

## Key Data

H-share price (HK\$)	7.48
Target price (HK\$)	7.66
Upside potential (%)	2.4%
52Wk H/L(HK\$)	8.23 / 5.35
Issued shares (mn)	28,365
- H shares (mn)	5,778
- A shares (mn)	22,587
Market cap	
- H shares (HK\$mn)	43,219
- A shares (Rmb mn)	140,495
3 months avg vol (HK\$mn)	297.5
Major shareholder (%):	
Blackrock	8.92

Source: Company, Bloomberg, ABCI Securities

## Operating income composition in 1H12 (%)

Corporate banking	49.4
Retail banking	15.2
Treasury	33.1
Others	2.3

Source: Company

## Share performance (%)

	Absolute	Relative*
1-mth	2.9	1.4
3-mth	6.5	(3.5)
6-mth	5.3	(9.5)

Source: Bloomberg

\*Relative to Hang Seng Index

## 1 year price performance



Source: Bloomberg

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## Minsheng Bank (1988 HK) – Buy

### Diversified Banks Industry

### New exit for NPLs

Co-operations between banks and asset management companies have increased rapidly since 2H12. We believe this is a win-win relationship between both sectors asset management companies could help banks clean up NPLs portfolios, while banks could provide new business opportunities including insurance, securities, trust and lease in return. MSB demonstrates its forward-looking insights by signing co-operation agreement with China Orient Asset Management to capture the new business opportunities. Among the mid-cap banks, MSB remains our top pick.

**Alliance with asset management companies.** Local media reports that co-operation arrangements between banks and asset management companies have increased rapidly in 2H12. More than 10 banks such as MSB and Huaxia Bank (600015 CH) had signed co-operation agreements with asset management companies to clean up their NPLs when necessary. These companies include the four stated-owned asset management companies which cleaned up the Chinese banking sector NPLs in the 1990s.

**Win-win relationship.** China Orient Asset Management, one of the four stated-owned asset management companies, expects the commercial banks NPL ratio to reach 1%-2% by the year-end 2012. We believe this is a win-win situation to both sectors as banks could reduce NPLs while asset management companies can explore new business opportunities through banks.

**Proactive step by MSB.** MSB, as a SME bank, takes proactive move to tackle risk management concerns. The co-operation arrangement with China Orient Asset Management covers areas included NPLs, entrusted loans, and assets securitization. Despite we prefer big banks for better business diversification and pricing power, MSB is our top pick among mid-cap banks.

**Risk factors.** Acceleration of interest rate liberalization, sharp deterioration of asset quality, increasing competition from non-bank FIs and competition from larger banks in SMEs segment.

## Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (Rmb mn)	54,667	82,196	96,373	109,481	122,765
YoY Chg (%)	30.0	50.4	17.2	13.6	12.1
Net profit (Rmb mn)	17,581	27,920	33,738	37,764	41,998
YoY Chg (%)	45.2	58.8	20.8	11.9	11.2
EPS (Rmb)	0.78	1.05	1.26	1.41	1.57
BVPS (Rmb)	3.90	4.85	5.81	6.89	8.08
PE (x)	--	5.94	4.95	4.42	3.97
PB (x)	--	1.29	1.07	0.90	0.77
ROAE (%)	18.3	23.9	23.7	22.3	21.0

Source: Company, ABCI Securities estimates

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## Disclosures

### Analyst Certification

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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 2007-2011

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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