

## Company Rating:

# Buy

Target price: HK\$8.74

### Key data

Share price (HK\$)	6.31
52Wk H/L(HK\$)	6.75/4.71
Upside potential (%)	38.5
Issued shares (mn)	
- A shares	9,594
- H shares	240,417
Market cap	
- A share (Rmbmn)	45,954
- H share (HK\$m)	1,517,033
30-day avg vol (HK\$m)	1,576
Major shareholder (%)	
Huijin	57.03

Source: Company & Bloomberg

### Revenue breakdown by segment (2012) (%)

Corporate banking	46.9
Personal banking	31.4
Treasury business	17.9
Others	3.8

Source: Company

### Share performance (%)

	Absolute	Relative*
1-mth	(1.9)	1.1
3-mth	(0.6)	1.3
6-mth	16.4	9.1

\*Relative to Hang Seng Index

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

### Analyst

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## CCB (939 HK)

### Diversified Banks Industry

#### Key takeaway from analyst briefing

CCB reported 2012 net profit of Rmb193.2bn, 5% below our forecast on prudent provisioning policy, which sustained 2.69% provision ratio and 271.3% provision coverage. Robust AIEA growth and widening asset yields showed an encouraging NIM trend with minor pressure from loan re-pricing in 1Q13. CCB's solid results hint at stabilized NIM and stable asset quality in upcoming results for other China's banks, especially for big banks. Our top picks are ICBC, CCB and ABC.

**The truth of higher provisions.** CCB reported 2012 net profit of Rmb193.2bn, Y-Y 14% or 5% below our forecast, with major variance from larger loan provisions in 4Q12, driven by CCB's prudent provisioning policy instead of a worsening asset quality. The provision ratio stayed at 2.69% while the provision coverage ratio increased by 29.9% Y-Y to 271.3%. CCB classified NPLs tighter than required overdue basis, with some loans regarded as NPLs prior to actual overdue, which explained the divergence between stable NPL and surging overdue loans by Rmb17bn. New overdue loans were mainly resulted from manufacturing, and wholesale and retail sectors in Wenzhou and Hangzhou.

**Resilient NIM outlook.** Both CCB's net interest income and top line revenue came in line with our forecasts. NIM was reported at 2.75% in 2012, Y-Y up 5bps or 4bps higher than our forecast, thanks in large part to stable 4Q12 NIM at 2.78%. This was driven by 13.8% increase in average interest earning assets (AIEA) and improving asset yields such as 23bps loan spread widening given selective loan policy as well as 31bps higher investments yield from portfolio shifting into higher mix of private sector bonds. NIM trend should improve amid healthy loan demand and minor pressure on loan re-pricing in 1Q13.

**Expect solid results from China banks.** We believe CCB's solid results hint at stabilized 4Q12 NIM and benign assets quality for other China banks. In particular big banks should outperform by demonstrating their pricing power edge and stable asset quality from well diversified portfolio. Trading at 1-1.5 s.d. below historical mean, we prefer big banks such as ICBC, CCB and ABC after recent correction.

**Risk factors.** Acceleration of interest rate liberalization, collapse of shadow bank system and increasing competition from non-bank FIs.

### Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (Rmb mn)	325,780	399,403	459,014	518,296	582,963
Y-Y Chg (%)	21	23	15	13	12
Net profit (Rmb mn)	134,844	169,258	202,788	219,453	249,383
Y-Y Chg (%)	26	26	20	8	14
EPS (Rmb)	0.54	0.68	0.81	0.88	1.00
BVPS (Rmb)	2.79	3.24	3.77	4.34	4.99
PE (x)	--	--	6.5	6.0	5.3
PB (x)	--	--	1.39	1.21	1.05
Dividend yield (%)	--	--	5.3	5.9	6.7
ROAE (%)	21.5	22.4	23.1	21.6	21.4

Source: Company, ABCI Securities estimates



**Exhibit 1: CCB quarterly summary results**

(Rmb mn)	1Q12	2Q12	3Q12	4Q12	Q-Q (%)	2011	2012E	2012A	Y-Y (%)	A vs E (%)
<b>Net interest margin</b>	<b>2.65</b>	<b>2.77</b>	<b>2.80</b>	<b>2.78</b>	<b>(0.02)</b>	<b>2.70</b>	<b>2.71</b>	<b>2.75</b>	<b>0.05</b>	<b>0.04</b>
Net interest income	82,101	87,591	91,332	92,178	1	304,572	356,901	353,202	16	(1)
Net fee income	24,302	24,941	20,678	23,586	14	86,994	93,990	93,507	7	(1)
Non-interest income	27,739	30,381	23,294	27,917	20	94,831	102,113	109,331	15	7
<b>Topline revenue</b>	<b>109,840</b>	<b>117,972</b>	<b>114,626</b>	<b>120,095</b>	<b>5</b>	<b>399,403</b>	<b>459,014</b>	<b>462,533</b>	<b>16</b>	<b>1</b>
Operating expenses	(36,356)	(38,214)	(39,258)	(57,253)	46	(144,537)	(163,271)	(171,081)	18	5
POPP	73,484	79,758	75,368	62,842	(17)	254,866	295,743	291,452	14	(1)
Loan loss provision	(6,686)	(8,052)	(8,382)	(16,921)	102	(35,783)	(32,160)	(40,041)	12	25
Other income	11	(3)	8	12	50	24	25	28	17	11
<b>Profit before tax</b>	<b>66,809</b>	<b>71,703</b>	<b>66,994</b>	<b>45,933</b>	<b>(31)</b>	<b>219,107</b>	<b>263,607</b>	<b>251,439</b>	<b>15</b>	<b>(5)</b>
Tax expenses	(15,200)	(16,818)	(14,969)	(10,850)	(28)	(49,668)	(60,630)	(57,837)	16	(5)
Minority interest	(97)	(114)	(117)	(95)	(19)	(181)	(190)	(423)	134	123
<b>Net profit</b>	<b>51,512</b>	<b>54,771</b>	<b>51,908</b>	<b>34,988</b>	<b>(33)</b>	<b>169,258</b>	<b>202,788</b>	<b>193,179</b>	<b>14</b>	<b>(5)</b>

Source: Company, ABCI Securities estimates

**Exhibit 2: CCB PB band chart**



Source: Bloomberg, ABCI Securities estimates

**Exhibit 3: China bank 2012 results - ABCI estimates vs Bloomberg consensus**

Rmbmn	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CITICB
<b>ABCI estimates</b>								
<b>Topline</b>								
2011	470,601	399,403	379,756	82,196	328,298	127,795	96,603	77,092
2012	542,466	459,014	436,356	103,974	366,588	151,084	110,633	87,235
Y-Y	15.3%	14.9%	14.9%	26.5%	11.7%	18.2%	14.5%	13.2%
<b>Net profit</b>								
2011	208,265	169,258	121,927	27,920	124,182	50,735	36,129	30,819
2012	238,510	202,788	157,560	37,402	138,492	57,607	41,199	32,348
Y-Y	14.5%	19.8%	29.2%	34.0%	11.5%	13.5%	14.0%	5.0%
<b>Bloomberg consensus</b>								
<b>Topline</b>								
2011	470,601	399,403	379,756	82,196	328,298	127,795	96,603	77,092
2012	531,753	456,391	425,791	102,002	360,680	146,588	113,821	88,421
Y-Y	13.0%	14.3%	12.1%	24.1%	9.9%	14.7%	17.8%	14.7%
<b>Net profit</b>								
2011	208,265	169,258	121,927	27,920	124,182	50,735	36,129	30,819
2012	229,882	192,486	147,807	35,792	131,626	56,264	42,298	33,930
Y-Y	10.4%	13.7%	21.2%	28.2%	6.0%	10.9%	17.1%	10.1%
<b>ABCI vs consensus (2012)</b>								
Topline	2.0%	0.6%	2.5%	1.9%	1.6%	3.1%	-2.8%	-1.3%
Net profit	3.8%	5.4%	6.6%	4.5%	5.2%	2.4%	-2.6%	-4.7%
<b>Reporting date</b>	<b>27-Mar</b>	<b>24-Mar</b>	<b>26-Mar</b>	<b>29-Mar</b>	<b>26-Mar</b>	<b>27-Mar</b>	<b>29-Mar</b>	<b>28-Mar</b>

Source: Bloomberg, ABCI Securities estimates

## 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 2008-2012

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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