



October 10, 2013
Equity Focus
Rating: Unrated

Share price (HK\$) 14.08
Bbg dividend yield 2.81%

Previous Rating & TP Unrated; NA
Previous Report Date NA

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Key Data

52Wk H/L(HK\$)	14.36/7.45
Issued shares (mn)	1,251.4
Market cap (HK\$ mn)	17,794
3-mth avg daily turnover (HK\$ mn)	28.39
Major shareholder(s) (%):	
Dah Sing Financial Group	74.59
Source(s): Company, Bloomberg, ABCI Securities	

1H13 PBT breakdown (%)

Corporate banking	44.07
Retail banking	24.58
Treasury operations	18.02
Others	13.33
Source(s): Company, ABCI Securities	

Share performance (%)

	Absolute	Relative*
1-mth	24.4	22.9
3-mth	51.4	40.9
6-mth	33.1	27.3

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

DSB (2356 HK)

Key takeaways from Corporate Access meeting

- In our corporate access meeting with DSB on Oct 9, Deputy CEO, Mr. Nicholas Mayhew, and Head of IR, Mr. Eric Ho, shared their views regarding DSB's latest development
- DSB's shareholding in Bank of Chongqing may dilute upon completion of its IPO, yet DSB will keep this investment in the associate given its decent return
- Though DSB confirmed that no takeover talk had taken place, the Group will continue to focus on improving its profitability, and we believe the door is still open. DSB's clean balance sheet and solid franchises will increase its M&A value
- Implementation of Basel III standard should not increase DSB's capital pressure. The counter is currently trading at 1x 14E P/B (consensus). or 0.5 s.d. below historical mean P/B.

Fundamental stays solid. Following the upsurge in DSB's NIM, which rose from 1.47% in 1H12 to 1.6% in 2H12, and further to 1.77% in 1H13, overall NIM improvement in 2H13 should slow. Management expects deposit cost in 2H12 to remain stable given the sufficient short-term liquidity in the Hong Kong banking system. Although certain banks have competed for deposits aggressively, the overall situation is manageable. DSB has always been highly cautious about investment risk, thus we believe a rising risk appetite may drive up ROE significantly for the Group.

Open attitude to potential M&A. Despite management confirmed that no concrete M&A talks had taken place with potential buyers, they admitted that local mid-cap banks have always been the M&A targets of both China and overseas buyers, especially now that supply is running out. Final pricing of any M&A targets should reflect their fundamental values, hence profitability enhancement has always a primary concern of the Group. We believe DSB's clean balance sheet and strong business franchises in Hong Kong/Macau should provide additional value to potential buyers.

Associate company is going public. IPO of DSB's associate company, Bank of Chongqing (BoCQ) has been planned for years and concrete developments were seen lately. Management expects the listing of BoCQ in the Hong Kong stock market to complete in 2013, and reiterated that DSB has no intention to sell its stakes in BoCQ as it is a decent investment with solid growth. Nevertheless, DSB expects a potential dilution of its stakes post-IPO. However, considering the strategic relationship between the two, DSB should continue to treat BoCQ as associate.

Well prepared for Basel III. Basel III standard should not cast additional capital pressure on DSB with its Tier 1 CAR and Tier 2 CAR reported at 10.4% and 4.5%, vs. the Basel III benchmark at 10% and 4.2% as stipulated in June 2013. DSB is currently trading at 1x FY14E P/B (consensus) or 0.5 s.d. below historical mean P/B.

Risk factors: 1) Sharp deterioration in asset quality, especially regarding its exposure in China; 2) Reverse in liquidity may result in higher funding cost.

Results and Valuation

FY ended Dec 31	2010A	2011A	2012A	1H13A
Revenue (RMB mn)	2,598	2,694	3,108	1,851
Chg (% YoY)	6.5	3.7	15.4	12.2
Net profit (RMB mn)	1,074	1,092	1,410	813
Chg (% YoY)	78.7	1.7	29.1	35.1
EPS (RMB)	0.92	0.89	1.14	0.65
Chg (% YoY)	53.3	(3.3)	28.1	32.7
BVPS (RMB)	11.06	12.27	12.32	12.68
Chg (% YoY)	14.1	10.9	16.5	(1.0)
P/E (x)	15.3	15.8	12.4	na
P/B (x)	1.27	1.15	1.14	1.11
ROE (%)	8.84	7.66	8.57	10.5
ROA (%)	0.88	0.78	0.92	1.06
DPS(RMB)	0.27	0.28	0.31	0.09
Yield (%)	1.9	2.0	2.6	na

Source(s): Bloomberg, ABCI Securities



Disclosures

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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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