



Key Data

| | |
|----------------------------------|-------|
| Average PER (x) | 5.9 |
| Average PBV (x) | 1.1 |
| Average Dividend Yield (%) | 5.0 |
| Sector 3 months avg vol (HK\$mn) | 5,262 |

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 3Q12 (%)

| | |
|---------------------|------|
| Net interest income | 80.5 |
| Non-interest income | 19.5 |

Source: CBRC

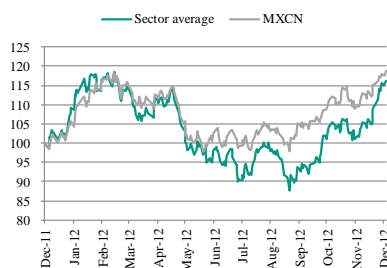
Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 14.7 | 5.5 |
| 3-mth | 25.5 | 10.1 |
| 6-mth | 17.5 | 2.7 |

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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China Bank Sector – Neutral
Diversified Banks Industry

Surging loan demand in 2013

Our channel checks showed slightly rebound in loan and high-end deposit pricing in early December, implying a stable 4Q12 NIM outlook. The total new loans for 2012 should fall within government target range at Rmb8.2tn. In 2013, we expect stronger loan demand at Rmb9-9.5tn driven by improving economic outlook. We continue to prefer big banks for their better funding ability to support loan growth.

Higher loan pricing in December. Our channel checks showed that banks have largely fulfilled December loan targets in the first two weeks of the month, resulting in a slightly rebound in loan pricing due to surging loan demand. Meanwhile, deposit pricing stays at high-end 1.1x cap of benchmark rate as banks aims at maintaining their stable deposit outlook towards year-end. In general, the banks' NIM in 4Q12 will remain stable with minor narrowing from the remaining loan re-pricing.

2012 new loans target achieved. Market generally expects the total new loans will reach Rmb8.2tn in 2012, given that Rmb7.7tn was achieved in first eleven months of the year. This falls within government target of Rmb8-8.5tn, implying 15% YoY loan growth. We believe big banks should have fulfilled their 2012 loan budgets in early December and they will hold back and cautiously process loan applications for the rest of the month. Small banks will be more aggressive in lending activities which will drive loan growth in December.

Strong loan demand in 2013. According to the PBOC's survey, loan demand of different sectors and small- and medium-sized enterprises rose by 1.2-3.8% and over 2.5% respectively. Together with the recently approved NDRC projects, we could reasonably expect a stronger loan demand in the coming year, despite government policies aims at reducing the reliance on bank loan. We estimate 2013 new loans will reach Rmb9-9.5tn. We continue to favor big banks for their better funding ability. Our top picks are CCB (939 HK), ICBC (1398 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 | 6.26 | 7.63 | 21.9 | 6.1 | 1.21 | 5.4 |
| ICBC | 1398 HK | Buy | 5.60 | 6.14 | 9.6 | 6.4 | 1.25 | 4.3 |
| ABC | 1288 HK | Buy | 3.84 | 4.23 | 10.2 | 6.3 | 1.19 | 4.7 |
| MSB | 1988 HK | Buy | 8.52 | 10.10 | 18.5 | 5.1 | 1.09 | 4.9 |
| BOC | 3988 HK | Hold | 3.46 | 3.63 | 4.9 | 6.1 | 0.89 | 5.5 |
| BoCom | 3328 HK | Hold | 5.81 | 6.01 | 3.4 | 5.0 | 0.85 | 6.2 |
| CMB | 3968 HK | Hold | 16.48 | 15.60 | (5.3) | 6.6 | 1.25 | 3.8 |
| CNCB | 998 HK | Hold | 4.52 | 4.42 | (2.2) | 5.2 | 0.74 | 5.0 |

Source: Company, Bloomberg, ABCI Securities estimates

Disclosures

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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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