



August 31, 2015  
Equity Focus  
Rating: BUY  
TP: HK\$ 4.69

H-Share price (HK\$) 3.44  
Est. share price return 36.34%  
Est. 15E dividend yield 5.95%  
Est. total return 42.29%

Previous Rating & TP BUY; HK\$ 4.69  
Previous Report Date July 16, 2015

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**Key Data**

52Wk H/L(HK\$)	4.30/2.65
Issued shares (mn)	11,050
H-Shares (mn)	3,163
Domestic (mn)	7,887
Market cap	
H-shares (HK\$ mn)	10,879
Domestic (HK\$ mn)	27,132
3-mth avg daily turnover (HK\$ mn)	10.25
Major shareholder(s) (%):	
China Vanke	8.0

Source(s): Company, Bloomberg, ABCI Securities

**1H15 PBT breakdown (%)**

Corporate banking	58.97
Retail banking	2.05
Treasury operations	36.68
Others	2.30

Source(s): Company, ABCI Securities

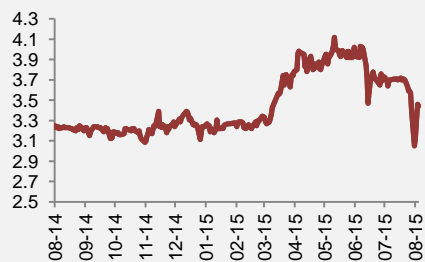
**Share performance (%)**

	Absolute	Relative*
1-mth	(6.8)	5.1
3-mth	(12.1)	10.3
6-mth	4.7	19.0

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg

## Huishang Bank (3698 HK)

### Sustainable topline growth; reiterate BUY

- HB's 1H15 net profit grew by 8.03% yoy; NII rose substantially by 24.98% yoy despite NIM pressure amid rate cut cycle
- Net fee income surged by 92.7% yoy, while non-interest income to total operating income increased by 2.42 ppt yoy to 13.07%, which is higher than our expectation
- Overall NPL ratio increased by 14bps hoh to 0.97%. In particular, NPL ratio of transportation sector rose sharply (+11.04ppt hoh). Hence, we are cautious on HB's asset quality outlook
- HB proven its sustainable topline growth in 1H15. The counter is trading at 0.63x 16E P/B; reiterate **BUY**

**Impressive NII growth under rate cut cycle.** Huishang Bank (HB) reported its 1H15 net profit at RMB 3,067mn, up 8.03% yoy and accounted for 50.9% of our full-year forecast. Thanks to the loan growth of 10.3% hoh and an expanded NIM (+5bps yoy), HB's NII increased by 24.98% yoy amid the rate cut cycle. In particular, the 15bps yoy decline in 1H15 average loan yield was offset by the average deposit cost that fell by 15bps yoy.

**Growing contribution from fee income.** Net fee income surged by 92.74% yoy, of which custodian & fiduciary service fees (+196.5% yoy), consultancy & advisory fees (+20.5% yoy), and bank card fees (+42.7%) became the key drivers. Contribution of non-interest income to total operating income therefore increased by 2.42ppt from 10.65% in 1H14 to 13.07% in 1H15, exceeding our assumption of 11.3% for 15E and 13% by 17E. We will revise our fee income assumption for HB based on the belief that its fee income will grow in coming years.

**NPL in transportation sector raises concern.** As HB's loan provision grew by 92.7% yoy, provisioning ratio edged up to 2.27% by June 2015 from 2.13% in Dec 2014. HB's overall NPL ratio increased by 14bps hoh to 0.97%. NPL ratio in commerce & services and manufacturing went down by 70bps and 6bps hoh to 1.01% and 1.07%; NPL ratio of transportation sector, however, rose sharply to 15.48% in June 2015 from 4.44% in Dec 2014. Given the smaller operational scale of district bank, even a small number of default cases could trigger a significant decline in earnings. Hence, we remain cautious on the bank's asset quality outlook.

**BUY on strong topline growth.** HB's sustainable topline growth (+28.45% yoy) in 1H15, continuous business restructuring, and increasing fee income contribution have prompted us to reiterate our **BUY** rating. The counter is trading at 0.63x 16E P/B.

**Risk factors:** 1) Asset quality deterioration in the region; 2) Pricing competition from big banks in domestic area; 3) Failure to optimize business mix in retail banking.

**Results and Valuation**

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	10,173	12,748	14,978	17,341	19,809
Chg (% YoY)	10.2	25.3	17.5	15.8	14.2
Net profit (RMB mn)	4,926	5,677	6,029	6,476	6,795
Chg (% YoY)	14.4	15.2	6.2	7.4	4.9
EPS (RMB)	0.59	0.51	0.55	0.59	0.61
Chg (% YoY)	11.1	-12.2	6.2	7.4	4.9
BVPS (RMB)	2.87	3.31	3.82	4.38	4.97
Chg (% YoY)	14.4	15.4	15.6	14.6	13.4
P/E (x)	4.70	5.36	5.04	4.70	4.48
P/B (x)	0.96	0.83	0.72	0.63	0.55
ROAE (%)	18.89	16.64	15.30	14.29	13.16
ROAA (%)	1.39	1.31	1.16	1.07	0.97
DPS(RMB)	0.20	0.16	0.16	0.18	0.18
Yield (%)	7.16	5.67	5.95	6.39	6.70

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Net interest income	9,602	11,423	13,279	15,223	17,240
Net fee and commission	540	856	1,113	1,402	1,711
Other operating income	31	469	586	715	858
<b>Operating income</b>	<b>10,173</b>	<b>12,748</b>	<b>14,978</b>	<b>17,341</b>	<b>19,809</b>
Operating expenses	(3,386)	(4,216)	(5,271)	(6,430)	(7,716)
Impairment losses	(435)	(1,197)	(1,862)	(2,491)	(3,268)
Share of associates	48	76	88	101	116
<b>Profit before tax</b>	<b>6,399</b>	<b>7,411</b>	<b>7,933</b>	<b>8,520</b>	<b>8,941</b>
Income tax expenses	(1,473)	(1,734)	(1,904)	(2,045)	(2,146)
<b>Net profit</b>	<b>4,926</b>	<b>5,677</b>	<b>6,029</b>	<b>6,476</b>	<b>6,795</b>
<b>Growth (%)</b>					
Net interest income	12.1	19.0	16.2	14.6	13.2
Net fee and commission	36.3	58.7	30.0	26.0	22.0
Other operating income	(88.6)	1,415.7	25.0	22.0	20.0
<b>Operating income</b>	<b>10.2</b>	<b>25.3</b>	<b>17.5</b>	<b>15.8</b>	<b>14.2</b>
Operating expenses	8.1	24.5	25.0	22.0	20.0
Impairment losses	(4.9)	175.0	55.6	33.8	31.2
Share of associates	37.0	59.0	15.0	15.0	15.0
<b>Profit before tax</b>	<b>12.7</b>	<b>15.8</b>	<b>7.0</b>	<b>7.4</b>	<b>4.9</b>
Income tax expenses	7.2	17.7	9.8	7.4	4.9
<b>Net profit</b>	<b>14.4</b>	<b>15.2</b>	<b>6.2</b>	<b>7.4</b>	<b>4.9</b>
<b>Per share (RMB)</b>					
EPS	0.59	0.51	0.55	0.59	0.61
BVPS	2.87	3.31	3.82	4.38	4.97
DPS	0.20	0.16	0.16	0.18	0.18
<b>Key ratio (%)</b>					
Net interest margin	2.63	2.74	2.64	2.56	2.55
Net interest spread	2.44	2.47	2.13	2.05	2.01
Cost to income ratio	33.29	33.08	35.19	37.08	38.95
Return on average assets	1.39	1.31	1.16	1.07	0.97
Return on average equity	18.89	16.64	15.30	14.29	13.16
Effective tax rate	23.02	23.40	24.00	24.00	24.00
Dividend payout	33.68	30.37	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2017E)

As of Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Cash and bank	76,178	76,421	81,006	85,866	91,018
Due from bank and FIs	48,964	73,786	92,232	112,523	135,028
Net loans	191,280	214,734	240,417	271,308	307,856
Investment securities	60,266	112,356	139,700	172,319	209,357
<b>Total IEA</b>	<b>376,689</b>	<b>477,297</b>	<b>553,355</b>	<b>642,017</b>	<b>743,260</b>
Other assets	5,420	5,467	6,014	6,615	7,277
<b>Total assets</b>	<b>382,109</b>	<b>482,764</b>	<b>559,369</b>	<b>648,633</b>	<b>750,537</b>
Customer deposits	272,798	317,870	365,551	416,728	479,237
Due to bank and FIs	61,703	98,703	123,379	150,522	179,121
Subordinated debt	8,986	18,751	20,626	22,689	24,958
<b>Total IBL</b>	<b>343,488</b>	<b>435,324</b>	<b>509,555</b>	<b>589,938</b>	<b>683,315</b>
Other liabilities	6,949	10,887	7,568	10,295	12,316
<b>Total liabilities</b>	<b>350,437</b>	<b>446,211</b>	<b>517,123</b>	<b>600,233</b>	<b>695,631</b>
Share capital	11,050	11,050	11,050	11,050	11,050
Retained earnings	8,659	10,868	15,088	19,621	24,378
Reserves	11,916	14,456	15,902	17,492	19,241
MI	47	179	206	236	236
<b>Total equity</b>	<b>31,672</b>	<b>36,553</b>	<b>42,246</b>	<b>48,399</b>	<b>54,905</b>
<b>Growth (%)</b>					
Cash and bank	32.1	0.3	6.0	6.0	6.0
Due from bank and FIs	9.2	50.7	25.0	22.0	20.0
Net loans	19.6	12.3	12.0	12.8	13.5
Investment securities	5.6	86.4	24.3	23.3	21.5
<b>Total IEA</b>	<b>17.9</b>	<b>26.7</b>	<b>15.9</b>	<b>16.0</b>	<b>15.8</b>
<b>Total assets</b>	<b>17.9</b>	<b>26.3</b>	<b>15.9</b>	<b>16.0</b>	<b>15.7</b>
Customer deposits	13.9	16.5	15.0	14.0	15.0
Due to bank and FIs	12.7	60.0	25.0	22.0	19.0
Subordinated debt	125.1	108.7	10.0	10.0	10.0
<b>Total IBL</b>	<b>15.2</b>	<b>26.7</b>	<b>17.1</b>	<b>15.8</b>	<b>15.8</b>
<b>Total liabilities</b>	<b>15.4</b>	<b>27.3</b>	<b>15.9</b>	<b>16.1</b>	<b>15.9</b>
<b>Total equity</b>	<b>54.6</b>	<b>15.4</b>	<b>15.6</b>	<b>14.6</b>	<b>13.4</b>
<b>Key ratio (%)</b>					
Loan to deposits	71.65	69.02	67.35	66.77	65.92
CT1 CAR	12.60	11.50	11.55	11.42	11.20
Total CAR	15.19	13.41	14.51	14.23	13.90
NPL ratio	0.54	0.54	0.65	0.80	0.90
NPL growth	11.10	12.25	35.08	39.10	27.72
Net bad debt charge ratio	0.34	0.24	0.72	0.80	0.95
Provision to total loans	2.13	2.12	2.35	2.50	2.55
Provision coverage	394.97	393.48	361.54	312.50	283.33

Source(s): Company, ABCI Securities estimates

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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 2009-2013

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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