農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

22 November 2012

Equity Focus

China Bank Sector – Neutral

Diversified Banks Industry

Key Data

Average PER (x)	5.3
Average PBV (x)	0.9
Average Dividend Yield (%)	5.5
Sector 3 months avg vol (HK$mn)	4,960

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 3Q12 (%)

Net interest income	80.5
Non-interest income	19.5

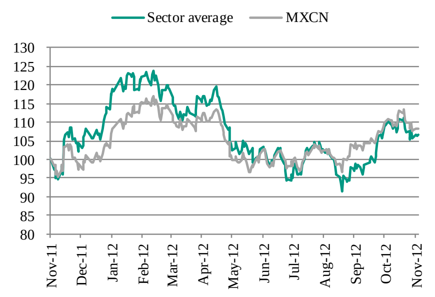
Source: CBRC

Share performance (%)

	Absolute	Relative*
1-mth	(2.5)	(0.6)
3-mth	4.8	(0.8)
6-mth	4.1	(3.8)

Source: Bloomberg
**Relative to MSCI China*

1 year price performance



Source: Bloomberg

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Speeding up bond issuance

Under the CBRC's new capital requirements, subordinated bonds issued from 2013 must carry either write-downs or conversion terms in order to be qualified as Tier 2 capital. This will increase banks' bond issuance costs and urge banks to complete their sub-debt issuance prior to 2013. Banks including CCB, BOC, ABC, MSB and CMB already have their pipelines. Despite no urgent needs, we feel more comfortable to bank's total CAR position after this round of debt issues.

Stricter Tier 2 capital requirement. According to the CBRC's new capital requirements which will be effective in 2013, subordinated bonds issued after the implementation date must carry either write-downs or conversion terms in order to be qualified as Tier 2 capital. This aims at protecting banks from insufficient core CAR. Subordinated bonds issued prior to the date are included in Tier 2 CAR calculation, which will be subject to a 10% amount reduction per year. This implies all unqualified bonds will eventually be excluded from Tier 2 calculation from 2022.

More subordinated-debt issuances in 4Q12. In order to be exempted from the tighter requirement, banks would speed up their subordinated-debt issuances before the end of 2012. CCB has obtained regulatory approval for its Rmb40bn debt issuance, targeting to increase its total CAR by 55bps. Besides, CBRC has also approved BOC to issue Rmb23bn subordinated bonds in interbank market. ABC announced its plan to issue Rmb50bn, but it is still pending regulatory approval. Meanwhile, with the low-end total CAR position, both CMB and MSB have already announced their debt issuance plans earlier this year.

Building stronger capital buffer. Although we do not see urgent needs for H-share banks to strengthen their total CAR position which currently between 11.4% and 14.5%, it is reasonable for banks to increase their Tier 2 capital buffers in advance given stricter capital classification requirements starting in 2013. In our view, we would feel more comfortable to banks' total CAR position after this round of debt issues.

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	5.84	6.30	7.9	6.0	1.1	5.8
ABC	1288 HK	Buy	3.35	3.45	3.0	5.6	1.0	5.4
MSB	1988 HK	Buy	7.32	7.66	4.6	4.3	0.9	5.7
ICBC	1398 HK	Hold	5.15	4.44	(13.8)	6.3	1.2	4.7
BOC	3988 HK	Hold	3.18	2.94	(7.5)	5.3	0.8	6.0
BoCom	3328 HK	Hold	5.54	5.13	(7.4)	5.0	0.8	6.5
CMB	3968 HK	Hold	14.14	13.47	(4.7)	5.7	1.1	4.4
CNCB	998 HK	Hold	3.93	3.61	(8.1)	4.4	0.6	5.8

Source: Company, 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 2007-2011

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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