

Dah Sing (440 HK) – Unrated Diversified Banks Industry

Key Data

Share price (HK\$)	25.75
52Wk H/L(HK\$)	31.2 / 19.2
Issued shares (mn)	292.8
Market cap (HK\$m)	7,636
3 months avg vol (HK\$m)	7.68
Major shareholder (%): Wong family	40.47

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 1H12 (%)

Personal banking	37.2
Commercial banking	25.8
Treasury	19.7
Insurance business	16.4
Others	0.9

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	8.0	3.0
3-mth	2.0	(2.3)
6-mth	(10.3)	(4.4)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Key takeaways from corporate access day

After the post-result corporate access with DSB and DSF, we further confirmed a stable outlook towards 2H12 in terms on NIM and assets quality. We do not expect that equity financing is required under new Basel III requirement for both DSB and BoCQ given their strong CAR position reported. Despite lack of near term catalyst, DSF show deeper value with 40% holding company discount.

Steady growth. We held a post result corporate access day with Dah Sing Group management on 15 Aug 2012, which confirmed our view that net interest margin (NIM) has bottomed in 4Q11 at 1.3% level and surged to 1.47% in 2Q12. Although portfolio rebalancing effect has largely factored in, continue asset mix change and stable deposit cost shall further improve NIM by 3-5bps in 2H12. Asset quality in both HK and China including associate company Bank of Chongqing (BoCQ) shall see steady upward trend in a manageable manner. We expect the group's return on equity (ROE) should see improvement gradually towards double digit level in longer term, with credit cost the major downside element.

Sufficient CAR position. Dah Sing Bank (2356 HK) reported core capital adequacy ratio (CAR) at 10.3% and total CAR at 16.2% in 1H12, meanwhile BoCQ has core CAR and total CAR at 9.26% and 11.96% respectively as of end 2011. We believe both banks were well positioned towards upcoming Basel III requirement with minimum Tier 1 CAR of 8.5% and minimum total CAR of 10.5% by 2019. Having said that equity financing is unlikely, under Basel III calculation methodology, both banks may need to redeem and reissue sub-debts to maintain current Tier 2 CAR.

Holding company discount. DSB and Dah Sing Financial (DSF, 440 HK) both are trading at 0.5x 12E consensus P/B. Despite lack of short term catalyst, both stocks trading at 2008 trough valuations, we think DSF is at deeper value given 40% trading company discount, compare to historical average of 10% discount.

Risk factors. Sharp deterioration of asset quality, slowdown of China and HK economy.

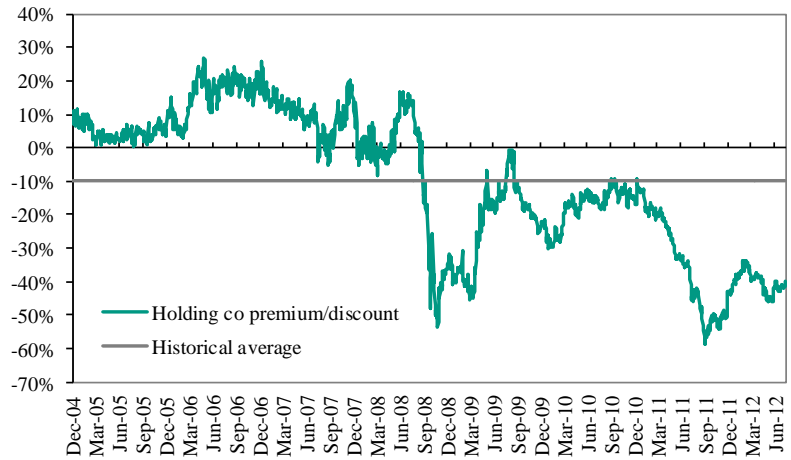
Forecast and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Operating income (HK\$ mn)	3,699	3,170	2,724	2,793	2,804
YoY chg (%)	19.9	(14.3)	(14.1)	2.5	0.4
Net profit (HK\$ mn)	1,050	106	626	1,006	1,010
YoY chg (%)	(24.8)	(89.9)	489.5	60.7	0.3
EPS (HK\$)	4.20	0.42	2.41	3.67	3.45
BVPS (HK\$)	41.9	38.0	43.8	48.3	52.2
P/E (x)	--	--	--	--	7.5
P/B (x)	--	--	--	--	0.5
ROAE (%)	10.2	1.0	5.9	7.9	6.9

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: Dah Sing Financial (440 HK) holding company discount



Source: Company, Bloomberg, ABCI Securities estimates

Exhibit 2: Dah Sing Financial (440 HK) – half yearly operating results

(HK\$m)	1H10A	2H10A	1H11A	2H11A	1H12A	1H12A	
						YoY	HoH
Net int income	1,103	1,077	1,100	1,086	1,159	5.4	6.8
NIM (%)	1.87	1.50	1.52	1.32	1.47	(0.05)	0.15
Fee income	173	188	188	195	223	19.1	14.4
Non-int income	287	326	363	256	494	36.0	93.1
Top line	1,390	1,403	1,463	1,341	1,653	13.0	23.2
Operating expenses	(717)	(737)	(824)	(887)	(985)	19.6	11.1
PPOP	672	666	639	454	668	4.4	47.0
Loan Loss Provisions	(35)	(63)	(85)	(96)	(30)	(65.4)	(69.1)
Other income	67	191	243	298	181	(25.3)	(39.1)
Tax	(70)	(144)	(96)	(68)	(81)	(15.0)	18.8
MI	(131)	(147)	(144)	(136)	(147)	2.5	8.7
Net profit	504	503	557	452	591	6.0	30.6
EPS (HK\$)	1.85	1.82	1.90	1.55	2.02		
DPS (HK\$)	0.20	0.86	0.29	0.78	0.29		

Source: Company, ABCI Securities estimates

Exhibit 3: Dah Sing Financial (440 HK) – PB band chart



Source: Bloomberg, ABCI Securities estimates

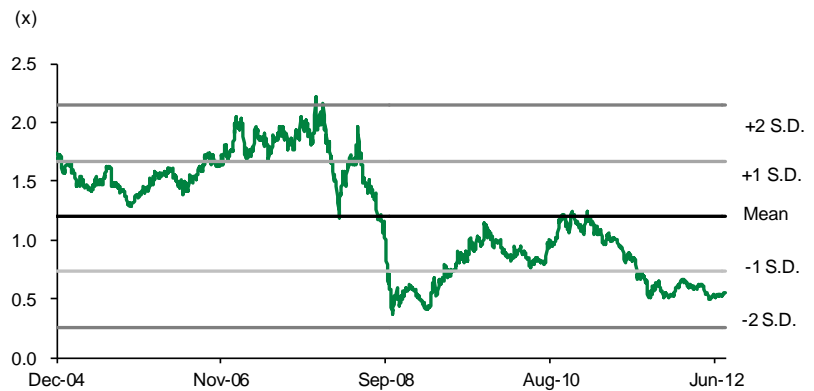


Exhibit 4: Dah Sing Bank (2356 HK) – half yearly operating results

(HK\$m)	1H10A	2H10A	1H11A	2H11A	1H12A	1H12A	
						YoY	HoH
Net int income	996	959	971	948	1,022	5.2	7.8
NIM (%)	1.87	1.50	1.52	1.32	1.47	(0.05)	0.15
Fee income	184	203	204	213	246	20.8	15.9
Non-int income	189	281	325	262	352	8.3	34.4
Top line	1,185	1,240	1,296	1,210	1,373	6.0	13.5
Operating expenses	(644)	(634)	(733)	(794)	(866)	18.1	9.1
PPOP	541	606	562	416	507	(9.8)	21.9
Loan Loss Provisions	(35)	(63)	(85)	(96)	(30)	(65.4)	(69.1)
Other income	63	155	164	266	166	1.5	(37.6)
Tax	(62)	(131)	(85)	(64)	(75)	(11.6)	17.2
MI	(0)	0	0	(0)	0	(96.9)	0.0
Net profit	507	567	556	522	568	2.3	8.9
EPS (HK\$)	0.44	0.48	0.45	0.43	0.46		
DPS (HK\$)	0.07	0.20	0.08	0.20	0.08		

Source: Company, ABCI Securities estimates

Exhibit 5: Dah Sing Bank (2356 HK) – PB band chart



Source: Bloomberg, ABCI Securities estimates



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