農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

February 13, 2014
Company Report
Rating: BUY
TP: HK$ 5.72

H-Share price (HK$)	4.88
Est. share price return	17.21%
Est.14E dividend yield	6.40%
Est. total return	23.61%

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Key Data

52Wk H/L(HK$)	6.03/4.65
Issued shares (mn)	2,705
H-Shares (mn)	1,157
Domestic (mn)	1,548
Market cap	
H-shares (HK$ mn)	5,534
Domestic (HK$ mn)	7,585
3-mth avg daily turnover (HK$ mn)	11.05
Major shareholder(s) (%):	
Yufu	17.1
DSB	17.0

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Corporate banking	66.5
Retail banking	18.7
Treasury operations	14.8

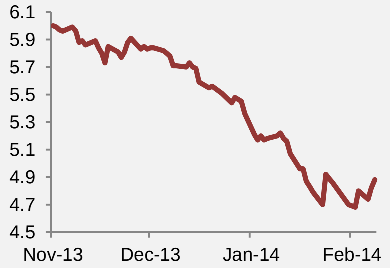
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(6.51)	(4.05)
3-mth	(16.72)	(13.62)
6-mth	na	na

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

1-Year stock performance (HK$)



Source(s): Bloomberg, ABCI Securities

Bank of Chongqing (BoCQ, 1963 HK)

A prospering west side story; initiate BUY

In addition to its fast growth over the past few years, BoCQ has successfully expanded its SMEs and MSEs businesses by capturing the high-yield niche market often overlooked by national banks. Meanwhile, its fee income and asset quality also benefit from synergy with its strategic investor, DSB. BoCQ enjoys the highest fee income-to-operating income ratio among city commercial peers while having the lowest NPL ratio among the H-share banks. As provision will increase on regulatory requirement, we believe its coverage ratio of over 400% should render the bank more defensive against future headwinds. BoCQ is currently trading at 0.66x FY14E P/B. We initiate our coverage on BoCQ with a **BUY** rating with TP at HK$ 5.72, reflecting a 17.21% upside.

Decent balance sheet growth. Chongqing's GDP grew faster than national rate by 3%-8% in the past five years, supported by the continuous industrialization and urbanization. BoCQ's loan and deposit in 2012 grew 19.9% and 22.7%, higher than the systemic level of 15.6% and 13.4%.

Rapid growth in niche SME business. BoCQ has started its SME business back in 2007 and opened its first small-enterprise loan center in 2009. Micro lending grew rapidly, with small enterprise loan accounting for 29.9% of total corporate loan in 2012, as opposed to 10% in 2010. Strong demand and better yield from small enterprise loan should help defend NIM especially when interest rate is liberalized in the future.

Early bird advantage in fee income business. Percentage of fee income to total revenue was only 12.4% in 1H13 for BoCQ, which was low among the H-share banks but high when compared to other city commercial banks. Fee income from WMPs and trust would remain as the swing factors, while traditional fee income would continue to grow. We estimate fee income would grow by 50.7% CAGR over 2012-15E, while its percentage to top-line revenue would reach 14.4% by 2015E.

Prudent risk management as core value. Thanks to its strategic investor, DSB, BoCQ possesses a much better asset quality than peers with a NPL ratio of 0.38% in June 2013. Synergy has helped BoCQ to adopt a prudent risk management standard. Despite provision level will increase on regulatory requirement, its provision coverage of above 400% should defend the bank should risks arise.

Initiate with BUY. BoCQ's share price, in line with the China banks sector, has fallen by 19% since IPO. Its share performance has been weaker than its recently listed district bank peer Huishang Bank (HB), and we believe this can be attributed to its smaller size and local market share compared to HB. BoCQ is now trading at 0.66x FY14E P/B, the sector risk has been overdone in our view. We initiate our coverage on BoCQ with a **BUY** recommendation with a TP of HK$ 5.72, which implies a 17.21% upside.

Risk factors: 1) Asset quality deterioration in the region; 2) Pricing competition from big banks to local regions; 3) Failure to optimize business mix of retail banking.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	3,571	4,658	5,828	7,187	8,751
Chg (%,yoy)	28.7	30.4	25.1	23.3	21.8
Net profit (RMB mn)	1,488	1,925	2,328	2,752	3,164
Chg (%,yoy)	35.0	29.4	20.9	18.2	14.9
EPS (RMB)	0.74	0.95	1.12	1.01	1.16
Chg (%,yoy)	35.0	29.4	17.5	(9.9)	14.9
BVPS (RMB)	3.2	4.1	4.9	5.9	7.0
Chg (%,yoy)	28.3	28.0	20.2	20.3	17.8
P/E (x)	-	4.11	3.49	3.87	3.37
P/B (x)	-	0.96	0.80	0.66	0.56
ROE (%)	25.92	26.17	21.49	18.64	18.01
ROA (%)	1.26	1.36	1.30	1.22	1.17
DPS(RMB)	0.05	0.05	0.21	0.25	0.29
Yield (%)	-	1.28	5.38	6.33	7.42

Source(s): Bloomberg, ABCI Securities estimates

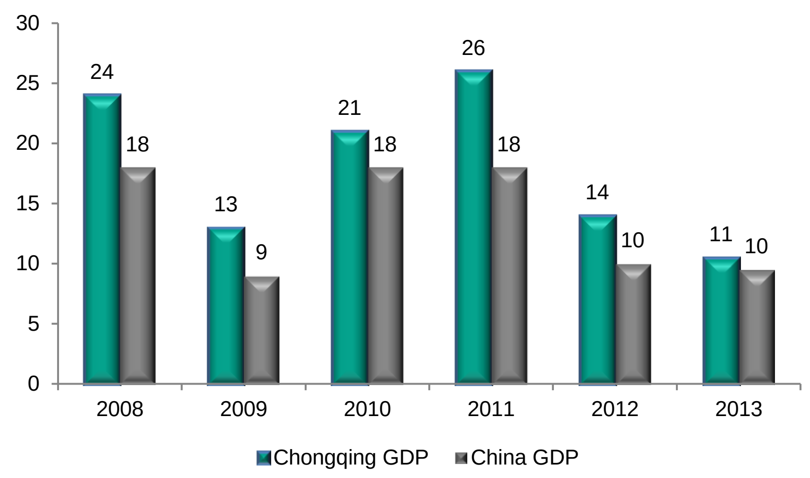
Contents

Decent balance sheet growth

Above-average GDP growth supportive to domestic bank

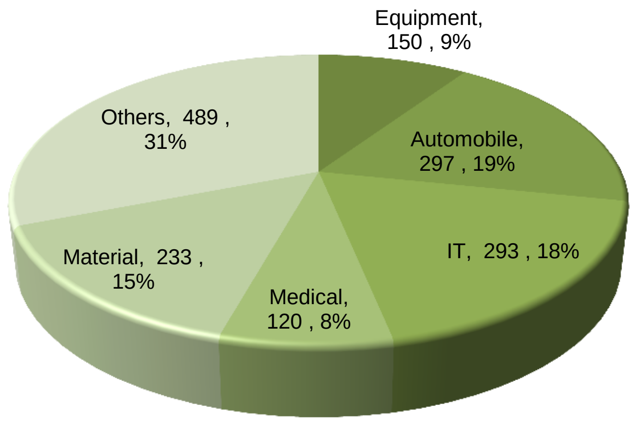
Fast economic growth was seen in Chongqing under continuous industrialization and urbanization. Its GDP has grown faster than the national rate by 3ppt-8ppt for the past five years. In 2008-12, Chongqing's demonstrated the highest CAGR growth of 17.5% among municipalities whose growth was in the range of 6.2%-12.2% for the same period. A district bank like Bank of Chongqing (BoCQ) has benefited immensely under such positive economic momentum.

Exhibit 1: Nominal GDP growth of Chongqing and China (yoy %)



Source(s): Wind, NBSC Chongqing, ABCI Securities

Exhibit 2: Chongqing's industrial output in 2013 (RMB bn)



Source(s): NBSC Chongqing, ABCI Securities

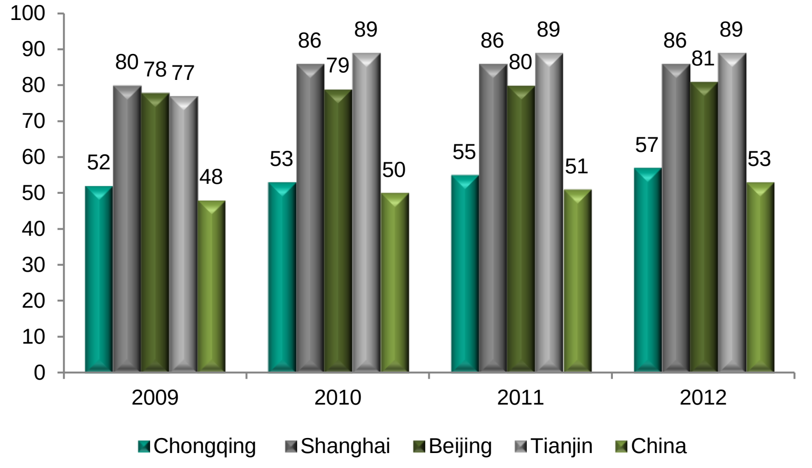
As one of the directly supervised municipalities (DSM), Chongqing has been experiencing rapid growth in the past decade under the "Go West" Policy that was first introduced in 2000. Rebalancing economic growth between coastal and less developed regions has been one of priorities of China. Hence, we believe Chongqing will continue to develop briskly, supported by its relatively low labor cost, government-supported infrastructure upgrade, migration of factories from coastal to western China, and beneficial tax rate.

Upon the establishment of Liangjiang new development zone in Chongqing, the third national economic zone after Shanghai's Pudong New Area and Tianjin's Binhai New Area, information technology, automotive, high-value equipment, aeronautics and biochemical have become the key industries in the region. Among which, automobile and IT accounted for the largest share of industrial output in 2013. We believe industry such as automobiles, technology, electronic and consumer-related manufacturing will become its core economic drivers in the medium/long term.

Lowest urbanization rate among DSM

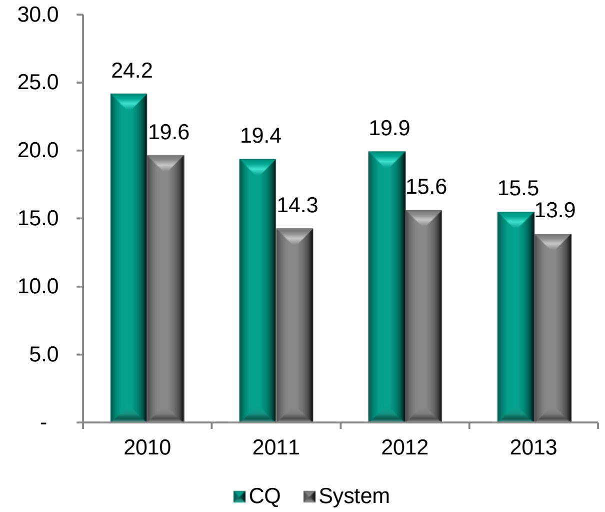
Nevertheless, Chongqing's urbanization rate of 57% is comparable to the national level of 53% but is the lowest compared to three other directly supervised municipalities whose rates exceed 80%. On the back of favorable policies and its geographical location, Chongqing Development and Reform Commission aims to raise Chongqing's urbanization to 70% by 2020. We forecast the region to achieve a above-average profit growth in the medium /long term.

Exhibit 3: Urbanization rate of the four directly supervised municipalities in China (%)



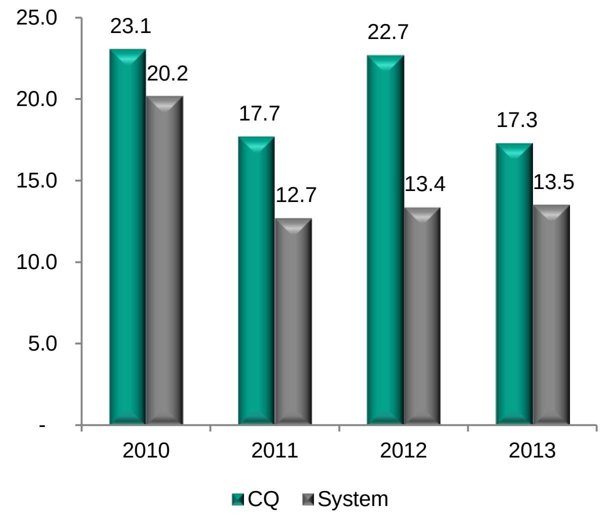
Source(s): Wind, ABCI Securities

Exhibit 4: Loan growth in Chongqing and system (yoy %)



Source(s): Wind, PBOC, NBSC Chongqing, ABCI Securities

Exhibit 5: Deposit growth in Chongqing and system (yoy %)

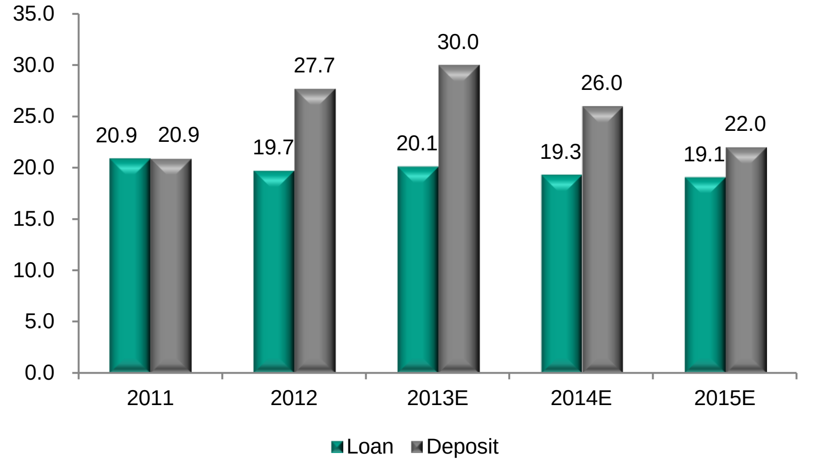


Source(s): Wind, PBOC, NBSC Chongqing, ABCI Securities

Fast-growing loan and deposit size

Robust economic growth usually means strong banking demand by local enterprises. Chongqing's loan and deposit growth has surpassed the system rate by 4.3ppt and 9.3ppt at 19.7% and 27.7% yoy in 2012. BoCQ, as a top player in Chongqing, also reported impressive loan and deposit growth of 19.7% and 30% in 2012. Taken together, BoCQ took up 3.6% and 4.9% of the domestic loan and deposit market shares.

Exhibit 6: BoCQ loan and deposit growth (%)

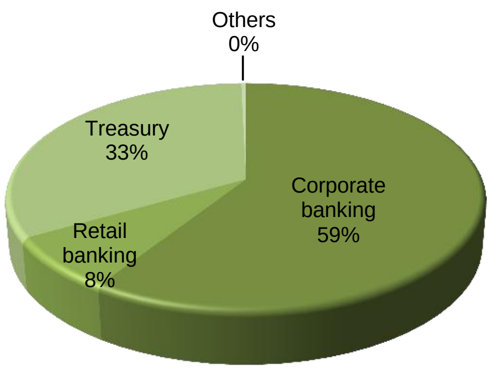


Source(s): Company, ABCI Securities estimates

Corporate banking as emphasis

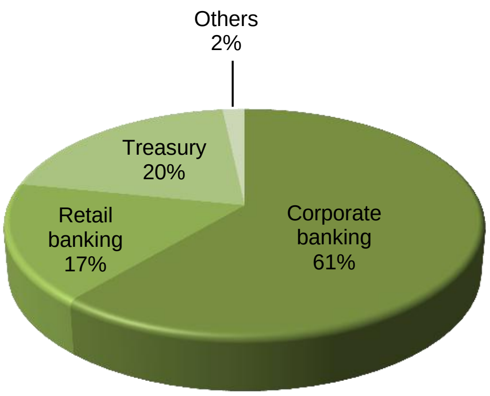
Like other city commercial bank, corporate banking has been the key business segment of BoCQ supported by the local government and its established relationship with domestic corporates. About 61% of BoCQ's profit before tax was contributed by corporate banking in 1H13, compare to 59% in 2010. Meanwhile, we believe the increased contribution of retail banking up to 17% of total profit before tax was also supported by small business loans.

Exhibit 7: BoCQ's PBT mix in 2010



Source(s): Company, ABCI Securities

Exhibit 8: BoCQ's PBT mix in 1H13



Source(s): Company, ABCI Securities

Extending business to nearby regions

Bigger banks have set up their franchises in Chongqing to capture the rising banking demand. As competition intensifies, we believe it would be difficult for BoCQ to significantly raise its market share from its current level in the region. The bank has turned more aggressive to expand its business to nearby provinces such as Shaanxi, Sichuan and Guizhou in recent years. As of June 2013, these areas aggregated one-fourth of BoCQ's loan and deposit balance, compared to only 17.8% and 10.1% in 2010 respectively. Still, we would cautious on the bank's expansion outside Chongqing as support from local government could be limited, and the bank may face fierce competition from regional players and need higher levels of risk management.

Although we expect BoCQ's market share in Chongqing to stay similar in coming years, robust economy growth in the province is likely to spur balance sheet growth. We believe enterprises in Chongqing would enjoy sustainable profit growth with the low production cost (labor, land, utilities) and a preferential tax regime that entails a rate as low as 15%. In our base case scenario, we forecast BoCQ's loan and deposit growth to sustain at 19%-20% and 22%-30% in 2013E-15E.

Robust top-line growth on low base

A different business model from CQRB's

Investors tend to compare BoCQ with Chongqing Rural Commercial Bank (CQRB) as their distribution franchises are mostly in Chongqing. Yet, the business models of the two are rather different. BoCQ is mostly an urban play with outlets concentrating in cities, while 52% of CQRB's outlets are in county areas (non-urban regions). This results in a significantly higher operating efficiency for BoCQ.

Exhibit 9: Business outlook of BoCQ and CQRB

	BoCQ	CQRB
Business focus	Urban	48% Urban, 52% county
Market share in CQ	5.9	15.6
No. of outlets	103	1,767
No. of employees	3000	15000
Total assets (RMB bn)	188	487
Total loans (RMB bn)	85	192
Total deposits (RMB bn)	140	339
ROE (%)	29.6	18.8
LDR (%)	61	57
NPL (%)	0.38	0.73

Source(s): Companies, ABCI Securities

With BoCQ's number of outlets and staff amounting to only 5.8% and 20% of CQRB's, BoCQ's total assets, total loan and total deposit were 38.6%, 44.3% and 41.3%, respectively, of CQRB. High efficiency allowed BoCQ to achieve a better ROE at 29.6% compared to 18.8% for CQRB in 1H13. BoCQ also had a lower LDR at 61% and a better NPL ratio at 0.38%, compared to CQRB's LDR of 57% and NPL ratio of 0.73%.

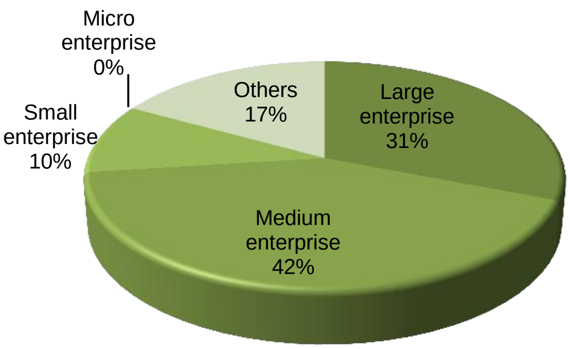
We believe BoCQ's smaller size means it has more growth potential in the future than CQRB and city commercial banks in other regions. Its strategic focus will be on key financial centers of western China and neighboring cities.

Niche focus on SMEs

BoCQ has setup its micro-loan department back in 2007 to capture opportunities in SME business, while its first small-enterprise loan center started in 2009. BoCQ demonstrated its ability to increase the operating efficiency through its in-depth knowledge of the local environment and the establishment of a value-chain business model to extend business opportunities and risk management to their upstream and downstream customers.

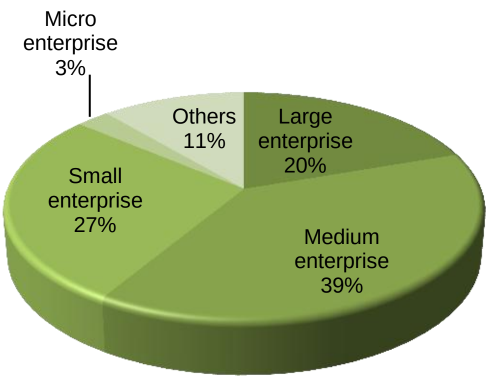
SME lending has been soaring over the past three years, in which percentage of small- and micro-enterprise loans to total corporate loans increased from 10% in 2010 to 29.9% in 2012; enterprises of medium size or below accounted for 68.9% of total corporate loans by 2012. We believe the rising proportion of SMEs and MSEs in its customer mix would render BoCQ's NIM more defensive against the pressure exerted by the ongoing interest rate liberalization; the resulting growth in asset size and enhanced yield may also present upside surprises to the bank's earnings.

Exhibit 10: BoCQ's corporate loan mix in 2010



Source(s): Company, ABCI Securities

Exhibit 11: BoCQ's corporate loan mix in 2012



Source(s): Company, ABCI Securities

In our base case scenario, we forecast BoCQ's NIM to narrow by 6bps in 2013 to 2.79% mainly on the re-pricing from two rate cuts in 2012; its NIM would stabilize at 2.69% over 2014E-15E, based on the higher funding cost driven by the stiffening competition in the deposit market and BoCQ's reliance on interbank funding, although asset yield would be supported by the improved asset mix. We forecast BoCQ's net interest income will increase by 20% CAGR over 2012-15E.

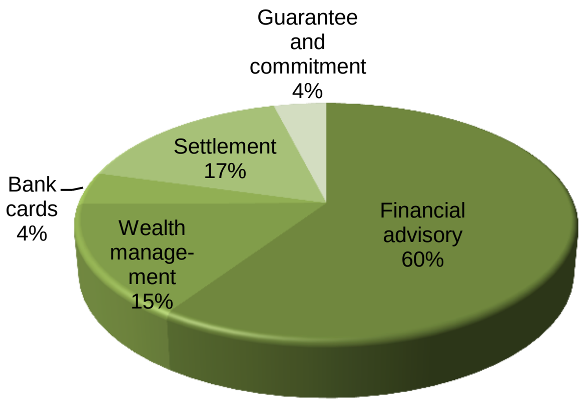
Early bird advantage in fee income business

The percentage of fee income to operating income was 12.4% in 1H13 for BoCQ, which was low compared to other H-share Chinese banks but high among the city commercial banks. As city commercial banks tend to focus on credit business historically, most of them have only started to expand fee business in recent years. As a result, percentage of fee income to total income in most city commercial banks are usually below 10%.

However, the figure in BoCQ has been boosted by synergy with DSB, its strategic investor and a reputable bank in Hong Kong. In Hong Kong, fee income usually account for 40%-60% of total income in banks, which also possess more sophisticated knowledge in fee structure as well.

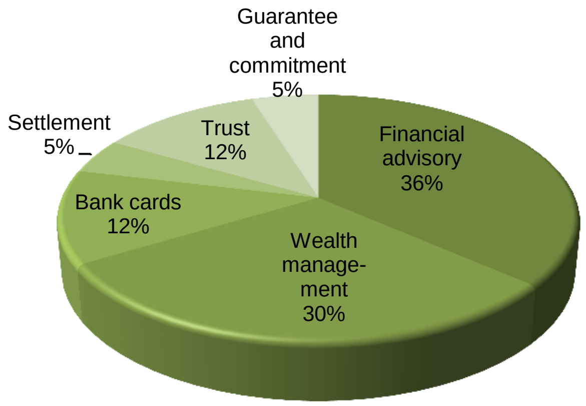
Fee income from wealth management and trust have been the major driver in recent years, whose mix increased from 15% in 2010 to 30% in 1H13 and trust fee to account for 12% of total fee income in 1H13; traditional fee income such as bank cards also expanded from 4%in 2010 to 12% in 1H13 of total fee. Still, we believe room for growth is still ample and we forecast BoCQ's net fee income to grow at 50% CAGR over 2012-15E, while the proportion of fee income to total income should increase to 14.4% by 2015E.

Exhibit 12: BoCQ's fee income mix in 2010



Source(s): Company, ABCI Securities

Exhibit 13: BoCQ's fee income mix in1H13



Source(s): Company, ABCI Securities

As net interest and net fee incomes are expected to rise, we expect BoCQ 's top-line revenue to rise at a 23.4% CAGR over 2012-15E; net profit would grow at 18% CAGR while ROE CAGR would be in the range of 18%-21.5% for the same period.

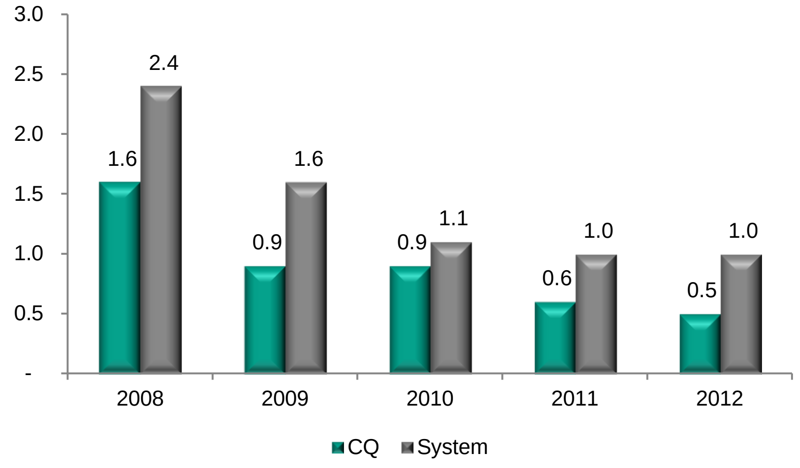
Prudent risk management as core value

An excellent track record of asset quality

BoCQ has an outstanding asset quality with its NPL ratio at 0.38% in June 2013, compared to the provincial level of 0.5% and systemic level of 1%. We believe this is one of the synergistic effects with DSB who has a high risk management standard and a prudent mentality. DSB has nominated the vice president and the chief risk officer for BoCQ, and shared its risk management experience with the bank.

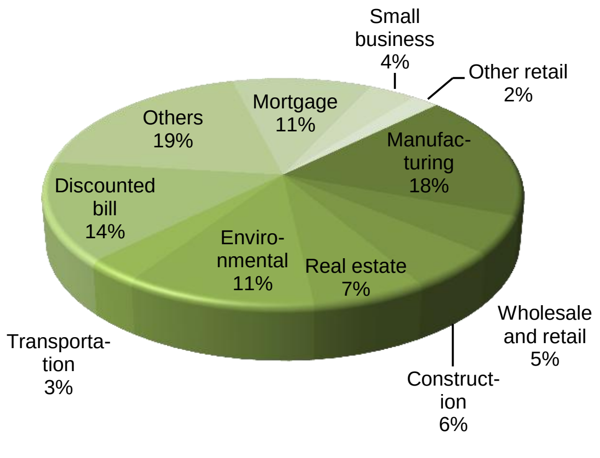
The recent system NPL trend shows that new NPLs were mainly from eastern China; by sector, manufacturing, wholesale/ retail were the major contributors. With a SME/MSE business focus, BoCQ has the largest exposure to these sectors - manufacturing accounted for 18% and wholesale/ retail took up 11% of total loans in 1H13. Meanwhile, real estate and construction loans made up 12%-13% of total loan. The level of exposure to risky sectors, however, was lower than that of other H-share Chinese banks, thus asset quality risk in BoCQ is no higher than its peers.

Exhibit 14: NPL ratio in Chongqing and system (%)



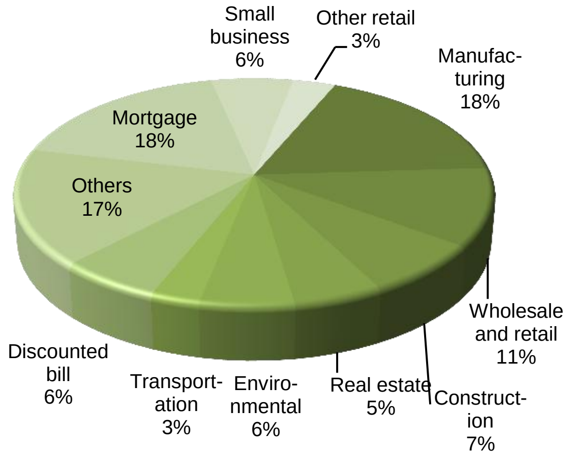
Source(s): Wind, ABCI Securities

Exhibit 15: BoCQ's loan mix by sector (2010)



Source(s): Company, ABCI Securities

Exhibit 16: BoCQ's loan mix by sector (1H13)

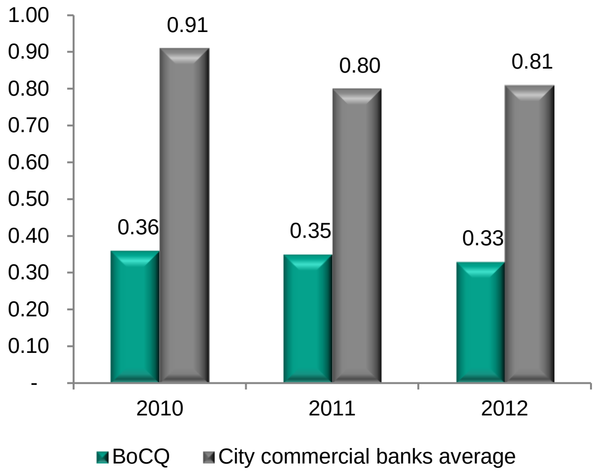


Source(s): Company, ABCI Securities

Among BoCQ's NPL balance of RMB 322mn as of June 2013, manufacturing and wholesale/retail accounted for 48% and 20% of total, followed by information technology's 17%. Two largest NPLs were from a manufacturing company and a technology company, which added up to over 44% (RMB 98mn and RMB 44mn) of the total NPL. Nonetheless, BoCQ's asset quality is one of the finest among city commercial bank. By end-2012, BOCQ's NPL ratio was 0.33% versus the city commercial banks' average of 0.81%.

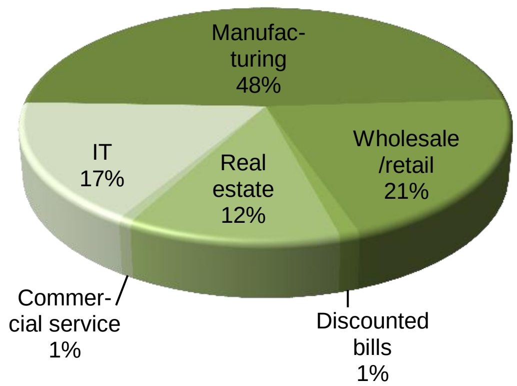
Total overdue loan has been well maintained at 0.3%-0.4% level since 2010. As of June 2013, loan overdue more than 90 days was at 0.2% of total overdue balance. BoCQ adopts a strict NPL classification system based on overdue period and collateral. For unsecured loans, those that are overdue for 1-90 days will be classified as special mention; those with an overdue period of 91 days or more will be classified into one of the NPL categories. Depending on the collateral and guarantee statuses, loans overdue for 91 days or 181 days will be classified as NPL.

Exhibit 17: NPL ratios of BoCQ and city commercial banks average (%)



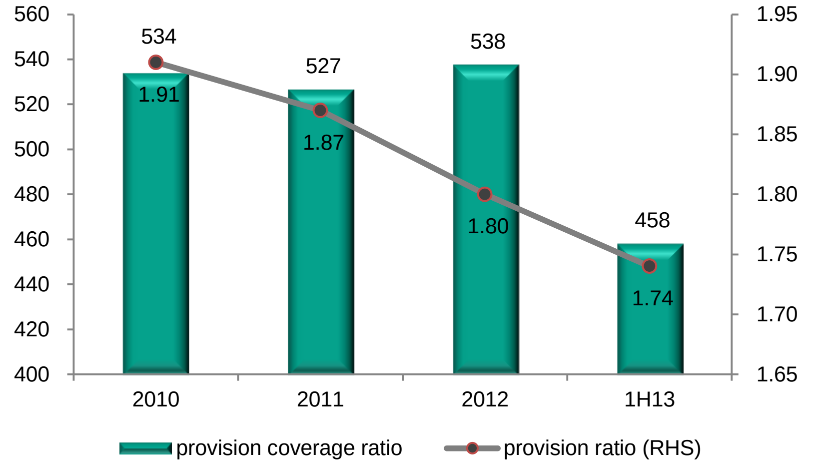
Source(s): Company, PBOC, ABCI Securities

Exhibit 18: BoCQ's NPL by sector in 1H13



Source(s): Company, ABCI Securities

Exhibit 19: BoCQ's provision ratio (%) and coverage ratio (%)



Source(s): Company, ABCI Securities

Strong buffer against economic downturn

BoCQ has maintained its provision coverage ratio at above 500% over 2010-12 and at 458% by end-June 2013. This provides the bank with sufficient buffer against any future increases in NPL. However, BoCQ's loan provisioning ratio was only at 1.74% in June 2013, meaning the bank will need to increase its provisions in the coming years to comply with CBRC's standard at 2.5% by 2016. Indeed, management indicated the bank would strengthen provisions in coming quarters.

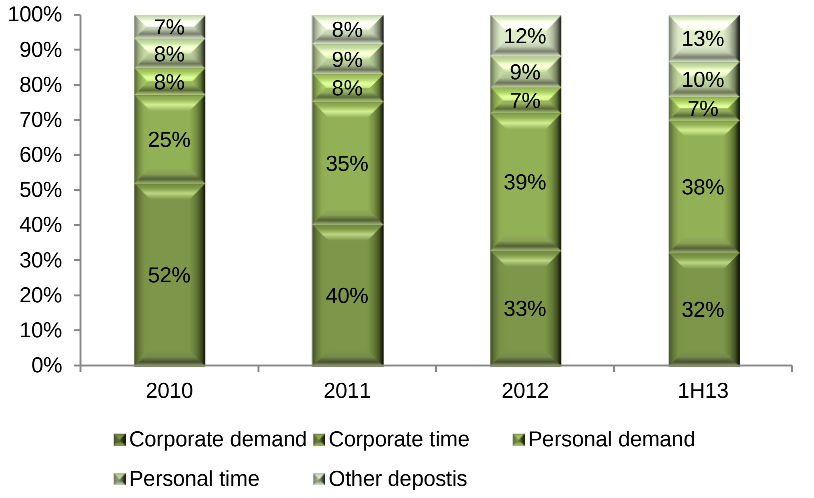
In the coming quarters, we expect provision would go up while overall asset quality would stay benign. We have assumed in our base case scenario that BoCQ's provision ratio will reach 2.4% by end-2015E. This would lead to a decline in net profit growth over 2013E-15E, even though we expect its top-line revenue to expand at a 23.4% CAGR over 2013E-15E.

Risk factors

Deposit mix may result in deposit cost fluctuation

BOCQ's corporate deposit accounted for 70% of total deposit in June 2013 (2010: 77%), s higher than the peer average of 64%. A high mix in corporate deposit usually means a less stable deposit base, especially when we believe BoCQ's corporate deposit base is highly concentrated on a small number of large domestic corporates. Withdrawal from a few corporates could result in a sizeable drop in BoCQ's total deposit. To maintain a stable deposit base, BoCQ may have to increase it deposit cost significantly.

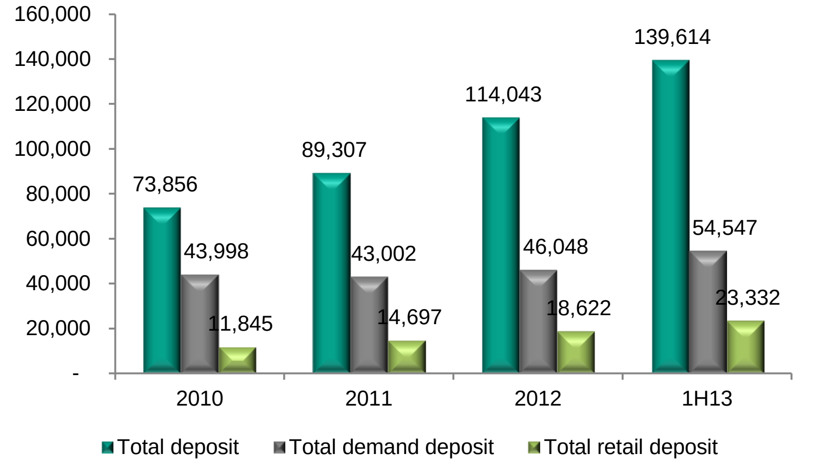
Exhibit 20: BoCQ's deposit mix (%)



Source(s): Company, ABCI Securities

Demand deposit is regarded as the cheapest funding source of a bank. Percentage of demand deposit to total deposit is relatively low in BoCQ at 39% in June 2013, compared to the peer average of 44%. To optimize its deposit structure, BoCQ would need to increase retail and demand deposits in the mix.

Exhibit 21: BoCQ's deposit (RMB mn)



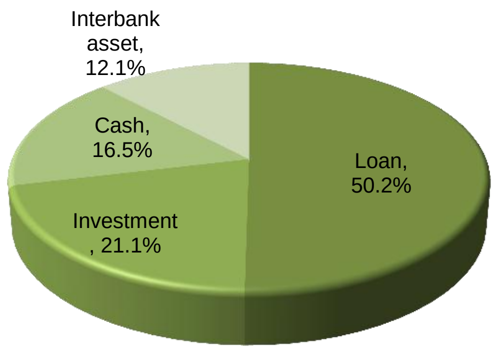
Source(s): Company, ABCI Securities

BOCQ is well aware of the need to improve its deposit mix and has increased its effort to expand its retail business. Retail deposit growth in 2011, 2012 and 1H13 was 24% yoy, 27% yoy, and 25% hoh, respectively, in 1H13, outpacing the total deposit growth at 21%, 28% and 22% in the corresponding period.

High mix of interbank funding

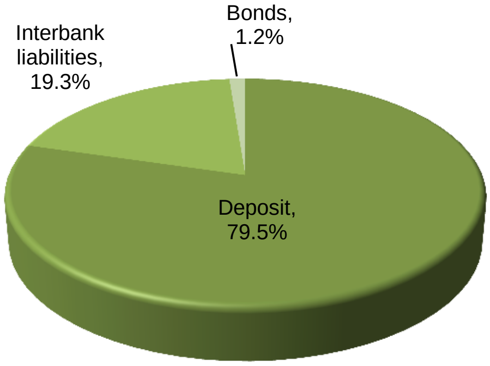
City commercial banks typically follow a high efficiency model. They usually have fewer outlets than the national and rural banks, although most of these outlets are strategically located in key economic urban areas. The less extensive retail network would become a barrier for a city commercial bank like BoCQ to grow its deposit base effectively, in particular from the retail sources. District banks often have to rely on interbank funding and 19.3% of BoCQ's IBL was from the interbank market in 2012, compared to high single-digit or low-teen percentage for big banks.

Exhibit 22: BoCQ's IEA mix in 2012



Source(s): Company, ABCI Securities

Exhibit 23: BoCQ's IBL mix in 2012



Source(s): Company, ABCI Securities

Liquidity concerns have repeatedly dragged down China banks' share prices since the SHIBOR increased sharply in June 2013. Market has turned highly sensitive to signals that may suggest a shrinking liquidity, especially during the end of each quarter if the PBOC suspends the use of repo tools. The high mix of interbank assets and liabilities in BoCQ would pose additional uncertainty to the bank's share price. We believe the bank will continue to adjust it funding sources by expanding its retail deposit base, and expect the interbank liabilities-to-total interest-bearing liabilities ratio would gradually reduce to 13.3% in 2015E.

The development of local government debts

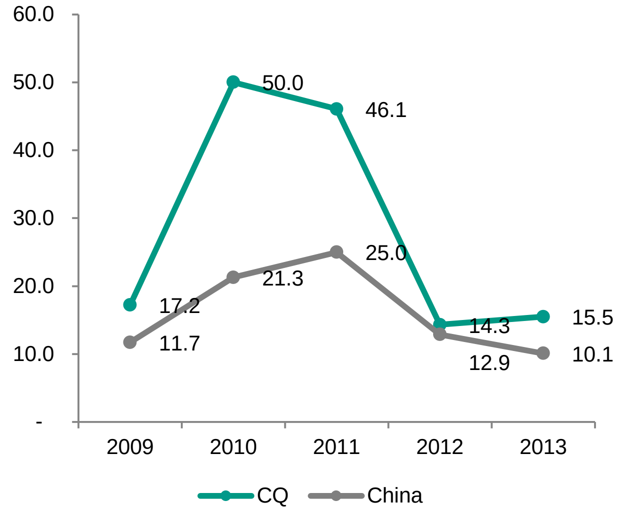
Despite BOCQ's outstanding asset quality, its exposure to local government financing vehicle (LGFV) has been another concern in recent years. We notice that banks have been reducing their overall exposure to LGFV except for the quality ones with sufficient cashflow coverage.

However, BoCQ's LGFV exposure increased from RMB 13.8bn in Dec 2010 to RMB 20.1bn in June 2013, even the percentage to total assets decreased from 12.74% in Dec 2010 to 10.67% in June 2013. The absolute increment was mainly attributable to investment in trust beneficiary rights which amounted to RMB 6.9bn in June 2013.

Nevertheless, we are comfortable with the size of such exposure and is confident the repayment ability of the LGFVs. Chongqing's LGFV exposure in 2012 was 20% and 26% of total loans and GDP, compared to 14% and 18% nationwide. We believe the default risk from Chongqing's LGFV loans are manageable, as reflected by the above-national growth in government revenue (excluding transfer income from central government) of 14.3%-50% in 2009-13.

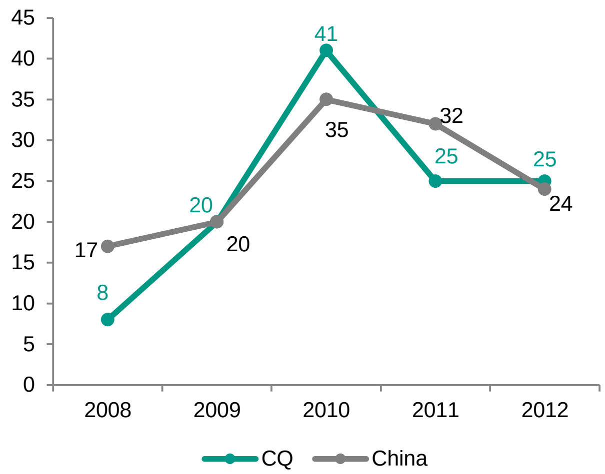
Furthermore, land sales premium (property sale price/initiate cost -1) has accounted for 25% of the government revenue in 2012. We believe such premium would be a strong funding source for the local governments in the future.

Exhibit 24: Government revenue growth (%)



Source(s): Wind, ABCI Securities

Exhibit 25: Percentage of land sales premium to government revenue (%)



Source(s): Wind, ABCI Securities

Valuation

We forecast BoCQ's net profit to grow by 18% CAGR over 2012-15E and an ROE of 18%-21%. We adopt the Gordon Growth Model (P/B = (ROE-g)/(COE-g)), which is a commonly used method for bank valuation, to calculate the theoretical P/B of BoCQ. Our TP incorporates a 20% discount to reflect the small business scale and limited geographical exposure of BoCQ.

Our sustainable ROE of 15.4% reflected the simple average of ROEs between 2010 and 2015E; a discretionary reduction of 4ppt is applied to reflect keen price competition faced by district banks and the relatively small size of BoCQ. We assume a long-term growth of 6%, which is in line with other H-share Chinese banks under our coverage. The COE of 15.7% is calculated by a risk free rate of 4%, a beta of 1.3 and an equity risk premium of 9%.

BoCQ's share price has fallen by 19% from its IPO price of HK$ 6. Its share performance is in line with the sector but weaker than its recently listed district bank peer, Huishing Bank (HB). We believe this can be attributed to BoCQ's smaller size and the fact that it was not the largest player in its major operating zone. Nonetheless, we believe the sector and individual risks of the stock have been overdone. With its current valuation at 0.66x FY14E P/B, we recommend investors to **BUY** with TP set at HK$ 5.72, implying a 17.21% upside.

Exhibit 26: Valuation table

Name	BBG code	Market cap (US$mn)	Price (HK$)	Rating	TP (HK$)	Upside (%)	P/B (x) 13E	P/B (x) 14E	P/E (x) 13E	P/E (x) 14E	ROE (%) 13E	ROE (%) 14E	Div yield (%) 13E	Div yield (%) 14E
ICBC	1398 HK	204,073	4.82	BUY	6.91	43.36	1.04	0.91	4.94	4.59	21.5	21.2	6.74	7.52
CCB	939 HK	174,614	5.43	BUY	8.19	50.83	1.01	0.88	5.11	4.62	21.0	20.3	6.91	7.60
ABC	1288 HK	130,724	3.49	BUY	4.74	35.82	1.05	0.93	5.37	4.99	20.9	19.8	6.45	7.16
BOC	3988 HK	117,588	3.30	BUY	4.13	25.15	0.80	0.72	5.08	4.80	16.6	15.9	6.82	7.20
BoCom	3328 HK	48,097	5.09	BUY	6.60	29.67	0.71	0.63	4.85	4.38	15.4	15.2	5.16	5.65
CMB	3968 HK	44,262	14.36	BUY	17.80	23.96	1.04	0.89	5.25	4.63	21.5	20.7	5.75	6.44
MSB	1988 HK	34,827	7.94	BUY	11.94	50.38	0.91	0.77	4.10	3.78	22.9	20.8	4.09	4.57
CITICB	998 HK	31,501	4.02	HOLD	4.05	0.75	0.66	0.57	4.59	4.02	15.3	15.2	5.29	6.22
HB	3698 HK	5,058	3.55	BUY	4.21	18.59	0.97	0.82	4.90	5.36	18.6	16.5	3.87	4.58
BoCQ	1963 HK	1,702	4.88	BUY	5.72	17.21	0.80	0.66	3.49	3.87	21.5	18.6	5.38	6.40
Average						**29.57**	**0.90**	**0.78**	**4.77**	**4.50**	**19.5**	**18.4**	**5.64**	**6.33**

Source(s): Companies, Bloomberg, ABCI Securities estimates

Company background

BoCQ was established in 1996 by consolidating 37 urban credit cooperatives and one urban credit union. It is a city commercial bank with its headquarter in Chongqing, the only municipality in western China (report directly to the central government). BoCQ mainly operates in the urban area of Chongqing, as well as the neighboring regions in western China including Sichuan, Guizhou and Shaanxi. With 106 branches, BoCQ has been the second largest local player in Chongqing after CQRB and has 4% and 5% market share of the loan and deposit in the province. As of June 2013, non-Chongqing area contributed to 26% and 23% of BoCQ's total loan and deposit.

Exhibit 27: Market share of banks in Chongqing (2012)

RMB bn	Total assets Amount	Total assets Market share (%)	Deposits Amount	Deposits Market share (%)	Loans Amount	Loans Market share (%)
CQRB	485.5	18.7	336.1	16.9	188.3	13.3
ICBC	280.7	18.8	253.4	12.7	217	15.4
ABC	269	10.4	256.8	12.9	207.4	14.7
CCB	249.9	9.6	231.9	11.7	192.4	13.6
BoCQ	**158.5**	**6.1**	**108.1**	**5.4**	**62.7**	**4.4**
MSB	137.1	5.3	118.7	6	90	6.4
BOC	125.7	4.8	61.6	3.1	56.8	4
IB	111.4	4.3	73.1	3.7	38.4	2.7
CITICB	88.2	3.4	74.1	3.7	48.9	3.5

Source(s): Companies, PBOC, ABCI Securities

With 27 years of operating history, BoCQ developed sound relationships with the local government and corporates, which allowed the bank to establish long -term banking relationship with 67 out of the 100 most profitable corporates in the region. The bank had a total of 36,900 corporate and 2.2mn retail customers as of Dec 2012.

The bank disposed its NPL portfolio amounting to RMB 1.25bn and RMB 1bn in 2004 and 2006 to Chongqing Yufu Asset Management, a wholly owned company by Chongqing government. Besides, the bank wrote off RMB 400mn in NPL after a capital injection from SOEs in 2004.

Capital position of BoCQ is strengthened after a total of RMB 1.6bn of capital were injected to the bank in 2003-06, and sub-debts totaling RMB 1.8bn were issued in 2009 and 2012. Later in 2007, Dah Sing Bank has become its strategic shareholder through the acquisition of 404mn shares (20% stake) at an average of RMB2.11 per share from Yufu.

Upon the completion of IPO, Yufu and DSB remained as the major shareholders of BoCQ with 17.1% and 17% stakes. We believe these major shareholders are unlikely to divest their shares in near future. In particular, DSB firmly believes that BoCQ will continue to be its key profit contributor.

Exhibit 28: BoCQ's NIM model 2012-13E

RMB mn	Growth (%)	Balance	2012 Average balance	Yield (%)	Interest inc/exp	Growth (%)	Balance	2013E Average balance	Yield (%)	Interest inc/exp
Corporate loans	14.49	57,134				15.0	65,704			
Retail loans	38.09	19,500				35.0	26,325			
Total loans	**19.70**	**76,634**	**70,798**	**7.21**	**5,101**	**20.09**	**92,029**	**84,332**	**7.00**	**5,903**
L&R	268.04	21,232				55.0	32,910			
AFS	102.62	3,244				15.0	3,731			
HTM	(21.24)	7,656				-5.0	7,273			
Investment	**88.01**	**32,132**	**27,310**	**5.27**	**1,439**	**36.67**	**43,913**	**38,023**	**5.90**	**2,243**
Cash	30.52	25,243	21,253	1.52	322	35.0	34,078	29,661	1.50	445
Deposit with FIs	(23.86)	18,532	26,408	5.48	1,447	55.0	28,725	23,628	4.60	1,087
Total IEAs	**22.24**	**152,541**	**145,769**	**5.70**	**8,309**	**30.29**	**198,745**	**175,643**	**5.51**	**9,678**
Other assets	33.52	4,999				15.0	5,749			
Provision	15.04	(1,377)				33.67	(1,841)			
Total assets	**22.63**	**156,163**				**29.77**	**202,653**			
Deposits	27.70	114,043	102,738	2.24	2,303	30.0	148,256	131,149	2.40	3,148
Deposit with FIs	(2.77)	27,659	32,299	5.45	1,760	10.0	30,425	29,042	4.95	1,438
Bonds	79.90	1,790	1,594	6.02	96	170.0	4,833	3,312	6.02	199
Total ILBs	**20.84**	**143,492**	**136,631**	**3.04**	**4,159**	**27.89**	**183,514**	**163,503**	**2.93**	**4,785**
Other liabilities	106.21	4,413				29.97	5,736			
Total liabilities	**22.35**	**147,905**				**27.95**	**189,249**			
NIS				**2.66**					**2.58**	
NIM				**2.85**					**2.79**	

Source(s): Company, ABCI Securities estimates

Exhibit 29: BoCQ's NIM model 2014E-15E

RMB mn	Growth (%)	Balance	2014E Average balance	Yield (%)	Interest inc/exp	Growth (%)	Balance	2015E Average balance	Yield (%)	Interest inc/exp
Corporate loans	15.0	75,560				15.0	86,894			
Retail loans	30.0	34,223				28.0	43,805			
Total loans	**19.29**	**109,782**	**100,906**	**7.05**	**7,114**	**19.05**	**130,698**	**120,240**	**7.10**	**8,537**
L&R	25.0	41,137				20.0	49,364			
AFS	12.0	4,178				10.0	4,596			
HTM	-3.0	7,055				5.0	7,408			
Investment	**19.26**	**52,370**	**48,142**	**5.95**	**2,864**	**17.18**	**61,368**	**56,869**	**6.05**	**3,441**
Cash	20.0	40,894	37,486	1.50	562	18.0	48,255	44,574	1.50	669
Deposit with FIs	40.0	40,214	34,470	4.65	1,603	25.0	50,268	45,241	4.70	2,126
Total IEAs	**22.40**	**243,261**	**221,003**	**5.49**	**12,143**	**19.46**	**290,589**	**266,925**	**5.53**	**14,773**
Other assets	15.0	6,611				20.0	7,933			
Provision	31.22	(2,415)				29.88	(3,137)			
Total assets	**22.11**	**247,457**				**19.37**	**295,386**			
Deposits	26.0	186,802	167,529	2.55	4,272	22.0	227,899	207,351	2.65	5,495
Deposit with FIs	9.0	33,163	31,794	5.15	1,637	8.0	35,816	34,490	5.20	1,793
Bonds	5.0	5,075	4,954	6.02	298	5.0	5,328	5,202	6.10	317
Total ILBs	**22.63**	**225,040**	**204,277**	**3.04**	**6,208**	**19.55**	**269,044**	**247,042**	**3.08**	**7,606**
Other liabilities	9.70	6,292				16.69	7,342			
Total liabilities	**22.24**	**231,332**				**19.48**	**276,386**			
NIS				**2.46**					**2.46**	
NIM				**2.69**					**2.69**	

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Interest income	6,107	8,309	9,678	12,143	14,773
Interest expense	(2,786)	(4,159)	(4,785)	(6,208)	(7,606)
Net interest income	**3,321**	**4,150**	**4,894**	**5,936**	**7,167**
Net fee and commission	290	368	718	969	1,259
Other operating income	(40)	140	217	282	324
Operating income	**3,571**	**4,658**	**5,828**	**7,187**	**8,751**
Operating expenses	(1,451)	(1,901)	(2,471)	(3,163)	(4,049)
Impairment losses	(184)	(240)	(295)	(404)	(541)
Investment in associates	0	1	1	1	2
Profit before tax	**1,936**	**2,518**	**3,063**	**3,621**	**4,163**
Income tax expenses	(448)	(593)	(735)	(869)	(999)
Net profit	**1,488**	**1,925**	**2,328**	**2,752**	**3,164**
Growth (%)					
Interest income	54.5	36.1	16.5	25.5	21.7
Interest expense	97.9	49.3	15.0	29.7	22.5
Net interest income	**30.5**	**25.0**	**17.9**	**21.3**	**20.7**
Net fee and commission	46.5	26.9	95.0	35.0	30.0
Other operating income	(225.0)	(450.0)	55.0	30.0	15.0
Operating income	**28.7**	**30.4**	**25.1**	**23.3**	**21.8**
Operating expenses	31.0	31.0	30.0	28.0	28.0
Impairment losses	(27.3)	30.4	23.0	36.7	34.1
Investment in associates	na	na	20.0	20.0	20.0
Profit before tax	**36.9**	**30.1**	**21.7**	**18.2**	**14.9**
Income tax expenses	43.6	32.4	24.0	18.2	14.9
Net profit	**35.0**	**29.4**	**20.9**	**18.2**	**14.9**
Per share data					
BVPS	3.2	4.1	4.9	5.9	7.0
EPS	0.74	0.95	1.12	1.01	1.16
DPS	0.05	0.05	0.21	0.25	0.29
Key ratios (%)					
Net interest margin	2.92	2.85	2.79	2.69	2.69
Net interest spread	2.77	2.66	2.58	2.46	2.46
CIR	40.6	40.8	42.4	44.0	46.3
Net fee to topline	8.1	7.9	12.3	13.5	14.4
Credit cost	0.31	0.34	0.35	0.40	0.45
ROA	1.26	1.36	1.30	1.22	1.17
ROE	25.92	26.17	21.49	18.64	18.01
Dividend payout	6.79	5.25	25.0	25.0	25.0
Core CAR	9.26	9.39	11.09	10.78	10.50
Total CAR	12.11	12.83	13.64	12.97	12.44
LDR	71.7	67.2	62.1	58.8	57.3
Provision coverage	526.7	537.7	476.2	488.9	480.0
Provisioning ratio	1.87	1.80	2.00	2.20	2.40
NPL ratio	0.35	0.33	0.42	0.45	0.50
Effective tax rate	23.1	23.6	24.0	24.0	24.0

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Cash and bank	19,340	25,243	34,078	40,894	48,255
Due from bank and FIs	24,340	18,532	28,725	40,214	50,268
Total loans	64,022	76,634	92,029	109,782	130,698
- loan provision	(1,197)	(1,377)	(1,841)	(2,415)	(3,137)
Net loans	**62,825**	**75,257**	**90,189**	**107,367**	**127,562**
Investment securities	**17,091**	**32,132**	**43,913**	**52,370**	**61,368**
- L&R	5,769	21,232	32,910	41,137	49,364
- AFS	1,601	3,244	3,731	4,178	4,596
- HTM	9,721	7,656	7,273	7,055	7,408
Total IEA	**123,596**	**151,164**	**196,905**	**240,845**	**287,453**
Other assets	3,744	4,999	5,749	6,611	7,933
Total assets	**127,340**	**156,163**	**202,653**	**247,457**	**295,386**
Customer deposits	89,307	114,043	148,256	186,802	227,899
Due to bank and FIs	28,446	27,659	30,425	33,163	35,816
Subordinated debt	995	1,790	4,833	5,075	5,328
Total IBL	**118,748**	**143,492**	**183,514**	**225,040**	**269,044**
Other liabilities	2,140	4,413	5,736	6,292	7,342
Total liabilities	**120,888**	**147,905**	**189,249**	**231,332**	**276,386**
Net assets	**6,452**	**8,258**	**13,404**	**16,124**	**19,000**
Share capital	2,021	2,021	2,729	2,729	2,729
Retained earnings	3,122	4,554	6,300	8,364	10,737
Reserves	1,309	1,683	4,375	5,032	5,535
Total equity	**6,452**	**8,258**	**13,404**	**16,124**	**19,000**
Growth (%)					
Cash and bank	28.4	30.5	35.0	20.0	18.0
Due from bank and FIs	35.0	(23.9)	55.0	40.0	25.0
Total loans	20.9	19.7	20.1	19.3	19.1
- loan provision	18.2	15.0	33.7	31.2	29.9
Net loans	**20.9**	**19.8**	**19.8**	**19.0**	**18.8**
Investment securities	**(18.9)**	**88.0**	**36.7**	**19.3**	**17.2**
- L&R	(5.2)	268.0	55.0	25.0	20.0
- AFS	(68.5)	102.6	15.0	12.0	10.0
- HTM	(2.0)	(21.2)	(5.0)	(3.0)	5.0
Total IEA	**16.4**	**22.3**	**30.3**	**22.3**	**19.4**
Other assets	71.2	33.5	15.0	15.0	20.0
Total assets	**17.6**	**22.6**	**29.8**	**22.1**	**19.4**
Customer deposits	20.9	27.7	30.0	26.0	22.0
Due to bank and FIs	6.0	(2.8)	10.0	9.0	8.0
Subordinated debt	0.1	79.9	170.0	5.0	5.0
Total IBL	**16.8**	**20.8**	**27.9**	**22.6**	**19.6**
Other liabilities	33.2	106.2	30.0	9.7	16.7
Total liabilities	**17.0**	**22.3**	**28.0**	**22.2**	**19.5**
Net assets	**28.3**	**28.0**	**62.3**	**20.3**	**17.8**
Share capital	0.0	0.0	35.0	0.0	0.0
Retained earnings	49.1	45.9	38.3	32.8	28.4
Reserves	43.2	28.6	160.0	15.0	10.0
Total equity	**28.3**	**28.0**	**62.3**	**20.3**	**17.8**

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 2009-2013
Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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