



February 13, 2014
Company Report
Rating: BUY
TP: HK\$ 4.21

H-Share price (HK\$)	3.55
Est. share price return	18.59%
Est. 14E dividend yield	4.58%
Est. total return	23.17%

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Key Data

52Wk H/L(HK\$)	3.64/3.38
Issued shares (mn)	11,050
H-Shares (mn)	3,163
Domestic (mn)	7,887
Market cap	
H-shares (HK\$ mn)	11,227
Domestic (HK\$ mn)	28,000
3-mth avg daily turnover (HK\$ mn)	75.39
Major shareholder(s) (%):	
China Vanke	8.0
Anhui Energy Group	7.4
Anhui Credit Guaranty Group	7.3
Anhui Guoyuan Holding	6.2

Source(s): Company, Bloomberg, ABCI Securities

1H13 Revenue breakdown (%)

Corporate banking	58.7
Retail banking	27.4
Treasury operations	12.6
Others	1.3

Source(s): Company, ABCI Securities

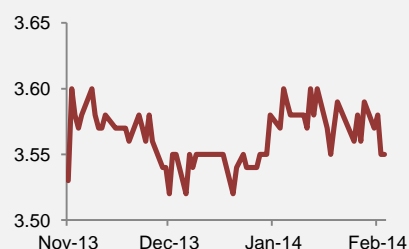
Share performance (%)

	Absolute	Relative*
1-mth	(1.39)	1.20
3-mth	(0.84)	2.84
6-mth	na	na

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Huishang Bank (HB, 3698 HK)

A major beneficiary of industry migration

We believe Anhui will continue to benefit strongly from industry migration from coastal area, which fosters economic growth and banking demand in the province. We are impressed by HB's leading profitability and excellent asset quality made possible by its established domestic network and local expertise. We forecast HB's NPL ratio will remain stable despite the higher provision for regulatory requirement. HB's NIM would be at 2.5%-2.6% in 2013E-15E, assuming its loan yield could sustain at 6.8%-6.9% with a 15%-18% yoy loan growth to offset pressure from deposit cost and a high mix of interbank funding. HB is currently trading at 0.82x 14E P/B. We initiate coverage on the bank with a **BUY** rating. Our TP of HK\$ 4.21 implies an upside of 18.59%.

Core region to benefit from industry migration. We believe Anhui in central China will continue to benefit strongly from ongoing industry migration. Anhui's GDP grew by 18.5% CAGR in 2007-12, above the national rate at 14.3% CAGR. Continuous growth will be supported by government's urbanization targets of 50% by 2015 (47% in 2012) and national level by 2020. Loan and deposit growth in Anhui in 2012 were 3-4ppt higher than the system rate.

Leading local player with high profitability. Leveraging on its geographical advantage, leading position in Anhui and a relatively simple business structure, HB achieved the highest ROA of 1.48% in 2012; its CIR was the second lowest at 29.5% after BoCQ in 1H13. We forecast its ROE to sustain at 1.3% over 2013E-15E.

Clean asset quality track record. Despite its focus on SME business, HB has been able to maintain an outstanding asset quality, as supported by the fact that no disposals of NPL were made prior to its IPO. Meanwhile, its NPL ratio further improved to 0.58% in Sep 2013 from 0.64% in June 2013. Although LGFV exposure accounted for 12.9% of its total loans in June 2013, 99.7% of them were under full cashflow coverage. We expect NPL ratio to reach 0.62% by 2015E, although HB will increase provision to fulfill CBRC's requirement.

Growth in SME to offset funding cost pressure. HB's overall loan yield would stabilize at 6.8%-6.9% in 2013E-15E. Combined with a 15-18% loan growth, NIM pressure from stiffening deposit competition and the high mix of interbank funding should be offset. We forecast HB's NIM to sustain at 2.5%-2.6% in 2013E-15E

Initiate with BUY. Trading at 0.82x 14E P/B, we believe the Group's current valuation, which is at a discount to the bigger banks, has fairly reflected HB's regional nature. We like HB for its geographical advantage and leading local position. Moreover, its share price has outperformed other H-share Chinese banks since its IPO. We initiate coverage on HB with a **BUY** recommendation; our TP of HK\$ 4.21 reflects 0.97x FY14E P/B and a 18.59% upside.

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	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	7,651	9,235	10,679	12,721	14,758
Chg (%.yoy)	22.0	20.7	15.6	19.1	16.0
Net profit (RMB mn)	3,493	4,306	4,912	5,812	6,680
Chg (%.yoy)	29.2	23.3	14.1	18.3	14.9
EPS (RMB)	0.43	0.53	0.58	0.53	0.60
Chg (%.yoy)	29.2	23.3	10.8	(9.9)	14.9
BVPS (RMB)	2.09	2.51	2.92	3.46	4.02
Chg (%.yoy)	19.0	19.9	16.6	18.4	16.3
P/E (x)	-	5.39	4.90	5.36	4.70
P/B (x)	-	1.13	0.97	0.82	0.71
ROE (%)	22.22	22.93	18.62	16.49	16.16
ROA (%)	1.51	1.48	1.32	1.29	1.31
DPS(RMB)	0.10	0.10	0.11	0.13	0.15
Yield (%)	-	3.52	3.87	4.58	4.63

Source(s): Bloomberg, ABCI Securities estimates



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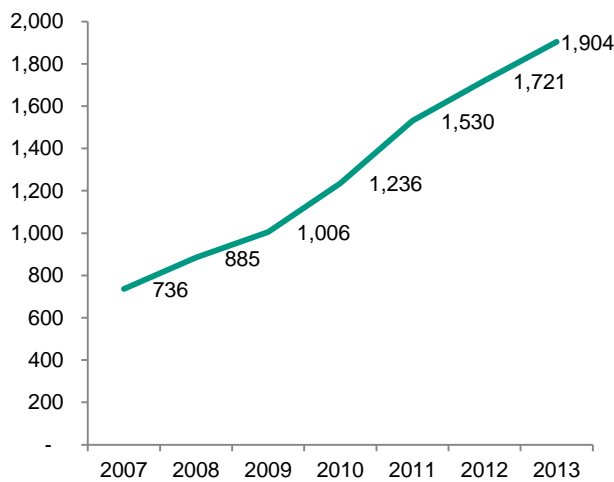
Anhui to benefit from industry migration

Fast economic growth driven by policy

Geographical location is the first and foremost important criterion in evaluating a district bank. Huishang Bank (HB). With its key business territory in Anhui province, HB has 193 outlets established in the region with only six of them locating in the none-core area in Nanjing.

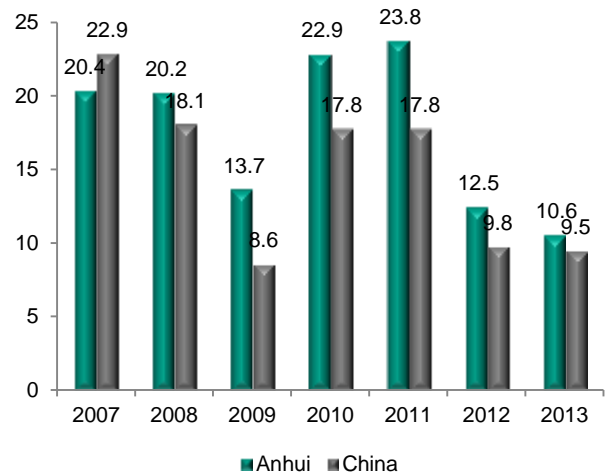
Anhui has been a fast-growing province with its GDP growing by a CAGR of 17.2% in 2007-13, above the national average at 14.1% CAGR. According to the Anhui Economic Work Conference in Dec 2012, Anhui's 2013 GDP target stated by Premier Li Keqiang was 10%, faster than the national GDP target of 7.5%. Since HB is the leading bank in the area, we believe it should benefit significantly from the ongoing industrialization and urbanization in the province.

Exhibit 1: Anhui's GDP (RMB bn)



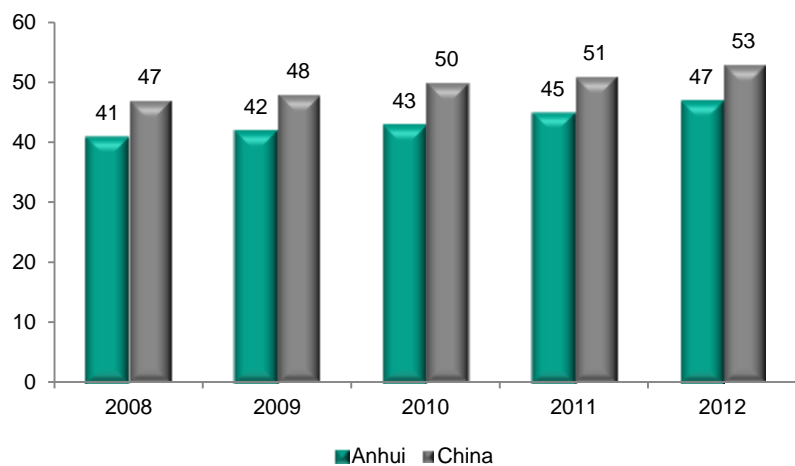
iiSource(s): Anhui Statistic Bureau, ABCI Securities

Exhibit 2: Nominal GDP growth in Anhui and China (yoy %)



Source(s): Anhui Statistic Bureau, ABCI Securities

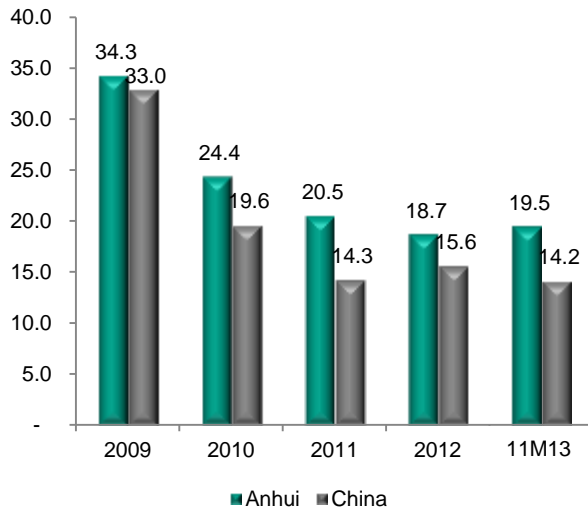
Exhibit 3: Urbanization rate in Anhui and China (%)



Source(s): Wind, ABCI Securities

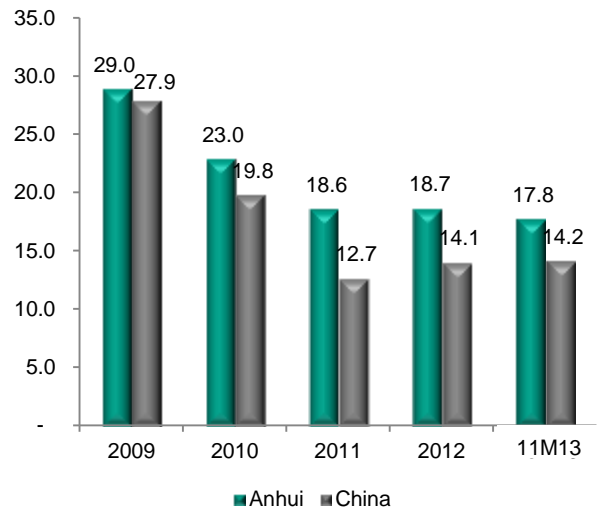
Among the six provinces including Hunan, Hubei, Jiangxi, Shanxi, Henan and Anhui, Anhui experienced the fastest GDP growth of over 2010-12 at 18% CAGR, versus the 13.6%-18% for the five remaining provinces. Being part of the "Rise of central China Plan", the Anhui government targets to achieve an urbanization rate of 50% by 2015 (47% in 2012) and one that is on par with the national level by 2020.

Exhibit 4: Loan growth in Anhui and China (yoy %)



Source(s): Wind, ABCI Securities

Exhibit 5: Deposit growth in Anhui and China (yoy %)



Source(s): Wind, ABCI Securities

Nevertheless, Anhui's loan penetration is still low at 97%, compared to the national level of 127%. Its loan and deposit growth, however, was 3ppt-4ppt higher than the systemic level. Going forward, we believe a low loan penetration and fast economic growth would accelerate the provincial loan and deposit growth, and demand for banking service will increase significantly.

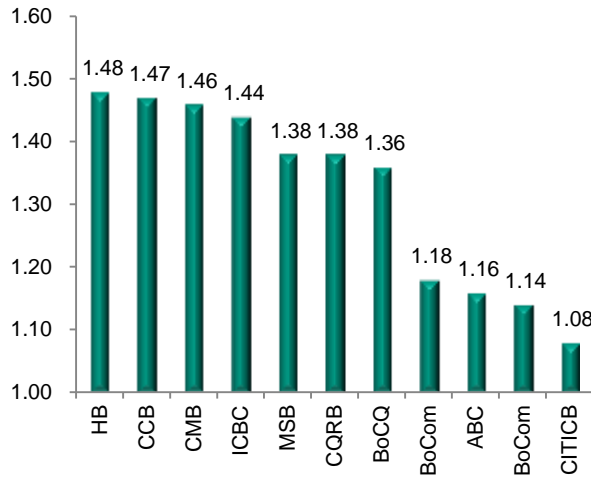
Geographical advantage arising from industry migration

With continuous increases in wealth along the coastal regions, labor cost and other production overheads have been rising significantly over the past decade. The government therefore has been encouraging enterprises to relocate their manufacturing plants to western and central China. Anhui province, with its close proximity to eastern China, therefore becomes one of the first relocation spots under the progressive migration to central and western China.

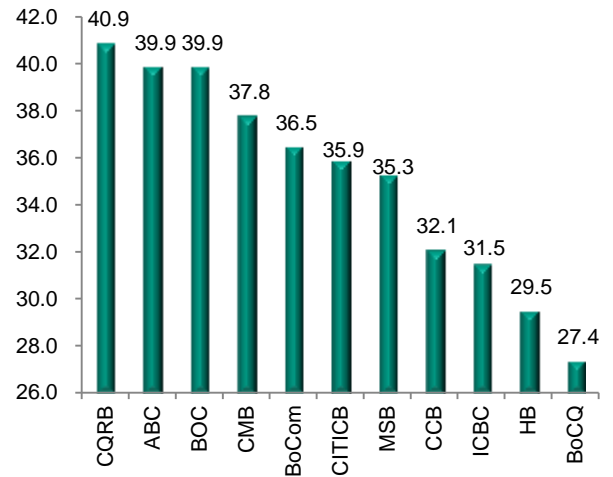
The Chinese government has introduced new initiatives such as a reformed tax regime to rebalance the national economy and reduce its reliance on eastern China. With the strengthening supply chain and the continuous industrial migration from Yangtze River Delta (YRD), Pearl River Delta (PRD) and Bohai Rim (BR), personal wealth growth in Anhui has grown rapidly over the past few years. Disposable income per capita among the urban population increased by a CAGR of 13.9% over 2005-12, higher than the national level of 12.9%.

High operating efficiency enhances profitability

High operating efficiency has been a typical characteristic of district banks. With a focused business strategy and regional exposure, HB achieved the highest ROA among other H-shares peers at 1.5% in 2012. Meanwhile, HB's cost-to-income ratio (CIR) was the second lowest among the H-share banks at 29.5% in 1H13, thanks to its relatively simple business structure and a relatively low labor cost in the region.

Exhibit 6: ROA of H-share banks in 2012 (%)


Source(s): Companies, ABCI Securities

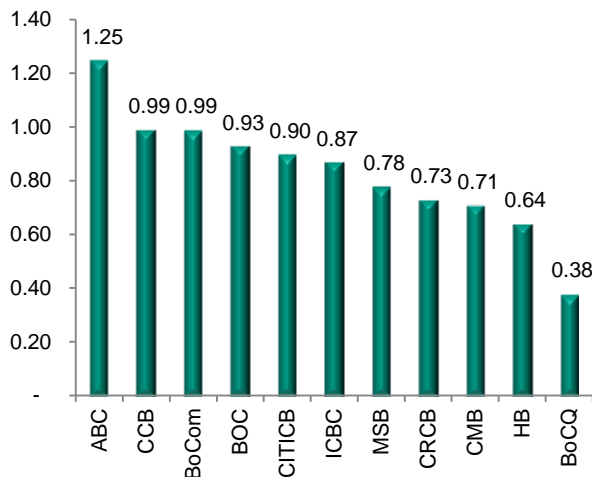
Exhibit 7: CIR of H-share bank in 1H13 (%)


Source(s): Companies, ABCI Securities

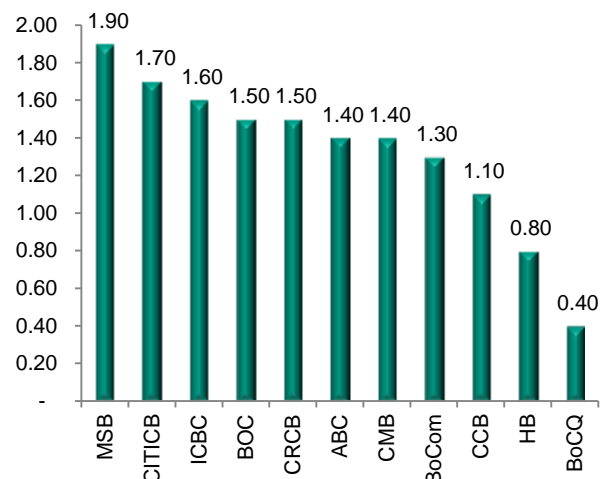
Sound risk management

A strong SME focus

Similar to other district banks, corporate banking has been an important business segment of HB, accounting for 62% of the bank's top-line revenue or 50% of profit before tax in 1H13. HB deliberately places its business focus on SMEs to tap on growing banking demand, avoid direct competition with big banks, and enjoy higher loan yields. Among HB's corporate loans, 75.3% was attributed to SMEs while 33.2% of retail loans were personal business loans.

Exhibit 8: NPL of H-share banks in 1H13 (%)


Source(s): Companies, ABCI Securities

Exhibit 9: Overdue in H-share banks in 1H13 (%)


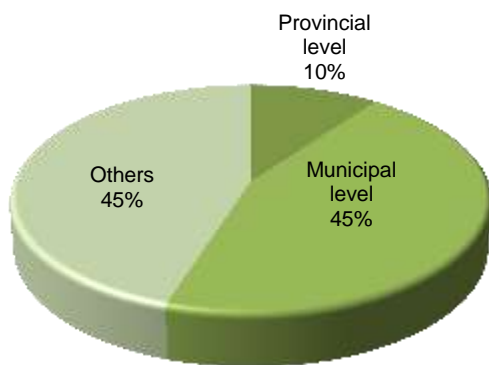
Source(s): Companies, ABCI Securities

Excellent asset quality

Despite the bank's high exposure to SMEs, HB's 1H13 NPL was only at 0.64%, the second lowest NPL ratio among H-share banks and was slightly higher than BoCQ (Bank of Chongqing, 1963 HK). The figure further improved to 0.58% in Sep 2013. While the NPL classification may vary among different banks, the overdue ratio of HB still ranked the second lowest among H-share banks at 0.8% in 1H13.

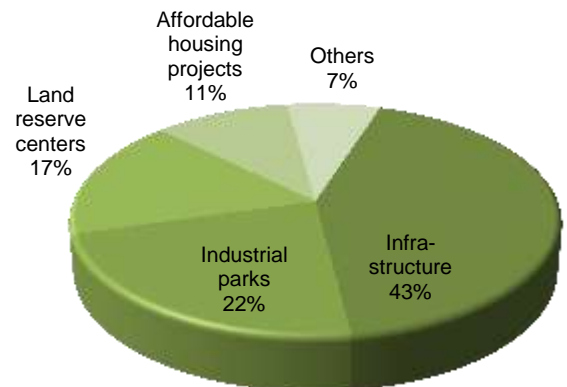
Furthermore, HB's LGFV exposure totaling RMB 24bn accounted for 12.9% of its total loan in June 2013, of which 99.7% of them were under full cashflow coverage. Among its exposure in LGFV, 55% was aggregated to provincial and municipal levels, while the rest was below the municipal level. By sector, about 43% could be attributed to infrastructure, 22% to industrial parks, 17% to land reserve centers, and 11% to affordable housing projects.

Exhibit 10: HB's LGFV by level



Source(s): Company, ABCI Securities

Exhibit 11: HB's LGFV by sector



Source(s): Company, ABCI Securities

Unlike the city commercial bank such as BoCQ or other banks prior to their IPOs, no significant disposals of bad debt portfolio were made by HB since numerous provincial FIs have been consolidated prior to its listing. This implies that risk management system of the bank has been prudent and we believe HB's asset quality would stay benign.

With HB's excellent asset quality and positive momentum in the provincial economy, we forecast its overall NPL ratio to rise gently in the next three years and reach 0.62% by 2015E. To fulfill CBRC's requirement in provision ratio, HB shall increase its credit cost gradually to 2.5% by 2015E. HB's provision coverage ratio should remain at the 400% level over 2013E-15E - a strong buffer against any major economic downturn in the region in our view.

SME focus to protect NIM

Corporate relationship crucial to defend NIM

With HB's 193 outlets in the province, HB had ~7,500 and 92,300 corporate loan and deposit customers as of June 2013, accounting for 10.4% of the market share for loans - the second largest among commercial banks in the province. Meanwhile, HB's established domestic relationship allows the bank to rank top in terms of corporate deposits for five consecutive years in 2008-12.

On the deposit side, 63.9% of HB's corporate deposits were demand deposits in June 2013, compared to an average of 55% among peers. About 46% of HB's retail deposits were demand deposits, compared to the peer average at ~40%. HB's deposit cost structure is therefore better than peers in our view.

HB has started its small business banking department back in 2005. SME loans accounted for 54% of total loans for HB, compared to the national average at 40%. In terms of loan pricing, HB is charging a premium no less than 20% above the benchmark rate for SME loans. As a result, its corporate loan yield hit 7.23% in 1H13, the highest among H-share banks.

Yet, competition in SME business will only intensify overtime, especially when mid-cap banks including Minsheng Bank (1988 HK, MSB) may expand to central China. Loan yield therefore would face a certain amount of downside pressure in the future, but we expect HB's overall loan yield to stabilize at 6.8-6.9% level in 2013E-15E.

We believe SME business will continue to be the major growth driver of district banks. District banks tend to have better domestic relationship and knowledge; they could react more swiftly to market changes and tailor their products to meet the needs of local customers. Regional SME business is often a small niche market in the eyes of the national banks and is therefore overlooked. As of Sep 2013, HB has 10 small-business branches and 43 small-business oriented sub-branches.

Third lowest retail deposit cost

On the retail side, HB has 7mn of customers as of June 2013, which was equivalent to 25% of Anhui's urban population. Among which, 165,500 were loan customers. About 46% of its retail deposits were demand deposits - a relatively high percentage in the sector, only next to ABC and CMB that are known for their strong retail franchises. HB therefore enjoyed the third lowest retail deposit cost in 1H13. With the expectation of increased deposit competition under interest rate deregulation, we expect HB's deposit cost to increase by 7-10bps each year in 2013-15E and reach 2.25% by 2015E.

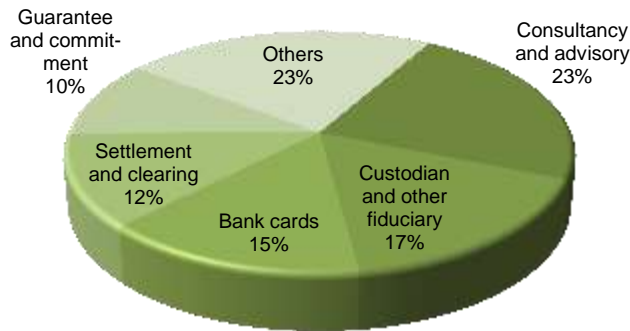
Stiffening deposit competition

HB's deposit growth has slowed to 5% in 1H13, compared to the 6%-16% growth among peers; demand deposits contributed 4ppt less hoh to the deposit mix in 1H13. This reflects the fact that a district bank like HB could be under enormous pressure of the stiff deposit competition. The bank's NIM narrowed (HB's funding cost rose by 3bps H-H in 1H13), yet we believe HB's strong domestic franchise, continuous improvement in balance sheet mix and stable loan pricing could help sustain the bank's NIM at 2.5%-2.6% over 2013E-15E.

Enhancing fee income base

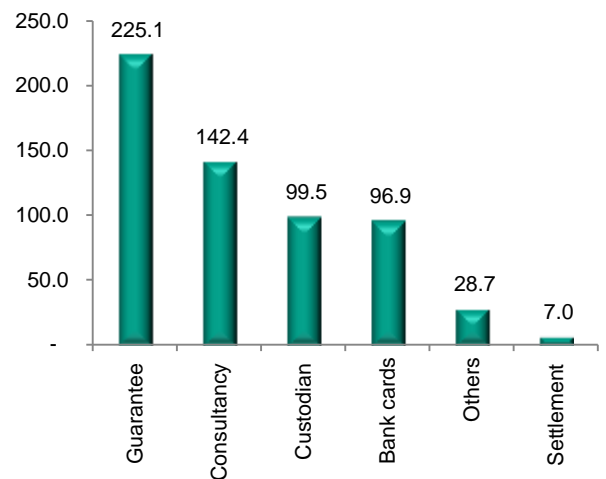
HB's fee income only accounted for 5.7% of HB's top-line revenue in 1H13, the second lowest among peers. HB only started to underwrite debt financing instruments for non-FIs in 2008 and received its license and launched its first credit card in 2009. It only started the derivatives trading business and RMB cross border settlement services in 2012. Despite its late start, HB's fee income grew rapidly in recent years - guarantee and commitment fee, consultancy and advisory fee, custodian and other fiduciary fee, and bank cards fee grew by 225.1%, 142.4%, 99.5% and 96.9%, respectively.

Exhibit 12: HB's fee income mix in 1H13



Source(s): Company, ABCI Securities

Exhibit 13: HB's fee income growth in 1H13 (yoy, %)



Source(s): Company, ABCI Securities

In terms of fee income mix, consultancy and advisory fee, custodian and other fiduciary fee, and bank cards fee accounted for 23%, 17% and 15%, respectively, in 1H13. We expect total net fee income to grow by 30-60% each year in 2013-15E and account for 7.5% of top-line revenue by 2015E.

Prudent liquidity management

Interbank assets and liabilities to total interest-earning assets and interest-bearing liabilities were 21% and 28% as of June 2013. However, HB's interbank balance duration were relatively long, hence the actual liquidity risk is lower than perceived. E.g., as at June 2013, only 1.5% and 0.2% of HB's interbank assets and liabilities were due immediately, the lowest and second lowest among peers.

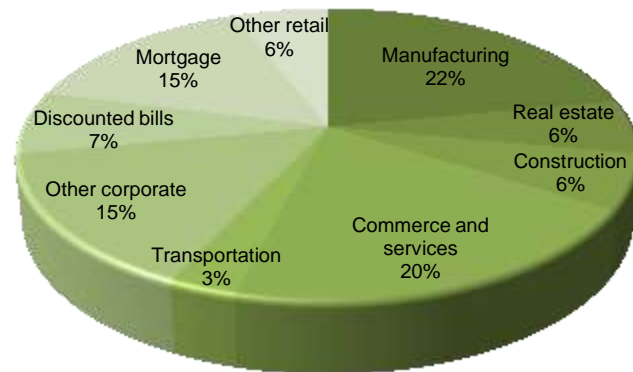
Heavy reliance on interbank balances is one of the main characteristics of district banks. Although this could result in more volatile funding yield as evidenced by HB's 1H13 result, HB's management has indicated their intention to reduce repo balance back to the 2012 level under the tightened regulatory requirements for interbank assets. In 3Q13, HB's interbank reverse repo balance fell 47.1% hoh.

Risk factors

Sustainability of asset quality

HB's dedication to SME business implies potential asset quality risk going forward - 54% of loans were allocated to riskier sectors such as manufacturing, commerce and services, and property-related ones in 2012. Although system new NPL in the past few quarters were mainly attributable to clients in coastal area, Anhui, locating next to eastern China, could be similarly impacted as well.

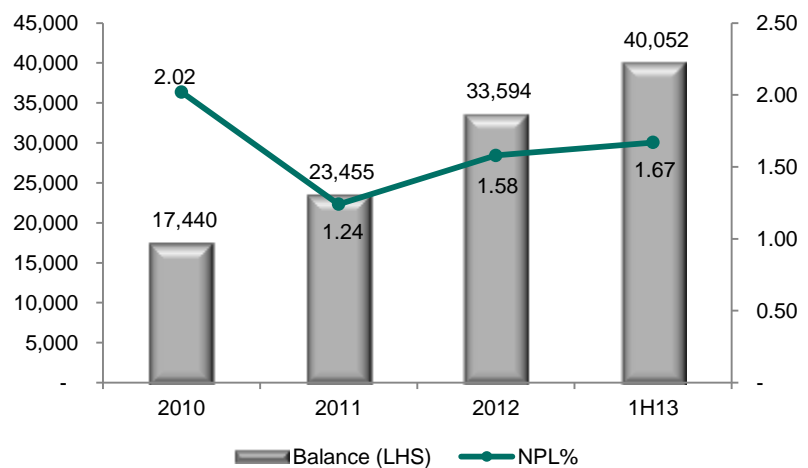
Exhibit 14: HB loan mix (2012)



Source(s): Company, ABCI Securities

Meanwhile HB's commerce and services loans grew rapidly over the past few years, expanding by 34% and 43% yoy in 2011 and 2012 and by another 19% hoh in 1H13. The rapid growth, however, also resulted in rising NPL whose ratio edged up from 1.24% in 2011 to 1.67% in June 2013 within the specific loan category. At the same time, HB's total overdue loan also rose by 57% hoh in 1H13.

Exhibit 15: HB commerce and services loan (RMB mn)



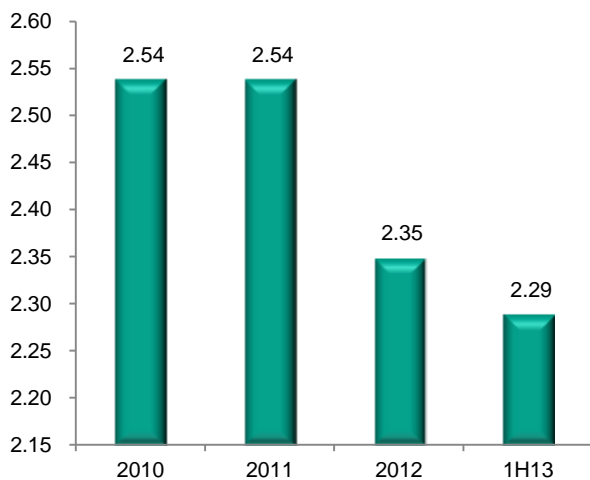
Source(s): Company, ABCI Securities

Nevertheless, we believe HB is following a stringent NPL classification standard, as hinted by its high NPL-to-overdue ratio of 81% in June 2013, comparable to 89% in CCB, which is known for its outstanding asset quality. Considering the national and provincial economic environment, we are confident that HB's NPL ratio should stay benign at 0.58%-0.62% over 2013E-15E, much lower than the systemic level of 1%.

Declining provisioning ratio since 2012

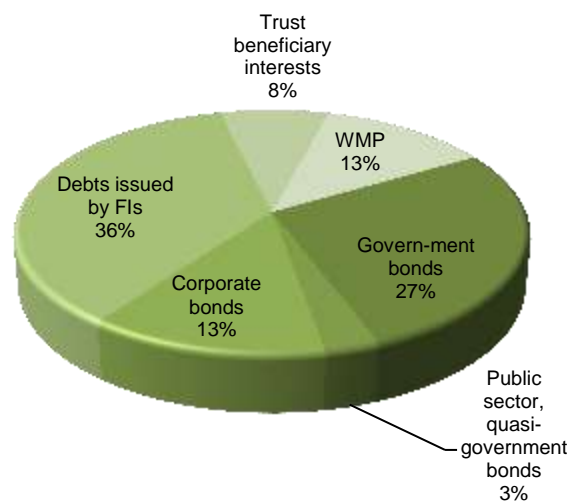
Although the CBRC requires banks to fulfill their provisioning ratio at 2.5% by 2016, HB's provisioning ratio has been declining since 2012 from 2.54% in 2011 to 2.29% in June 2013. Our base case scenario assumes that HB's provisioning ratio would increase from the current level to 2.5% by 2015E, equivalent to a 16%-36% yoy growth in loan loss provision in its P&L.

Exhibit 16: HB's provisioning ratio (%)



Source(s): Company, ABCI Securities

Exhibit 17: HB's investment portfolio (1H13)



Source(s): Company, ABCI Securities

Risk in investment portfolio

We consider 21% of HB's investment portfolio as high-risk investments, which include 8% of trust beneficiary interests and 13% of WMP issued by other FIs. Comparing the investment yields of HB and Chongqing Rural Commercial Bank (CQRB) in 1H13 (HB: 3.94%, CQRB: 5.85%), we estimate that the risk involved in HB should be much lower, as a riskier portfolio should entail a higher yield.

Valuation

In our base case scenario, we forecast HB's net profit to grow at 15.8% CAGR over 2012-15E, with its ROE at 16%-19%. We adopt the Gordon Growth Model ($P/B = (ROE-g)/(COE-g)$) to calculate the theoretical P/B of HB, which is a conventional method to value banks, and apply a discount factor of 15% for the smaller size and district-focus nature.

Our sustainable ROE of 16.4% reflects the simple average of ROE in 2010-15E, and a discretionary reduction of 1ppt is applied to reflect the intensified price competition. We assume a long-term growth of 6%, in line with other H-share Chinese banks in our coverage. The COE of 14.8% is calculated by a risk-free rate of 4%, a beta of 1.2 and an equity risk premium of 9%.

Currently HB is trading at 0.82x FY14E P/B, which we believe is at a discount to quality big banks whose average valuation is at 0.9x 14E P/B. This fairly reflects HB's nature as a district bank. We initiate coverage on HB with a **BUY**



recommendation. Our target price of HK\$ 4.21 implies 0.97x FY14E P/B and a 18.59% upside. HB's share price has stayed above its IPO price of HK\$ 3.53, outperforming the sector despite the flurry of negative news in Dec 2013 and Jan 2014. This reflects investors' confidence in HB as a quality district bank.

Exhibit 18: Valuation table of China's H-share banks

Name	BBG code	Market cap (US\$m)	Price		TP (HK\$)	Upside (%)	P/B (x)		P/E (x)		ROE (%)		Div yield (%)	
			(HK\$)	Rating			13E	14E	13E	14E	13E	14E	13E	14E
ICBC	1398 HK	204,073	4.82	BUY	6.91	43.36	1.04	0.91	4.94	4.59	21.5	21.2	6.74	7.52
CCB	939 HK	174,614	5.43	BUY	8.19	50.83	1.01	0.88	5.11	4.62	21.0	20.3	6.91	7.60
ABC	1288 HK	130,724	3.49	BUY	4.74	35.82	1.05	0.93	5.37	4.99	20.9	19.8	6.45	7.16
BOC	3988 HK	117,588	3.30	BUY	4.13	25.15	0.80	0.72	5.08	4.80	16.6	15.9	6.82	7.20
BoCom	3328 HK	48,097	5.09	BUY	6.60	29.67	0.71	0.63	4.85	4.38	15.4	15.2	5.16	5.65
CMB	3968 HK	44,262	14.36	BUY	17.80	23.96	1.04	0.89	5.25	4.63	21.5	20.7	5.75	6.44
MSB	1988 HK	34,827	7.94	BUY	11.94	50.38	0.91	0.77	4.10	3.78	22.9	20.8	4.09	4.57
CITICB	998 HK	31,501	4.02	HOLD	4.05	0.75	0.66	0.57	4.59	4.02	15.3	15.2	5.29	6.22
HB	3698 HK	5,058	3.55	BUY	4.21	18.59	0.97	0.82	4.90	5.36	18.6	16.5	3.87	4.58
BoCQ	1963 HK	1,702	4.88	BUY	5.72	17.21	0.80	0.66	3.49	3.87	21.5	18.6	5.38	6.40
Average						29.57	0.90	0.78	4.77	4.50	19.5	18.4	5.64	6.33

Source(s): Companies, Bloomberg, ABCI Securities estimates

Company background

HB was established in 2005 by merging Hefei City Commercial Bank with five other city commercial banks and seven city credit cooperatives in Anhui Province. It is the only city commercial bank headquartered in Anhui. The bank is the largest city commercial bank in the Anhui province in terms of total assets, loan and deposit in 2012, and is the fourth largest city commercial bank in China by total loan and deposit next to ICBC, CCB and ABC. The bank's 199 outlets are highly focused in Anhui, with only six of them operating in Nanjing. As a result, about 93.5% and 97.1% of loans and operating income were generated from Anhui in 2012.

Exhibit 19: Bank's market share in Anhui Province (2012)

RMB bn	Total assets		Loans		Deposits	
	Amount	Market share (%)	Amount	Market share (%)	Amount	Market share (%)
ICBC	329	18.7	216	21.3	320	20.2
HB	314	17.8	167	16.5	242	15.3
ABC	285	16.2	128	12.6	273	17.2
CCB	280	15.9	174	17.2	267	16.8
BOC	223	12.6	144	14.2	214	13.5
BoCom	131	7.4	72	7.1	122	7.7
CEB	51	2.9	27	2.7	34	2.2
CITICB	50	2.9	33	3.2	41	2.6
CMB	46	2.6	33	3.2	41	2.6

Source(s): Companies, PBOC, ABCI Securities

In 2007, HB increased its share capital to RMB 3.175bn by issuing bonus share of 0.5 shares for every 10 shares to existing shareholders and a private placement of 630mn of new shares at RMB 1.09/share to five shareholders (one existing and four new shareholders). In 2008, HB issued another 5bn of new shares at RMB 1.35/share to 25 parties (two existing and 23 new shareholders) and increased the total share capital to RMB 8.175bn.

The bank has a diversified shareholding structure with no dominant shareholder. After its IPO, stated-owned corporate shareholders hold a 45.4% stake, while private enterprises, individuals and H-share shareholders hold 26.5%, 2.1% and 26% stakes in HB. Major shareholders include China Vanke (8.0%), Anhui Energy Group (7.4%), Anhui Credit Guaranty Group (7.3%), Anhui Guoyuan Holding (6.2%), Anhui Highway Holding (4.5%), Zhongjiang Sihai Company (4%), Hefei Xingtai Holding (3.3%), Wuhu Construction Investment (2.6%), and CCB Trust (2%).



Exhibit 20: HB's NIM model in 2012-13E

RMB mn	Growth (%)	Balance	2012			2013E			Yield (%)	Interest inc/exp
			Average balance	Yield (%)	Interest inc/exp	Average balance	Yield (%)	Interest inc/exp		
Corporate loans	16.42	116,808				16.0	135,497			
Retail loans	14.58	35,080				15.0	40,342			
Discounted bills	84.32	11,907				40.0	16,670			
Total loans	19.20	163,795	149,322	7.16	10,697	17.53	192,509	178,152	6.90	12,292
L&R	(52.45)	1,814				500.0	10,885			
AFS	39.35	25,581				25.0	31,976			
HTM	26.49	26,063				15.0	29,972			
Held for trading	(28.54)	3,599				8.0	3,887			
Investment	19.33	57,056	54,536	4.08	2,225	34.46	76,720	66,888	3.80	2,542
Cash	3.26	57,649	42,616	1.52	647	20.0	69,179	63,414	1.54	977
Deposit with FIs	180.73	44,845	36,431	4.37	1,592	82.0	81,618	63,232	4.00	2,529
Total IEAs	25.80	323,346	282,905	5.36	15,161	29.90	420,026	371,686	4.93	18,340
Other assets	37.44	4,732				15.0	5,442			
Provision	10.41	(3,854)				14.90	(4,428)			
Total assets	26.17	324,224				29.86	421,040			
Deposits	17.67	239,543	205,210	1.98	4,061	17.0	280,265	259,904	2.05	5,328
Deposit with FIs	88.50	54,747	56,430	4.02	2,269	65.0	90,332	72,540	4.2	3,047
Bonds	0.01	3,992	3,992	6.55	262	110.0	8,383	6,187	5.9	365
Total ILBs	26.06	298,282	265,632	2.48	6,592	27.05	378,981	338,631	2.58	8,740
Other liabilities	66.32	5,462				79.00	9,777			
Total liabilities	26.61	303,743				27.99	388,757			
NIS				2.88					2.35	
NIM				3.03					2.58	

Source(s): Company, ABCI Securities estimates

Exhibit 21: HB's NIM model 2014E-15E

RMB mn	Growth (%)	Balance	2014E			2015E			Yield (%)	Interest inc/exp
			Average balance	Yield (%)	Interest inc/exp	Average balance	Yield (%)	Interest inc/exp		
Corporate loans	15.0	155,822				15.0	179,195			
Retail loans	14.0	45,990				13.0	51,969			
Discounted bills	30.0	21,671				25.0	27,088			
Total loans	16.09	223,482	207,996	6.85	14,248	15.56	258,252	240,867	6.90	16,620
L&R	5.0	11,429				5.0	12,001			
AFS	20.0	38,371				15.0	44,127			
HTM	15.0	34,468				12.0	38,604			
Held for trading	8.0	4,198				8.0	4,533			
Investment	15.31	88,466	82,593	3.85	3,180	12.21	99,265	93,865	3.90	3,661
Cash	12.0	77,481	73,330	1.54	1,129	8.0	83,679	80,580	1.54	1,241
Deposit with FIs	12.0	91,412	86,515	4.05	3,504	9.0	99,639	95,526	4.10	3,917
Total IEAs	14.48	480,841	450,434	4.90	22,061	12.48	540,836	510,839	4.98	25,438
Other assets	15.0	6,258				20.0	7,510			
Provision	21.14	(5,364)				20.37	(6,456)			
Total assets	14.42	481,736				12.49	541,889			
Deposits	15.0	322,305	301,285	2.15	6,478	13.0	364,205	343,255	2.25	7,723
Deposit with FIs	12.0	101,172	95,752	4.00	3,830	10.0	111,290	106,231	4.10	4,355
Bonds	5.0	8,802	8,592	5.95	511	5.0	9,242	9,022	6.15	555
Total ILBs	14.06	432,279	405,630	2.67	10,819	12.13	484,736	458,508	2.76	12,634
Other liabilities	14.98	11,242				13.17	12,722			
Total liabilities	14.09	443,521				12.16	497,459			
NIS				2.23					2.22	
NIM				2.50					2.51	

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Interest income	11,253	15,161	18,340	22,061	25,438
Interest expense	(4,164)	(6,592)	(8,740)	(10,819)	(12,634)
Net interest income	7,089	8,569	9,600	11,242	12,805
Net fee and commission	413	396	633	855	1,111
Other operating income	149	270	446	624	843
Operating income	7,651	9,235	10,679	12,721	14,758
Operating expenses	(2,500)	(3,132)	(3,633)	(4,287)	(5,059)
Impairment losses	(579)	(458)	(624)	(832)	(963)
Investment in associates	32	35	40	46	53
Profit before tax	4,604	5,680	6,463	7,648	8,789
Income tax expenses	(1,111)	(1,374)	(1,551)	(1,835)	(2,109)
Net profit	3,493	4,306	4,912	5,812	6,680
Growth (%)					
Interest income	36.3	34.7	21.0	20.3	15.3
Interest expense	86.0	58.3	32.6	23.8	16.8
Net interest income	17.8	20.9	12.0	17.1	13.9
Net fee and commission	64.3	(4.1)	60.0	35.0	30.0
Other operating income	6,408.2	80.9	65.0	40.0	35.0
Operating income	22.0	20.7	15.6	19.1	16.0
Operating expenses	13.5	25.3	16.0	18.0	18.0
Impairment losses	0.1	(20.9)	36.2	33.4	15.8
Investment in associates	136.2	10.4	15.0	15.0	15.0
Profit before tax	31.4	23.4	13.8	18.3	14.9
Income tax expenses	38.9	23.6	12.9	18.3	14.9
Net profit	29.2	23.3	14.1	18.3	14.9
Per share data					
BVPS	2.09	2.51	2.92	3.46	4.02
EPS	0.43	0.53	0.58	0.53	0.60
DPS	0.10	0.10	0.11	0.13	0.15
Key ratios (%)					
Net interest margin	3.17	3.03	2.58	2.50	2.51
Net interest spread	3.00	2.88	2.35	2.23	2.22
CIR	32.68	33.92	34.02	33.70	34.28
Net fee to topline	5.39	4.29	5.93	6.72	7.53
Credit cost	0.31	0.34	0.35	0.40	0.40
ROA	1.52	1.50	1.33	1.30	1.32
ROE	22.22	22.93	18.62	16.49	16.16
Dividend payout	23.41	18.98	25.00	25.00	25.00
Core CAR	10.87	10.30	13.11	13.47	13.86
Total CAR	14.68	13.54	15.42	15.73	15.98
LDR	67.50	68.38	68.69	69.34	70.91
Provision coverage	526.70	537.70	396.55	400.00	403.23
Provisioning ratio	2.54	2.35	2.30	2.40	2.50
NPL ratio	0.48	0.58	0.58	0.60	0.62
Effective tax rate	24.13	24.18	24.00	24.00	24.00

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Cash and bank	55,829	57,649	69,179	77,481	83,679
Due from bank and FIs	15,975	44,845	81,618	91,412	99,639
Total loans	137,413	163,795	192,509	223,482	258,252
- loan provision	(3,490)	(3,854)	(4,428)	(5,364)	(6,456)
Net loans	133,923	159,941	188,081	218,119	251,796
Investment securities	42,777	53,458	72,833	84,268	94,732
- L&R	3,815	1,814	10,885	11,429	12,001
- AFS	18,357	25,581	31,976	38,371	44,127
- HTM	20,605	26,063	29,972	34,468	38,604
- Held for trading	5,036	3,599	3,887	4,198	4,533
Total IEA	253,539	319,492	415,598	475,478	534,379
Other assets	3,443	4,732	5,442	6,258	7,510
Total assets	256,982	324,224	421,040	481,736	541,889
Customer deposits	203,580	239,543	280,265	322,305	364,205
Due to bank and FIs	29,043	54,747	90,332	101,172	111,290
Subordinated debt	3,991	3,992	8,383	8,802	9,242
Total IBL	236,614	298,282	378,981	432,279	484,736
Other liabilities	3,284	5,462	9,777	11,242	12,722
Total liabilities	239,898	303,743	388,757	443,521	497,459
Net assets	17,084	20,481	32,283	38,215	44,431
Share capital	8,175	8,175	11,050	11,050	11,050
Retained earnings	4,550	7,064	10,748	15,107	20,117
Reserves	4,358	5,242	10,485	12,058	13,264
Total equity	17,084	20,481	32,283	38,215	44,431
Growth (%)					
Cash and bank	61.4	3.3	20.0	12.0	8.0
Due from bank and FIs	20.3	180.7	82.0	12.0	9.0
Total loans	17.4	19.2	17.5	16.1	15.6
- loan provision	17.3	10.4	14.9	21.1	20.4
Net loans	17.4	19.4	17.6	16.0	15.4
Investment securities	16.8	19.3	34.5	15.3	12.2
- L&R	(44.6)	(52.4)	500.0	5.0	5.0
- AFS	(12.0)	39.4	25.0	20.0	15.0
- HTM	56.2	26.5	15.0	15.0	12.0
- Held for trading	na	(28.5)	8.0	8.0	8.0
Total IEA	25.0	26.0	30.1	14.4	12.4
Other assets	1.3	37.4	15.0	15.0	20.0
Total assets	24.6	26.2	29.9	14.4	12.5
Customer deposits	27.6	17.7	17.0	15.0	13.0
Due to bank and FIs	(8.9)	88.5	65.0	12.0	10.0
Subordinated debt	na	0.0	110.0	5.0	5.0
Total IBL	23.6	26.1	27.1	14.1	12.1
Other liabilities	4.1	66.3	79.0	15.0	13.2
Total liabilities	23.3	26.6	28.0	14.1	12.2
Net assets	46.8	19.9	57.6	18.4	16.3
Share capital	0.0	0.0	35.2	0.0	0.0
Retained earnings	68.9	55.2	52.1	40.6	33.2
Reserves	25.0	20.3	100.0	15.0	10.0
Total equity	19.0	19.9	57.6	18.4	16.3

Source(s): Company, ABCI Securities estimates



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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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