



August 28, 2015
Equity Focus
Rating: BUY
TP: HK\$ 5.38

H-Share price (HK\$) 3.17
Est. share price return 69.72%
Est. 2015 div. yield 7.39%
Est. total return 77.11%

Previous Rating & TP BUY; HK\$ 5.38
Previous Report Date July 16, 2015

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Key Data

52Wk H/L(HK\$)	4.55/3.08
Issued shares (mn)	324,794
H-Shares (mn)	30,739
A-Shares (mn)	294,055
Market cap	
H-shares (HK\$ mn)	97,442
A-Shares (HK\$ mn)	1,059,816
3-mth avg daily turnover (HK\$ mn)	641.83
Major shareholder(s) (%):	
Huijin	40.28

Source(s): Company, Bloomberg, ABCI Securities

1H15 revenue breakdown (%)

Corporate banking	52.6
Retail banking	37.1
Treasury operations	7.7
Others	2.6

Source(s): Company, ABCI Securities

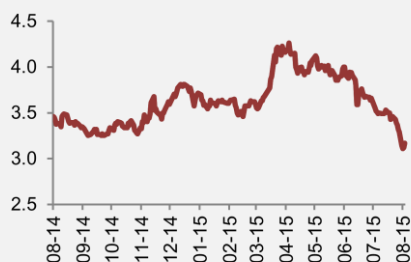
Share performance (%)

	Absolute	Relative*
1-mth	(9.7)	1.8
3-mth	(20.4)	0.0
6-mth	(12.9)	(1.0)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

ABC (1288 HK)
Reiterate BUY on enhanced risk buffer

- ABC's 1H15 net profit accounted for 54.8% of our FY15E forecast. Full-year earnings may present upside surprise if fee income momentum resumes in 2H15
- Higher provision was made against falling asset quality and to strengthen risk-resistance ability
- 1H15 NIM narrowed by 15bps yoy; ABC's key strength lies in the low county deposit cost
- Reiterate **BUY** on promising dividend yield and undemanding valuation. The counter is trading at 0.63x 16E P/B

Slow 1H15 net profit growth on flat fee income. ABC's 1H15 net profit was reported at RMB 104,315mn, up 0.3% yoy and accounted for 54.8% of our full-year forecast. NII rose 4.8% yoy while net fee income stayed flat yoy in 1H15. For fee income, growth was seen in agency commission (+22% yoy), bank card fees (yoy+12.4%), and E-banking service fees (+13.5% yoy); however, the gain was partially offset by weaker settlement & clearing fees and consultancy & advisory fees. Nonetheless, ABC's FY15E net profit may exceed our expectation if momentum in fee income resumes in 2H15.

Large provision persisted in 1H15. Similar to peers, a conservative provision policy adopted by ABC since 2H14 was the major reason behind its slower net profit growth. 1H15 loan provision was up 35.9% yoy. Although NPL ratio rose 29bps hoh to 1.83% (of which NPL ratio in county area rose by 36bps hoh to 2.18%), which is higher than our expectation, we regard the larger provision as a deliberate act to strengthen its risk-resistance ability. As of June 2015, ABC's provision coverage ratio and provisioning ratio were reported at 238.99% and 4.37%, one of the highest among peers.

County business protects NIM. ABC's NIM narrowed only by 15bps yoy to 2.78% in 1H15, driven by the 22bps decline in loan yield resulted from re-pricing in the rate cut cycle and the 7bps yoy rise in deposit cost. We still regard ABC's low county deposit cost as its key strength and core defensive factor against challenges induced by the rate cut cycle and China's "new normal" of slower economic growth.

Promising dividend yield; reiterate BUY. Given a FY15E dividend yield of 7.39%, ABC remains as one of our top picks in the sector for its strong risk buffer and cost advantage enabled its large county deposit base at low cost. The counter is currently trading at 0.63x 16E P/B. Reiterate **BUY**.

Risk factors: 1) Faster-than-expected liberalization of interest rate; 2) Increasing competition from non-bank financial institutions; 3) Sharp asset quality deterioration and weak loan demand; 4) New regulations affecting banks' operation and profitability.

Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	465,771	524,126	572,975	629,938	688,808
Chg (% YoY)	9.6	12.5	9.3	9.9	9.3
Net profit (RMB mn)	166,315	179,461	190,207	206,736	221,491
Chg (% YoY)	14.6	7.9	6.0	8.7	7.1
EPS (RMB)	0.51	0.55	0.59	0.64	0.68
Chg (% YoY)	14.6	7.9	6.0	8.7	7.1
BVPS (RMB)	2.60	3.17	3.58	4.02	4.49
Chg (% YoY)	12.4	22.3	12.7	12.4	11.8
P/E (x)	4.95	4.59	4.33	3.98	3.72
P/B (x)	0.98	0.80	0.71	0.63	0.56
ROAE (%)	20.88	19.15	17.35	16.76	16.02
ROAA (%)	1.20	1.18	1.12	1.09	1.05
DPS(RMB)	0.18	0.18	0.19	0.20	0.21
Yield (%)	6.98	7.18	7.39	7.78	8.34

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Net interest income	376,202	429,891	466,540	510,269	556,434
Non-interest income	89,569	94,235	106,435	119,669	132,375
Of which: Fees and commissions	83,171	80,123	90,285	101,445	114,151
Oper. income (Top line)	465,771	524,126	572,975	629,938	688,808
Operating expenses	(181,146)	(204,570)	(233,682)	(266,109)	(302,922)
Amortisation	(17,461)	(19,328)	(21,647)	(24,245)	(24,245)
PPOP	267,164	300,228	317,646	339,584	361,641
Impairment loans losses	(52,990)	(67,971)	(70,554)	(71,018)	(73,914)
Profit before tax	214,174	232,257	247,091	268,565	287,727
Tax	(47,963)	(52,747)	(56,831)	(61,770)	(66,177)
Minority interests	104	(49)	(54)	(59)	(59)
Net profit	166,315	179,461	190,207	206,736	221,491
Growth (%)					
Net interest income	10.0	14.3	8.5	9.4	9.0
Non-interest income	7.8	5.2	12.9	12.4	10.6
Of which: Fees and commissions	11.1	(3.7)	12.7	12.4	12.5
Oper. income (Top line)	9.6	12.5	9.3	9.9	9.3
Operating expenses	8.3	12.9	14.2	13.9	13.8
Amortisation	12.7	10.7	12.0	12.0	12.0
PPOP	10.3	12.4	5.8	6.9	6.5
Impairment loans losses	(2.3)	28.3	3.8	0.7	4.1
Profit before tax	14.0	8.4	6.4	8.7	7.1
Tax	12.1	10.0	7.7	8.7	7.1
Minority interests	(381.1)	(147.1)	10.0	10.0	10.0
Net profit	14.6	7.9	6.0	8.7	7.1
Per share (RMB)					
EPS	0.51	0.55	0.59	0.64	0.68
BVPS	2.60	3.17	3.58	4.02	4.49
DPS	0.18	0.18	0.19	0.20	0.21
Key ratio (%)					
Net interest margin	2.79	2.92	2.83	2.77	2.70
Net interest spread	2.64	2.76	2.47	2.30	2.12
Cost to income ratio	38.89	39.03	40.78	42.24	43.98
Return on average assets	1.20	1.18	1.12	1.09	1.05
Return on average equity	20.88	19.15	17.35	16.76	16.02
Effective tax rate	22.39	22.71	23.00	23.00	23.00
Dividend payout	34.57	32.94	32.00	31.00	31.00

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2017E)

As of Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Cash & cash equivalent	2,603,802	2,743,065	2,928,429	3,155,225	3,400,855
Dues from banks & non-bank FI	1,443,385	1,489,285	1,737,322	2,041,882	2,412,369
Investment securities	3,220,098	3,575,630	4,010,371	4,494,661	5,003,649
Net loans and advances	6,902,522	7,739,996	8,702,318	9,744,063	10,871,014
Total IEA	14,169,807	15,547,976	17,378,442	19,435,831	21,687,887
Property and equipment	150,859	154,950	165,797	177,402	189,820
Other non-int. earn assets	241,436	271,226	321,619	381,398	452,315
Total assets	14,562,102	15,974,152	17,865,858	19,994,632	22,330,022
Customer deposits	11,811,411	12,533,597	13,328,044	14,165,905	15,073,349
Due to other banks & FIs	903,821	1,136,185	1,386,146	1,635,652	1,897,356
Subordinated term debt	266,261	325,167	390,200	460,436	529,502
Total IBL	12,981,493	13,994,949	15,104,390	16,261,994	17,500,207
Current taxes	44,263	41,338	45,472	50,019	55,021
Deferred tax liabilities	8	43	52	62	74
Other liabilities	691,801	905,203	1,552,751	2,375,462	3,313,522
Total liabilities	13,717,565	14,941,533	16,702,665	18,687,537	20,868,824
Share capital	324,794	364,738	364,738	364,738	364,738
Reserves	518,314	666,328	796,778	940,545	1,094,503
Minorities	1,429	1,553	1,677	1,811	1,956
Shareholder's equity	844,537	1,032,619	1,163,193	1,307,095	1,461,198
Growth (%)					
Cash & cash equivalent	(0.4)	5.3	6.8	7.7	7.8
Dues from banks & non-bank FI	11.0	3.2	16.7	17.5	18.1
Investment securities	12.9	11.0	12.2	12.1	11.3
Net loans and advances	12.2	12.1	12.4	12.0	11.6
Total IEA	9.7	9.7	11.8	11.8	11.6
Total assets	9.9	9.7	11.8	11.9	11.7
Customer deposits	8.7	6.1	6.3	6.3	6.4
Due to other banks & FIs	(3.2)	25.7	22.0	18.0	16.0
Subordinated term debt	38.2	22.1	20.0	18.0	15.0
Total IBL	8.3	7.8	7.9	7.7	7.6
Total liabilities	9.8	8.9	11.8	11.9	11.7
Shareholder's equity	12.4	22.3	12.7	12.4	11.8
Key ratio (%)					
Loan to deposits	60.70	64.03	67.60	71.09	74.42
CT1 CAR	9.25	9.09	10.38	10.42	10.43
Total CAR	11.86	12.82	14.41	14.38	14.33
NPL ratio	1.20	1.53	1.56	1.60	1.65
NPL growth	1.24	42.82	14.52	14.70	14.75
Net bad debt charge ratio	0.76	0.85	0.83	0.74	0.69
Provision to total loans	4.50	4.50	4.40	4.35	4.30
Provision coverage	370.71	288.48	281.77	271.80	261.08

Source(s): Company, 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 2009-2013

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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