

Key Data

Average PER (x)	5.7
Average PBV (x)	1.1
Average Dividend Yield (%)	5.1
Sector 3 months avg vol (HK\$m)	4,787

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 1H12 (%)

Net interest income	79.5
Non-interest income	20.5

Source: CBRC

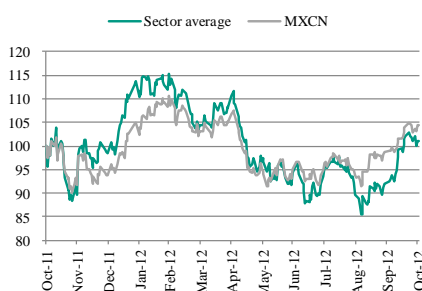
Share performance (%)

	Absolute	Relative*
1-mth	9.8	3.9
3-mth	5.8	(2.5)
6-mth	(8.8)	(6.8)

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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China Bank Sector – Neutral Diversified Banks Industry

Key messages from 3Q12 results

No sharp asset quality deterioration has been seen in 3Q12, and proactive risk measures adopted by banks will further manage the trend in coming quarters. These include both stricter risk classifications and shorter loan durations. NIM should see further narrowing from loan re-pricing. Meanwhile bank will put more effort on fee income to offset unfavorable NIM trend. We prefer big banks for more extensive fee types.

Balancing profit and risk. Although a majority of banks showed increment in NPL balance and NPL ratio from their 3Q12 results, most banks had lower provisions in 3Q12. We believe rising NPLs were mainly due to stricter risk management rather than massive asset quality worsening. Banks' general tones on no massive deterioration in asset quality were similar to those in 1H12. As banks were looking to better monitor credit risk without sacrificing higher yield small business loans, loan growth in 3Q12 were mainly driven by corporate lending with shorter durations.

NIM to further narrow. Big banks' NIM outperformed in 3Q12 for better funding cost control and higher loan pricing power, with 3-7bps expansion Q-Q but small banks have NIM contraction by 9-15bps Q-Q. Small banks suffered from increasing time deposit portion and lower loan pricing power. We estimate that 70-80% of deposits and 40-50% of loans had been re-priced in 3Q12, pointing to a steady NIM squeeze for the sector in coming quarters. Despite small banks were hit harder from interest rate liberalization, our channel check confirmed that big banks have started to offer over 10% discount on benchmark loan rates in 4Q12.

Focus on fee income. We believe slow 3Q12 fee income growth was mainly due to slow trade volume and weak capital market atmosphere which reduced fee income arising from trade-related and wealth management products. With stabilizing macro environment and unfavorable NIM outlook, we expect banks to focus more on their fee income growth in 4Q12. Big banks are better positioned in this battle with more extensive fee types.

Risk factors. Prolonged slowdown of China economy, acceleration of interest rate liberalization and sharp deterioration of asset quality.

Sector Valuation Summary

Companies	Ticker	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	12E PER	12E PBV	12E Yield
CCB	939 HK	Buy	5.89	6.30	7.0	6.4	1.3	5.5
ABC	1288 HK	Buy	3.40	3.45	1.5	6.2	1.2	4.9
MSB	1988 HK	Buy	7.22	7.66	6.1	4.8	1.0	5.3
ICBC	1398 HK	Hold	5.20	4.44	(14.6)	6.7	1.4	4.4
BOC	3988 HK	Hold	3.21	2.94	(8.4)	5.6	0.9	5.6
BoCom	3328 HK	Hold	5.63	5.13	(8.9)	5.3	0.9	5.8
CMB	3968 HK	Hold	14.54	13.47	(7.4)	6.2	1.3	4.0
CNCB	998 HK	Hold	4.05	3.61	(10.9)	4.4	0.8	5.6

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: 3Q12 major indicators summary

(%)	ICBC	CCB	ABC	BOC	BoCom	MSB	CMB	CNCB
Profitability								
NIM	2.69	2.80	2.76	2.16	2.58	2.84	2.90	2.68
NIM Q-Q (bps)	4	3	3	7	(4)	(15)	(11)	(9)
CIR	26.5	33.2	34.7	30.5	28.2	31.8	33.0	33.8
ROE	23.9	24.2	23.0	18.7	18.6	26.3	24.5	19.7
Growth								
Net profit Q-Q	1.0	(5.2)	6.9	(0.2)	(11.7)	(1.3)	(2.7)	(27.4)
Net profit 9M12 Y-Y	13.3	13.8	19.2	10.4	15.9	34.7	22.6	12.4
Loan Q-Q	2.6	2.9	2.6	2.4	2.2	3.3	2.9	4.1
Deposit Q-Q	3.4	1.1	1.8	(1.5)	1.3	2.3	(1.8)	2.2
Assets quality								
NPL ratio	0.87	1.00	1.34	0.93	0.87	0.72	0.59	0.60
NPL ratio Q-Q (bps)	(2.0)	0.0	(5.0)	(1.0)	5.0	3.0	3.0	(1.0)
NPL balance Q-Q	(0.5)	3.6	(0.7)	0.8	8.7	7.6	10.2	2.3
NPL coverage	288.3	262.9	311.2	237.2	263.3	339.2	377.4	305.5
Loan impairment Q-Q	(36)	4	(10)	17	(0)	(25)	(38)	1,754

Source: Companies, 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 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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