics in 3Q12 results. We forecast the remaining five banks to report 2-14% Q-Q net profit reduction, of which big banks such as ICBC and BoCom shall see relatively better results. Despite we expect BoCom, CMB and CNCB's NIM to be down by 4-7bps Q-Q, we forecast MSB's NIM to rise by 5bps in 3Q12 driven by its better SME portfolio pricing.

Asset quality is still manageable. Although recent China macro statistics showed a stabilizing trend, we expect the continuation of NPLs and provisions uptrend for a few more quarters especially from the coastal areas. However, we do not expect a massive provision or asset quality deterioration to appear in 3Q12, except that CNCB may hit hardest by 3Q12 credit cost given its optimistic provisioning policy in 1H12 and this would translate into a 14% Q-Q net profit reduction under our estimation.

Big banks are preferred. Under the landscape of interest rate liberalization, rate cut cycle and asset quality overhang, we continue to favor big banks for their client base advantages and better business diversifications. Even we believe H-share banks shall deliver solid results in the next few days, we expect market concern on assets quality remains intact and limits the share price upside. Our top picks in the sector are ABC and CCB.

Risk factors. Prolonged slowdown of China economy, interest rate liberalization and sharp deterioration of asset quality.

Sector Valuation Summary

| Companies | Ticker | Rating | Price (HK\$) | Target (HK\$) | Upside (%) | 12E PER | 12E PBV | 12E Yield |
|-----------|---------|--------|-----------------|------------------|---------------|------------|------------|--------------|
| CCB | 939 HK | Buy | 5.74 | 6.30 | 9.8 | 6.2 | 1.3 | 5.6 |
| ABC | 1288 HK | Buy | 3.24 | 3.45 | 6.5 | 5.9 | 1.2 | 5.2 |
| MSB | 1988 HK | Buy | 7.17 | 7.66 | 6.8 | 4.7 | 1.0 | 5.4 |
| ICBC | 1398 HK | Hold | 5.09 | 4.44 | (12.8) | 6.5 | 1.3 | 4.5 |
| BOC | 3988 HK | Hold | 3.14 | 2.94 | (6.4) | 5.5 | 0.9 | 5.7 |
| BoCom | 3328 HK | Hold | 5.74 | 5.13 | (10.6) | 5.4 | 1.0 | 5.6 |
| CMB | 3968 HK | Hold | 14.76 | 13.47 | (8.7) | 6.3 | 1.3 | 4.0 |
| CNCB | 998 HK | Hold | 3.98 | 3.61 | (9.3) | 4.3 | 0.7 | 5.7 |

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: ICBC 3Q12 result preview (to be announced on 30 Oct 2012)

| (Rmb mn) | 3Q11 | 4Q11 | 1Q12 | 2Q12 | 3Q12E | Q-Q (%) | Y-Y (%) |
|------------------------------|----------------|----------------|----------------|----------------|----------------|------------|-----------|
| Net interest margin | na | na | na | na | 2.59 | na | na |
| Net interest income | 92,583 | 95,677 | 98,816 | 105,242 | 109,199 | 4 | 18 |
| Net fee income | 24,504 | 23,255 | 28,622 | 26,182 | 31,473 | 20 | 28 |
| Topline | 117,337 | 122,104 | 130,065 | 132,763 | 141,933 | 7 | 21 |
| Operating expenses | (40,352) | (56,006) | (40,703) | (43,828) | (53,017) | 21 | 31 |
| Loan loss provision | (7,502) | (6,738) | (10,148) | (9,089) | (9,626) | 6 | 28 |
| Tax expenses | (15,611) | (15,485) | (18,456) | (18,515) | (19,131) | 3 | 23 |
| Net profit | 54,359 | 44,425 | 61,335 | 61,825 | 60,893 | (2) | 12 |
| ABCI vs Consensus (%) | | | | | 0.3 | | |

Source: Companies, ABCI Securities estimates

Exhibit 2: BoCom 3Q12 result preview (to be announced on 30 Oct 2012)

| (Rmb mn) | 3Q11 | 4Q11 | 1Q12 | 2Q12 | 3Q12E | Q-Q (%) | Y-Y (%) |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
| Net interest margin | 2.58 | 2.68 | 2.60 | 2.62 | 2.57 | (5)bps | (1)bp |
| Net interest income | 26,597 | 26,428 | 28,367 | 30,027 | 32,889 | 10 | 24 |
| Non-interest income | 5,870 | 6,723 | 8,207 | 7,378 | 6,228 | (16) | 6 |
| Topline | 32,467 | 33,151 | 36,574 | 37,405 | 39,116 | 5 | 20 |
| Operating expenses | (13,350) | (14,135) | (12,271) | (14,404) | (16,728) | 16 | 25 |
| Loan loss provision | (3,542) | (3,130) | (3,807) | (3,329) | (4,732) | 42 | 34 |
| Tax expenses | (3,521) | (3,569) | (4,590) | (4,438) | (3,278) | (26) | (7) |
| Net profit | 12,020 | 12,319 | 15,880 | 15,208 | 14,362 | (6) | 19 |
| ABCI vs Consensus (%) | | | | | 4.0 | | |

Source: Companies, ABCI Securities estimates

Exhibit 3: MSB 3Q12 result preview (to be announced on 30 Oct 2012)

| (Rmb mn) | 3Q11 | 4Q11 | 1Q12 | 2Q12 | 3Q12E | Q-Q (%) | Y-Y (%) |
|------------------------------|---------------|---------------|---------------|---------------|---------------|--------------|------------|
| Net interest margin | 3.04 | 3.52 | 3.29 | 2.99 | 3.04 | 5 bps | 0bp |
| Net interest income | 17,159 | 18,117 | 18,970 | 18,901 | 17,732 | (6) | 3 |
| Non-interest income | 4,201 | 3,918 | 6,065 | 7,433 | 5,732 | (23) | 36 |
| Topline | 21,360 | 22,035 | 25,035 | 26,334 | 23,464 | (11) | 10 |
| Operating expenses | (9,866) | (10,722) | (9,105) | (11,159) | (10,295) | (8) | 4 |
| Loan loss provision | (1,480) | (2,559) | (3,335) | (2,071) | (2,075) | 0 | 40 |
| Tax expenses | (2,367) | (2,014) | (2,963) | (3,328) | (1,979) | (41) | (16) |
| Net profit | 7,468 | 6,534 | 9,172 | 9,881 | 9,004 | (9) | 21 |
| ABCI vs Consensus (%) | | | | | 2.6 | | |

Source: Companies, ABCI Securities estimates

Exhibit 4: CMB 3Q12 result preview (to be announced on 29 Oct 2012)

| (Rmb mn) | 3Q11 | 4Q11 | 1Q12 | 2Q12 | 3Q12E | Q-Q (%) | Y-Y (%) |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Net interest margin | 3.11 | 3.15 | 3.21 | 3.01 | 2.94 | (7)bps | (17)bps |
| Net interest income | 19,908 | 20,683 | 21,548 | 21,913 | 21,240 | (3) | 7 |
| Non-interest income | 4,326 | 5,520 | 6,837 | 6,936 | 6,091 | (12) | 41 |
| Topline | 24,234 | 26,203 | 28,385 | 28,849 | 27,332 | (5) | 13 |
| Operating expenses | (10,002) | (13,211) | (10,993) | (11,299) | (11,931) | 6 | 19 |
| Loan loss provision | (1,509) | (2,777) | (1,982) | (2,162) | (2,165) | 0 | 43 |
| Tax expenses | (3,164) | (2,255) | (3,845) | (3,604) | (2,607) | (28) | (18) |
| Net profit | 9,788 | 7,741 | 11,643 | 11,734 | 10,650 | (9) | 9 |
| ABCI vs Consensus (%) | | | | | (1.2) | | |

Source: Companies, ABCI Securities estimates

Exhibit 5: CNCB 3Q12 result preview (to be announced on 29 Oct 2012)

| (Rmb mn) | 3Q11 | 4Q11 | 1Q12 | 2Q12 | 3Q12E | Q-Q (%) | Y-Y (%) |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Net interest margin | 2.96 | 3.26 | 3.01 | 2.77 | 2.73 | (4)bps | (23)bps |
| Net interest income | 17,160 | 18,140 | 18,310 | 18,619 | 18,743 | 1 | 9 |
| Non-interest income | 3,055 | 3,402 | 3,413 | 3,901 | 3,631 | (7) | 19 |
| Topline | 20,215 | 21,542 | 21,723 | 22,520 | 22,375 | (1) | 11 |
| Operating expenses | (6,116) | (9,106) | (7,883) | (7,975) | (8,895) | 12 | 45 |
| Loan loss provision | (1,812) | (3,466) | (2,226) | (298) | (1,156) | 288 | (36) |
| Tax expenses | (3,316) | (2,377) | (2,933) | (3,358) | (3,162) | (6) | (5) |
| Net profit | 9,202 | 6,593 | 8,563 | 10,810 | 9,297 | (14) | 1 |
| ABCI vs Consensus (%) | | | | | 0.3 | | |

Source: Companies, 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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