



March 25, 2015
Equity Focus
Rating: BUY
TP: HK\$ 5.09

H-Share price (HK\$) 3.80
Est. share price return 33.9%
Est. 2014 div. yield 5.9%
Est. total return 39.8%

Previous Rating & TP BUY; HK\$ 5.09
Previous Report Date Mar 5, 2015

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Key Data

52Wk H/L(HK\$)	4.10/3.14
Issued shares (mn)	324,794
H-Shares (mn)	30,739
A-Shares (mn)	294,055
Market cap	
H-shares (HK\$ mn)	116,808
A-Shares (HK\$ mn)	1,370,300
3-mth avg daily turnover (HK\$ mn)	521.57
Major shareholder(s) (%):	
Huijin	40.28

Source(s): Company, Bloomberg, ABCI Securities

2014 revenue breakdown (%)

Corporate banking	53.6
Retail banking	36.2
Treasury operations	8.7
Others	1.5

Source(s): Company, ABCI Securities

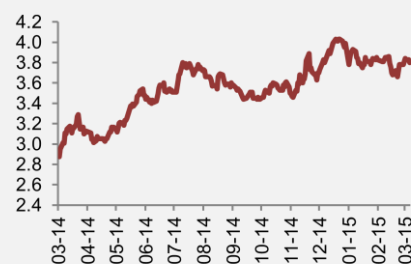
Share performance (%)

	Absolute	Relative*
1-mth	(0.8)	1.0
3-mth	-	(4.3)
6-mth	7.6	5.2

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

ABC (1288 HK)

County business to support NIM; reiterate BUY

- ABC's 2014 net profit grew 7.9% yoy, broadly in line with consensus; major variances to our forecasts came from larger provision made in 4Q14
- NIM expanded 13bps yoy to 2.92%, thanks to ABC's high loan-deposit spread from its county business and improved interbank asset-liability spread
- New NPL was mainly from manufacturing and wholesale & retail sectors in eastern China; we believe asset quality will remain manageable in 2015 under the "new normal" economy in China
- The Group will sustain CAR mainly through organic growth. Although payout ratio fell slight to 33.1% for 2014, we believe dividend yield will remain promising. The counter is trading at 0.9x 15E P/B. Reiterate BUY

2014 net profit broadly in line with consensus. ABC's 2014 net profit was reported at RMB 179,461mn, up 7.9% yoy, broadly in line with consensus (RMB 184,381mn). NII and operating income grew by 14.3% and 12.5% yoy. Variances to our forecasts mainly came from larger-than-expected impairment losses in 4Q14.

County business supports NIM. ABC's county business plays a critical role in supporting the Group's NIM that expanded by 13bps yoy to 2.92% in 2014. The loan-deposit spread (LDS) for its county business was 477bps, 56bps above the Group's LDS and was up 1bp yoy compared to the 4bps yoy reduction in the Group's LDS. Meanwhile, solid expansion of the interbank asset-liability spread also added support to ABC's NIM that grew 108bps yoy to 182bps in 2014. Yet, with the deferred impact from previous rate cuts, we expect a mild NIM squeeze in 2015.

A stable asset quality outlook for 2015. NPL ratio was 1.54% as of Dec 2014, up 32bps yoy; much of the rise occurred in 4Q14 (up 25bps qoq). Overall asset quality is still solid except for manufacturing and wholesale & retail sectors, where NPL ratios increased from 2.86% and 2.36% in 2013 to 3.69% and 5.93% in 2014. Geographically, new NPL mainly arose from eastern China, with YRD, PRD and Bohai Rim jointly accounting for 57.5% of total new NPL while western China took up 29.1%. Management believes an NPL ratio at 2%-3% is acceptable under "new normal" economy in China. We forecast asset quality to remain manageable in 2015.

Dividend yield is still promising; reiterate BUY. Management said the Group would sustain its CAR position with organic growth before considering the issuance of preference shares and subordinated debts. Dividend payout ratio therefore slightly fell from 35% in 2013 to 33.1% in 2014. Management said ordinary share DPS would not be reduced in the future despite distribution of preference share dividends. The counter is currently trading at 0.9x 15E P/B and our TP implies a 33.9% upside. Reiterate BUY.

Risk factors: 1) Faster-than-expected liberalization of interest rate; 2) Increasing competition from non-bank financial institutions; 3) Sharp asset quality deterioration and weak loan demand; 4) New regulations affecting banks' operation and profitability.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Revenue (RMB mn)	424,964	465,771	524,126	575,536	634,629
Chg (% YoY)	11.9	9.6	12.5	9.8	10.3
Net profit (RMB mn)	145,094	166,315	179,461	216,157	234,898
Chg (% YoY)	19.0	14.6	7.9	20.4	8.7
EPS (RMB)	0.45	0.51	0.55	0.67	0.72
Chg (% YoY)	19.0	14.6	7.4	21.0	8.7
BVPS (RMB)	2.31	2.60	3.05	3.41	3.88
Chg (% YoY)	15.4	12.4	17.5	11.9	13.7
P/E (x)	6.86	5.98	5.57	4.60	4.24
P/B (x)	1.33	1.18	1.00	0.90	0.79
ROE (%)	20.74	20.88	19.57	20.81	19.84
ROA (%)	1.16	1.20	1.18	1.26	1.23
DPS(RMB)	0.16	0.18	0.18	0.23	0.25
Yield (%)	5.11	5.78	5.94	7.60	8.26

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Net interest income	341,879	376,202	429,891	462,426	510,286
Non-interest income	83,085	89,569	94,235	113,110	124,344
Of which: fees and commissions	74,844	83,171	80,123	104,204	114,340
Operating income	424,964	465,771	524,126	575,536	634,629
Operating expenses	(167,306)	(181,146)	(223,898)	(226,013)	(250,968)
Amortization	(15,496)	(17,461)	(19,328)	(22,296)	(25,194)
Pre-prov. operating profits	242,162	267,164	280,900	327,228	358,467
Impairment loans losses	(54,235)	(52,990)	(67,971)	(46,667)	(53,585)
Profit before tax	187,927	214,174	232,257	280,560	304,882
Tax	(42,796)	(47,963)	(52,747)	(64,529)	(70,123)
Minority interests	(37)	104	(49)	126	138
Net profit	145,094	166,315	179,461	216,157	234,898
Growth (%)					
Net interest income	11.3	10.0	14.3	7.6	10.3
Non-interest income	14.5	7.8	5.2	20.0	9.9
Of which: fees and commissions	8.9	11.1	(3.7)	30.1	9.7
Operating income	11.9	9.6	12.5	9.8	10.3
Operating expenses	16.0	8.3	23.6	0.9	11.0
Amortization	18.0	12.7	10.7	15.4	13.0
Pre-prov. operating profits	8.9	10.3	5.1	16.5	9.5
Impairment loans losses	(15.6)	(2.3)	28.3	(31.3)	14.8
Profit before tax	18.8	14.0	8.4	20.8	8.7
Tax	18.1	12.1	10.0	22.3	8.7
Minority interests	27.6	(381.1)	(147.1)	(356.8)	10.0
Net profit	19.0	14.6	7.9	20.4	8.7
Per share data (RMB)					
EPS	0.45	0.51	0.55	0.67	0.72
BVPS	2.31	2.60	3.05	3.41	3.88
DPS	0.16	0.18	0.18	0.23	0.25
Key ratio (%)					
Net interest margin	2.81	2.79	2.92	2.77	2.75
Net interest spread	2.67	2.63	2.76	2.48	2.42
Cost to income ratio	39.37	36.30	34.56	39.27	39.55
Return on average assets	1.16	1.20	1.18	1.26	1.23
Return on average equity	20.74	20.88	19.57	20.81	19.84
Effective tax rate	23.00	23.00	22.71	23.00	23.00
Dividend payout	35.03	35.00	33.09	35.00	35.00

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Cash & cash equivalent	2,613,111	2,603,802	2,743,065	3,048,432	3,287,099
Dues from banks	1,300,233	1,443,385	1,489,285	1,911,626	2,208,091
Investment securities	2,851,448	3,220,098	3,575,630	3,906,938	4,266,369
Net loans and advances	6,153,411	6,902,522	7,739,996	8,694,037	9,743,734
Total interest earning assets	12,918,203	14,169,807	15,547,976	17,561,032	19,505,293
Property and equipment	141,490	150,859	154,950	172,718	172,718
Other non-interest earning assets	184,649	241,436	271,226	356,204	356,204
Total assets	13,244,342	14,562,102	15,974,152	18,089,955	20,034,216
Customer deposits	10,862,935	11,811,411	12,533,397	14,877,736	16,545,598
Due to banks	934,139	903,821	1,136,185	732,095	658,886
Subordinated debt	192,639	266,261	325,167	342,944	377,239
Total interest bearing liabilities.	11,989,713	12,981,493	13,994,749	15,952,776	17,581,722
Current taxes	40,419	44,263	41,338	53,558	53,558
Deferred tax liabilities	15	8	43	12	12
Other liabilities	462,841	691,801	905,403	973,425	1,137,240
Total liabilities	12,492,988	13,717,565	14,941,533	16,979,771	18,772,531
Share capital	324,794	324,794	324,794	324,794	324,794
Reserves	425,021	518,314	706,272	783,724	935,091
Minorities	1,539	1,429	1,553	1,667	1,800
Shareholder's equity	751,354	844,537	1,032,619	1,110,185	1,261,685
Growth (%)					
Cash & cash equivalent	5.1	(0.4)	5.3	11.1	7.8
Dues from banks	48.8	11.0	3.2	28.4	15.5
Investment securities	8.5	12.5	11.0	9.3	9.2
Net loans and advances	13.7	12.2	12.1	12.3	12.1
Total interest earning assets	13.3	9.6	9.7	12.9	11.1
Total assets	13.4	9.9	9.7	13.2	10.7
Customer deposits	12.9	8.7	6.1	18.7	11.2
Due to banks	29.0	(3.2)	25.7	(35.6)	(10.0)
Subordinated debt	61.4	38.2	22.1	5.5	10.0
Total interest bearing liabilities.	14.6	8.3	7.8	14.0	10.2
Total liabilities	13.3	9.8	8.9	13.6	10.6
Shareholder's equity	15.4	12.4	22.3	7.5	13.7
Key ratio (%)					
Loan to deposits	59.22	61.17	64.61	61.13	61.57
Core CAR	na	9.25	9.09	9.78	10.04
Total CAR	12.61	11.86	12.82	11.95	12.19
NPL ratio	1.33	1.20	1.54	1.27	1.30
NPL growth	-1.73	1.24	42.37	15.44	14.87
Net bad debt charge ratio	0.90	0.76	0.85	0.55	0.56
Provision to total loans	4.35	4.50	4.42	4.40	4.35
Provision coverage	326.14	370.71	286.53	346.66	334.20

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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