

Key Data

H-share price (HK\$)	13.98
52Wk H/L(HK\$)	18.6 / 9.9
Issued shares (mn)	21,577
- H shares (mn)	3,910
- A shares (mn)	17,667
Market cap (HK\$mn)	
- H shares (HK\$mn)	54,668
- A shares (Rmb mn)	174,541
3 months avg vol (HK\$mn)	221.6
Major shareholder (%):	
China Merchants Group	18.01

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 1H12 (%)

Wholesale banking	61.6
Personal banking	39.3
Others	(0.9)

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(0.7)	(3.0)
3-mth	(6.4)	(11.4)
6-mth	(20.9)	(15.7)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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CM Bank (3968 HK) – Unrated Diversified Banks Industry

Key takeaways from result briefing

CMB reported solid 1H12 results with 24% top line growth and 26% net profit growth, we believe NIM has peaked in 1Q12, and will further narrow in 2H12 when rate cuts effect appear. Asset quality decline in 2H12 is foreseeable in a gentle manner, new NPLs in 2Q12 mainly contributed by retail loans which still at low level and high collateral. The bank is still under right issue headwinds, trading at 1.13x PB.

Growth sustained in 1H12. CM Bank (CMB, 3968 HK) reported its 1H12 net profit at Rmb23,377mn, grew by 25.6% YoY, in line with market consensus. Net interest margin (NIM) expanded by 12bps YoY to 3.11%, while QoQ dropped by 20bps, we believe 1Q12 strong NIM was mainly due to re-pricing effect from 2H11 rate hikes, which has largely factored in and should have peak in 1Q12. Fee income growth momentum remained strong at 19% YoY, stood at 17% of topline revenue.

Resilient asset quality. Non-performing loan (NPL) ratio flat at 0.56%, when NPL balance grew by 8% compare to Dec 2011. New NPL mainly attributed to retail loans, partly due to reclassification of small and micro business loans below Rmb500m into retail. Still retail NPLs well maintained at low level of 0.41%, with over 80% collateral. Meanwhile balance with local government financing platforms reduced by 11% to Rmb101.6bn, accounting for only 6% of loan book. We believe asset quality set to decline in 2H12, yet in a gentle pace.

2H12 key focus. We expect NIM continues to decline in 2H12 given rate cut effect to reflect, CMB will sustain their profitability through more efforts in non-interest income growth, and increasing loan pricing power in small and micro business loans. Despite CMB currently trading at 1.13x forward PB, investor should aware of the delayed Rmb35bn right issues, which could proceeds anytime.

Risk factors. Prolonged slowdown of China economy and sharp deterioration of asset quality.

Forecast and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Operating income (Rmb mn)	41,048	55,644	51,848	71,692	96,603
YoY chg (%)	60.0	35.6	(6.8)	38.3	34.7
Net profit (Rmb)	15,243	20,946	18,235	25,769	36,129
YoY chg (%)	101.2	37.4	(12.9)	41.3	40.2
EPS (Rmb)	1.04	1.42	1.08	1.27	1.67
BVPS (Rmb)	4.62	5.41	4.85	6.21	7.65
P/E (x)	--	--	--	--	7.0
P/B (x)	--	--	--	--	1.5
ROAE (%)	24.8	28.4	21.2	22.7	24.2

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: CMB – quarterly operating results

(Rmb mn)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	QoQ (%)	1H11	1H12	HoH (%)
Net interest margin	2.98	3.00	3.11	3.15	3.21	3.01	(0.20)	2.99	3.11	0.12
Net interest income	17,357	18,359	19,908	20,683	21,548	21,913	2	35,716	43,461	22
Net fee income	3,922	4,241	3,702	3,763	4,840	4,892	1	8,163	9,732	19
Non-interest income	4,966	5,484	4,326	5,520	6,837	6,936	1	10,450	13,773	32
Topline	22,323	23,843	24,234	26,203	28,385	28,849	2	46,166	57,234	24
Operating expenses	(8,721)	(9,260)	(10,002)	(13,211)	(10,993)	(11,299)	3	(17,981)	(22,292)	24
POPP	13,602	14,583	14,232	12,992	17,392	17,550	1	28,185	34,942	24
Loan loss provision	(2,049)	(2,015)	(1,509)	(2,777)	(1,982)	(2,162)	9	(4,064)	(4,144)	2
Other income	92	(37)	229	(221)	77	(50)	(165)	55	27	(51)
Profit before tax	11,645	12,531	12,952	9,994	15,487	15,338	(1)	24,176	30,825	28
Tax expenses	(2,835)	(2,741)	(3,164)	(2,255)	(3,845)	(3,604)	(6)	(5,576)	(7,449)	34
Minority interest	0	0	0	2	1	0	(100)	0	1	na
Net profit	8,810	9,790	9,788	7,741	11,643	11,734	1	18,600	23,377	26
EPS	0.41	0.45	0.45	0.36	0.54	0.54	0	0.86	1.08	26

Source: Companies, ABCI Securities estimates

Exhibit 2: CMB – PB band chart



Source: Bloomberg, ABCI Securities estimates



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