



Key Data

H-share price (HK\$)	6.99
52Wk H/L(HK\$)	8.23 / 4.24
Issued shares (mn)	28,365
- H shares (mn)	5,778
- A shares (mn)	22,587
Market cap (HK\$mn)	
- H shares (HK\$mn)	40,388
- A shares (Rmb mn)	132,589
3 months avg vol (HK\$mn)	192.3
Major shareholder (%):	
Morgan Stanley	7.43

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	4.6	(0.8)
3-mth	(0.1)	(6.1)
6-mth	(5.4)	1.7

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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**Minsheng Bank (1988 HK) – Unrated
Diversified Banks Industry**

Risk management differentiation

Despite the strong organic growth noted from MSB's 1H12 result, the bank is shifting into a more prudence strategy. We believe increased NPLs in 1H12 were due to tighter rating system under new risk measures introduced in 1H12. Meanwhile the bank has focused its loan growth in northern and western regions while avoiding high risk coastal area. MSB currently trading at 1.5 s.d. below mean.

Organic growth sustained. Minsheng Bank (MSB, 1988 HK) delivered a strong set of result with 1H12 net profit growth at 37% YoY, or 5.5% above Bloomberg consensus, driven by 32% YoY growth in topline revenue. 2Q12 net profit grew 8% QoQ on lower provisions despite 2Q12 net interest margin (NIM) dropped by 20bps, thanks to better receivable collecting ability under improving risk management measures.

More conservative growth strategy. Although non-performing loan (NPL) ratio rose by 6bps in 1H12 to 0.69%, we believe this is reflecting a tighter customer rating system rather than asset quality deterioration. We are impressed by the proactive move by MSB into a more conservative growth strategy. Beside adoption of new risk measures in 1H12, we noticed loan growth in 1H12 were mainly driven by northern and western regions at 11% and 14% HoH growth respectively, when overall loan growth at 8.1% HoH, while maintained only 3% HoH growth in coastal area, which are the riskier area on asset quality concern.

Differentiate by risk management. Given long established strength in small businesses clientele, we believe MSB well understand the importance of risk management under current operating environment, hence taking active step to protect the bank in an advance manner, in order to differentiate itself with peers. MSB currently is trading at 0.9x forward PB, or 1.5 s.d. below historical mean.

Risk factors. Prolonged slowdown of China economy and sharp deterioration of asset quality.

Forecast and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Operating income (Rmb mn)	25,546	34,973	42,037	54,667	82,196
YoY chg (%)	44.8	36.9	20.2	30.0	50.4
Net profit (Rmb)	6,335	7,885	12,104	17,581	27,920
YoY chg (%)	68.7	24.5	53.5	45.2	58.8
EPS (Rmb)	na	na	0.63	0.66	1.05
BVPS (Rmb)	na	na	3.30	3.90	4.85
P/E (x)	--	--	--	--	5.5
P/B (x)	--	--	--	--	1.2
ROAE (%)	18.2	15.2	17.1	18.3	23.9

Source: Company, Bloomberg, ABCI Securities estimates

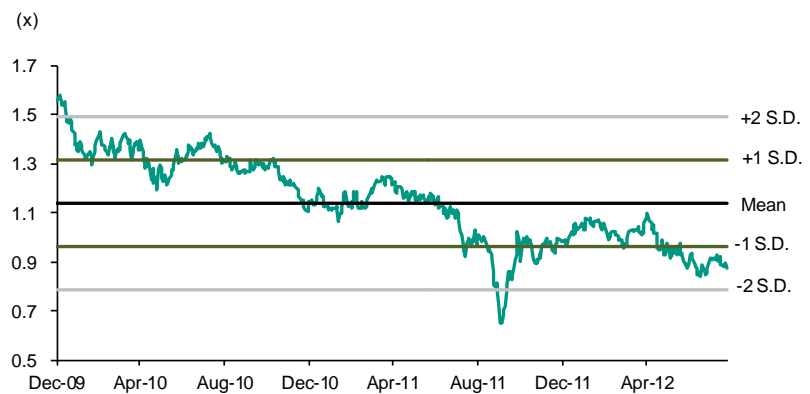


Exhibit 1: MSB – quarterly operating results

(Rmb mn)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	QoQ (%)	1H11	1H12	YoY (%)
Net interest margin	3.14	2.86	3.04	3.52	3.29	2.99	(0.30)	3.00	3.14	0.14
Net interest income	13,404	16,141	17,159	18,117	18,970	18,901	(0)	29,545	37,871	28
Net fee income	2,951	4,968	3,875	3,307	5,138	4,892	(5)	7,919	10,030	27
Non-interest income	3,753	5,503	4,201	3,918	6,065	7,433	23	9,256	13,498	46
Topline	17,157	21,644	21,360	22,035	25,035	26,334	5	38,801	51,369	32
Operating expenses	(7,123)	(8,934)	(9,866)	(10,722)	(9,105)	(11,159)	23	(16,057)	(20,264)	26
POPP	10,034	12,710	11,494	11,313	15,930	15,175	(5)	22,744	31,105	37
Loan loss provision	(1,788)	(2,549)	(1,480)	(2,559)	(3,335)	(2,071)	(38)	(4,337)	(5,406)	25
Profit before tax	8,214	10,193	9,911	8,857	12,299	13,400	9	18,407	25,699	40
Tax expenses	(1,950)	(2,401)	(2,367)	(2,014)	(2,963)	(3,328)	12	(4,351)	(6,291)	45
Minority interest	(54)	(84)	(76)	(309)	(164)	(191)	16	(138)	(355)	157
Net profit	6,210	7,708	7,468	6,534	9,172	9,881	8	13,918	19,053	37
EPS	0.23	0.29	0.28	0.25	0.34	0.35	3	0.52	0.69	33

Source: Companies, ABCI Securities estimates

Exhibit 2: MSB – PB band chart



Source: Bloomberg, ABCI Securities estimates



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