



March 27, 2015
Equity Focus
Rating: BUY
TP: HK\$ 4.19

H-Share price (HK\$) 3.43
Est. share price return 22.16%
Est. 14E dividend yield 5.79%
Est. total return 27.95%

Previous Rating & TP BUY; HK\$ 4.19
Previous Report Date Mar 5, 2015

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Key Data

52Wk H/L(HK\$)	3.60/3.18
Issued shares (mn)	11,050
H-Shares (mn)	3,163
Domestic (mn)	7,887
Market cap	
H-shares (HK\$ mn)	10,847
Domestic (HK\$ mn)	27,054
3-mth avg daily turnover (HK\$ mn)	5.89
Major shareholder(s) (%):	
China Vanke	8.0

Source(s): Company, Bloomberg, ABCI Securities

2014 PBT breakdown (%)

Corporate banking	40.82
Retail banking	21.99
Treasury operations	34.34
Others	2.85

Source(s): Company, ABCI Securities

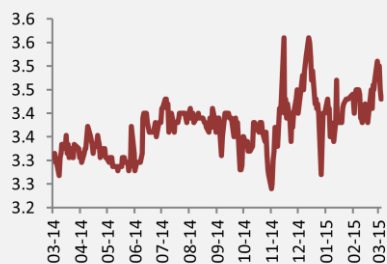
Share performance (%)

	Absolute	Relative*
1-mth	0.9	2.1
3-mth	0.9	(3.8)
6-mth	1.2	(2.2)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

Huishang Bank (3698 HK)

BUY on improving business mix and rapid fee growth

- Huishang Bank's FY14 net profit exceeded consensus and our forecast by 5% and 8% to grow 15.24% yoy. NIM expanded 11bps yoy to 2.74%
- Net fee income grew yoy 56.68% in 2014, mainly driven by the 239% yoy expansion in custodian fees after the bank obtained its custodian qualification last year. Management expects fee growth to sustain in 2015
- Despite NPL ratio rose 29bps yoy to 0.83% in 2014, increasing exposure in retail business should lower asset quality risk
- Continue business restructuring should help sustain HB's earnings momentum. The counter is trading at 0.7x 15E P/B; reiterate **BUY**

2014 net profit beat consensus. Huishang Bank (HB) reported its 2014 net profit at RMB 5,676mn, up 15.24% yoy, exceeding our consensus and forecast by 5% and 8%. NIM rose 11bps yoy to 2.74%, supported by outstanding asset yields. Yields of loans, investments and interbank assets rose 20bps, 67bps and 95bps yoy, respectively, whereas overall funding cost increased by 33bps yoy.

Rapid fee growth momentum. Nil growth was strong at 18.95% yoy while net fee income surged by 58.68% yoy in 2014, higher than our expected growth at 45% yoy. HB 's effort to reduce reliance on traditional credit business was reflected by the increased contribution of non-interest income to operating income from 5.6% in 2013 to 10.4% in 2014. The rise in non-interest income was mainly driven by the 239% yoy expansion in custodian fees enabled by the custodian qualification granted in 2014. Management expects fee growth to sustain in 2015, with fee sources from custodian, consultancy & advisory, and settlement & clearing as core drivers.

Asset quality protected by a higher retail mix. Despite NPL ratio rose 29bps yoy, its current level at 0.83% is still much lower than the system average, reflecting HB's prudent risk management. In 2014, HB increased its NPL handling effort and wrote off a total of RMB 488mn. Its increasing exposure in retail business should also help to offset the higher asset quality risk entailed in corporate portfolio. Although we believe asset quality would be manageable, the Group's provision ratio at 2.13% may indicate higher impairment allowance in coming quarters.

BUY on sustainable growth. Under the "new normal" of China's economy, city commercial banks will experience slower earnings growth. HB's continuous business restructuring and increasing fee income, however, should help support its growth momentum. The counter is trading at 0.7x 15E P/B; reiterate **BUY**.

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	2012A	2013A	2014A	2015E	2016E
Revenue (RMB mn)	9,235	10,173	12,748	13,026	14,408
Chg (% YoY)	20.7	10.2	25.3	2.2	10.6
Net profit (RMB mn)	4,306	4,926	5,676	5,807	6,244
Chg (% YoY)	23.3	14.4	15.2	2.3	7.5
EPS (RMB)	0.53	0.58	0.51	0.53	0.57
Chg (% YoY)	23.3	10.1	-12.1	3.0	7.5
BVPS (RMB)	2.51	2.86	3.29	3.90	4.44
Chg (% YoY)	19.9	14.2	15.0	18.4	14.0
P/E (x)	5.21	4.73	5.38	5.22	4.86
P/B (x)	1.10	0.96	0.83	0.70	0.62
ROE (%)	22.93	18.89	16.68	14.44	13.56
ROA (%)	1.48	1.39	1.31	1.25	1.20
DPS(RMB)	0.10	0.16	0.16	0.14	0.16
Yield (%)	3.64	5.69	5.79	4.98	5.77

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	8,569	9,602	11,423	11,872	12,850
Net fee and commission	396	540	856	1,095	1,479
Operating income	9,235	10,173	12,748	13,026	14,408
Operating expenses	(3,132)	(3,386)	(4,217)	(4,479)	(5,150)
Impairment losses	(458)	(435)	(1,197)	(970)	(1,114)
Investment in associates	35	48	76	64	73
Profit before tax	5,680	6,399	7,411	7,640	8,216
Income tax expenses	(1,374)	(1,473)	(1,734)	(1,834)	(1,972)
Net profit	4,306	4,926	5,676	5,807	6,244
Growth (%)					
Net interest income	20.9	12.1	19.0	3.9	8.2
Net fee and commission	(4.1)	36.3	58.7	27.9	35.0
Operating income	20.7	10.2	25.3	2.2	10.6
Operating expenses	25.3	8.1	24.5	6.2	15.0
Impairment losses	(20.9)	(4.9)	175.0	(18.9)	14.8
Investment in associates	10.4	37.0	59.0	(16.8)	15.0
Profit before tax	23.4	12.7	15.8	3.1	7.5
Income tax expenses	23.6	7.2	17.7	5.7	7.5
Net profit	23.3	14.4	15.2	2.3	7.5
Per share data					
EPS	0.53	0.58	0.51	0.53	0.57
BVPS	2.51	2.86	3.29	3.90	4.44
DPS	0.10	0.16	0.16	0.14	0.16
Key ratios (%)					
Net interest margin	3.03	2.63	2.74	2.54	2.44
Net interest spread	2.88	2.44	2.47	2.20	2.10
CIR	33.92	33.29	33.08	34.38	35.75
ROA	1.48	1.39	1.31	1.25	1.20
ROE	22.93	18.89	16.68	14.44	13.56
Effective tax rate	24.18	24.00	23.40	24.00	24.00
Dividend payout	18.98	26.90	31.18	26.00	28.00

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Cash and bank	57,649	76,178	76,421	98,118	107,930
Due from bank and FIs	44,845	48,964	73,786	58,708	63,992
Net loans	159,941	191,280	214,734	253,208	290,141
Investment securities	57,056	60,266	109,391	73,759	80,817
Total IEA	319,492	376,689	474,332	483,793	542,880
Other assets	4,732	5,420	8,433	7,805	9,366
Total assets	324,224	382,109	482,764	491,597	552,245
Customer deposits	239,543	272,798	317,870	351,419	397,103
Due to bank and FIs	54,747	61,703	98,701	76,710	85,148
Subordinated debt	3,992	8,986	18,751	12,401	13,641
Total IBL	298,282	343,488	435,322	440,530	495,892
Other liabilities	5,462	6,949	10,890	8,008	7,284
Total liabilities	303,743	350,437	446,211	448,538	503,177
Share capital	8,175	11,050	11,050	11,050	11,050
Retained earnings	7,064	8,659	10,868	16,880	21,376
Reserves	5,242	11,916	14,456	15,074	16,581
Minority interest	0	47	179	57	62
Total equity	20,481	31,672	36,553	43,060	49,069
Growth (%)					
Cash and bank	3.3	32.1	0.3	28.4	10.0
Due from bank and FIs	180.7	9.2	50.7	(20.4)	9.0
Net loans	19.4	19.6	12.3	17.9	14.6
Investment securities	19.3	5.6	81.5	(32.6)	9.6
Total IEA	26.0	17.9	25.9	2.0	12.2
Total assets	26.2	17.9	26.3	1.8	12.3
Customer deposits	17.7	13.9	16.5	10.6	13.0
Due to bank and FIs	88.5	12.7	60.0	(22.3)	11.0
Subordinated debt	0.0	125.1	108.7	(33.9)	10.0
Total IBL	26.1	15.2	26.7	1.2	12.6
Total liabilities	26.6	15.4	27.3	0.5	12.2
Total equity	19.9	54.6	15.4	17.8	14.0
Key ratio (%)					
Loan to deposits	68.38	71.65	69.02	73.82	74.94
CT1 CAR	10.30	12.60	11.50	13.45	13.65
Total CAR	13.54	15.19	13.41	15.82	16.00
NPL ratio	0.58	0.54	0.83	0.75	0.80
NPL growth	44.03	11.10	73.70	23.13	22.35
Net bad debt charge ratio	0.31	0.34	0.58	0.50	0.40
Provision to total loans	2.35	2.13	2.13	2.40	2.50
Provision coverage	537.70	394.97	255.27	320.00	312.50

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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