

Key Data

Average PER (x)	5.7
Average PBV (x)	1.0
Average Dividend Yield (%)	5.1
Sector 3 months avg vol (HK\$mn)	5,225

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 3Q12 (%)

Net interest income	80.5
Non-interest income	19.5

Source: CBRC

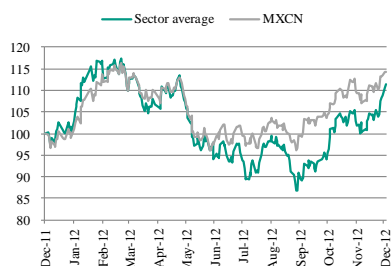
Share performance (%)

	Absolute	Relative*
1-mth	9.4	4.5
3-mth	24.6	8.3
6-mth	18.5	0.8

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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China Bank Sector – Neutral Diversified Banks Industry

Banks' rally on eased capital concerns

The CBRC has announced a looser-than-expected new capital requirement pipeline. H-shares banks are well prepared to satisfy the CAR requirements, hence lifting market concerns on urgent capital raising. We are of the view that regulators are dedicated to maintain stable economic growth through flexible and cautious policy implementations. Our top picks continue to be CCB, ICBC and ABC.

Capital requirement pipeline. The CBRC has announced a detailed structure for the new capital requirements. Systematically important banks (SIB) will need to fulfill 6.5% core CAR and 9.5% total CAR by end-2013, with an additional 0.4% per year to reach 8.5% and 11.5% respectively by end-2018. The CBRC decided not to place any counter cyclical buffer on the back of stabilizing economy. This implementation schedule concurred with our expectation that banks are comfortable to satisfy the new capital requirements without capital pressure amid long transition period.

Banks are well prepared. We think the pipeline came in a looser way than the market's expectation, while H-shares banks had prepared in advance to satisfy as much as 8.5% core CAR from early 2013. As of September 2012, all H-shares banks have maintained over 200bps buffers towards both the core CAR and the total CAR requirement of SIB. In sum, the announcement of implementation pipeline lifted concerns on any urgent capital raising of H-share banks.

Lower policy risk. The CBRC's announcement demonstrated regulators' dedication to maintain a stable banking environment and support economic growth through flexible and cautious policy implementation. This implies that the rolling out of future policies and the faster pace in interest rate liberalization should be taken place on gradual basis, hence lowering policy risk. We reiterate our top picks including CCB, ICBC and ABC.

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

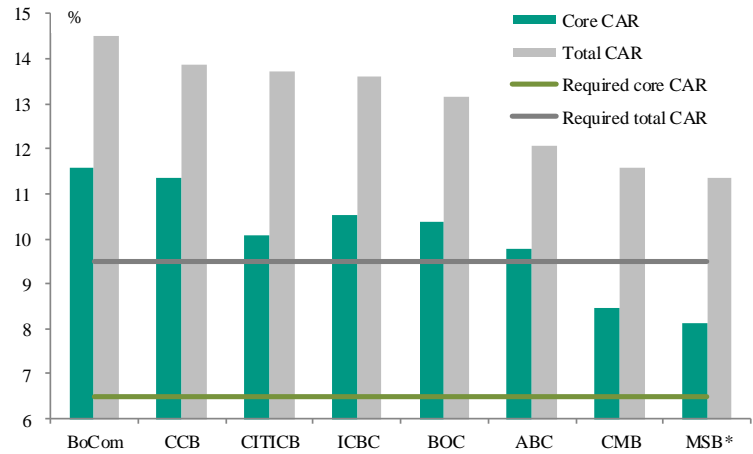
Sector Valuation Summary

Companies	Ticker	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	13E PER	13E PBV	13E Yield
CCB	939 HK	Buy	6.13	7.63	24.5	6.0	1.18	5.5
ICBC	1398 HK	Buy	5.39	6.14	13.9	6.2	1.21	4.5
ABC	1288 HK	Buy	3.53	4.23	19.8	5.8	1.09	5.1
MSB	1988 HK	Buy	8.50	10.10	18.8	5.1	1.08	4.9
BOC	3988 HK	Hold	3.35	3.63	8.4	5.9	0.86	5.7
BoCom	3328 HK	Hold	5.72	6.01	5.1	5.0	0.84	6.3
CMB	3968 HK	Hold	16.16	15.60	(3.5)	6.5	1.22	3.9
CNCB	998 HK	Hold	4.28	4.42	3.3	4.9	0.70	5.3

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: 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

Exhibit 2: CBRC capital requirement implementation pipeline

(%)	2013	2014	2015	2016	2017	2018
Systematically important banks						
Core CAR	6.5	6.9	7.3	7.7	8.1	8.5
Tier 1 CAR	7.5	7.9	8.3	8.7	9.1	9.5
Total CAR	9.5	9.9	10.3	10.7	11.1	11.5
Other banks						
Core CAR	5.5	5.9	6.3	6.7	7.1	7.5
Tier 1 CAR	6.5	6.9	7.3	7.7	8.1	8.5
Total CAR	8.5	8.9	9.3	9.7	10.1	10.5

Source: CBRC, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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