农银国际
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

3 January 2013

Equity Focus

China Bank Sector – Neutral

Diversified Banks Industry

Key Data

Average PER (x)	6.2
Average PBV (x)	1.1
Average Dividend Yield (%)	4.7
Sector 3 months avg vol (HK$mn)	5,258

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 3Q12 (%)

Net interest income	80.5
Non-interest income	19.5

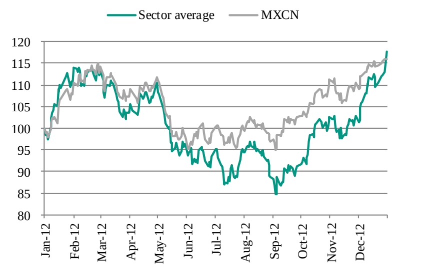
Source: CBRC

Share performance (%)

	Absolute	Relative*
1-mth	14.5	9.2
3-mth	23.7	9.7
6-mth	20.7	3.0

Source: Bloomberg
**Relative to MSCI China*

1 year price performance



Source: Bloomberg

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

End of laggard chasing

As expected, big four banks outperformed in 2H12 with a 14-21% gain compared to 8.9% and 5.3% for CMB and CITICB respectively. MSB, our top pick in the mid-cap space, was the top performer in 2012 while BoCom retained its laggard performance throughout 2012. We think the laggard chasing activities of mid-cap banks in 4Q12 has finished. We reiterate our Neutral rating on the sector and favor big banks including CCB, ICBC and ABC.

H-shares banks outperformed in 2H12. The underperformance of H-shares banks (an average drop of 4.2%) in 1H12 was reversed in 2H12 with a gain of an average of 20.6%. This was mainly driven by the lack of further interest rate and RRR cut and the bottoming out of China's economy in 3Q12. As expected, big banks outperformed for better diversification and pricing power, with big four banks rose by 14-21% in 2012 while mid-cap banks such as CMB and CITICB rose by only 8.9% and 5.3% respectively.

Top winner and laggard. Being our mid-cap bank's top pick, MSB was the star in 2012, which rose by 33% in 2012, with resilient rebound of 42.9% in 4Q12. We believe its NIM squeeze has largely completed in 2012 amid shorter loan re-pricing schedule from small business clienteles and expect its topline revenue growth momentum to pick up in 2013. BoCom was the laggard throughout 2012 due to its coastal focus and high LDR. However we do not expect a near-term turnaround unless the bank can demonstrate a business breakthrough in 2013.

Outlook turns better with low valuations. We steadily turn positive to China bank sector for better economic atmosphere and low valuation. We believe the last round of laggard chasing activities in 4Q12 was finished, as most banks are now trading at 1s.d. below mean PB. We still prefer big banks and reiterate our top picks of CCB, ICBC and ABC.

Risk factors. Acceleration of interest rate liberalization, sharp deterioration of asset quality and increasing competition from non-bank FIs.

Sector Valuation Summary

Companies	Ticker	Rating	Price (HK$)	Target (HK$)	Upside (%)	13E PER	13E PBV	13E Yield
CCB	939 HK	Buy	6.43	7.63	18.7	6.3	1.24	5.2
ICBC	1398 HK	Buy	5.70	6.14	7.7	6.5	1.28	4.2
ABC	1288 HK	Buy	3.94	4.23	7.4	6.4	1.22	4.6
MSB	1988 HK	Buy	9.78	10.10	3.3	5.9	1.25	4.3
BOC	3988 HK	Hold	3.58	3.63	1.4	6.3	0.92	5.4
BoCom	3328 HK	Hold	6.08	6.01	(1.2)	5.3	0.89	5.9
CMB	3968 HK	Hold	17.70	15.60	(11.9)	7.1	1.34	3.5
CITICB	998 HK	Hold	4.78	4.42	(7.5)	5.5	0.78	4.8

Source: Company, Bloomberg, ABCI Securities estimates

Exhibit 1: 2012 share price performance summary

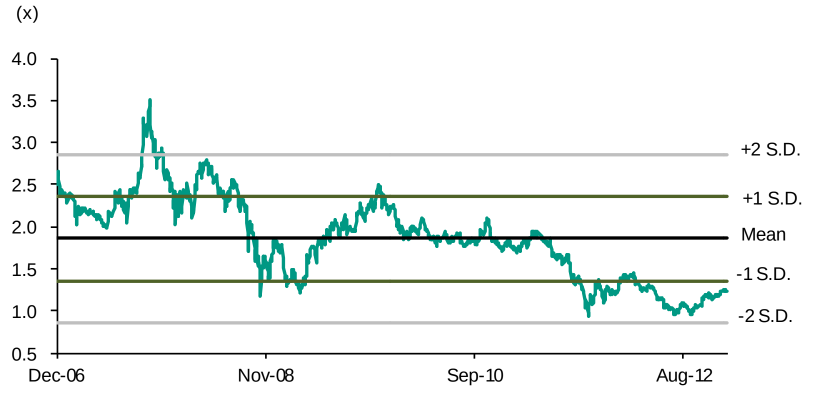
	CCB	ICBC	ABC	MSB	BOC	BoCom	CMB	CITICB
Share price (HK$)								
12/30/2011	5.42	4.61	3.34	6.73	2.86	5.43	15.70	4.37
6/29/2012	5.29	4.29	3.09	6.87	2.94	5.19	14.46	3.95
9/28/2012	5.38	4.58	3.02	6.27	2.95	5.36	13.06	3.80
11/30/2012	5.94	5.23	3.40	7.60	3.27	5.68	14.84	4.00
12/31/2012	6.22	5.50	3.83	8.96	3.46	5.84	17.10	4.60
Performance (%)								
1M	4.7	5.2	12.6	17.9	5.8	2.8	15.2	15.0
3M	15.6	20.1	26.8	42.9	17.3	9.0	30.9	21.1
6M	17.6	28.2	23.9	30.4	17.7	12.5	18.3	16.5
1Y	14.8	19.3	14.7	33.1	21.0	7.6	8.9	5.3

Source: Bloomberg, ABCI Securities estimates

Exhibit 2: CCB PB band chart

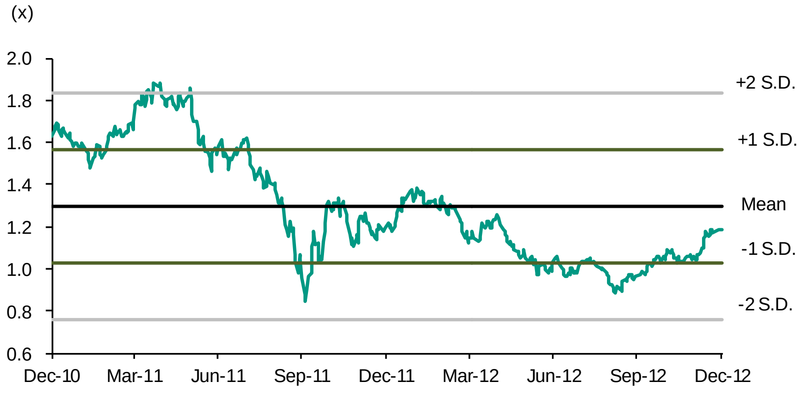
Source: Bloomberg, ABCI Securities estimates

Exhibit 3: ICBC PB band chart



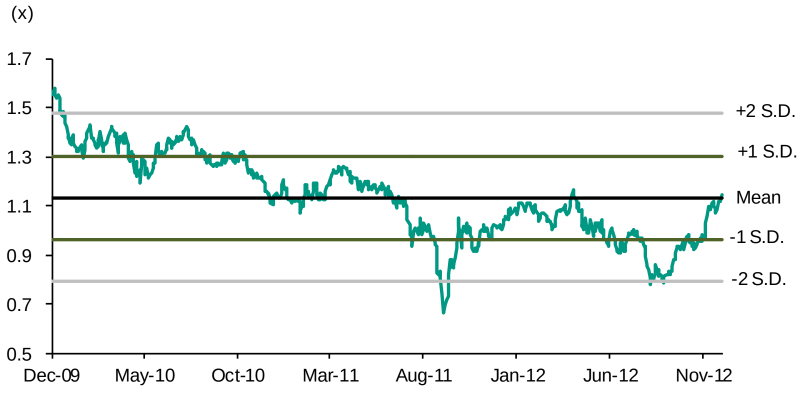
Source: Bloomberg, ABCI Securities estimates

Exhibit 4: ABC PB band chart



Source: Bloomberg, ABCI Securities estimates

Exhibit 5: MSB PB band chart



Source: Bloomberg, ABCI Securities estimates

Exhibit 6: BOC PB band chart

Source: Bloomberg, ABCI Securities estimates

Exhibit 7: BoCom PB band chart

Source: Bloomberg, ABCI Securities estimates

Exhibit 8: CMB PB band chart

Source: Bloomberg, ABCI Securities estimates

Exhibit 9: CITICB PB band chart

Source: Bloomberg, ABCI Securities estimates

Disclosures

Analyst Certification

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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 2008-2012
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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**
Tel: (852) 2868 2183