



Key Data

Average PER (x)	5.9
Average PBV (x)	1.1
Average Dividend Yield (%)	5.0
Sector 3 months avg vol (HK\$m)	5,237

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 3Q12 (%)

Net interest income	80.5
Non-interest income	19.5

Source: CBRC

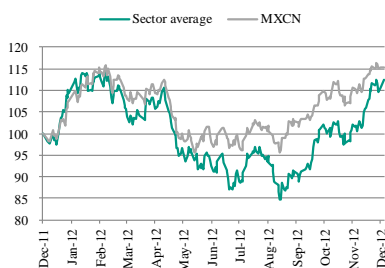
Share performance (%)

	Absolute	Relative*
1-mth	10.7	5.9
3-mth	26.5	11.3
6-mth	23.2	4.0

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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China Bank Sector – Neutral
Diversified Banks Industry

LDR requirements put pressure on profit growth

The survey by the China Banking Association (CBA) and PricewaterhouseCoopers China (PwC) concurred with our view that China's economy has bottomed out in 3Q12 and the pace of interest rate liberalization will accelerate. The current LDR requirements lead to deposit fight, which may decelerate banks' profit growth to below 20%. Bankers hence desire higher flexibility in LDR requirements. We reiterate our Neutral rating on the sector and favor big banks.

More flexibility in LDR requirements. The CBA and PwC conducted a survey among 850 Chinese bankers. They generally expect interest rate liberalization to accelerate in the next 3-5 years. 57% of bankers believe that the relaxation of deposit rate floating range is negative to banks, which indicates the escalation of deposit cost flight under the current LDR requirements. 58% of bankers believe that lowering loan rate limit is relatively neutral to banks as huge loan demand lowers loan rate competition. In general, bankers desire larger flexibility in LDR requirements so as to maintain the profit growth.

Sound business confidence remains intact. Over 60% of bankers view that China's economy has been bottomed out in 3Q12 and 85% of bankers express their support to economic restructuring through more lending in innovative industries including energy-saving and environmental protection, high-end equipment manufacturing and new energy. Nevertheless, despite more than half of survey respondents expect NPL ratio to stay below 1% in the next three years, 68% and 60% of respondents stay cautious in property sector and local government financing platform (LGFP) respectively.

Deceleration of profit growth. 70% of bankers expect that the profit growth in the next three years will inevitably decelerate to below 20% YoY in light of higher level of price competition from interest rate liberalization. Scale enlargement as a result will be the main growth driver of China banks with which big banks have a competitive advantage over small banks. We reiterate our Neutral rating on the sector and favor big banks including ICBC (1398 HK), CCB (939 HK) and ABC (1288 HK).

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	6.23	7.63	22.5	6.1	1.20	5.4
ICBC	1398 HK	Buy	5.54	6.14	10.8	6.3	1.24	4.3
ABC	1288 HK	Buy	3.83	4.23	10.4	6.3	1.18	4.7
MSB	1988 HK	Buy	8.74	10.10	15.6	5.3	1.11	4.8
BOC	3988 HK	Hold	3.44	3.63	5.5	6.1	0.88	5.6
BoCom	3328 HK	Hold	5.76	6.01	4.3	5.0	0.84	6.3
CMB	3968 HK	Hold	16.90	15.60	(7.7)	6.8	1.28	3.7
CNCB	998 HK	Hold	4.53	4.42	(2.4)	5.2	0.74	5.0

Source: Company, Bloomberg, ABCI Securities estimates

Disclosures

Analyst Certification

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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 2007-2011

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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