

Key Data

| | |
|---------------------------------|-------|
| Average PER (x) | 5.5 |
| Average PBV (x) | 1.1 |
| Average Dividend Yield (%) | 5.3 |
| Sector 3 months avg vol (HK\$m) | 4,415 |

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 1H12 (%)

| | |
|---------------------|------|
| Net interest income | 79.5 |
| Non-interest income | 20.5 |

Source: CBRC

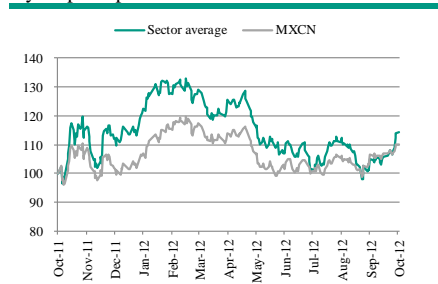
Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 8.9 | 5.3 |
| 3-mth | 12.5 | 2.9 |
| 6-mth | (8.9) | (5.6) |

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

Analyst:

Johannes Au

Tel: (852) 2147 8802

Email: johannesau@abci.com.hk

China Bank Sector – Neutral Diversified Banks Industry

Reducing bank loans reliance

Besides slower loan growth pace in Sep 2012, we noticed that economy reliance of bank loans has gradually lowered from 74% in early 2012 to only 48% in Sep. This was mainly substituted by corporate bonds and trust loans, which would lower risk concentration in banking system. We maintain our Neutral view to the sector despite Huijin's accumulating intention could temporary supports share price.

Bank loan Substitutions. According to PBOC's statistic, aggregate financing of the economy by end of Sep amounted to Rmb1,650bn, of which only 48% funded by bank loans, compare to 74% at the beginning of 2012. We believe this reflected the risk diversification objective of Central Government and regulators to reduce economy reliance on bank loans. Among alternative funding channels, the use of trust loan and corporate bonds had increased most.

Sep loan growth slowed down. Sep Rmb loan growth slowed to Rmb 623bn, 8.3% below market expectation of Rmb680bn, which was also the second lowest month in 2012 in terms of absolute growth. This resulted over 12% loan growth in 9M12, supported by short term loans. Overall growth level well matched with full year loan growth target of 15-16%. We expect 4Q12 loan growth will be sustained at 3Q12 pace, while banks will focus to extend loans in higher yield sectors in order to offset margin squeeze from previous rate cuts.

Cautious view remains. Despite Huijin announced to accumulate big 4 state-owned banks over the next six months, we believe this is more a signal to the market than actual share price support. We expect such acquisition will be taken place in A-share market, with small amount per transaction based on previous experiences. As we do not see significant fundamental changes in the Chinese banking sector, our Neutral view maintain.

Risk factors. Prolonged slowdown of China economy, interest rate liberalization and sharp deterioration of asset quality. Upcoming 3Q12 results in late Oct will reflect the consequence of rate cut in Jun and Jul 2012.

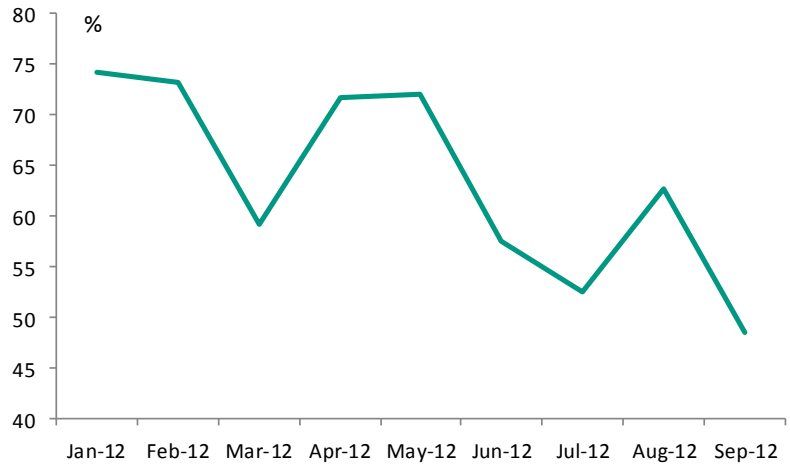
Sector Valuation Summary

| Companies | Ticker | Rating | Price (HK\$) | Target (HK\$) | Upside (%) | 12E PER | 12E PBV | 12E Yield |
|-----------|---------|--------|-----------------|------------------|---------------|------------|------------|--------------|
| CCB | 939 HK | Buy | 5.79 | 6.30 | 8.8 | 6.3 | 1.3 | 5.6 |
| ABC | 1288 HK | Buy | 3.22 | 3.45 | 7.1 | 5.8 | 1.2 | 5.2 |
| MSB | 1988 HK | Buy | 6.68 | 7.66 | 14.7 | 4.4 | 1.0 | 5.7 |
| ICBC | 1398 HK | Hold | 4.94 | 4.44 | (10.1) | 6.3 | 1.3 | 4.6 |
| BOC | 3988 HK | Hold | 3.08 | 2.94 | (4.5) | 5.3 | 0.9 | 5.8 |
| BoCom | 3328 HK | Hold | 5.75 | 5.13 | (10.8) | 5.4 | 1.0 | 5.6 |
| CMB | 3968 HK | Hold | 14.44 | 13.47 | (6.7) | 6.1 | 1.3 | 4.1 |
| CNCB | 998 HK | Hold | 4.08 | 3.61 | (11.5) | 4.4 | 0.8 | 5.6 |

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: Bank loan as % to aggregate financing of the economy



Source: PBOC, ABCI Securities estimates

Exhibit 2: China system bank loan YoY growth



Source: PBOC, ABCI Securities estimates

Disclosures

Analyst Certification

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 \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.

Disclosures of Interests

ABCI Securities Company Limited and/or its member companies ("ABCI") may pursue financial interests to the companies mentioned in the report.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2012 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183