ABCI SECURITIES COMPANY LIMITED

Sector Report

China Banks
Sector View: Neutral

Key data

Average 13E PER (x)	5.5
Average 13E PBV (x)	1.0
Average 13E Dividend Yield (%)	5.3
Sector 3 months avg vol (HK$mn)	5,239

Source: Company & Bloomberg

Operating income composition in 3Q12 (%)

Net interest income	80.5
Non-interest income	19.5

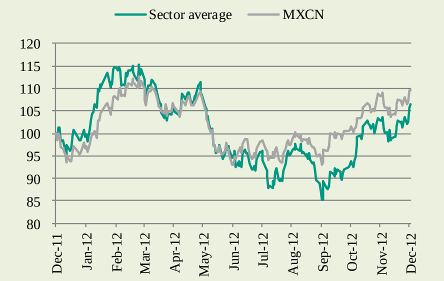
Source: CBRC

Share performance (%)

	Absolute	Relative*
1-mth	3.6	2.4
3-mth	24.8	5.9
6-mth	12.0	(4.8)

**Relative to MSCI China*
Source: Bloomberg

1 year price performance



Source: Bloomberg

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2013 sector outlook – Bigger banks are better

Given that financial reforms are at government's high agenda, we expect China will speed up interest rate liberalization in 2013. Banks will be hard to outperform the market with shadowed NIM outlook despite improved economic outlook will stabilize asset quality. We continue to like big banks and upgrade ICBC to Buy, along with ABC and CCB, as our top picks.

A policy-driven year. With the government leadership change after the 18th Congress, we expect an acceleration of financial reforms in 2013. Besides new capital requirement and deposit insurance system, interest rate liberalization should hit hardest to banks' NIM. We forecast the interest rate deregulation will result in higher level of price competition, and there will be no interest rate or RRR cut in 2013.

Hard battle with fee income. Given the signs of stabilizing economy and our GDP forecast at 8.1% in 2013E, we believe banks will inevitably focus on the growth of non-interest income to offset the decline of interest income. Big banks are at better position with their developed branch network and fee platform while small banks could differentiate themselves with niche market. But still we believe it would be a hard battle with the government policies regarding the fee types and rates.

Stabilization of asset quality. Different from the general market view, we maintain our stance that China banks will not have a massive deterioration in asset quality. Banks have started to prepare for the NPL cycle since 2011. After conducting risk system enhancements in 1H12, banks adopted more concrete actions such as loan restructuring and co-operation with asset management companies to stabilize asset quality.

Upgrade ICBC and prefer big banks. We reiterate our Neutral view on the banking sector. We raise our target prices 18% on average on the basis of slightly adjusting our net profit forecasts, lowering the equity risk premium given improved economic conditions and rolling over our target P/B to 2013E. We continue to prefer big banks and upgrade ICBC to Buy. Our top picks are CCB, ICBC and ABC.

Risk factors: Acceleration of interest rate liberalization, asset quality sharp deterioration and increasing competition from non-bank FIs.

Sector Valuation Summary

Companies	Ticker	Rating	Price (HK$)	Upside (%)	13E PER	13E PBV	13E Div. yield
ICBC	1398 HK	Buy	5.29	16.1	6.0	1.19	4.5
CCB	939 HK	Buy	6.09	25.3	6.0	1.17	5.5
ABC	1288 HK	Buy	3.43	23.3	5.6	1.06	5.2
MSB	1988 HK	Buy	8.23	22.7	5.0	1.05	5.1
BOC	3988 HK	Hold	3.30	10.0	5.9	0.85	5.8
BoCom	3328 HK	Hold	5.76	4.3	5.0	0.84	6.3
CMB	3968 HK	Hold	15.54	0.4	6.3	1.18	4.0
CITICB	998 HK	Hold	4.08	8.3	4.7	0.67	5.6

Source: Company, Bloomberg, ABCI Securities estimates

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A policy-driven year

China's new leadership is highly likely to take policy initiatives focused on financial reforms and we believe the pace of financial reforms is going to accelerate and the interest rate will be further liberalized. Meanwhile, the implementation of new capital requirement and other potential measures shall continue to affect the banking sector.

According to the latest published financial reports and system statistics, we have not seen improvement in operating environments and substantial changes in regulatory policies. We retain our Neutral rating on the China's banking sector and continue to favor big banks for their better bargaining powers, diversified business platforms, extensive networks and stable deposits base. After upgrading ICBC to Buy, CCB, ABC and ICBC are our sector top picks. Among mid-cap banks, MSB is our top pick. .

Interest rate liberalization

After the PBOC lowered the loan rates floating range to 30% discount from benchmark rates and raised the deposit rate cap to 10% above benchmark rates in July 2012, our channel check confirms that banks have generally offered high-end deposit rates to depositors to maintain a stable deposit base. Loan rates competition remained calm in 3Q12 but started to intensify in 4Q12 when banks s offered 0.9x of benchmark rates to absorb loan growth.

Exhibit 1: Rmb loan rate to benchmark rate

	0.9-1x	1x	1-1.1x	1.1-1.3x	1.3-1.5x	1.5-2x	>2x
Jan-12	4.8	26.2	22.3	25.5	8.8	9.2	3.2
Feb-12	5.5	27.6	23.1	23.8	8.0	8.6	3.4
Mar-12	4.6	25.0	21.1	27.0	9.5	9.4	3.4
Apr-12	5.0	23.1	20.8	28.9	10.1	9.0	3.2
May-12	5.4	24.1	20.5	28.9	9.7	8.3	3.1
Jun-12	7.9	25.1	19.9	27.9	8.9	7.7	2.6
Jul-12	9.5	24.4	19.7	26.8	9.1	7.6	2.9
Aug-12	11.6	22.7	19.6	26.5	8.3	8.3	3.0
Sep-12	11.3	24.6	20.2	25.2	8.1	7.7	3.0

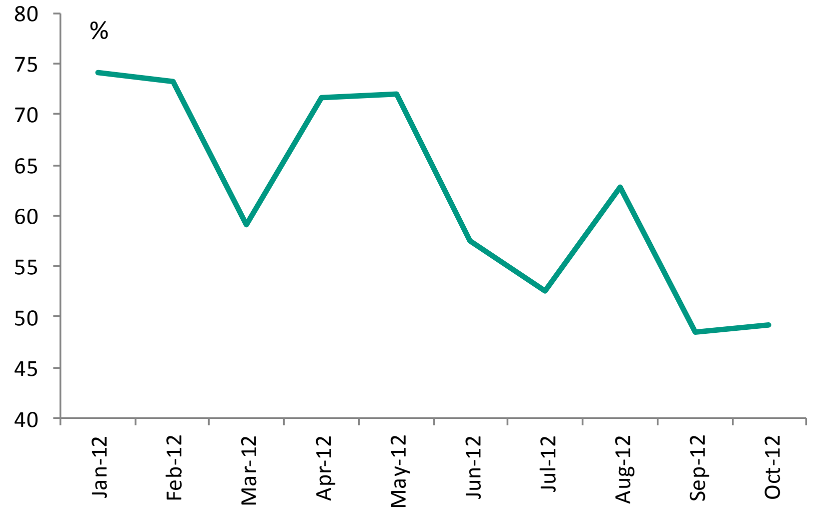
Source: PBOC, ABCI Securities estimates

According to the CBRC statistics, a downward shifting trend in new loan rates compared to the beginning of 2012 was observed. The portion of loan offered at 0.9-1x of benchmark rates have surged from 4.8% of total loans in January 2012 to 11.3% in September 2012. With the government pushing forward the market-orient reform of interest rates, we could reasonably expect that the floating range of both loan and deposit rates will gradually open up for higher level of competition and the pace of interest rate liberalization will further accelerate in 2013.

Price competition to escalate

The acceleration of interest rate liberalization will not only allow banks to compete at a wider range both on loan and deposit pricings, but also reduce the reliance of bank loans for funding the total liquidity of the economy. The share of bank loans within the total social financing has dropped from 75% in January 2012 to 49% in October 2012. Banks have started to offer more aggressive loan rates in 4Q12 in order to retain quality customers.

Exhibit 2: Bank loan as percentage to aggregate financing of the economy



Source: PBOC, ABCI Securities estimates

We expect these factors will escalate the level of price competition throughout 2013 by further narrowing banks' NIM. However, big banks could outperform given their better bargaining power. They have extensive branch networks, providing them with stable and lower cost deposits. Combined with their relatively lower LDR level, big banks could exempt themselves from over-participation of deposits competition when system loan growth accelerates. In addition, big banks' have established relationship and better portfolio mix with state-owned enterprises and large corporates, while mid-cap banks are positioned to focus more on SMEs business. Mid-cap banks are harder to compete with big banks' for large corporate customers simply by pricing. This is because SOEs and large corporates are generally having low motive to shift amid their stable relationship with big banks. At the same time small banks are hesitated to over-commit in large loan size under risk considerations.

In fact, better bargaining power of big banks was demonstrated in their 3Q12 results. All big banks except BoCom reported mild expansion in their quarterly NIM after the rate cuts in June and July 2012 while small banks reported 9-15bps Q-Q reduction in NIM.

Re-pricing effect still taken place

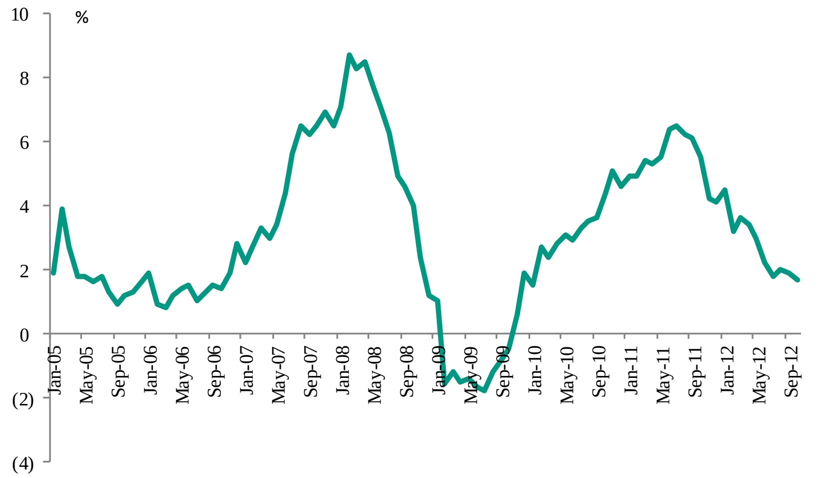
Although there were 3-7bps Q-Q NIM expansion in 3Q12 from ICBC, CCB, ABC and BOC, banks' managements have confirmed that the re-pricing impacts from previous rate cuts in June and July 2012 will be reflected in 4Q12 results. Given shorter deposits duration, an average of 70-80% of deposits has been re-priced in 3Q12, while only an average of 50% of loans has been re-priced in the same period. Such re-pricing will still overhang the sector in the coming 1-2 quarters.

Meanwhile, we noticed that small banks such as CMB and MSB experienced a more obvious reduction in their NIM of 11bps and 15bps Q-Q respectively. Instead of arising from operating deterioration, we believe these were mainly due to shorter loan durations in their SME and MSE loans, which resulted in a quicker re-pricing. Although it might mean an earlier completion of re-pricing, we still hold a conservative view towards mid-cap banks. Given the surging of mid-cap banks' LDR (CMB near 75% regulatory limit), we expect they are under pressure for future deposit cost competition which further squeeze their NIM.

Deferred rate cut cycle

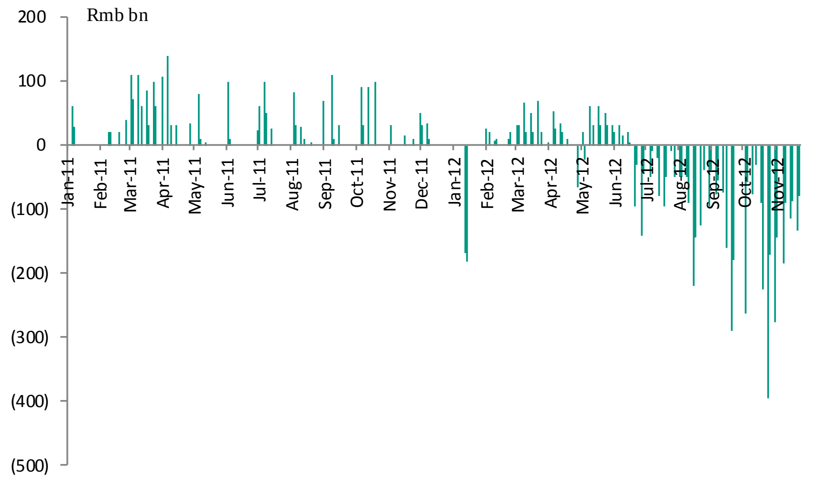
Although China's CPI has slowed down to 1.7% Y-Y in October 2012 from previous peak of 6.5% in July 2012, our Chief Economist, Banny Lam forecasts 2013E CPI to return to 3-4% level. In view of the inflationary concern, we believe the PBOC will not announce further interest rate or RRR cut in 4Q12 and 2013. Instead, we noticed that the PBOC has increased the use of reverse-repo as its major measure to support liquidity in the banking system since June 2012. Although there was a declining scale of reverse-repo starting from the end of October, we expect the PBOC will continue use the reverse-repo to support liquidity.

Exhibit 3: China CPI Y-Y growth



Source: PBOC, ABCI Securities estimates

Exhibit 4: PBOC repo trend



Source: PBOC, ABCI Securities estimates

Given better-than-expected NIM in 3Q12 and the assumptions with no interest rate and RRR cut in 4Q12 and 2013, we raise our 2012E NIM forecasts by an average of 4bps, followed by 10bps and 7bps in 2013E and 2014E. This implies an average NIM reduction of 5bps, 14bps and 10bps in 2012-14E respectively driven by the higher level of price competition as a result of interest rate liberalization.

Exhibit 5: H-share banks NIM and NII forecast

(%)	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CITICB
NIM forecast								
2012E	2.64	2.71	2.77	2.97	2.13	2.59	3.06	2.78
2013E	2.54	2.63	2.70	2.87	1.89	2.42	2.85	2.67
2014E	2.41	2.52	2.57	2.76	1.83	2.29	2.82	2.57
New vs Old (bps)								
2012E	11	10	2	(9)	10	11	6	(10)
2013E	20	20	13	(4)	0	17	10	5
2014E	13	11	10	(9)	2	12	11	6
Y-Y changes (bps)								
2012E	3	1	(8)	(17)	1	3	0	(22)
2013E	(10)	(8)	(7)	(10)	(24)	(17)	(21)	(11)
2014E	(13)	(11)	(13)	(11)	(6)	(13)	(3)	(10)

Source: Companies, ABCI Securities estimates

New capital requirement

Besides interest rate liberalization, the CBRC had published its preliminary version of new capital requirements in June 2012, with reference to Basel III standards. The new requirements will be adopted from the beginning of 2013, with a transition period through 2018 and early fulfillment incentives to banks. It is worth noting that China is not a country officially complying with Basel standards and the CBRC has taken into account the Basel III structure and formulated its own capital requirement, which means it is in fact a unique capital requirement solely used in China. Despite recent news reported that some of the European banks are seeking for a deferral in the Basel III implementation, we do not expect any deferral of new capital requirements in China.

Exhibit 6: Expected Basel III timeline (effective from 1Jan of each year)

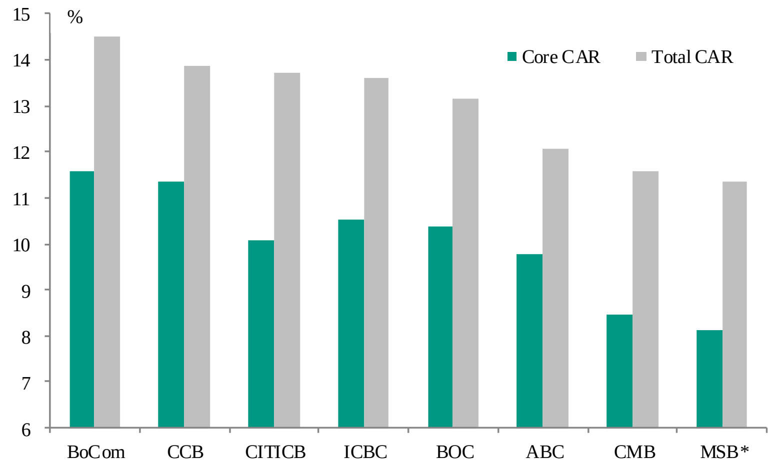
(%)	2013	2014	2015	2016	2017	2018	2019
Min. common equity capital ratio	3.5	4.0	4.5	4.5	4.5	4.5	4.5
Min. T1 capital	4.5	5.5	6.0	6.0	6.0	6.0	6.0
Min. total CAR	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Capital conservative buffer	-	-	-	0.625	1.25	1.875	2.5
Total min. common equity capital ratio	3.5	4.0	4.5	5.125	5.75	6.375	7.0
Total min. T1 capital ratio	4.5	5.5	6.0	6.625	7.25	7.875	8.5
Total CAR min. requirement	8.0	8.0	8.0	8.625	9.25	9.875	10.5

Source: Basel committee, ABCI Securities estimates

Similar to Basel III standards, the new capital requirements by the CBRC requires banks to maintain their Core Tier 1 CAR, Tier 1 CAR and total CAR at 5%, 6% and 8% respectively, with 2.5% capital conservative buffer and 0-2.5% counter cyclical buffer. In addition, an additional 1% is required for system importance banks, which means in a normal economy cycle, systematic importance banks and ordinary banks are required to maintain their total CAR at 11.5% and 10.5% respectively.

In September 2012, all H-share banks have maintained their CAR positions above the required level, except CMB's and MSB's T1 CAR were slightly below 8.5%, despite both banks have already announced their fund raising pipelines. Hence we do not over-worry about the compliance of new capital requirements as according to some industry experts, the new calculation methodology could raise CAR by 40-50bps.

Exhibit 7: H-share banks CAR & Core CAR ratio (30 Sep 2012)



Source: Companies, ABCI Securities estimates
**MSB's total CAR being ABCI estimation as MSB did not disclose its total CAR in its 3Q12 results*

Nevertheless, under the new capital requirements, sub-ordinated debts which are issued after 1 January 2013 without write-down or conversion terms are no longer included in the CAR computations. This would increase banks' bond issuance cost accordingly. Sub-ordinated debts issued prior to 2013 are included under new calculation methodology but with amortization in total value by 10% each year until 2022. In view of this, banks have speeded up their last round of debt issuances in 4Q12, where CCB, BOC, ABC, MSB and CMB have announced their debt raising pipelines. After this round of bond issuances, we are more comfortable with the banks' capital positions.

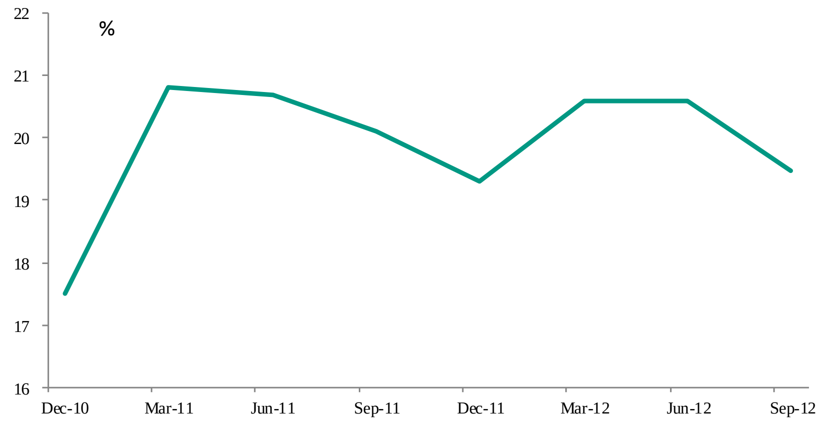
Deposit insurance system

As we mentioned in our previous report in September 2012 (Treasure hunt for outperformer), deposit insurance system aims at strengthening the stability and protection of the China's banking system. We expect China will implement deposit insurance in 2013. Although this would possibly place extra operating cost on banks, we believe regulators would allow banks to fulfill in a reasonable timeframe. Therefore, we do not expect this will affect banks' profitability in a dramatic manner.

Hard battle with fee income

It is an inevitable situation that China's banks will continue to suffer from narrowing NIM in the 2013-14E on the back of faster interest rate liberalization. As fee income only accounted for less than 20% of operating income (over 50% in developed economies), we expect banks will allocate more resources to boost non-interest income growth in order to sustain their profitability. However we believe that it would be a hard battle as fee income growth is highly affected by macroeconomic development and regulatory policies.

Exhibit 8: China banking system non-fee income to operating income



Source: CBRC, ABCI Securities estimates

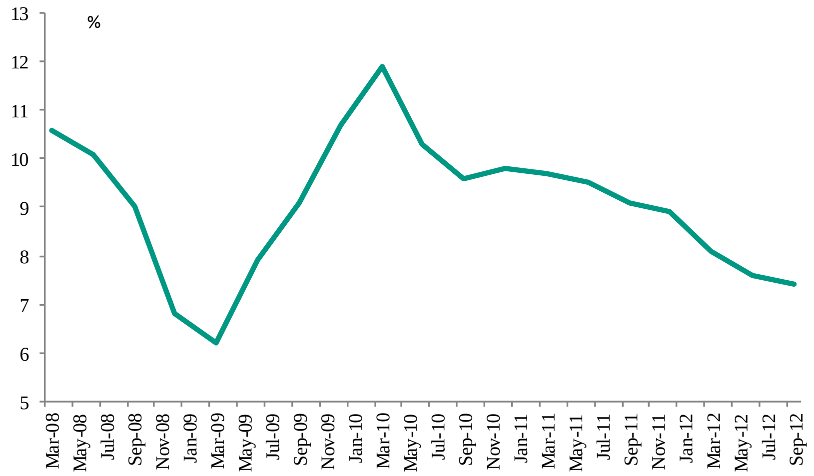
In the first three quarters of 2012, we saw a weakening trend of H-share banks' fee incomes. Due to deterioration of a number of macroeconomic indicators, growth momentum in fees from trades and wealth management products were reduced. We estimate these two types of fees on average aggregated to one-third of bank's total fee incomes. Meanwhile, in order to support the growth of SMEs and domestic consumptions, regulators had closely communicated and monitored banks' fee types and rates, which limited banks' fee income growth.

Signals of stabilizing macroeconomy

The sweet spot here is that we have started to see a turning signal in macroeconomic statistics in 4Q12, which made us believe that the economic growth has been bottomed in 3Q12. Our Chief Economist, Banny Lam, expects China's 4Q12 GDP at 8%, implying 7.8% GDP growth in 2012E, followed by 8.1% in 2013E. Despite 3Q12 GDP Y-Y growth was dipped to 7.4%, the deceleration speed was narrowed, from 0.8% in 1Q12 to 0.5% in 2Q12 and 0.2% in 3Q12.

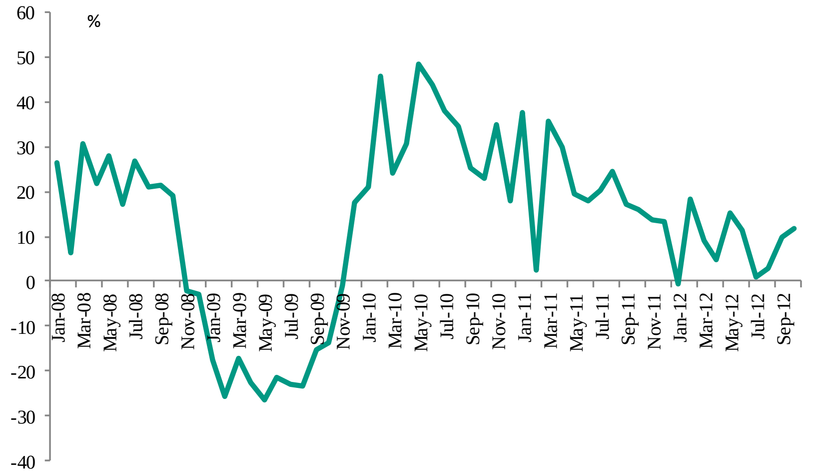
At the same time, exports were rebounded in a pleasant way. After experiencing a weakening trend in 3Q12, exports saw 11.6% Y-Y growth in October 2012. Due to traditional festival in the US and Europe near the year-end, we expect surging export growth in 4Q12 surge, which will translate into a rebound in trade-related fee incomes.

Exhibit 9: China GDP Y-Y growth



Source: Bloomberg, ABCI Securities estimates

Exhibit 10: China Export Y-Y growth



Source: Bloomberg, ABCI Securities estimates

More regulators' interventions to come

Nevertheless, we expect regulators will step up efforts to apply fee guidance to banks in 2013. According to the latest news, credit card fee rates will be deducted by 24% starting from 25 February 2013, aiming to boost retail consumptions. Assuming that transaction volume remains constant at the same level, the reduction of fee rate will reduce net fee income by 3-6% in 2013. We do not expect the reduction of bank card fee rates will decrease banks' earnings in a substantial way, though it is one of the major fee income streams of commercial banks, which account for an average of over 25% of total fee incomes. Regulators could adopt similar fee control measures to support economic growth and we believe the expansion of transaction volume will be the key driver to sustain fee income growth in 2013.

Big banks are at better position
Given the base-case scenario of mild economy recovery in 2013 and the positive macroeconomic signals seen in 4Q12, we forecast transaction volume to rise steadily to overcome fee rate adjustments. This would lead to a slightly positive fee income growth over 2013-14E. Among H-share banks, big banks like ICBC, CCB, ABC and BOC possess clear advantages in terms of "volume", given their well-developed network franchises and wide-ranged product platforms.

In fact we noticed that banks have turned proactive to expand new fee income sources. For instance, ABC has acquired 51% of Jiahe Life Insurance in November 2012. After the acquisition, all big five banks possessed their own insurance units. Besides, more than ten banks have signed co-operative agreements with asset management companies in an attempt to enhance their business synergies in different areas such as insurance, trust, and lease. These would speed up banks' fee income growth, and the development direction towards financial conglomerates.

The niche for small banks
As mentioned, big banks are at privilege positions to sustain the growth of fee incomes but it would be a hard battle for the mid-cap banks to offset weakening NIM. We believe the mid-cap banks will need to differentiate themselves with niches. For example, MSB leverages from its strength in high-net-worth customers to boost wealth management products with higher front-end fee income. This shift in business mix increased MSB's 3Q12 fee incomes by 16% Q-Q or 46% Y-Y. We saw signals that CMB was adjusting in similar direction by leveraging with its strong retail customer base.

Exhibit 11: H-share banks fee income forecast

(Rmb mn)	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CITICB
Net fee income								
2012E	111,572	93,990	79,262	20,899	69,914	21,029	20,073	10,926
2013E	123,874	102,657	91,199	27,699	79,058	22,894	24,591	13,036
2014E	139,107	113,356	104,840	34,839	90,790	25,155	29,302	15,153
New vs Old (bps)								
2012E	(12)	(12)	(14)	0	(9)	(15)	0	0
2013E	(19)	(21)	(23)	1	(15)	(24)	0	(2)
2014E	(23)	(27)	(29)	1	(18)	(29)	0	(5)
Y-Y growth (%)								
2012E	10	8	15	38	8	8	28	24
2013E	11	9	15	33	13	9	23	19
2014E	12	10	15	26	15	10	19	16
Net fee to topline (%)								
2011	21.6	21.8	18.1	18.4	19.7	15.3	16.2	11.5
2012E	20.6	20.5	18.2	20.7	18.8	13.9	17.7	12.5
2013E	20.7	20.2	18.5	24.1	20.4	13.5	19.5	13.3
2014E	21.4	20.6	19.3	27.4	21.1	13.3	20.4	13.5

Source: Companies, ABCI Securities estimates

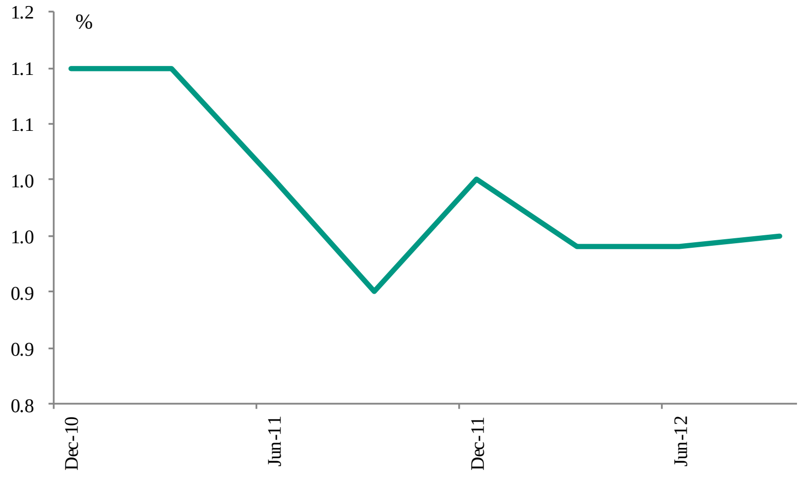
However, we think this is a two-sided sword to the mid-cap banks and banks should modify their revenue mix with cautious attitude in order not to expose themselves at higher operating risk. As small banks generally have higher LDR of over 70% (big banks around 65-70%), the growth of fee income at the expense of deposit base would push mid-cap banks' LDR to 75% regulatory limit. This means banks will inevitably face a harsh deposit competition if they wanted to sustain the growth of their loan book in the future.

As the 9M12 fee incomes suffered from weaker macro momentum and regulators' intervention, we revised down our previous fee income forecasts for big banks. We expect the mid-cap banks to grow faster in their fee income given low base and the need to be more aggressive to cover tougher NIM. Besides, we will see steady increase in the mix of fee income as a percentage of topline revenue in 2013E and 2014E.

Stabilization of asset quality

The 3Q12 CBRC statistics proved that we are now in an asset quality worsening cycle, with overall system NPL ratio increasing slightly by 1bp Q-Q, and NPL balance rising by 4.9% Q-Q in 3Q12. Although we think it is only a beginning, large commercial banks apparently have a more defensive outlook. All big four banks reported decline or flat NPL ratio in 3Q12 while the mid-cap banks saw 3-5bps increased in NPL ratio. This was because big banks generally have a more conservative risk system and diversified business mix.

Exhibit 12: China banking system NPL ratio



Source: CBRC, ABCI Securities estimates

Exhibit 13: System NPL trend

	1Q12		2Q12			3Q12		
(Rmb bn)	**NPL**	**NPL%**	**NPL**	**NPL%**	**Q-Q %**	**NPL**	**NPL%**	**Q-Q %**
System	**4,382**	**0.94**	**4,564**	**0.94**	**4.2**	**4,788**	**0.95**	**4.9**
Large commercial banks*	2,994	1.04	3,020	1.01	0.9	3,070	1.00	1.7
Joint stock commercial bank**	608	0.63	657	0.65	8.1	743	0.70	13.1
City commercial banks	359	0.78	403	0.82	12.3	424	0.85	5.2
Rural commercial banks	374	1.52	426	1.57	13.9	487	1.65	14.3
Foreign banks	48	0.49	58	0.58	20.8	63	0.62	8.6

Source: CBRC, ABCI Securities estimates
**Large commercial bank s included ABC, ICBC, CCB, BOC and BoCom*
*** Joint stock commercial banks mainly included MSB, SMB, CITICB, Huaxia, GF, PingAn Bank, SHPD, Industrial Bank, and Everbright Bank*

No way for massive deterioration

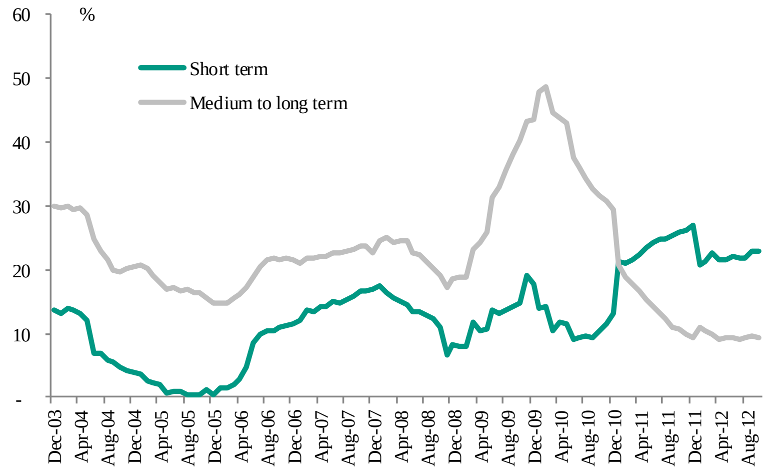
As expected in our previous sector report, asset quality concerns were mainly geographically focused in coastal areas and sector such as manufacturing, wholesale and retails. Some news reported that Wenzhou's NPL ratio has surged by more than a double from the beginning of 2012. Separate news sources highlighted that there were signals of worsening asset quality in other areas and sectors. Yet, according to latest CBRC statistics and our channel check, we do not see concrete evidence that banks face massive asset quality deterioration.

We are a firm believer that the scenario of a massive deterioration is unlikely to happen on the back of our mild economic recovery expectation. Although we agree that the current asset quality worsening cycle could continue for six to eight quarters according to past experience but we think that the market has been too bearish on this topic. In the latest 3Q12 results, other than NPLs, some banks have even reported improving special mention loan and overdue loan trends.

Banks have early bird preparation

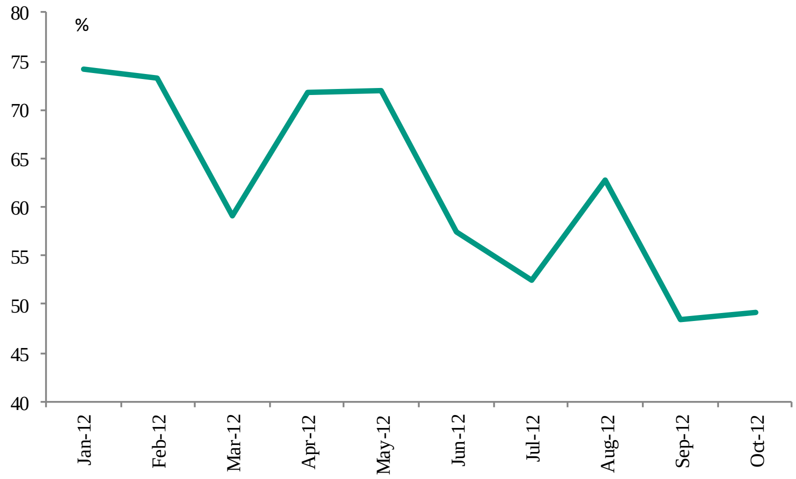
Since macroeconomic outlook is an uncontrollable factor, our focus on this topic falls on banks' advance preparation in the asset quality cycle. We think the China's banking sector had started to prepare for the credit cycle as early as in 2011. Banks have shifted their focus to shorter term loans since January 2011, with an aim to enhance their risk management through quicker repayment. Y-Y short-term loan growth surged from 13% in December 2010 to 23% in October 2011, while Y-Y medium and long-term loan growth was reduced from 30% to 9%.

Exhibit 14: China system Y-Y loan growth by maturity



Source: PBOC, ABCI Securities estimates

Exhibit 15: Loan to aggregate financing of the economy



Source: CBRC, ABCI Securities estimates

Moreover, banks are self-disciplined to control their loan growth in accordance to their loan target despite the existence of large loan demand, especially after the approval of infrastructure projects by the NDRC since 3Q12. Being part of the financial reforms to lower risks of the banking system, China deliberately targets to reduce the reliance of bank loans within the total financing of the economy. Bank loans as a percentage of total social financing has been gradually reduced from 75% in early 2012 to 49% in October 2012.

Other risk mitigation measures
Our channel check showed that individual banks have stepped up efforts to monitor risks since 2012. During 1H12, banks were to apply tighter than regulatory requirements in NPL classifications and enhance internal risk assessments. These actions led to a general increase in NPL balance in 1H12, which were not triggered by asset quality deterioration.

Moving into 2H12, more concrete measures have been implemented. These included proactive restructuring of risky loans through reducing interests and adjusting repayment schedules. Also, banks started to co-operate with asset management companies to write-off problematic NPLs. Up to November 2012, more than ten banks have officially signed agreements with asset management companies. These asset management companies included the four state-owned assets management companies, which helped big four banks clean up problematic loans prior to their IPOs.

Exhibit 16: H-share banks credit cost forecasts

(%)	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CITICB
Impairment provision (Rmb mn)								
2012E	35,075	35,160	50,330	9,561	20,251	15,905	8,244	10,812
2013E	47,629	45,527	61,127	10,994	26,469	19,889	9,900	13,289
2014E	49,477	42,076	55,018	10,665	26,738	18,965	10,074	13,868
New vs Old								
2012E	(20)	(19)	(24)	(1)	(17)	(16)	(10)	30
2013E	(11)	(2)	(14)	(6)	(12)	(11)	(11)	3
2014E	(27)	(12)	(13)	(20)	(3)	(20)	(21)	(5)
Y-Y growth								
2012E	13	(2)	(22)	14	5	27	(1)	50
2013E	36	30	12	15	31	25	20	23
2014E	4	(8)	(10)	(3)	1	(5)	2	4
Provision to loans								
2012E	2.6	2.7	4.3	2.4	2.2	2.3	2.4	1.9
2013E	2.7	2.8	4.6	2.7	2.3	2.5	2.5	2.2
2014E	2.8	3.9	4.6	2.8	2.4	2.6	2.6	2.4

Source: Companies, ABCI Securities estimates

In view of better NPLs and provision outlook on the back of mild economic recovery expectation, we lower our impairment assumptions in H-shares banks by 1-20% in 2012E. Except for CITICB, we raise its 2012E provision by 30%, as we expect the low credit cost in 1H12 was proven not realistic in 3Q12, which had Q-Q grew by 12 times. We forecast provisions growth to peak in 2013E at 15-36% Y-Y growth.

Valuation

Combined with higher NIM forecasts and lower impairment assumptions, except 10% reduction in CITICB's 2012E EPS, we raise our EPS forecasts of other H-share banks by 1-6%. This implies 8-29% Y-Y EPS growth for the seven banks and 4% drop of CITICB's 2012E EPS. We further raise our 2013E EPS forecast by an average of 2.3%, leading to an average of 3.6% EPS growth in 2013E.

Exhibit 17: H-share banks EPS forecasts

	ICBC	CCB	ABC	MSB	BOC	BoCom	CMB	CITICB
EPS (Rmb)								
2012E	0.68	0.81	0.49	1.28	0.50	0.93	1.99	0.69
2013E	0.73	0.85	0.51	1.38	0.47	0.96	2.07	0.73
2014E	0.79	0.89	0.55	1.45	0.51	1.02	2.33	0.82
New vs Old (%)								
2012E	6	5	6	2	5	5	1	(10)
2013E	7	5	1	(2)	(6)	3	0	(2)
2014E	4	(3)	(5)	(8)	(7)	(3)	(2)	(1)
Y-Y growth (%)								
2012E	15	20	29	23	13	8	19	(4)
2013E	6	4	5	8	(6)	3	4	5
2014E	8	6	7	5	9	6	12	13

Source: Companies, ABCI Securities estimates

We roll over our target price to 2013E P/B, and adjust our calculation in our Gordon Growth Valuation by reducing our country equity risk premium from 11.8% to 11.1% under the mild economic recovery scenario and raising the risk free rate from 3.3% to 3.5%, which is the 10-years China government bond yield. This increases our target prices by 15-38%. Meanwhile we upgrade ICBC from Hold to Buy, given the major concern of SSF divestment was lifted after Huijin's commitment to accumulate big four banks from secondary market.

Exhibit 18: H-share banks target price summary

		Rating		Target price (Rmb)			Target PB (x)	
		New	Old	New	Old	change %	New	Old
ICBC	1398 HK	Buy	Hold	6.14	4.44	38.3	1.37	1.30
CCB	939 HK	Buy	Buy	7.63	6.30	21.1	1.47	1.57
ABC	1288 HK	Buy	Buy	4.23	3.45	22.6	1.31	1.38
MSB	1988 HK	Buy	Buy	10.1	7.66	31.9	1.29	1.21
BOC	3988 HK	Hold	Hold	3.63	2.94	23.5	0.93	0.95
BoCom	3328 HK	Hold	Hold	6.01	5.13	17.2	0.88	0.96
CMB	3968 HK	Hold	Hold	15.6	13.47	15.8	1.18	1.32
CITICB	998 HK	Hold	Hold	4.42	3.61	22.4	0.73	0.75

Source: Bloomberg, ABCI Securities estimates

On the back of challenging banking environment, we believe banks will not be able to outperform the market under NIM depression and unfavorable policies. We reiterate our Neutral rating since we do not see any significant fundamental turning point. We suggest investors to buy big banks for their better pricing power, business diversification and risk management. CCB, ICBC and ABC are our top picks with 16-25% upside, while among mid-cap banks, we like MSB for its forward looking strategy with 23% upside.

Exhibit 19: H-share banks valuation summary

	Ticker	Mkt cap (HK$mn)	Rating	Sh. price (HK$)	Upside (%)	12E PE	13E PE	12E PB	13E PB	13E Div Yield
ICBC	1398 HK	1,739,716	Buy	5.29	16.1	6.5	6.0	1.37	1.19	4.5
CCB	939 HK	1,515,355	Buy	6.09	25.3	6.3	6.0	1.35	1.17	5.5
ABC	1288 HK	1,064,117	Buy	3.43	23.3	5.8	5.6	1.22	1.06	5.2
MSB	1988 HK	232,778	Buy	8.23	22.7	5.4	5.0	1.24	1.05	5.1
BOC	3988 HK	949,902	Hold	3.30	10.0	5.5	5.9	0.94	0.85	5.8
BoCom	3328 HK	415,597	Hold	5.76	4.3	5.2	5.0	0.95	0.84	6.3
CMB	3968 HK	290,491	Hold	15.54	0.4	6.5	6.3	1.37	1.18	4.0
CITICB	998 HK	210,393	Hold	4.08	8.3	4.9	4.7	0.77	0.67	5.6
Average					**13.8**	**5.8**	**5.5**	**1.15**	**1.00**	**5.3**

Source: Bloomberg, ABCI Securities estimates (price as of 6 December 2012)

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Company Report

ICBC (1398 HK) - Buy
Diversified Bank Sector

Key data

Share price (HK$)	5.29
Target price (HK$)	6.14
Upside potential (%)	16.1
52Wk H/L(HK$)	5.72/3.97
Issued shares (mn)	
- A share	262,527
- H-share	86,794
Market cap	
- A share (Rmb mn)	1,029,106
- H-share (HK$mn)	459,140
30-day avg vol (HK$mn)	1,294
Major shareholder (%)	
Huijin	35.4

Source: Company & Bloomberg

Operating income mix (1H12) (%)

Corporate banking	57.7
Personal banking	25.8
Treasury	17.2
Others	(0.7)

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	2.3	1.1
3-mth	29.3	11.5
6-mth	18.6	(1.4)

**Relative to Hang Seng Index*
Source: Bloomberg

1 year price performance

Source: Bloomberg

Analyst
Report Date: 7 December 2012
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Outstanding franchise

We are impressed by ICBC's better-than-expected NIM outlook given prestige pricing power. Aggressiveness in launching innovative products through extensive networks helps sustain robust growth in fee income. Huijin's commitment to accumulate big four banks turns ICBC as a top-value pick for defensiveness. We upgrade ICBC to Buy with new target price of HKD6.14, implying 16% upside.

Demonstrating 'Big bank' power. We raise our net profit forecasts of ICBC by 4-7% each year over 2012-14E on the back of better NIM outlook in 3Q12. ICBC demonstrated its market leader edge by achieving 3Q NIM at 2.69%. However with 70% of deposits and 40% of loan re-priced in 3Q respectively, we still expect to see NIM pressure in 4Q12 and early 2013. Offsetting by better loan pricing ability, we increase our NIM forecasts by 11-20bps each year over 2012-14E.

Aggressive in innovative products. Amid the challenges arising from interest rate liberalization, we notice that ICBC has taken early setup to enhance its fee income platform by enlarging innovative products types. According to local media, ICBC led the market by launching over 700 new products in 9M12. Combined with its extensive distribution channels, ICBC's fee incomes only saw minor impacts despite lower-than-expected fee income generated from trade finances and wealth management products for the China's banking sector in 2012. ICBC is at a leading position to grow fee by 10-12% each year in 2012-14E.

Big banks supported by Huijin's investment. We have consistent view to favor prudent operation and big banks. ICBC further boasts a deposit franchise as good as any other bank in China, the best asset quality, strong capital levels and robust provisions. With the public announcement by Huijin to accumulate big four banks in the coming six months, ICBC becomes a top-value pick for defensiveness.

Upgrade to BUY. We have rolled over our target P/B to 2013E and adjusted our cost of equity calculation, with our new sustainable ROE at 19.4% and COE at 15.8%. Our Gordon Growth Valuation implies target PB of 1.37x. We raise our target price to HKD6.14, with 16% upside**.**

Risk factors: Acceleration of interest rate liberalization, sharp deterioration of asset quality, increasing competition from non-bank FIs and overseas business risk.

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (Rmb mn)	380,748	470,601	542,466	597,112	649,325
Y-Y Chg (%)	23.1	23.6	15.3	10.1	8.7
Net profit (Rmb mn)	165,156	208,265	238,510	253,768	274,821
Y-Y Chg (%)	28.4	26.1	14.5	6.4	8.3
EPS (Rmb)	0.49	0.60	0.68	0.73	0.79
BVPS (Rmb)	2.35	2.74	3.22	3.72	4.27
PE (x)	--	7.3	6.5	6.0	5.6
PB (x)	--	1.61	1.37	1.19	1.03
ROAE (%)	22.1	23.4	22.9	21.0	19.7

Source: Company, ABCI Securities estimates

Income statement forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Net interest income	303,749	362,764	424,062	465,865	502,371
Non-interest income	76,999	107,837	118,404	131,247	146,955
Of which: Fees and commissions	72,840	101,550	111,572	123,874	139,107
Operating income	**380,748**	**470,601**	**542,466**	**597,112**	**649,325**
Operating expenses	(127,322)	(156,160)	(177,364)	(198,430)	(220,090)
Amortization	(12,158)	(13,453)	(14,486)	(15,471)	(16,383)
Pre-prov. operating profits	**241,268**	**300,988**	**350,615**	**383,211**	**412,852**
Impairment loans losses	(27,988)	(31,121)	(35,075)	(47,629)	(49,477)
Operating profit	213,280	269,867	315,540	335,582	363,375
Non-operating income	2,146	2,444	2,737	3,066	3,372
Profit before tax	**215,426**	**272,311**	**318,277**	**338,648**	**366,748**
Tax	(49,401)	(63,866)	(79,569)	(84,662)	(91,687)
Minority interests	(869)	(180)	(198)	(218)	(240)
Net profit	**165,156**	**208,265**	**238,510**	**253,768**	**274,821**
Growth (%)					
Net interest income	24	19	17	10	8
Non-interest income	21	40	10	11	12
Of which: Fees and commissions	32	39	10	11	12
Operating income	**23**	**24**	**15**	**10**	**9**
Operating expenses	16	23	14	12	11
Amortization	11	11	8	7	6
Pre-prov. operating profits	**28**	**25**	**16**	**9**	**8**
Impairment loans losses	20	11	13	36	4
Operating profit	29	27	17	6	8
Non-operating income	8	14	12	12	10
Profit before tax	**29**	**26**	**17**	**6**	**8**
Tax	30	29	25	6	8
Minority interests	16	(79)	10	10	10
Net profit	**28**	**26**	**15**	**6**	**8**
Per share data					
EPS	0.49	0.60	0.68	0.73	0.79
BVPS	2.35	2.74	3.22	3.72	4.27
DPS	0.18	0.20	0.20	0.22	0.24
Key ratio (%)					
Net interest margin	2.44	2.61	2.64	2.54	2.41
Net interest spread	2.35	2.49	2.50	2.40	2.28
Cost to income ratio	33.4	33.2	32.7	33.2	33.9
Return on average assets	1.31	1.44	1.43	1.33	1.28
Return on average equity	22.1	23.4	22.9	21.0	19.7
Effective tax rate	22.9	23.5	25.0	25.0	25.0
Dividend payout	38.9	34.0	30.0	30.0	30.0

Source: Company, ABCI Securities estimates

ICBC – PB band chart

Source: Winds, ABCI Securities estimates

Balance sheet forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Cash & cash equivalent	2,282,999	2,762,156	2,997,066	3,278,925	3,615,834
Dues from banks	511,087	810,287	1,635,236	2,326,624	3,134,193
Investment securities	3,732,268	3,919,727	4,176,876	4,443,444	4,717,911
Net loans and advances	6,623,372	7,594,019	8,619,657	9,686,118	10,895,405
Total interest earning assets	**13,149,726**	**15,086,189**	**17,428,835**	**19,735,111**	**22,363,343**
Property and equipment	103,412	119,028	130,931	141,405	152,718
Other non-interest earning assets	205,484	271,651	292,725	315,452	339,962
Total assets	**13,458,622**	**15,476,868**	**17,852,491**	**20,191,969**	**22,856,023**
Customer deposits	11,145,557	12,261,219	13,977,724	15,878,525	17,955,997
Due to banks	1,048,002	1,341,290	1,676,613	2,095,766	2,514,919
Subordinated debt	102,264	204,161	244,993	269,493	296,442
Total interest bearing liabilities.	**12,305,137**	**13,848,096**	**15,949,041**	**18,303,437**	**20,838,942**
Current taxes	33,759	51,535	64,419	77,303	92,763
Deferred tax liabilities	318	103	118	136	157
Other liabilities	297,751	619,311	715,245	511,242	433,784
Total liabilities	**12,636,965**	**14,519,045**	**16,728,824**	**18,892,118**	**21,365,645**
Share capital	349,019	349,084	349,084	349,084	349,084
Reserves	471,411	607,658	773,448	949,575	1,140,043
Minorities	1,227	1,081	1,135	1,192	1,251
Shareholder's equity	**821,657**	**957,823**	**1,123,667**	**1,299,851**	**1,490,378**
Growth (%)					
Cash & cash equivalent	35	21	9	9	10
Dues from banks	(21)	59	102	42	35
Investment securities	4	5	7	6	6
Net loans and advances	19	15	14	12	12
Total interest earning assets	14	15	16	13	13
Total assets	**14**	**15**	**15**	**13**	**13**
Customer deposits	14	10	14	14	13
Due to banks	5	28	25	25	20
Subordinated debt	36	100	20	10	10
Total interest bearing liabilities.	13	13	15	15	14
Total liabilities	**14**	**15**	**15**	**13**	**13**
Shareholder's equity	**21**	**17**	**17**	**16**	**15**
Key ratio (%)					
Loan to deposits	60.9	63.5	63.3	62.7	62.4
Core CAR	10.0	10.1	10.3	10.5	10.6
Total CAR	12.3	13.2	13.5	13.5	13.5
NPL ratio	1.08	0.94	1.10	1.30	1.40
NPL growth	(17.2)	(0.3)	36.2	33.6	23.6
Net bad debt charge ratio	0.4	0.4	0.4	0.5	0.5
Provision to total loans	2.5	2.5	2.6	2.7	2.8
Provision coverage	228.2	266.9	226.8	202.4	191.2

Source: Company, ABCI Securities estimates

Major change of forecasts

	New			Old			New vs old (%)		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
NIM (%)	2.64	2.54	2.41	2.53	2.34	2.28	11bps	20bps	13bps
EPS (Rmb)	0.68	0.73	0.79	0.65	0.68	0.76	6	7	4
BPS (Rmb)	3.22	3.72	4.27	3.19	3.66	4.19	1	2	2
Provision (Rmb mn)	35,075	47,629	49,477	43,920	53,717	68,173	(20)	(11)	(27)

Source: ABCI Securities estimates

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Company Report

CCB (939 HK) - Buy
Diversified Bank Sector

Key data

Share price (HK$)	6.09
Target price (HK$)	7.63
Upside potential (%)	25.3
52Wk H/L(HK$)	6.62/4.71
Issued shares (mn)	
- A shares	9,594
- H-shares	240,417
Market cap	
- A share (Rmb mn)	41,157
- H-share (HK$mn)	1,461,141
30-day avg vol (HK$mn)	1,659
Major shareholder (%)	
Huijin	57.03

Source: Company & Bloomberg

Operating income mix (1H12) (%)

Corporate banking	46.9
Personal banking	28.0
Treasury	21.3
Others	3.8

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	2.9	1.7
3-mth	21.6	4.9
6-mth	11.2	(7.5)

**Relative to Hang Seng Index*
Source: Bloomberg

1 year price performance

Source: Bloomberg

Analyst
Report Date: 7 December 2012
Johannes Au
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Resilient position to compete

CCB deliberately increased its bond issuances to fuel up both its capital position and loan growth capacity. This would exempt the bank from future deposit cost competitions. CCB will be among the most resilient banks withstanding sector headwinds in 2013. We raise our net profit by 5% each year in 2012E and 2013E, with our new TP of HKD7.63 implying 25% upside.

Low LDR differentiation. Going into 2H12, we note that CCB has turned more active in bond issuances, including dim sum bond through its London subsidiary and the planned subordinated bonds. We consider bond issuance as a strategy to boost the bank's total CAR and loan growth capacity. Given 65% LDR in September 2012, CCB does not urgently need to expand its deposits base for potential loan growth. With the use of debt financing, interest costs are under better control as the bank does not need to over-participate in deposits fights.

Prudent risk management. We continue to favor CCB for its prudent operating style, especially during asset quality worsening cycle. Although we are not an advocate of a massive asset quality deterioration scenario, the CBRC statistics showed that NPL is on the rising. Despite CCB had high-end 1% NPLs and 2.7% provision to total loans in September 2012, we firmly believe that this is due to conservative strategy rather than a real asset quality deterioration.

Earnings upgrade. We upgrade CCB's NIM by 9-20bps each year over 2012-14E, which implies a flat NIM in 2012E, followed by 8bps and 11bps reduction in 2013E and 2014E respectively. With low provisions expectation given high provisioning ratio in prior year and stable fee income growth at 8-10% each year over 2012-14E, we raise our net profit forecasts by 5% each year in 2012E and 2013E, or 9.7% CAGR over 2012-14E.

Valuation. We roll over our target price to 2013E P/B at 1.47x. Our new target price of HKD7.63 implies 25% upside, given 19.5% sustainable ROE and 15.2% COE. **Our Buy rating remains.**

Risk factors: Acceleration of interest rate liberalization, sharp deterioration of asset quality, increasing competition from non-bank FIs and faster than expected operating cost growth.

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (Rmb mn)	325,780	399,403	459,014	507,865	549,661
Y-Y Chg (%)	21.0	22.6	14.9	10.6	8.2
Net profit (Rmb mn)	134,844	169,258	202,788	211,420	223,741
Y-Y Chg (%)	26.3	25.5	19.8	4.3	5.8
EPS (Rmb)	0.54	0.68	0.81	0.85	0.89
BVPS (Rmb)	2.79	3.24	3.77	4.32	4.91
PE (x)	--	7.5	6.3	6.0	5.7
PB (x)	--	1.57	1.35	1.17	1.03
ROAE (%)	21.5	22.4	23.1	20.9	19.4

Source: Company, ABCI Securities estimates

Income statement forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Net interest income	251,500	304,572	356,901	396,712	427,420
Non-interest income	74,280	94,831	102,113	111,153	122,242
Of which: fees and commissions	66,132	86,994	93,990	102,657	113,356
Operating income	**325,780**	**399,403**	**459,014**	**507,865**	**549,661**
Operating expenses	(119,394)	(142,437)	(161,045)	(185,174)	(214,267)
Amortization	(1,972)	(2,100)	(2,226)	(2,360)	(2,501)
Pre-prov. operating profits	**204,414**	**254,866**	**295,743**	**320,332**	**332,893**
Impairment losses	(29,292)	(35,783)	(32,160)	(45,527)	(42,076)
Operating profit	175,122	219,083	263,582	274,805	290,817
Non-operating income	34	24	25	26	28
Profit before tax	**175,156**	**219,107**	**263,607**	**274,831**	**290,845**
Tax	(40,125)	(49,668)	(60,630)	(63,211)	(66,894)
Minority interests	(187)	(181)	(190)	(200)	(210)
Net profit	**134,844**	**169,258**	**202,788**	**211,420**	**223,741**
Growth (%)					
Net interest income	19	21	17	11	8
Non-interest income	29	28	8	9	10
Of which: fees and commissions	38	32	8	9	10
Operating income	**21**	**23**	**15**	**11**	**8**
Operating expenses	16	19	13	15	16
Amortization	5	6	6	6	6
Pre-prov. operating profits	**25**	**25**	**16**	**8**	**4**
Impairment losses	15	22	(10)	42	(8)
Operating profit	26	25	20	4	6
Non-operating income	100	(29)	5	5	5
Profit before tax	**26**	**25**	**20**	**4**	**6**
Tax	26	24	22	4	6
Minority interests	134	(3)	5	5	5
Net profit	**26**	**26**	**20**	**4**	**6**
Per share data (Rmb)					
EPS	0.54	0.68	0.81	0.85	0.89
BVPS	2.79	3.24	3.77	4.32	4.91
DPS	0.21	0.24	0.28	0.30	0.31
Key ratio (%)					
Net interest margin	2.49	2.70	2.71	2.63	2.52
Net interest spread	2.40	2.57	2.58	2.51	2.40
Cost to income ratio	37.3	36.2	35.6	36.9	39.4
Return on average assets	1.32	1.47	1.53	1.39	1.31
Return on average equity	21.5	22.4	23.1	20.9	19.4
Effective tax rate	22.9	22.7	23.0	23.0	23.0
Dividend payout	39.3	34.9	35.0	35.0	35.0

Source: Company, ABCI Securities estimates

CCB – PB band chart

Source: Winds, ABCI Securities estimates

Balance sheet forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Cash & cash equivalent	2,029,104	2,579,854	3,085,776	3,530,189	3,997,652
Dues from banks	142,280	385,792	731,610	914,513	1,097,416
Investment securities	2,887,653	2,718,654	2,981,308	3,266,393	3,471,027
Net loans and advances	5,526,026	6,325,194	7,162,658	8,057,336	9,059,842
Total interest earning assets	**10,585,063**	**12,009,494**	**13,961,353**	**15,768,432**	**17,625,938**
Property and equipment	83,434	94,222	105,529	116,082	125,368
Other non-interest earning assets	141,820	178,118	211,601	247,805	283,680
Total assets	**10,810,317**	**12,281,834**	**14,278,482**	**16,132,318**	**18,034,986**
Customer deposits	9,075,369	9,987,450	11,537,981	13,002,142	14,406,089
Due to banks	749,809	1,044,954	1,306,193	1,567,431	1,818,220
Subordinated debt	79,901	119,861	143,833	165,408	181,949
Total interest bearing liabilities	**9,923,415**	**11,211,177**	**13,061,647**	**14,823,349**	**16,510,532**
Current taxes liabilities	34,241	47,189	52,852	59,194	65,113
Deferred tax liabilities	243	358	501	677	880
Other liabilities	151,513	206,449	213,862	160,768	223,251
Total liabilities	**10,109,412**	**11,465,173**	**13,328,862**	**15,043,987**	**16,799,776**
Share capital	250,011	250,011	250,011	250,011	250,011
Reserves	446,781	561,130	693,261	831,020	976,803
Minorities	4,113	5,520	6,348	7,300	8,395
Shareholder's equity	**700,905**	**816,661**	**949,620**	**1,088,331**	**1,235,209**
Growth (%)					
Cash & cash equivalent	(1)	27	20	14	13
Dues from banks	15	171	90	25	20
Investment securities	13	(6)	10	10	6
Net loans and advances	18	14	13	12	12
Total interest earning assets	12	13	16	13	12
Total assets	**12**	**14**	**16**	**13**	**12**
Customer deposits	13	10	16	13	11
Due to other banks & FIs	(8)	39	25	20	16
Subordinated term debt	0	50	20	15	10
Total interest bearing liabilities.	11	13	17	13	11
Total liabilities	**12**	**13**	**16**	**13**	**12**
Shareholder's equity	**25**	**17**	**16**	**15**	**13**
Key ratio (%)					
Loan to deposits	62.5	65.0	63.8	63.8	64.7
Core CAR	10.4	11.0	10.8	10.9	11.0
Total CAR	12.7	13.7	13.5	13.5	13.6
NPL ratio	1.14	1.09	1.24	1.37	1.49
NPL growth	(10.3)	9.6	28.4	25.2	22.1
Net bad debt charge ratio	0.5	0.5	0.4	0.5	0.4
Provision to total loans	2.5	2.6	2.7	2.8	2.9
Provision coverage	221.1	241.4	214.2	203.7	191.0

Source: Company, ABCI Securities estimates

Major change of forecasts

	New			Old			New vs old (%)		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
NIM (%)	2.71	2.63	2.52	2.61	2.43	2.41	10bps	20bps	11bps
EPS (Rmb)	0.81	0.85	0.89	0.77	0.81	0.92	5	5	(3)
BPS (Rmb)	3.77	4.32	4.91	3.75	4.27	4.87	1	1	1
Provision (Rmb mn)	35,160	45,527	42,076	39,518	46,459	47,775	(19)	(2)	(12)

Source: ABCI Securities estimates

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Company Report

ABC (1288 HK) - Buy
Diversified Bank Sector

Benefit from a late start

Although ABC has kicked off its IPO and business reform later than other 'big five' peers, ABC could benefit from the late start and outperform at current stage. On asset quality, ABC saw double NPL reduction and the highest NIM in 3Q12. Besides, ABC's extensive county networks will generate more new business opportunities to boost profit growth. We raise our TP to HKD4.23 with 23% upside.

Improving asset quality. With late business reforms for public offering, we continue to see double reduction of NPL ratio and NPL balance in ABC's 3Q12 results, which reduced by 5bps and 0.7% respectively. We expect the improvement of asset quality through enhancing risk management and loans restructuring remains intact. As a result, we reduce our provision forecasts by 13-24% each year over 2012-14E.

Signals from recent acquisition. ABC acquired 51% of Jiahe Life Insurance in November with Rmb2.6tn, being the last 'big five' banks to own an insurance unit. Although the business scale of Jiahe insignificantly benefits ABC's operating income, the acquisition showed ABC's ability to closely match with competitors' business development.. With the huge county networks, ABC could further generate more business opportunities to boost profit growth.

The highest NIM among the 'big five' banks. ABC's NIM has stabilized at 2.76% in 3Q12 after 24bps Q-Q narrowed in 2Q12. With the highest NIM among the 'big five' banks, we forecast ABC's NIM to mildly reduce by 7-13bps each year over 2012-14E, and remains the highest among the 'big five' banks. With lower provision forecasts, we raise our net profit forecasts by 6% and 1% in 2013E and 2014E respectively, or 13.1% CAGR over 2012-14E.

Valuation. After rolling over to 2013E target P/B and adjusting sustainable ROE and COE to 19.6% and 16.4% respectively, our Gordon Growth Valuation suggests the new target price at HKD4.23, which is equivalent to 1.31x 2013E target PB implying 23% upside from current price. **Buy maintains.**

Risk factors: Acceleration of interest rate liberalization, sharp deterioration of asset quality, increasing competition from non-bank FIs, increase in deposit costs and slower county economic growth.

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (Rmb mn)	292,253	379,756	436,356	493,070	542,263
Y-Y Chg (%)	30.7	29.9	14.9	13.0	10.0
Net profit (Rmb mn)	94,873	121,927	157,560	165,250	177,475
Y-Y Chg (%)	46.0	28.5	29.2	4.9	7.4
EPS (Rmb)	0.36	0.38	0.49	0.51	0.55
BVPS (Rmb)	1.67	2.00	2.34	2.70	3.09
PE (x)	--	7.5	5.8	5.6	5.2
PB (x)	--	1.43	1.22	1.06	0.93
ROAE (%)	21.4	20.5	22.3	20.2	18.9

Source: Company, ABCI Securities estimates

Key data

Share price (HK$)	3.43
Target price (HK$)	4.23
Upside potential (%)	23.3
52Wk H/L(HK$)	3.98/2.72
Issued shares (mn)	
- A share	294,054
- H-share	30,739
Market cap	
- A share (Rmb mn)	770,425
- H-share (HK$mn)	105,434
30-day avg vol (HK$mn)	434
Major shareholder (%)	
Huijin	40.13

Source: Company & Bloomberg

Operating income mix (1H12) (%)

Corporate banking	56.3
Personal banking	36.1
Treasury	7.0
Others	0.6

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	0.6	(0.6)
3-mth	24.7	7.6
6-mth	9.2	(9.2)

**Relative to Hang Seng Index*
Source: Bloomberg

1 year price performance

Source: Bloomberg

Analyst
Report Date: 7 December 2012
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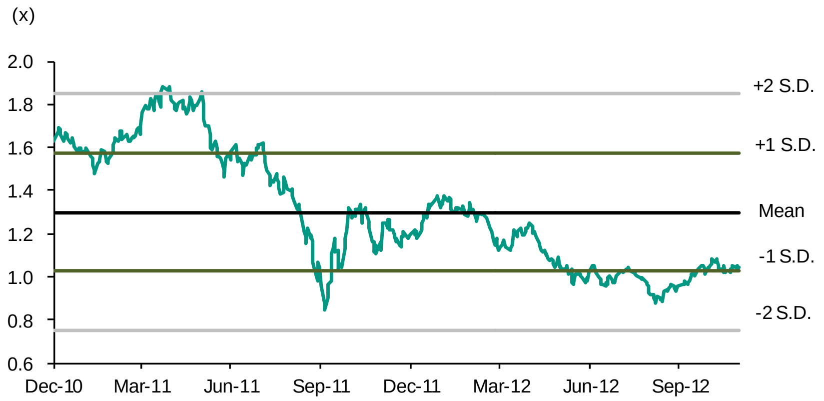
Income statement forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Net interest income	242,152	307,199	353,982	399,894	430,338
Non-interest income	50,101	72,557	82,375	93,176	111,925
Of which: fees and commissions	46,128	68,750	79,262	91,199	104,840
Operating income	**292,253**	**379,756**	**436,356**	**493,070**	**542,263**
Operating expenses	(116,811)	(144,200)	(166,918)	(200,678)	(238,106)
Amortization	(11,296)	(13,130)	(14,443)	(16,609)	(18,603)
Pre-prov. operating profits	**164,146**	**222,426**	**254,995**	**275,782**	**285,555**
Impairment loans losses	(43,412)	(64,225)	(50,330)	(61,127)	(55,018)
Operating profit	120,734	158,201	204,665	214,656	230,537
Profit before tax	**120,734**	**158,201**	**204,665**	**214,656**	**230,537**
Tax	(25,827)	(36,245)	(47,073)	(49,371)	(53,023)
Minority interests	(34)	(29)	(32)	(35)	(39)
Net profit	**94,873**	**121,927**	**157,560**	**165,250**	**177,475**
Growth (%)					
Net interest income	33.3	26.9	15.2	13.0	7.6
Non-interest income	19.3	44.8	13.5	13.1	20.1
Of which: fees and commissions	29.4	49.0	15.3	15.1	15.0
Operating income	**30.7**	**29.9**	**14.9**	**13.0**	**10.0**
Operating expenses	18.2	23.4	15.8	20.2	18.7
Amortization	4.8	16.2	10.0	15.0	12.0
Pre-prov. operating profits	**43.9**	**35.5**	**14.6**	**8.2**	**3.5**
Impairment loans losses	8.1	47.9	(21.6)	21.5	(10.0)
Operating profit	63.3	31.0	29.4	4.9	7.4
Profit before tax	**63.3**	**31.0**	**29.4**	**4.9**	**7.4**
Tax	189.3	40.3	29.9	4.9	7.4
Minority interests	240.0	(14.7)	10.0	10.0	10.0
Net profit	**46.0**	**28.5**	**29.2**	**4.9**	**7.4**
Per share data (Rmb)					
EPS	0.36	0.38	0.49	0.51	0.55
BVPS	1.67	2.00	2.34	2.70	3.09
DPS	0.15	0.13	0.15	0.15	0.16
Key ratio (%)					
Net interest margin	2.57	2.85	2.77	2.70	2.57
Net interest spread	2.50	2.73	2.52	2.48	2.39
Cost to income ratio	40.0	38.0	38.3	40.7	43.9
Return on average assets	0.99	1.11	1.24	1.11	1.03
Return on average equity	21.4	20.5	22.3	20.2	18.9
Effective tax rate	21.4	22.9	23.0	23.0	23.0
Dividend payout	52.3	35.0	30.0	30.0	30.0

Source: Company, ABCI Securities estimates

ABC – PB band chart



Source: Winds, ABCI Securities estimates

Balance sheet forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Cash & cash equivalent	2,082,332	2,487,082	2,815,903	3,195,284	3,635,872
Dues from banks	698,599	873,997	1,640,554	2,269,426	2,930,155
Investment securities	2,527,431	2,628,052	2,847,787	3,082,728	3,334,735
Net loans and advances	4,789,008	5,398,863	6,184,264	7,063,268	8,076,165
Total interest earning assets	**10,097,370**	**11,387,994**	**13,488,509**	**15,610,706**	**17,976,927**
Property and equipment	121,391	131,815	143,678	155,173	166,035
Other non-interest earning assets	118,645	157,768	193,848	233,760	277,231
Total assets	**10,337,406**	**11,677,577**	**13,826,035**	**15,999,639**	**18,420,192**
Customer deposits	8,887,905	9,622,026	11,127,753	12,923,048	14,978,390
Due to banks	582,982	724,286	1,158,858	1,448,572	1,738,286
Subordinated debt	62,344	119,390	137,299	157,893	181,577
Total interest bearing liabilities.	**9,533,231**	**10,465,702**	**12,423,909**	**14,529,513**	**16,898,254**
Current taxes	16,413	37,868	49,228	62,520	78,150
Deferred tax liabilities	82	27	31	36	41
Other liabilities	245,444	524,192	591,822	529,880	440,833
Total liabilities	**9,795,170**	**11,027,789**	**13,064,991**	**15,121,948**	**17,417,278**
Share capital	324,794	324,794	324,794	324,794	324,794
Reserves	217,277	324,807	436,045	552,672	677,879
Minorities	165	187	206	224	242
Shareholder's equity	**542,236**	**649,788**	**761,045**	**877,690**	**1,002,915**
Growth (%)					
Cash & cash equivalent	37	19	13	13	14
Dues from banks	31	25	88	38	29
Investment securities	(3)	4	8	8	8
Net loans and advances	19	13	15	14	14
Total interest earning assets	16	13	18	16	15
Total assets	**16**	**13**	**18**	**16**	**15**
	0	0	0	0	0
Customer deposits	19	8	16	16	16
Due to banks	(3)	24	60	25	20
Subordinated debt	13	92	15	15	15
Total interest bearing liabilities.	17	10	19	17	16
Total liabilities	**15**	**13**	**18**	**16**	**15**
Shareholder's equity	**58**	**20**	**17**	**15**	**14**
Key ratio (%)					
Loan to deposits	55.8	58.5	58.1	57.3	56.5
Core CAR	9.8	9.5	9.1	9.1	9.2
Total CAR	11.6	11.9	11.3	11.2	11.3
NPL ratio	2.0	1.6	2.0	2.5	2.8
NPL growth	(16.5)	(13.0)	34.1	29.4	24.7
Net bad debt charge ratio	1.0	1.2	0.8	0.9	0.7
Provision to total loans	3.4	4.1	4.3	4.6	4.6
Provision coverage	168.1	263.1	237.2	222.2	206.1

Source: Company, ABCI Securities estimates

Major change of forecasts

	New			**Old**			**New vs old (%)**		
	2012E	**2013E**	**2014E**	**2012E**	**2013E**	**2014E**	**2012E**	**2013E**	**2014E**
NIM (%)	2.77	2.70	2.57	2.75	2.57	2.47	2bps	13bps	10bps
EPS (Rmb)	0.49	0.51	0.55	0.46	0.50	0.58	6	1	(5)
BPS (Rmb)	2.34	2.70	3.09	2.32	2.68	3.08	1	1	0
Provision (Rmb mn)	50,330	61,127	55,018	66,485	70,871	62,981	(24)	(14)	(13)

Source: ABCI Securities estimates

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Company Report

MINSHENG BANK (1988 HK) - Buy
Diversified Bank Sector

Key data

Share price (HK$)	8.23
Target price (HK$)	10.10
Upside potential (%)	22.7
52Wk H/L(HK$)	8.24/5.35
Issued shares (mn)	
- A share	22,588
- H-share	5,778
Market cap	
- A share (Rmb mn)	148,852
- H-share (HK$mn)	47,553
30-day avg vol (HK$mn)	273
Major shareholder (%)	
New Hope Group	8.38

Source: Company & Bloomberg

Operating income mix (1H12) (%)

Corporate banking	44.3
Retail banking	26.5
Treasury	27.3
Others	1.9

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	6.8	5.5
3-mth	38.2	19.2
6-mth	9.6	(8.9)

**Relative to Hang Seng Index*
Source: Bloomberg

1 year price performance

Source: Bloomberg

Analyst

Report Date: 7 December 2012
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Shifting business mix

Given short SME loans re-pricing duration, we believe NIM narrowing from previous rate cuts have largely done in 3Q12. The proactive business mix modification for fee income growth in 3Q12 showed the bank's intention to offset NIM pressure from interest rate liberalization. We adjust our NIM and profit forecasts, and reiterate our Buy rating with a new TP HKD10.1 implying 23% upside.

NIM squeeze is largely done. Under the interest rate liberalization, we saw MSB's 3Q NIM, was narrowed by another 15bps Q-Q after 30bps reduction in 2Q12. We believe this was due to a faster-than-expected SME loan re-pricing. This implies the impact from previous rate cuts have largely done, and we look forward to seeing a stabilized NIM in 4Q12. In view of this, we expect 2012E NIM to arrive at 2.97%, followed by 10bps and 11bps reduction in 2013E and 2014E respectively.

Shift to fee incomes. We notice that MSB has started to modify its business mix to offset weakening NIM by shifting income driver to non-interest incomes. Non-interest income to operating income of MSB was over 25% in 3Q12 while peers ranged between 12-20%. MSB strategically build up its customer base with fees instead of credit relationship, which was reflected by the asymmetric growth in MSE customer loan balance by 21% and the growth of MSE customers by 73% in 9M12.

Earnings adjustment. In view of stabilizing NIM outlook and robust growth of fee income in 4Q12, we raise net profit forecasts by 2% in 2012E, followed by 2% and 8% reduction in 2013E and 2014E respectively. We maintain our provision forecasts at similar level before 2013E but lower 2014E provisions by 20% on the back of a stabilizing economic outlook.

Valuation. With 11.6% EPS CAGR over 2012-14E, we roll over our target price to 2013E book value. Gordon Growth Valuation shows MSB's 2013E target P/B at 1.29x after we adjust the sustainable ROE and COE to 17.8% and 15.2% respectively. Our new target price of HKD10.1 implies 23% upside. **Reiterate Buy.**

Risk factors: Acceleration of interest rate liberalization, sharp deterioration of asset quality, increasing competition from non-bank FIs and competition from larger banks in SMEs segment.

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (Rmb mn)	54,667	82,196	100,809	115,051	127,222
Y-Y Chg (%)	30.0	50.4	22.6	14.1	10.6
Net profit (Rmb mn)	17,581	27,920	34,247	36,989	38,769
Y-Y Chg (%)	45.2	58.8	22.7	8.0	4.8
EPS (Rmb)	0.78	1.05	1.28	1.38	1.45
BVPS (Rmb)	3.90	4.85	5.55	6.54	7.58
PE (x)	--	6.5	5.4	5.0	4.7
PB (x)	--	1.41	1.24	1.05	0.90
ROAE (%)	18.3	23.9	23.9	21.6	19.4

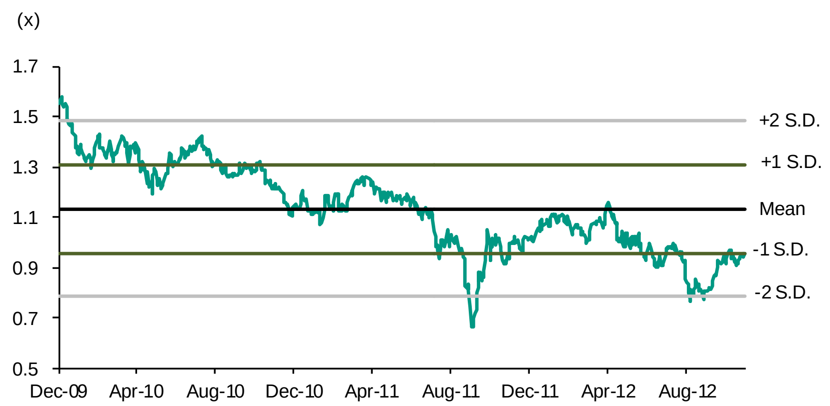
Source: Company, ABCI Securities estimates

Income statement forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Net interest income	45,873	64,821	74,172	84,742	89,460
Non-interest income	8,794	17,375	26,637	30,310	37,762
Of which: fees and commissions	8,289	15,101	20,899	27,699	34,839
Operating income	**54,667**	**82,196**	**100,809**	**115,051**	**127,222**
Operating expenses	(25,146)	(35,352)	(43,203)	(51,923)	(61,572)
Amortization	(1,041)	(1,293)	(1,616)	(1,972)	(2,366)
Pre-prov. operating profits	**28,480**	**45,551**	**55,990**	**61,157**	**63,285**
Impairment loans losses	(5,504)	(8,376)	(9,561)	(10,994)	(10,665)
Operating profit	22,976	37,175	46,429	50,163	52,620
Profit before tax	**22,976**	**37,175**	**46,429**	**50,163**	**52,620**
Tax	(5,288)	(8,732)	(11,607)	(12,541)	(13,155)
Minority interests	(107)	(523)	(575)	(633)	(696)
Net profit	**17,581**	**27,920**	**34,247**	**36,989**	**38,769**
Growth (%)					
Net interest income	42	41	14	14	6
Non-interest income	(10)	98	53	14	25
Of which: fees and commissions	78	82	38	33	26
Operating income	**30**	**50**	**23**	**14**	**11**
Operating expenses	24	41	22	20	19
Amortization	44	24	25	22	20
Pre-prov. operating profits	**36**	**60**	**23**	**9**	**3**
Impairment loans losses	4	52	14	15	(3)
Operating profit	47	62	25	8	5
Profit before tax	**47**	**62**	**25**	**8**	**5**
Tax	49	65	33	8	5
Minority interests	2,575	389	10	10	10
Net profit	**45**	**59**	**23**	**8**	**5**
Per share data (Rmb)					
EPS	0.78	1.05	1.28	1.38	1.45
BVPS	3.90	4.85	5.55	6.54	7.58
DPS	0.10	0.30	0.30	0.33	0.34
Key ratio (%)					
Net interest margin	2.94	3.14	2.97	2.87	2.76
Net interest spread	2.82	2.96	2.76	2.71	2.66
Cost to income ratio	46.0	43.0	42.9	45.1	48.4
Return on average assets	1.08	1.38	1.34	1.22	1.14
Return on average equity	18.3	23.9	23.9	21.6	19.4
Effective tax rate	23.0	23.5	25.0	25.0	25.0
Dividend payout	15.2	28.7	25.0	25.0	25.0

Source: Company, ABCI Securities estimates

MSB – PB band chart



Source: Bloomberg, ABCI Securities estimates

Balance sheet forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Cash & cash equivalent	266,835	332,805	408,474	458,771	513,122
Dues from banks	274,847	411,103	725,605	817,823	919,728
Investment securities	180,943	211,485	245,426	249,488	259,831
Net loans and advances	1,037,723	1,178,285	1,378,478	1,549,935	1,737,668
Total interest earning assets	**1,760,348**	**2,133,678**	**2,757,983**	**3,076,017**	**3,430,348**
Property and equipment	8,809	9,971	10,968	11,955	12,912
Other non-interest earning assets	54,580	85,415	102,847	121,709	140,497
Total assets	**1,823,737**	**2,229,064**	**2,871,798**	**3,209,681**	**3,583,757**
Customer deposits	1,417,877	1,644,738	1,908,997	2,159,493	2,417,831
Due to banks	226,482	320,326	672,685	739,953	813,948
Subordinated debt	21,048	31,030	43,442	49,958	56,453
Total interest bearing liabilities	**1,665,407**	**1,996,094**	**2,625,124**	**2,949,404**	**3,288,232**
Current taxes	4,940	5,770	6,636	7,631	8,775
Other liabilities	48,133	93,090	77,766	61,808	66,021
Total liabilities	**1,718,480**	**2,094,954**	**2,709,526**	**3,018,843**	**3,363,028**
Share capital	26,715	26,715	28,366	28,366	28,366
Reserves	77,393	102,882	128,942	157,062	186,519
Minorities	1,149	4,513	4,964	5,411	5,844
Shareholder's equity	**105,257**	**134,110**	**162,272**	**190,839**	**220,729**
Growth (%)					
Cash & cash equivalent	302	25	23	12	12
Dues from banks	(7)	50	77	13	12
Investment securities	16	17	16	2	4
Net loans and advances	20	14	17	12	12
Total interest earning assets	27	21	29	12	12
Total assets	**28**	**22**	**29**	**12**	**12**
Customer deposits	26	16	16	13	12
Due to other banks & FIs	36	41	110	10	10
Subordinated term debt and others	(10)	47	40	15	13
Total interest bearing liabilities.	26	20	32	12	11
Total liabilities	**28**	**22**	**29**	**11**	**11**
Shareholder's equity	**18**	**27**	**21**	**18**	**16**
Key ratio (%)					
Loan to deposits	74.6	73.3	74.0	73.7	73.9
Core CAR	8.1	7.9	7.4	7.4	7.9
Total CAR	10.4	10.9	10.9	10.7	11.1
NPL ratio	0.69	0.63	0.95	1.20	1.35
NPL growth	(0.8)	2.7	87.3	69.1	42.2
Net bad debt charge ratio	0.5	0.7	0.7	0.7	0.6
Provision to total loans	1.9	2.2	2.4	2.7	2.8
Provision coverage	270.4	357.3	240.0	176.7	147.4

Source: Company, ABCI Securities estimates

Major change of forecasts

	New			Old			New vs old (%)		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
NIM (%)	2.97	2.87	2.76	3.06	2.91	2.85	(9)bps	(4)bps	(9)bps
EPS (Rmb)	1.28	1.38	1.45	1.26	1.41	1.57	2	(2)	(8)
BPS (Rmb)	5.55	6.54	7.58	5.81	6.89	8.08	(5)	(5)	(6)
Provision (Rmb mn)	9,561	10,994	10,665	9,641	11,674	13,288	(1)	(6)	(20)

Source: ABCI Securities estimates

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Company Report

BANK OF CHINA (3988 HK) - Hold
Diversified Bank Sector

Key data

Share price (HK$)	3.30
Target price (HK$)	3.63
Upside potential (%)	10.0
52Wk H/L(HK$)	3.45/2.72
Issued shares (mn)	
- A share	195,525
- H-share	83,622
Market cap	
- A share (Rmb mn)	541,604
- H-share (HK$mn)	275,954
30-day avg vol (HK$mn)	958
Major shareholder (%)	
Huijin	67.55

Source: Company & Bloomberg

Operating income mix (1H12) (%)

Corporate banking	54.8
Personal banking	30.0
Treasury	9.6
Others	5.6

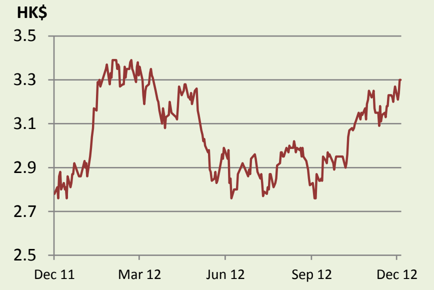
Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	2.5	1.3
3-mth	19.6	3.1
6-mth	16.6	(3.0)

**Relative to Hang Seng Index*
Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst
Report Date: 7 December 2012
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Uninspiring business outlook

BOC aims to increase profit contribution from BOCHK to 30%, and we believe this is mainly due to the organic growth generated from offshore renminbi business. Given BOCHK's unique renminbi clearing position, BOC reported 7bps Q-Q NIM improvement and 20% fee income Q-Q growth in 3Q12. However, in view of the increasing reliance on HK subsidiary and declining deposits base, the NIM outlook remains weak and we maintain Hold rating.

NIM concerns. Although BOC reported a set of decent result in 3Q12 with NIM expansion by 7bps Q-Q, the surging NIM was due to the improvement of BOCHK's NIM for renminbi loan business and reduction of BOC's deposit base, which dropped by 0.4% and 1.5% in 2Q and 3Q respectively. This raised BOC's LDR to 71.5% by the end of September, which adds concerns to future deposit fight under 75% LDR limit.

Strong fee momentum. Nevertheless, with the strategic clearing position of BOCHK, BOC obviously owns a unique fee platform and can benefit from renminbi internationalization. As opposed to most peers in 3Q12, BOC's fee income rose by 20% Q-Q and we believe this was mainly supported by cross-border business opportunities.

Earning adjustment. We expect 2012E NIM to remain flat Y-Y given stable NIM trend in the first three quarters. However we believe BOC's NIM will see more pressure in 2013E by 24bps reduction, as a result of interest rate liberalization. We also revise down loan provisions and raise our 2012E net profit forecast by 5% and lower our forecasts by 6% and 7% in 2013E and 2014E respectively.

Reliance on HK subsidiary. In view of the increasing reliance on BOCHK, BOC aims to increase offshore profit contribution to 30%. We roll over our Gordon Growth Valuation target price to 2013E book value after adjusting the sustainable ROE and COE to 14.7% and 15.4% respectively. Our new target price HKD3.63 implies 10% upside. We maintain **Hold rating.**

Risk factors: Acceleration of interest rate liberalization, sharp deterioration of asset quality, increasing competition from non-bank FIs and slower-than-expected RMB internationalization.

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (Rmb mn)	276,518	328,298	372,795	388,454	429,706
Y-Y Chg (%)	18.9	18.7	13.6	4.2	10.6
Net profit (Rmb mn)	104,418	124,182	140,085	131,695	143,425
Y-Y Chg (%)	29.2	18.9	12.8	(6.0)	8.9
EPS (Rmb)	0.37	0.44	0.50	0.47	0.51
BVPS (Rmb)	2.31	2.59	2.93	3.25	3.60
PE (x)	--	6.3	5.5	5.9	5.4
PB (x)	--	1.06	0.94	0.85	0.76
ROAE (%)	18.0	18.2	18.2	15.3	15.0

Source: Company, ABCI Securities estimates

Income statement forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Net interest income	193,962	228,064	261,205	263,109	286,819
Non-interest income	82,556	100,234	111,590	125,345	142,887
Of which: fees and commissions	54,483	64,662	69,914	79,058	90,790
Operating income	**276,518**	**328,298**	**372,795**	**388,454**	**429,706**
Operating expenses	(122,409)	(140,815)	(163,454)	(187,629)	(213,369)
Amortization	(10,319)	(12,257)	(14,708)	(17,503)	(20,654)
Pre-prov. operating profits	**154,109**	**187,483**	**209,341**	**200,825**	**216,337**
Impairment losses on loans	(12,993)	(19,355)	(20,251)	(26,469)	(26,738)
Operating profit	141,116	168,128	189,090	174,357	189,599
Non-operating income	1,029	516	567	624	686
Profit before tax	**142,145**	**168,644**	**189,657**	**174,981**	**190,285**
Tax	(32,454)	(38,325)	(42,945)	(36,127)	(39,129)
Minority interest	(5,273)	(6,137)	(6,628)	(7,158)	(7,731)
Net profit	**104,418**	**124,182**	**140,085**	**131,695**	**143,425**
Growth (%)					
Net interest income	22	18	15	1	9
Non-interest income	12	21	11	12	14
Of which: fees and commissions	18	19	8	13	15
Operating income	**19**	**19**	**14**	**4**	**11**
Operating expenses	14	15	16	15	14
Amortization	19	19	20	19	18
Pre-prov. operating profits	**23**	**22**	**12**	**(4)**	**8**
Impairment losses on loans	(13)	49	5	31	1
Operating profit	28	19	12	(8)	9
Non-operating income	25	(50)	10	10	10
Profit before tax	**28**	**19**	**12**	**(8)**	**9**
Tax	26	18	12	(16)	8
Minority interest	16	16	8	8	8
Net profit	**29**	**19**	**13**	**(6)**	**9**
Per share data					
EPS	0.37	0.44	0.50	0.47	0.51
BVPS	2.31	2.59	2.93	3.25	3.60
DPS	0.15	0.15	0.16	0.15	0.16
Key ratio (%)					
Net interest margin	2.07	2.12	2.13	1.89	1.83
Net interest spread	1.98	2.01	2.00	1.77	1.71
Cost to income ratio	44.3	42.9	43.8	48.3	49.7
Return on average assets	1.09	1.11	1.11	0.92	0.89
Return on average equity	18.0	18.2	18.2	15.3	15.0
Effective tax rate	22.8	22.7	22.6	20.6	20.6
Dividend payout	39.0	34.8	32.0	32.0	32.0

Source: Company, ABCI Securities estimates

BOC – PB band chart

Source: Winds, ABCI Securities estimates

Balance sheet forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Cash & equivalent	636,126	590,964	795,580	875,493	954,487
Dues from banks	1,787,638	2,538,017	3,124,606	3,812,096	4,572,413
Investment securities	2,055,324	2,000,759	2,208,377	2,430,634	2,645,489
Net loans and advances	5,537,765	6,203,138	6,822,709	7,475,459	8,184,342
Total interest earning assets	**10,016,853**	**11,332,878**	**12,951,272**	**14,593,682**	**16,356,730**
Property and equipment	137,407	152,850	160,493	163,702	166,976
Derivative assets	39,974	42,757	43,612	44,484	45,374
Other non-interest earning assets	265,631	301,581	316,660	332,493	349,118
Total assets	**10,459,865**	**11,830,066**	**13,472,036**	**15,134,362**	**16,918,198**
Customer deposits	7,733,537	8,817,961	10,054,175	11,399,565	12,831,290
Due to banks	1,580,030	1,718,237	1,890,061	2,060,166	2,245,581
Subordinated debt	151,386	196,626	220,221	242,243	266,468
Total interest bearing liabilities.	**9,464,953**	**10,732,824**	**12,164,457**	**13,701,974**	**15,343,339**
Trading liabilities	35,711	35,473	36,182	36,906	37,644
Current taxes	22,775	29,353	32,288	35,517	39,069
Deferred tax liabilities	3,919	4,486	4,710	4,946	5,193
Other liabilities	256,357	272,036	382,542	412,924	452,666
Total liabilities	**9,783,715**	**11,074,172**	**12,620,181**	**14,192,267**	**15,877,911**
Share capital	279,147	279,147	279,147	279,147	279,147
Reserves	365,018	444,015	539,322	628,894	726,405
Minority interest	31,985	32,732	33,387	34,054	34,735
Shareholders' equity	**676,150**	**755,894**	**851,856**	**942,095**	**1,040,287**
Growth (%)					
Cash & equivalent	46	(7)	35	10	9
Dues from banks	34	42	23	22	20
Investment securities	13	(3)	10	10	9
Net loans and advances	15	12	10	10	9
Total interest earning assets	19	13	14	13	12
Total assets	**20**	**13**	**14**	**12**	**12**
Customer deposits	17	14	14	13	13
Due to banks	37	9	10	9	9
Subordinated debt	33	30	12	10	10
Total interest bearing liabilities.	20	13	13	13	12
Total liabilities	**19**	**13**	**14**	**12**	**12**
Shareholders' equity	**24**	**12**	**13**	**11**	**10**
Key ratio (%)					
Loan to deposits	73.2	71.9	69.4	67.1	65.3
Core CAR	10.6	10.5	9.7	9.1	8.4
Total CAR	12.6	13.0	11.9	11.0	10.1
NPL ratio	1.10	1.00	1.43	1.63	1.81
NPL growth	(3.5)	1.3	57.3	25.4	21.9
Net bad debt charge ratio	0.2	0.3	0.3	0.4	0.3
Provision to total loans	2.2	2.2	2.2	2.3	2.4
Provision coverage	196.7	220.7	155.7	141.1	129.5

Source: Company, ABCI Securities estimates

Major change of forecasts

	New			Old			New vs old (%)		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
NIM (%)	2.13	1.89	1.83	2.03	1.89	1.81	10bps	0bps	2bps
EPS (Rmb)	0.50	0.47	0.51	0.48	0.50	0.55	5	(6)	(7)
BPS (Rmb)	2.93	3.25	3.60	2.92	3.26	3.63	1	0	(1)
Provision (Rmb mn)	20,251	26,469	26,738	24,437	29,934	27,468	(17)	(12)	(3)

Source: ABCI Securities estimates

ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Company Report

BANKCOMM (3328 HK) - Hold
Diversified Bank Sector

Key data

Share price (HK$)	5.76
Target price (HK$)	6.01
Upside potential (%)	4.3
52Wk H/L(HK$)	6.55/4.75
Issued shares (mn)	
- A share	39,250
- H-share	35,012
Market cap	
- A share (Rmb mn)	171,919
- H-share (HK$mn)	201,668
30-day avg vol (HK$mn)	169
Major shareholder (%)	
MOF	26.52

Source: Company & Bloomberg

Net interest income mix (1H12) (%)

Corporate banking	64.5
Retail banking	20.4
Treasury	14.8
Others	0.3

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	2.1	0.9
3-mth	18.3	2.0
6-mth	12.7	(6.2)

**Relative to Hang Seng Index*
Source: Bloomberg

1 year price performance

Source: Bloomberg

Analyst
Report Date: 7 December 2012
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Anemic outlook

Given its higher LDR and reliance on interbank funding, BoCom will be more susceptible to greater funding cost pressures in 2013. The rise of NPL ratio and balance in 3Q12 raised concern about asset quality. We think the changes of balance sheet mix and geographic mix are need for BoCom to turn around dim business outlook. Hold rating remains.

Geographical impact on NPL. Given BoCom's 50% loan mix in Eastern China, BoCom's asset quality was deteriorated in 3Q12 with which the NPL ratio and NPL balance rose by 5bps and 8.7% Q-Q respectively. Although we do not expect a massive asset quality deterioration to happen, BoCom should underperform in a credit quality worsening cycle unless the bank is able to demonstrate a meaningful geographical change in loan mix.

Funding cost shadow. Although BoCom historically has a better loan pricing power than other 'big five' banks, the NIM trend was relatively weak in 2012. This was due to the large portion of funding from interbank liabilities which had high the funding cost. BoCom's weak deposit absorption ability as reflected by its high level of LDR. We hence forecast BoCom's NIM to reduce by 16bps and 14bps in 2013E and 2014E respectively.

Earning upgrade due to improved economic outlook. We upgrade BoCom's earnings by 5% and 3% in 2012E and 2013E, followed by a 3% reduction in 2014E because of lower provisions from a better economic outlook. We also revise down 11-20% provision reduction each year in 2012-14E which could offset weakening NIM.

Hold remains. We roll over target price to 2013E P/B, with the new target price at HKD6.01 implying 4% upside. This has factored into our adjusted sustainable ROE and COE at 14.5% and 15.7% respectively. Still, we have hesitation on BoCom's geographic mix and downside concern with its NIM. We **maintain Hold rating.**

Risk factors: Acceleration of interest rate liberalization, sharp deterioration of asset quality, increasing competition from non-bank FIs and large exposure in interbank liabilities.

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (Rmb mn)	104,743	127,795	151,084	169,725	188,696
Y-Y Chg (%)	28.4	22.0	18.2	12.3	11.2
Net profit (Rmb mn)	39,042	50,735	57,607	59,247	62,910
Y-Y Chg (%)	29.6	29.9	13.5	2.8	6.2
EPS (Rmb)	0.74	0.86	0.93	0.96	1.02
BVPS (Rmb)	3.96	4.39	5.05	5.70	6.36
PE (x)	--	5.6	5.2	5.0	4.7
PB (x)	--	1.09	0.95	0.84	0.75
ROAE (%)	20.2	20.5	19.7	17.8	16.9

Source: Company, ABCI Securities estimates

Income statement forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Net interest income	84,995	102,601	123,560	139,419	155,164
Non-interest income	19,748	25,194	27,525	30,306	33,532
Of which: fees and commissions	14,479	19,549	21,029	22,894	25,155
Operating income	**104,743**	**127,795**	**151,084**	**169,725**	**188,696**
Operating expenses	(42,543)	(49,865)	(61,213)	(73,762)	(87,864)
Pre-prov. operating profits	62,200	77,930	89,872	95,963	100,832
Impairment losses on loans	(12,246)	(12,479)	(15,905)	(19,889)	(20,056)
Operating profit	49,954	65,451	73,966	76,074	80,776
Profit before tax	**49,954**	**65,451**	**73,966**	**76,074**	**80,776**
Tax	(10,782)	(14,634)	(16,273)	(16,736)	(17,771)
Minorities interests	130	82	86	90	95
Net profit	**39,042**	**50,735**	**57,607**	**59,247**	**62,910**
Growth (%)					
Net interest income	27	21	20	13	11
Non-interest income	32	28	9	10	11
Of which: fees and commissions	27	35	8	9	10
Operating income	**28**	**22**	**18**	**12**	**11**
Operating expenses	33	17	23	21	19
Pre-prov. operating profits	**26**	**25**	**15**	**7**	**5**
Impairment losses on loans	9	2	27	25	1
Operating profit	30	31	13	3	6
Profit before tax	**30**	**31**	**13**	**3**	**6**
Tax	34	36	11	3	6
Minorities interests	(4)	(37)	5	5	5
Net profit	**30**	**30**	**14**	**3**	**6**
Per share data					
EPS	0.74	0.86	0.93	0.96	1.02
BVPS	3.96	4.39	5.05	5.70	6.36
DPS	0.22	0.21	0.28	0.31	0.36
Key ratio (%)					
Net interest margin	2.42	2.56	2.59	2.42	2.29
Net interest spread	2.35	2.46	2.51	2.34	2.19
Cost to income ratio	40.6	39.0	40.5	43.5	46.6
Return on average assets	1.08	1.19	1.14	0.99	0.90
Return on average equity	20.2	20.5	19.7	17.8	16.9
Effective tax rate	21.6	22.4	22.0	22.0	22.0
Dividend payout	31.7	25.5	30.0	32.0	35.0

Source: Company, ABCI Securities estimates

BoCom – PB band chart

Source: Winds, ABCI Securities estimates

Balance sheet forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Cash & equivalent	586,554	736,999	833,696	951,717	1,087,849
Dues from banks	262,976	443,240	696,301	972,733	1,248,046
Investment securities	814,551	805,531	860,222	942,170	1,028,966
Net loans and advances	2,190,490	2,505,385	2,989,215	3,518,165	4,070,560
Total interest earning assets	**3,854,571**	**4,491,155**	**5,379,434**	**6,384,784**	**7,435,422**
Property and equipment	33,911	37,017	38,868	40,811	42,852
Other non-interest earning assets	63,111	83,005	75,101	67,967	61,528
Total assets	**3,951,593**	**4,611,177**	**5,493,402**	**6,493,562**	**7,539,802**
Customer deposits	2,867,847	3,283,232	3,869,296	4,551,753	5,302,189
Due to banks	717,032	854,499	1,110,849	1,388,561	1,638,502
Subordinated debt	52,000	81,803	80,985	81,795	82,613
Total interest bearing liabilities	**3,636,879**	**4,219,534**	**5,061,129**	**6,022,109**	**7,023,304**
Trading liabilities	14,379	18,921	20,813	22,894	25,184
Current taxes	4,615	4,247	4,672	5,139	5,653
Deferred tax liabilities	66	21	22	23	24
Other liabilities	71,997	95,666	93,385	89,435	90,568
Total liabilities	**3,727,936**	**4,338,389**	**5,180,021**	**6,139,600**	**7,144,733**
Share capital	56,260	61,886	61,886	61,886	61,886
Capital surplus	166,513	209,916	250,411	290,883	331,870
Minorities	884	986	1,085	1,193	1,312
Shareholder's equity	**223,657**	**272,788**	**313,382**	**353,963**	**395,068**
Growth (%)					
Cash & equivalent	35	26	13	14	14
Dues from banks	18	69	57	40	28
Investment securities	5	(1)	7	10	9
Net loans and advances	22	14	19	18	16
Total interest earning assets	19	17	20	19	16
Total assets	**19**	**17**	**19**	**18**	**16**
Customer deposits	21	14	18	18	16
Due to banks	10	19	30	25	18
Subordinated debt	(2)	57	(1)	1	1
Total interest bearing liabilities	18	16	20	19	17
Total liabilities	**19**	**16**	**19**	**19**	**16**
Shareholder's equity	**36**	**22**	**15**	**13**	**12**
Key ratio (%)					
Loan to deposits	78.0	78.0	79.1	79.2	78.8
Core CAR	9.6	9.3	10.1	9.4	8.8
Total CAR	12.4	12.4	13.2	12.1	11.2
NPL ratio	1.12	0.86	0.97	1.13	1.20
NPL growth	(0.1)	(12.0)	35.5	36.5	23.6
Net bad debt charge ratio	0.6	0.5	0.6	0.6	0.5
Provision to total loans	2.1	2.2	2.3	2.5	2.6
Provision coverage	185.8	256.4	236.2	217.2	211.9

Source: Company, ABCI Securities estimates

Major change of forecasts

		New			Old			New vs old (%)	
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
NIM (%)	2.59	2.42	2.29	2.47	2.25	2.17	11bps	17bps	12bps
EPS (Rmb)	0.93	0.96	1.02	0.88	0.93	1.05	5	3	(3)
BPS (Rmb)	5.05	5.70	6.36	5.01	5.65	6.33	1	1	1
Provision (Rmb mn)	15,905	19,889	20,056	18,965	22,240	25,088	(16)	(11)	(20)

Source: ABCI Securities estimates

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Company Report

CM BANK (3968 HK) - Hold
Diversified Bank Sector

Key data

Share price (HK$)	15.54
Target price (HK$)	15.60
Upside potential (%)	0.4
52Wk H/L(HK$)	18.3/12.02
Issued shares (mn)	
- A share	17,666
- H-share	3,910
Market cap	
- A share (Rmb mn)	184,611
- H-share (HK$mn)	60,769
30-day avg vol (HK$mn)	261
Major shareholder (%)	
China Merchants Group	18.01

Source: Company & Bloomberg

Operating income mix (1H12) (%)

Wholesale banking	61.0
Retail banking	39.0

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	3.8	2.6
3-mth	24.0	7.0
6-mth	4.7	(12.9)

**Relative to Hang Seng Index*
Source: Bloomberg

1 year price performance

Source: Bloomberg

Analyst
Report Date: 7 December 2012
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Lack of catalyst

Although CMB achieved a robust non-interest income growth in 3Q12, high level of loan portfolio exposed to riskier sectors and coastal regions raises concern over asset quality deterioration. Amid the delay of rights issue, capital concerns remain intact. We maintain Hold rating after rolling over our target price to 2013E P/B with minimal adjustment to our forecasts.

Good and bad. We are impressed by CMB's robust growth in fee income through leveraging on its retail customer base. CMB's non-interest income has surged by 36.7% Y-Y in 3Q12 after 26.5% in 2Q12. However CMB's high level of loan portfolio exposed to riskier sectors and coastal areas could unexpectedly hit the banks profit on the downside. CMB's NPL balance grew the fastest among H-share bank by 10% in 3Q12.

Delaying rights issue. CMB has low-end capital position among H-share banks with its core CAR at 8.5% and total CAR at 11.6% by the end of September 2012. Although CMB has already announced its rights issue plan to strengthen its core CAR in accordance to the new capital requirements, such Rmb35bn rights issue is still pending regulatory approval and the delay raises concerns over capital outlook of CMB in 2013.

Minimal change in our forecasts. We raise our NIM forecast by 6-11bps each year in 2012-14E and lower provision cost by 10-21% each year over the same time frame. However these will be partly offset by higher operating cost amid the launch of innovative retail products and there will not have material change to our net profit forecasts.

Maintain Hold rating. We roll over our target price to 2013E P/B at HKD15.6, implying 0.4% upside and target P/B of 1.18x. Our target price was calculated by Gordon Growth Valuation assuming sustainable ROE and COE at 19.6% and 17.5% respectively. Given the loan portfolio risk and equity raising uncertainty, we **reiterate Hold rating.**

Risk factors: Acceleration of interest rate liberalization, sharp deterioration of asset quality, increasing competition from non-bank FIs and rising competition in non-interest income businesses.

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (Rmb mn)	71,692	96,603	113,086	125,975	143,910
Y-Y Chg (%)	38.3	34.7	17.1	11.4	14.2
Net profit (Rmb mn)	25,769	36,129	42,967	44,634	50,202
Y-Y Chg (%)	41.3	40.2	18.9	3.9	12.5
EPS (Rmb)	1.27	1.67	1.99	2.07	2.33
BVPS (Rmb)	6.21	7.65	9.42	11.00	12.83
PE (x)	--	7.8	6.5	6.3	5.6
PB (x)	--	1.69	1.37	1.18	1.01
ROAE (%)	22.7	24.2	23.3	20.3	19.5

Source: Company, ABCI Securities estimates

Income statement forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Net interest income	57,076	76,307	86,882	94,342	106,623
Non-interest income	14,616	20,296	26,204	31,633	37,287
Of which: fees and commissions	11,330	15,628	20,073	24,591	29,302
Operating income	**71,692**	**96,603**	**113,086**	**125,975**	**143,910**
Operating expenses	(32,912)	(41,194)	(49,113)	(58,187)	(68,725)
Pre-prov. operating profits	**38,780**	**55,409**	**63,973**	**67,788**	**75,185**
Impairment losses	(5,501)	(8,350)	(8,244)	(9,900)	(10,074)
Operating profit	33,279	47,059	55,729	57,888	65,111
Non-operating income	64	63	69	76	84
Profit before tax	**33,343**	**47,122**	**55,798**	**57,964**	**65,195**
Tax	(7,574)	(10,995)	(12,834)	(13,332)	(14,995)
Minority interests	0	2	2	2	2
Net profit	**25,769**	**36,129**	**42,967**	**44,634**	**50,202**
Growth (%)					
Net interest income	41	34	14	9	13
Of which: fees and commissions	42	38	28	23	19
Operating income	**38**	**35**	**17**	**11**	**14**
Operating expenses	24	25	19	18	18
Pre-prov. operating profits	**53**	**43**	**15**	**6**	**11**
Impairment losses on loans	85	52	(1)	20	2
Operating profit	49	41	18	4	12
Non-operating income	(7)	(2)	10	10	10
Profit before tax	**49**	**41**	**18**	**4**	**12**
Tax	83	45	17	4	12
Minority interests	na	na	0	0	0
Net profit	**41**	**40**	**19**	**4**	**12**
Per share data					
EPS	1.27	1.67	1.99	2.07	2.33
BVPS	6.21	7.65	9.42	11.00	12.83
DPS	0.29	0.42	0.50	0.52	0.58
Key ratio (%)					
Net interest margin	2.65	3.06	3.06	2.85	2.82
Net interest spread	2.56	2.94	3.04	2.82	2.75
Cost to income ratio	45.9	42.6	43.4	46.2	47.8
Return on average assets	1.15	1.39	1.40	1.25	1.25
Return on average equity	22.7	24.2	23.3	20.3	19.5
Effective tax rate	22.7	23.3	23.0	23.0	23.0
Dividend payout	24.3	25.1	25.0	25.0	25.0

Source: Company, ABCI Securities estimates

CMB – PB band chart

Source: Winds, ABCI Securities estimates

Balance sheet forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Cash & cash equivalent	323,916	471,350	503,911	535,955	579,588
Dues from banks	235,464	205,356	402,603	500,720	586,964
Investment securities	394,176	459,061	540,285	607,218	674,392
Net loans and advances	1,402,160	1,604,371	1,826,949	2,062,581	2,321,904
Total interest earning assets	**2,355,716**	**2,740,138**	**3,273,747**	**3,706,474**	**4,162,847**
Property and equipment	18,397	19,210	19,786	20,380	20,991
Other non-interest earning assets	28,394	35,623	42,574	50,087	57,600
Total assets	**2,402,507**	**2,794,971**	**3,336,107**	**3,776,941**	**4,241,438**
Customer deposits	1,902,231	2,235,040	2,522,254	2,876,263	3,271,229
Due to banks	282,023	315,247	472,871	496,514	521,340
Subordinated debt	31,232	31,187	68,611	68,611	68,611
Total interest bearing liabilities	**2,218,660**	**2,587,667**	**3,077,361**	**3,459,100**	**3,883,320**
Current taxes	4,972	7,112	8,179	9,406	10,816
Deferred tax liabilities	924	864	864	864	864
Other liabilities	43,945	34,318	46,468	70,250	69,485
Total liabilities	**2,268,501**	**2,629,961**	**3,132,872**	**3,539,619**	**3,964,485**
Share capital	21,577	21,577	21,577	21,577	21,577
Reserves	112,429	143,420	181,645	215,731	255,363
Minorities	0	13	13	13	13
Shareholder's equity	**134,006**	**165,010**	**203,235**	**237,321**	**276,953**
Growth (%)					
Cash & cash equivalent	22	46	7	6	8
Dues from banks	6	(13)	96	24	17
Investment securities	5	16	18	12	11
Net loans and advances	21	14	14	13	13
Total interest earning assets	16	16	19	13	12
Total assets	**16**	**16**	**19**	**13**	**12**
Customer deposits	18	17	13	14	14
Due to banks	6	12	50	5	5
Subordinated debt	(0)	(0)	120	0	0
Total interest bearing liabilities.	16	17	19	12	12
Total liabilities	**15**	**16**	**19**	**13**	**12**
Shareholder's equity	44	23	23	17	17
Key ratio (%)					
Loan to deposits	75.3	73.4	74.2	73.5	72.9
Core CAR	8.0	8.2	9.1	9.1	9.4
Total CAR	11.5	11.5	12.7	12.3	12.2
NPL ratio	0.7	0.6	0.8	1.1	1.3
NPL growth	(0.5)	(5.3)	69.6	44.5	33.0
Net bad debt charge ratio	0.4	0.5	0.5	0.5	0.4
Provision to total loans	2.0	2.2	2.4	2.5	2.6
Provision coverage	302.4	400.1	282.5	235.3	207.3

Source: Company, ABCI Securities estimates

Major change of forecasts

	New			Old			New vs old (%)		
	2012E	**2013E**	**2014E**	**2012E**	**2013E**	**2014E**	**2012E**	**2013E**	**2014E**
NIM (%)	3.06	2.85	2.82	3.00	2.75	2.71	6bps	10bps	11bps
EPS (Rmb)	1.99	2.07	2.33	1.96	2.08	2.38	1	0	(2)
BPS (Rmb)	9.42	11.00	12.83	9.39	10.99	12.88	0	0	0
Provision (Rmb mn)	8,244	9,900	10,074	9,179	11,080	12,727	(10)	(11)	(21)

Source: ABCI Securities estimates

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Company Report

CITIC BANK (998 HK) - Hold
Diversified Bank Sector

Key data

Share price (HK$)	4.08
Target price (HK$)	4.42
Upside potential (%)	8.3
52Wk H/L(HK$)	5.15/3.50
Issued shares (mn)	
- A share	31,905
- H-share	14,882
Market cap	
- A share (Rmb mn)	120,2828
- H-share (HK$mn)	60,719
30-day avg vol (HK$mn)	201
Major shareholder (%)	
CITIC Group	61.85

Source: Company & Bloomberg

Operating income mix (1H12) (%)

Corporate banking	76.2
Personal banking	15.2
Treasury	8.6

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	0.5	(0.7)
3-mth	15.6	(0.3)
6-mth	3.6	(13.9)

**Relative to Hang Seng Index*
Source: Bloomberg

1 year price performance

Source: Bloomberg

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No obvious turning point

As expected, low credit cost outlook in 2Q12 was reversed in 3Q12 and we forecast high provisions to continue in coming quarters in order to fulfill the 2.5% total provision to loan requirement. Meanwhile we do not see any obvious turning point to reduce CITICB's NIM pressure as low retail business mix is unlikely to change in near term. Hold rating maintains.

Suring credit cost. As expected, the low credit cost as shown in 2Q12 was not sustainable and the Rmb4bn loan provision made in 3Q12 was 126% higher Y-Y and 13x higher Q-Q. The CITICB's management explained that this was driven by the need to fulfill regulatory 2.5% total provision to loan ratio requirement. As of 3Q12, CITICB's provision to loan ratio was 1.9%, the lowest among H-share banks and we expect the high provisioning outlook to continue in coming quarters. Hence we raise our provision forecast by 30% in 2012E, and 3% for 2013E.

Expanding retail business. We believe CITICB's major development direction is to expand its retail customer base. With only 15% retail business mix, CITICB has suffered from higher NIM pressure than peers. Although the bank has stepped up efforts to expand retail branch networks, we do not expect any material change in near term. We lower our 2012E NIM forecast by 10bps, and expect NIM to reduce by another 12bps and 9bps in 2013E and 14E respectively.

Lower earnings forecasts. By taking into account the weakening NIM outlook and higher provision expectation in coming quarters, we lower our earnings forecasts by 10% in 2012E, followed by 2% and 1% in 2013E and 2014E respectively. These would translate into 7.8% net profit CAGR over 2012-14E.

Hold rating remains. After adjusting our sustainable ROE and COE and rolling over our valuation to 2013E P/B, our Gordon Growth Valuation suggests new target price at HKD4.42, implying 8% upside. As the provisions and NIM concerns remain intact, **we maintain Hold rating.**

Risk factors: Weaker-than-expected economic recovery in China, interest rate liberalization, sharp deterioration of asset quality and slow progress to develop its retail business.

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (Rmb mn)	56,356	77,092	87,235	97,939	111,917
Y-Y Chg (%)	37.5	36.8	13.2	12.3	14.3
Net profit (Rmb mn)	21,509	30,819	32,348	34,106	38,599
Y-Y Chg (%)	50.2	43.3	5.0	5.4	13.2
EPS (Rmb)	0.55	0.72	0.69	0.73	0.82
BVPS (Rmb)	3.08	3.73	4.40	5.08	5.86
PE (x)	--	4.7	4.9	4.7	4.1
PB (x)	--	0.91	0.77	0.67	0.58
ROAE (%)	19.3	20.9	17.0	15.4	15.1

Source: Company, ABCI Securities estimate

Income statement forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Net interest income	48,135	65,106	72,543	82,483	94,195
Non-interest income	8,221	11,986	14,693	15,456	17,722
Of which: fees and commissions	5,696	8,837	10,926	13,036	15,153
Operating income	**56,356**	**77,092**	**87,235**	**97,939**	**111,917**
Operating expenses	(22,284)	(27,956)	(32,272)	(38,040)	(45,264)
Amortization	(354)	(425)	(502)	(597)	(716)
Pre-prov. operating profits	**33,718**	**48,711**	**54,461**	**59,302**	**65,937**
Impairment losses on loans	(5,249)	(7,207)	(10,812)	(13,289)	(13,868)
Operating profit	28,469	41,504	43,650	46,013	52,069
Non-operating income	226	86	99	114	131
Profit before tax	**28,695**	**41,590**	**43,748**	**46,126**	**52,199**
Tax	(6,916)	(10,746)	(11,375)	(11,993)	(13,572)
Minorities interests	270	25	26	28	29
Net profit	**21,509**	**30,819**	**32,348**	**34,106**	**38,599**
Growth (%)					
Net interest income	34	35	11	14	14
Non-interest income	64	46	23	5	15
Of which: fees and commissions	35	55	24	19	16
Operating income	**38**	**37**	**13**	**12**	**14**
Operating expenses	19	25	15	18	19
Amortization	(12)	20	18	19	20
Pre-prov. operating profits	**54**	**44**	**12**	**9**	**11**
Impairment losses on loans	100	37	50	23	4
Operating profit	48	46	5	5	13
Non-operating income	606	(62)	15	15	15
Profit before tax	**49**	**45**	**5**	**5**	**13**
Tax	47	55	6	5	13
Minorities interests	13	(91)	5	5	5
Net profit	**50**	**43**	**5**	**5**	**13**
Per share data					
EPS	0.55	0.72	0.69	0.73	0.82
BVPS	3.08	3.73	4.40	5.08	5.86
DPS	0.07	0.14	0.17	0.18	0.21
Key ratio (%)					
Net interest margin	2.63	3.00	2.78	2.67	2.57
Net interest spread	2.54	2.85	2.60	2.46	2.31
Cost to income ratio	40.2	36.8	37.6	39.5	41.1
Return on average assets	1.12	1.27	1.11	1.04	1.03
Return on average equity	19.3	20.9	17.0	15.4	15.1
Effective tax rate	24.1	25.8	26.0	26.0	26.0
Dividend payout	12.0	22.0	25.0	25.0	25.0

Source: Company, ABCI Securities estimates

CITICB – PB band chart

Source: Winds, ABCI Securities estimates

Balance sheet forecast

(Rmb mn)	2010A	2011A	2012E	2013E	2014E
Cash & cash equivalent	256,323	366,391	408,881	452,942	497,300
Dues from banks	278,220	699,750	623,003	692,026	758,130
Investment securities	269,005	251,176	353,029	435,016	523,991
Net loans and advances	1,246,026	1,410,779	1,641,367	1,893,290	2,186,128
Total interest earning assets	**2,049,574**	**2,728,096**	**3,026,280**	**3,473,273**	**3,965,549**
Property and equipment	10,222	10,388	10,907	11,453	12,025
Trading assets	4,478	4,683	4,917	5,163	5,421
Other non-interest earning assets	17,040	22,714	20,443	18,532	16,806
Total assets	**2,081,314**	**2,765,881**	**3,062,547**	**3,508,421**	**3,999,801**
Customer deposits	1,730,816	1,968,051	2,344,626	2,742,969	3,158,014
Due to banks	153,116	550,028	385,020	404,271	424,484
Subordinated debt	34,915	33,730	59,028	64,930	70,125
Total interest bearing liabilities	**1,918,847**	**2,551,809**	**2,788,673**	**3,212,170**	**3,652,623**
Trading liabilities	14,855	3,764	4,329	4,978	5,725
Current taxes	2,598	4,015	5,019	6,123	7,347
Other liabilities	20,476	27,512	54,221	42,603	55,331
Total liabilities	**1,956,776**	**2,587,100**	**2,852,241**	**3,265,874**	**3,721,026**
Share capital	39,033	46,787	46,787	46,787	46,787
Reserve	81,142	127,709	159,020	191,035	227,264
Minorities	4,363	4,285	4,499	4,724	4,724
Shareholder's equity	**124,538**	**178,781**	**210,306**	**242,546**	**278,775**
Growth (%)					
Cash & equivalent	(9)	43	12	11	10
Dues from banks	34	152	(11)	11	10
Investment securities	30	(7)	41	23	20
Net loans and advances	19	13	16	15	15
Total interest earning assets	17	33	11	15	14
Total assets	**17**	**33**	**11**	**15**	**14**
Customer deposits	29	14	19	17	15
Due to other banks & FIs	(46)	259	(30)	5	5
Subordinated term debt	90	(3)	75	10	8
Total interest bearing liabilities.	17	33	9	15	14
Total liabilities	**17**	**32**	**10**	**15**	**14**
Shareholder's equity	**16**	**44**	**18**	**15**	**15**
Key ratio (%)					
Loan to deposits	73.0	72.9	71.4	70.6	70.9
Core CAR	8.5	9.9	9.8	9.5	9.2
Total CAR	11.3	12.3	11.8	11.2	10.7
NPL ratio	0.67	0.60	0.82	1.03	1.23
NPL growth	(16.0)	0.1	61.3	45.4	37.8
Net bad debt charge ratio	0.4	0.4	0.6	0.6	0.6
Provision to total loans	1.4	1.6	1.9	2.2	2.4
Provision coverage	213.5	272.3	230.7	212.6	194.8

Source: Company, ABCI Securities estimates

Major change of forecasts

		New			Old			New vs old (%)	
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
NIM (%)	2.78	2.67	2.57	2.88	2.62	2.51	(10)bps	5bps	6bps
EPS (Rmb)	0.69	0.73	0.82	0.77	0.75	0.83	(10)	(2)	(1)
BPS (Rmb)	4.40	5.08	5.86	4.46	5.15	5.93	(1)	(1)	(1)
Provision (Rmb mn)	10,812	13,289	13,868	8,302	12,895	14,532	30	3	(5)

Source: ABCI Securities estimates

Disclosures

I, Au Yu Hang, Johannes, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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