



August 24, 2015  
 Equity Focus  
 Rating: BUY  
 TP: HK\$ 9.28

H-Share price (HK\$) 6.01  
 Est. share price return 54.41%  
 Est. dividend yield 5.66%  
 Est. total return 60.07%

Previous Rating & TP BUY; HK\$ 9.28  
 Previous Report Date Jul 16 2015

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**Key Data**

|                                    |           |
|------------------------------------|-----------|
| 52Wk H/L(HK\$)                     | 8.49/5.01 |
| Issued shares (mn)                 | 2,705.2   |
| H-Shares (mn)                      | 1,157.2   |
| Domestic shares (mn)               | 1,548.0   |
| Market cap                         |           |
| H-shares (HK\$ mn)                 | 6,955     |
| Domestic shares (HK\$ mn)          | 9,304     |
| 3-mth avg daily turnover (HK\$ mn) | 15.37     |
| Major shareholder(s) (%):          |           |
| DSB                                | 17.0      |

Source(s): Company, Bloomberg, ABCI Securities

**1H15 PBT breakdown (%)**

|                     |       |
|---------------------|-------|
| Corporate banking   | 63.09 |
| Retail banking      | 0.41  |
| Treasury operations | 36.50 |

Source(s): Company, ABCI Securities

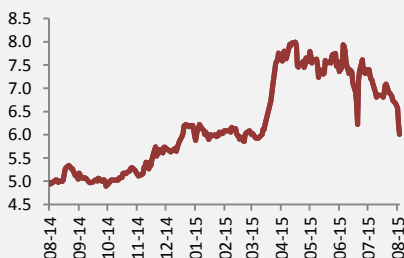
**Share performance (%)**

|       | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | (15.2)   | (4.9)     |
| 3-mth | (21.2)   | (0.7)     |
| 6-mth | (1.2)    | 9.4       |

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg

**BoCQ (1963 HK)**

Stable asset quality in Chongqing; maintain **BUY** on low valuation

- BoCQ's 1H15 net profit grew by 10.3% yoy or accounted for 54.5% of our full-year forecast. The slower profit growth (1H14:18.14% yoy) was mainly due to larger loan provision
- NIM pressure from loan re-pricing starts to be reflected, but increasing effort in balance sheet management resulted in a higher NIM (+2bps qoq) in 2Q15
- Asset quality in home region was impressive with an NPL low at 0.52%, as compared to the bank's overall NPL ratio at 0.9% in June 2015. We expect BoCQ's asset quality to maintain at a reasonable level
- The counter is currently trading at 0.67x FY16E P/B. Maintain **BUY** on low valuation

**Slower profit growth on higher provisions.** BoCQ reported its 1H15 net profit at RMB 1,838mn, representing a yoy growth of 10.3% and accounting for 54.5% of our full-year forecast. Revenue growth was robust at 18.2% yoy (partly supported by 68.4% yoy growth in net fee income) but impairment loss, which grew by 123.5% yoy in 1H15, became the major drag to profit growth.

**Thinner NIM on loan re-pricing.** The 14.3% yoy growth in 1H15 net interest income was mainly supported by the 8.8% loan growth hoh in 1H15. While loan re-pricing from previous rate cuts have started to be reflected (loan yield narrowed by 40bps yoy), BoCQ's NIM only contracted by 28bps yoy, supported by an improving investment yield (+72bps yoy) and stable deposit costs (+ 6bps yoy). Thanks to the bank's increasing effort in assets and liabilities management, BoCQ's 2Q15 NIM was 2bps qoq higher than that in 1Q15. Management is confident that NIM would improve in 2H15.

**Outstanding asset quality in home region.** Although NPLs in central and western China have been rising in recent quarters, BoCQ's NPL ratio remained at 0.9% by June 2015, much lower than the system average. In particular, NPL ratio in its home region was low at 0.52% (+21bps hoh), versus the 2.12% in non-Chongqing region (+32bps hoh). Given that Chongqing accounted for 75.09% of the bank's loan exposure, we believe BoCQ's overall NPL ratio would sustain at a reasonable level.

**Maintain BUY on undemanding valuation.** We believe big banks are more defensive than their smaller counterparts in the current market. Nonetheless, BoCQ's present valuation was low at 0.67x 16E P/B and our TP reflects a 54.41% upside. Maintain **BUY** for BoCQ on undemanding valuation.

**Risk factors:** 1) Asset quality deterioration in Chongqing; 2) Pricing competition from big banks entering local regions; 3) Failure to optimize business mix in retail banking.

**Results and Valuation**

| FY ended Dec 31     | 2013A | 2014A | 2015E | 2016E  | 2017E  |
|---------------------|-------|-------|-------|--------|--------|
| Revenue (RMB mn)    | 5,875 | 7,483 | 9,527 | 10,930 | 12,029 |
| Chg (% YoY)         | 26.1  | 27.4  | 27.3  | 14.7   | 10.1   |
| Net profit (RMB mn) | 2,329 | 2,827 | 3,372 | 3,918  | 4,071  |
| Chg (% YoY)         | 21.0  | 21.4  | 19.3  | 16.2   | 3.9    |
| EPS (RMB)           | 1.10  | 1.05  | 1.08  | 1.11   | 1.16   |
| Chg (% YoY)         | 15.5  | (5.0) | 3.7   | 2.8    | 3.9    |
| BVPS (RMB)          | 4.98  | 5.88  | 7.21  | 8.46   | 9.79   |
| Chg (% YoY)         | 21.9  | 18.0  | 22.6  | 17.3   | 15.7   |
| P/E (x)             | 5.05  | 4.37  | 4.58  | 4.24   | 3.84   |
| P/B (x)             | 1.18  | 0.96  | 0.82  | 0.67   | 0.57   |
| ROAE (%)            | 21.43 | 19.24 | 16.35 | 14.23  | 12.70  |
| ROAA (%)            | 1.28  | 1.17  | 1.12  | 1.12   | 1.00   |
| DPS(RMB)            | 0.22  | 0.27  | 0.25  | 0.29   | 0.30   |
| Yield (%)           | 1.04  | 4.66  | 5.66  | 5.19   | 6.51   |

Source(s): Bloomberg, ABCI estimates



Consolidated income statement (2013A-2017E)

| FY Ended Dec 31 (RMB mn) | 2013A        | 2014A        | 2015E        | 2016E         | 2017E         |
|--------------------------|--------------|--------------|--------------|---------------|---------------|
| Net interest income      | 5,179        | 6,232        | 7,997        | 9,091         | 9,845         |
| Net fee and commission   | 645          | 909          | 1,136        | 1,386         | 1,663         |
| Other operating income   | 51           | 343          | 394          | 453           | 521           |
| <b>Operating income</b>  | <b>5,875</b> | <b>7,483</b> | <b>9,527</b> | <b>10,930</b> | <b>12,029</b> |
| Operating expenses       | (2,283)      | (2,805)      | (3,366)      | (4,040)       | (4,979)       |
| Impairment losses        | (536)        | (890)        | (1,727)      | (1,738)       | (1,697)       |
| Investment in associates | 1            | 2            | 2            | 3             | 4             |
| <b>Profit before tax</b> | <b>3,057</b> | <b>3,790</b> | <b>4,437</b> | <b>5,156</b>  | <b>5,357</b>  |
| Income tax expenses      | (728)        | (963)        | (1,065)      | (1,237)       | (1,286)       |
| <b>Net profit</b>        | <b>2,329</b> | <b>2,827</b> | <b>3,372</b> | <b>3,918</b>  | <b>4,071</b>  |
| <b>Growth (%)</b>        |              |              |              |               |               |
| Net interest income      | 24.8         | 20.3         | 28.3         | 13.7          | 8.3           |
| Net fee and commission   | 75.2         | 41.0         | 25.0         | 22.0          | 20.0          |
| Other operating income   | (63.4)       | 567.8        | 15.0         | 15.0          | 15.0          |
| <b>Operating income</b>  | <b>26.1</b>  | <b>27.4</b>  | <b>27.3</b>  | <b>14.7</b>   | <b>10.1</b>   |
| Operating expenses       | 20.1         | 22.9         | 20.0         | 20.0          | 20.0          |
| Impairment losses        | 123.2        | 66.1         | 94.1         | 0.6           | (2.4)         |
| Investment in associates | na           | na           | 20.0         | 20.0          | 20.0          |
| <b>Profit before tax</b> | <b>21.4</b>  | <b>24.0</b>  | <b>17.1</b>  | <b>16.2</b>   | <b>3.9</b>    |
| Income tax expenses      | 22.8         | 32.3         | 10.6         | 16.2          | 3.9           |
| <b>Net profit</b>        | <b>21.0</b>  | <b>21.4</b>  | <b>19.3</b>  | <b>16.2</b>   | <b>3.9</b>    |
| <b>Per share (RMB)</b>   |              |              |              |               |               |
| EPS                      | 1.10         | 1.05         | 1.08         | 1.11          | 1.16          |
| BVPS                     | 4.98         | 5.88         | 7.21         | 8.46          | 9.79          |
| DPS                      | 0.22         | 0.27         | 0.25         | 0.29          | 0.30          |
| <b>Key ratio (%)</b>     |              |              |              |               |               |
| Net interest margin      | 2.81         | 2.81         | 2.65         | 2.56          | 2.45          |
| Net interest spread      | 2.61         | 2.56         | 2.19         | 2.11          | 2.11          |
| Cost to income ratio     | 38.86        | 37.49        | 35.33        | 36.96         | 41.39         |
| Return on average assets | 1.28         | 1.17         | 1.12         | 1.12          | 1.00          |
| Return on average equity | 21.43        | 19.24        | 16.35        | 14.23         | 12.70         |
| Effective tax rate       | 24.00        | 24.00        | 24.00        | 24.00         | 24.00         |
| Dividend payout          | 26.02        | 26.03        | 26.00        | 26.00         | 26.00         |

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2017E)

| As of Dec 31 (RMB mn)     | 2013A          | 2014A          | 2015E          | 2016E          | 2017E          |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash and bank             | 32,823         | 35,699         | 44,624         | 49,979         | 55,976         |
| Due from bank and FIs     | 32,143         | 54,409         | 64,203         | 74,476         | 86,392         |
| Net loans                 | 88,638         | 104,115        | 120,871        | 139,966        | 160,734        |
| Investment securities     | 49,257         | 75,487         | 89,786         | 105,312        | 123,872        |
| <b>Total IEA</b>          | <b>202,861</b> | <b>269,710</b> | <b>319,484</b> | <b>369,732</b> | <b>426,975</b> |
| Other assets              | 3,926          | 4,821          | 5,785          | 6,827          | 7,919          |
| <b>Total assets</b>       | <b>206,787</b> | <b>274,531</b> | <b>325,269</b> | <b>376,559</b> | <b>434,893</b> |
| Customer deposits         | 148,801        | 167,932        | 188,084        | 210,654        | 235,933        |
| Due to bank and FIs       | 33,750         | 81,636         | 102,861        | 126,519        | 154,353        |
| Subordinated debt         | 4,778          | 3,785          | 4,353          | 5,006          | 5,506          |
| <b>Total IBL</b>          | <b>187,328</b> | <b>253,353</b> | <b>295,298</b> | <b>342,179</b> | <b>395,793</b> |
| Other liabilities         | 5,979          | 5,275          | 4,627          | 4,651          | 4,696          |
| <b>Total liabilities</b>  | <b>193,308</b> | <b>258,628</b> | <b>299,925</b> | <b>346,830</b> | <b>400,488</b> |
| Share capital             | 2,705          | 2,705          | 3,515          | 3,515          | 3,515          |
| Retained earnings         | 5,676          | 6,955          | 9,450          | 12,350         | 15,362         |
| Reserves                  | 5,098          | 6,243          | 12,379         | 13,864         | 15,528         |
| <b>Total equity</b>       | <b>13,479</b>  | <b>15,903</b>  | <b>25,344</b>  | <b>29,729</b>  | <b>34,405</b>  |
| <b>Growth (%)</b>         |                |                |                |                |                |
| Cash and bank             | 30.0           | 8.8            | 25.0           | 12.0           | 12.0           |
| Due from bank and FIs     | 73.4           | 69.3           | 18.0           | 16.0           | 16.0           |
| Net loans                 | 17.8           | 17.5           | 16.1           | 15.8           | 14.8           |
| Investment securities     | 53.3           | 53.2           | 18.9           | 17.3           | 17.6           |
| <b>Total IEA</b>          | <b>34.2</b>    | <b>33.0</b>    | <b>18.5</b>    | <b>15.7</b>    | <b>15.5</b>    |
| <b>Total assets</b>       | <b>32.4</b>    | <b>32.8</b>    | <b>18.5</b>    | <b>15.8</b>    | <b>15.5</b>    |
| Customer deposits         | 30.5           | 12.9           | 12.0           | 12.0           | 12.0           |
| Due to bank and FIs       | 22.0           | 141.9          | 26.0           | 23.0           | 22.0           |
| Subordinated debt         | 166.9          | (20.8)         | 15.0           | 15.0           | 10.0           |
| <b>Total IBL</b>          | <b>30.5</b>    | <b>35.2</b>    | <b>16.6</b>    | <b>15.9</b>    | <b>15.7</b>    |
| <b>Total liabilities</b>  | <b>30.7</b>    | <b>33.8</b>    | <b>16.0</b>    | <b>15.6</b>    | <b>15.5</b>    |
| <b>Total equity</b>       | <b>63.2</b>    | <b>18.0</b>    | <b>59.4</b>    | <b>17.3</b>    | <b>15.7</b>    |
| <b>Key ratio (%)</b>      |                |                |                |                |                |
| Loan to deposits          | 60.82          | 63.39          | 65.81          | 68.15          | 69.91          |
| CT1 CAR                   | 10.82          | 9.63           | 12.62          | 12.81          | 12.84          |
| Total CAR                 | 13.26          | 11.00          | 14.03          | 14.25          | 14.33          |
| NPL ratio                 | 0.39           | 0.39           | 0.50           | 0.60           | 0.70           |
| NPL growth                | 39.57          | 17.62          | 49.08          | 39.17          | 34.05          |
| Net bad debt charge ratio | 0.64           | 1.14           | 1.50           | 1.30           | 1.10           |
| Provision to total loans  | 2.06           | 2.19           | 2.35           | 2.50           | 2.55           |
| Provision coverage        | 528.80         | 562.23         | 470.00         | 416.67         | 364.29         |

Source(s): Company, 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 2009-2013

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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