



China Bank Sector – Neutral Diversified Banks Industry

Key Data

Average PER (x)	6.2
Average PBV (x)	1.1
Average Dividend Yield (%)	4.7
Sector 3 months avg vol (HK\$mn)	5,443

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 3Q12 (%)

Net interest income	80.5
Non-interest income	19.5

Source: CBRC

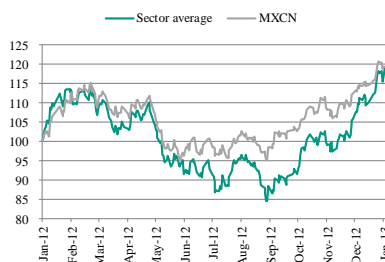
Share performance (%)

	Absolute	Relative*
1-mth	12.5	5.9
3-mth	27.9	10.6
6-mth	30.4	7.6

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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New loan growth on pace to speed up in 2013

The PBOC reported the new loans of Rmb453bn for December, below the consensus estimate of Rmb550bn and November figure of Rmb522.9bn. With the well-sustained market share of big four banks at 36%, ICBC, CCB and ABC saw 12-13% loan growth in 2012 while BOC reported smaller domestic loan growth of 8% given its high LDR. Our channel checks showed that credit market sentiment continues to improve in January. As some banks deliberately delayed their loan approvals into 2013, we expect to see faster loan growth in 1Q13. Big banks with lower LDR are at better position for lending activities.

2012 loan growth on track. The PBOC reported December loan growth at Rmb453bn, or full year loan growth at Rmb8.2tn, below both consensus and our forecasts. The lower-than-expected new loans were mainly due to the fact that some banks deliberately delayed their loan approvals to early 2013 given the limit of 2012 loan budget. As a result, bank loans within the total social financing have dropped from 55% in November to 37% in December.

Big four banks loan growth. Big four banks loan growth totaled Rmb163bn in December, implying 36% total market share. According to the local media, BOC is the only bank reporting a negative growth in December due to high LDR of 71.5% as of the end of September. This implies ICBC, CCB, ABC and BOC's full year new domestic loan amount at Rmb870bn, Rmb760bn, Rmb650bn and Rmb430bn respectively, with which ICBC, CCB, ABC saw 12-13% domestic loan growth while BOC's domestic loan growth was only 8%.

Expect an acceleration of loan growth in 1Q13. According to our channel checks, the pace of loan growth in the first week of January maintained a good momentum, together with slightly better loan pricing than 4Q12. We expect to see a faster loan growth in 1Q13 on the back of resilient economic recovery in 2013. With lower LDR positions, we reiterate our preferential view in big banks including ICBC, CCB and ABC.

Risk factors. Acceleration of interest rate liberalization, sharp deterioration of asset quality and increasing competition from non-bank FIs.

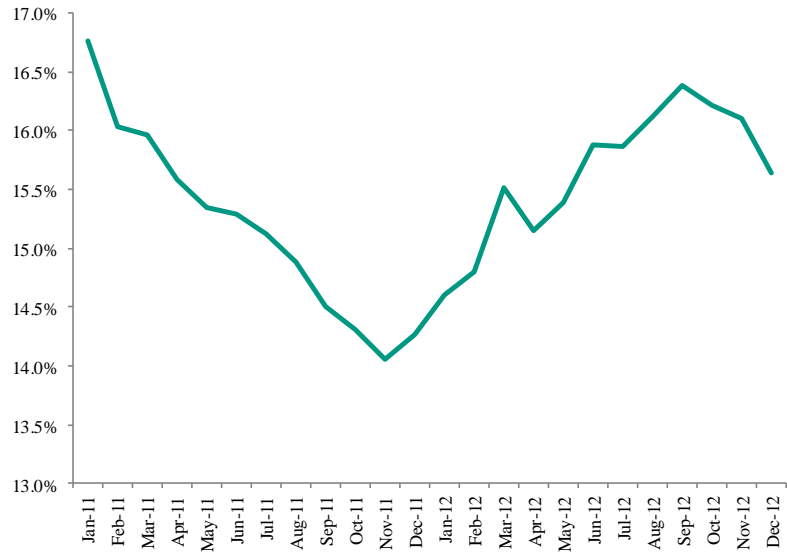
Sector Valuation Summary

Companies	Ticker	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	13E PER	13E PBV	13E Yield
CCB	939 HK	Buy	6.51	7.63	17.2	6.4	1.26	5.2
ICBC	1398 HK	Buy	5.75	6.14	6.8	6.6	1.29	4.2
ABC	1288 HK	Buy	3.99	4.23	6.0	6.5	1.23	4.5
MSB	1988 HK	Buy	9.63	10.10	4.9	5.8	1.23	4.4
BOC	3988 HK	Hold	3.65	3.63	(0.5)	6.5	0.94	5.3
BoCom	3328 HK	Hold	6.11	6.01	(1.6)	5.3	0.89	5.9
CMB	3968 HK	Hold	17.72	15.60	(12.0)	7.1	1.34	3.5
CITICB	998 HK	Hold	4.98	4.42	(11.2)	5.7	0.82	4.6

Source: Company, Bloomberg, ABCI Securities estimates

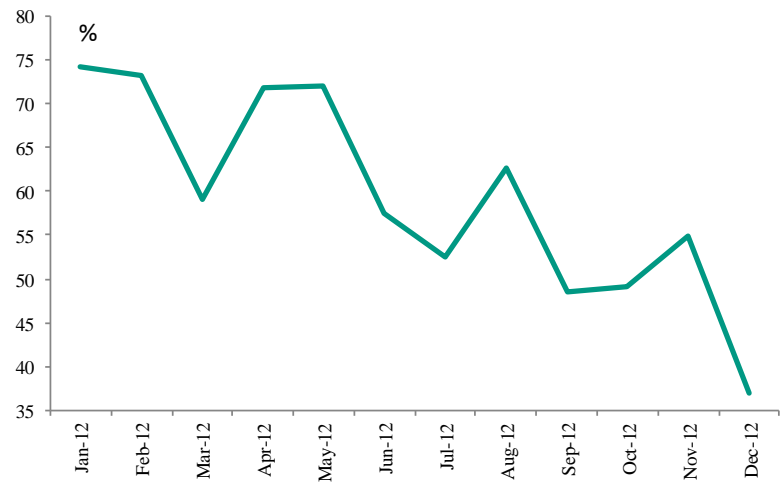


Exhibit 1: China YoY system loan growth



Source: PBOC, ABCI Securities estimates

Exhibit 2: Bank loans as percentage to aggregate financing of the economy



Source: PBOC, 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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