



August 23, 2016
Equity Focus
Rating: Not rated

H-Share price (HK\$) 5.20

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Key Data

52Wk H/L(HK\$)	5.2/4.2
Issued shares (mn)	4,058.7
H-Shares (mn)	1,763.0
Unlisted shares (mn)	2,295.7
Market cap	
H-shares (HK\$ mn)	9,168
Unlisted shares (HK\$ mn)	11,938
3-mth avg daily turnover (HK\$ mn)	1.19
Major shareholder(s) (%):	
Qingdao Conson	12.64
Haier	10.21

Source(s): Company, Bloomberg, ABCI Securities

1H16 Operating income breakdown (%)

Corporate banking	50.24
Personal banking	20.34
Treasury	29.42
Others	0.00

Source(s): Company, ABCI Securities

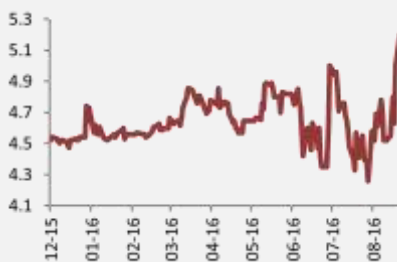
Share performance (%)

	Absolute	Relative*
1-mth	17.9	12.6
3-mth	10.6	(4.6)
6-mth	12.4	(4.9)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

Bank of Qingdao Co., Ltd. (3866 HK)
Sustainable growth under cautious risk management

- BQD's 1H16 net profit grew 17.49% YoY; NII and net fee income rose by 25.45% and 20.46% YoY on stable NIM and monetization of interface bank platform
- NIM was up 2bps YoY on solid loan growth of 11.35% HoH and strictly control of interbank balance exposure
- NPL ratio inched up by 7bps HoH despite NPL ratio of manufacturing and wholesale & retail sectors continued to increase; proportion of loans from these high-risk sectors gradually reduced in 1H16
- Besides its core connection with the utilities, transportation and mobile entities, BQD's interface bank further extends to hospitals and F&B brands
- The counter is currently trading at 1.03x Jun-16 P/B

Decent earnings growth in 1H16. BQD reported its 1H16 net profit at RMB 1,262mn, up 17.49% YoY, of which NII and net fee income rose by 25.45% and 20.46%. NIM inched up by 2bps yoy in 1H16 to 2.36%, thanks to BQD's dedication in balance sheet management and measured risk-and-return consideration. Despite a decent loan growth at 11.35% HoH in 1H16, BQD strictly control its exposure in interbank balances to maintain a stable NIM. Leveraging on the Group's unique interface bank platform, net fee income rose by 20.46%, contributing to 29% of total fee income (1H15:17.8%); among which, wealth management service fees surged by 100.9% YoY.

Outstanding asset quality. As of June 2106, BQD's NPL ratio was 1.26%, up 7bps HoH, substantially lower than the system average of 1.75% and commercial bank average in the Shandong Province at 2.25%. To manage risk, loan mix continued to improve, and exposure to riskier sectors including manufacturing and wholesale & retail gradually reduced from 25.47% and 10.39% in Dec 2015 to 22.16% and 8.07% in 1H16. NPL ratios in the two sectors, however, increased by 21bps and 176bps HoH to 1.87% and 4.87% in 1H16. BQD maintained a strong risk buffer by increasing provision expenses by 58.8% YoY. Hence, its provisioning ratio and provision coverage ratio were high at 2.71% and 216.05% by June 2016.

Breakthrough in the interface bank platform. BQD's interface bank platform effectively expanded in 1H16. Aside from linking up with the utilities, public transportation and mobile communication enterprises, the platform is now connected with hospitals and F&B brands such as Coca-Cola, Mengniu, and Huiyuan Juice.

Valuation. The counter is currently trading at 1.03x Jun-16 P/B, or 5.26% above its IPO price of HKD4.75.

Risk factors: 1) Asset quality deterioration in Qingdao; 2) Pricing competition from big banks in local regions; 3) Low average daily turnover of shares.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014A	2015A
Revenue (RMB mn)	2,887	3,557	4,365	5,006
Chg (% YoY)	na	23.2	22.7	14.7
Net profit (RMB mn)	920	1,142	1,495	1,814
Chg (% YoY)	na	24.2	30.9	21.3
EPS (RMB)	0.36	0.45	0.59	0.58
Chg (% YoY)	na	25.0	31.1	(1.7)
BVPS (RMB)	2.91	3.21	3.83	4.14
Chg (% YoY)	na	10.3	19.2	8.2
P/E (x)	12.04	9.63	7.34	7.47
P/B (x)	1.49	1.35	1.13	1.05
ROAE (%)	12.78	14.60	16.62	13.74
ROAA (%)	1.03	0.96	1.02	1.06
DPS(RMB)	0.07	0.08	0.30	0.20
Yield (%)	1.62	1.84	7.02	4.62

Source(s): Bloomberg, ABCI Securities



Exhibit 1: BQD's interim results summary (RMB mn)

Income statement	1H15	1H16	YoY (%)
Net interest income	1,950	2,447	25.45
Net fee and commission income	393	474	20.46
Operating income	2,399	2,971	23.82
Operating expenses	(750)	(954)	27.17
Impairment losses	(241)	(382)	58.58
Profit before tax	1,408	1,635	16.09
Net profit	1,074	1,262	17.49
EPS (RMB/share)	0.36	0.31	(13.89)

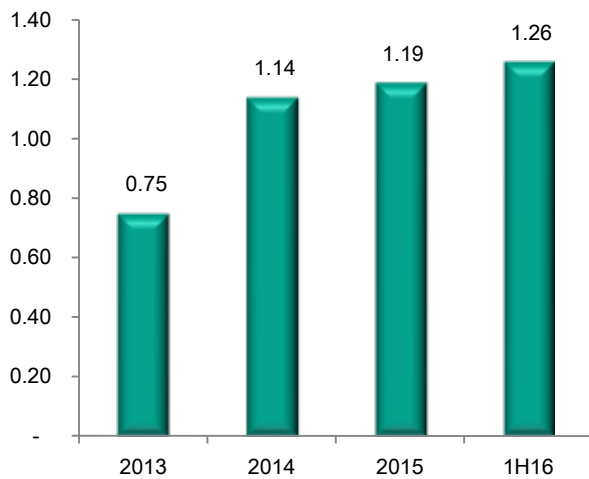
Key ratio (annualized, %)			
NIM	2.34	2.36	0.02
Net fee to operating income	16.39	15.95	(0.44)
CIR	25.14	28.43	3.29
ROAA	1.32	1.28	(0.04)
ROAE	19.62	14.98	(4.64)

Balance sheet	Dec-15	Jun-16	HoH (%)
Total assets	187,235	207,066	10.59
Loans	70,655	78,749	11.46
Deposits	115,322	126,300	9.52
Total equity	16,614	17,076	2.78
BVPS (RMB/share)	4.14	4.21	1.70

Key ratio (%)			
CT1 CAR	12.48	11.25	(1.23)
Total CAR	15.04	13.49	(1.55)
NPL ratio	1.19	1.26	0.07
Provisioning ratio	2.81	2.71	(0.10)
Provision coverage ratio	236.13	216.05	(20.08)
LDR	59.99	59.84	(0.15)

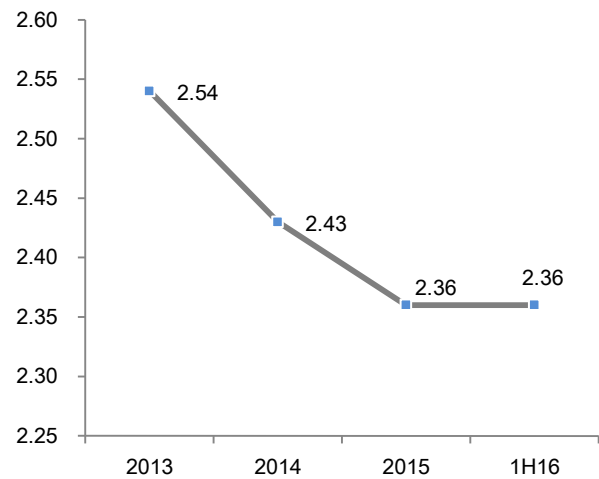
Source(s): Company, ABCI Securities

Exhibit 1: BQD's NPL ratio trend (%)



Source(s): Company, ABCI Securities

Exhibit 2: BQD's NIM trend (%)



Source(s): Company, ABCI Securities



Consolidated income statement (2012A-2015A)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015A
Net interest income	2,607	3,088	3,596	4,114
Net fee and commission	235	425	689	750
Other operating income	44	43	80	142
Operating income	2,887	3,557	4,365	5,006
Operating expenses	(1,380)	(1,689)	(1,995)	(2,077)
Impairment losses	(284)	(349)	(411)	(580)
Profit before tax	1,223	1,519	1,958	2,349
Income tax expenses	(303)	(377)	(463)	(535)
Net profit	920	1,142	1,495	1,814
Growth (%)				
Net interest income	na	18.5	16.5	14.4
Net fee and commission	na	80.6	61.9	8.8
Other operating income	na	(2.1)	85.2	77.4
Operating income	na	23.2	22.7	14.7
Operating expenses	na	22.4	18.1	4.1
Impairment losses	na	23.0	17.9	41.0
Profit before tax	na	24.2	28.9	20.0
Income tax expenses	na	24.3	22.9	15.6
Net profit	na	24.2	30.9	21.3
Per share				
EPS	0.36	0.45	0.59	0.58
BVPS	2.91	3.21	3.83	4.14
DPS	0.07	0.08	0.30	0.20
Key ratio (%)				
Net interest margin	3.04	2.54	2.43	2.36
Net interest spread	2.86	2.38	2.26	2.23
Cost to income ratio	41.57	41.06	39.61	35.80
Return on average assets	1.03	0.96	1.02	1.06
Return on average equity	12.78	14.60	16.62	13.74
Effective tax rate	24.80	24.80	23.65	22.79
Dividend payout	19.5	17.86	52.04	44.23

Source(s): Company, ABCI Securities



Consolidated balance sheet (2012A-2015A)

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015A
Cash and bank	20,072	20,871	23,610	19,920
Due from bank and FIs	4,649	3,181	3,175	4,693
Repo	5,857	8,208	2,698	2,517
Net loans	44,496	54,106	61,248	70,655
Investment securities	23,695	45,637	61,243	84,780
Total IEA	98,768	132,002	151,974	182,566
Other assets	2,890	3,687	4,192	4,669
Total assets	101,659	135,689	156,166	187,235
Customer deposits	75,648	96,284	101,734	115,322
Due to bank and FIs	7,078	12,814	21,742	30,388
Repo	10,248	10,130	10,069	2,000
Borrowing from central bank	0	1,024	1,004	529
Subordinated debt	0	4,987	8,335	16,314
Total IBL	92,974	125,239	142,884	164,553
Other liabilities	1,247	2,246	3,497	6,069
Total liabilities	94,222	127,484	146,381	170,622
Total equity	7,437	8,205	9,784	16,614
Growth (%)				
Cash and bank	na	4.0	13.1	(15.6)
Due from bank and FIs	na	(31.6)	(0.2)	47.8
Repo	na	40.1	(67.1)	(6.7)
Net loans	na	21.6	13.2	15.4
Investment securities	na	92.6	34.2	38.4
Total IEA	na	33.6	15.1	20.1
Total assets	na	33.5	15.1	19.9
Customer deposits	na	27.3	5.7	13.4
Due to bank and FIs	na	81.0	69.7	39.8
Repo	na	(1.2)	(0.6)	(80.1)
Borrowing from central bank	na	na	(2.0)	(47.3)
Subordinated debt	na	na	67.1	95.7
Total IBL	na	34.7	14.1	15.2
Total liabilities	na	35.3	14.8	16.6
Total equity	na	10.3	19.2	69.8
Key ratio (%)				
Loan to deposits	59.57	56.79	55.54	59.99
CT1 CAR	12.89	9.75	9.72	12.48
Total CAR	13.70	10.88	10.75	15.04
NPL ratio	0.76	0.75	1.14	1.19
NPL growth	na	20.07	72.10	20.47
Provision to total loans	2.68	2.74	2.76	2.81
Provision coverage	352.6	365.47	242.34	236.13

Source(s): Company, ABCI Securities



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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

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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