



China Bank Sector – Neutral Diversified Banks Industry

Key Data

Average PER (x)	6.5
Average PBV (x)	1.2
Average Dividend Yield (%)	4.5
Sector 3 months avg vol (HK\$mn)	5,338

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 3Q12 (%)

Net interest income	80.5
Non-interest income	19.5

Source: CBRC

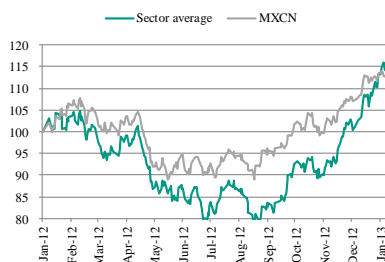
Share performance (%)

	Absolute	Relative*
1-mth	13.0	7.4
3-mth	23.3	11.3
6-mth	41.0	12.1

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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A prudent start under risk management

Local media reported that big four banks have set their 2013 loan target at 9-11% YoY. We expect big four market shares to maintain at 30-35%, with 2013 system loan growth target at Rmb9-9.5tn. Conservatively, we estimate January new loan at Rmb1tn, as our channel checks showed that banks stay prudent in loan approvals. As 2013 and 2014 are the maturity peak of previous granted loans, we are now more cautious on mid-cap banks and reiterate our preferential view on big banks.

Big banks 2013 loan targets. Local media reported that ICBC, CCB, ABC and BOC have budgeted their 2013 loan target at Rmb900bn, Rmb840bn, Rmb700bn and Rmb500bn respectively, representing 9-11% domestic loan growth, in line with our forecast. This implies 30-35% big four banks market share under our macro assumption of Rmb9-9.5tn 2013 loan growth.

A prudent start by banks. Market generally expects January 2013 loan growth to arrive at Rmb1-1.2tn, while we stay conservative to estimate a low-end loan growth of Rmb1tn. Although there are sufficient new loan budget and carry-forward loan applications from December 2012, our channel checks showed that banks are prudent in their loan approval process instead of aggressively bidding for loan growth in the beginning of the year. Besides assets collateral, banks put more focus on the quality of customers and the usage of loan.

Cyclical NPLs risks from SME loans. Despite we believe that overall credit quality remains solid in 2013, banks' SME loan portfolio may face higher NPLs, given that 2013-14 will be the maturity peak of loan granted 2 to 3 years ago. After recent share price rally, we are now more cautious on mid-cap banks, and reiterate our preferential view on big banks. Within our coverage universe of big banks, our top picks continue to be CCB, ICBC and ABC.

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

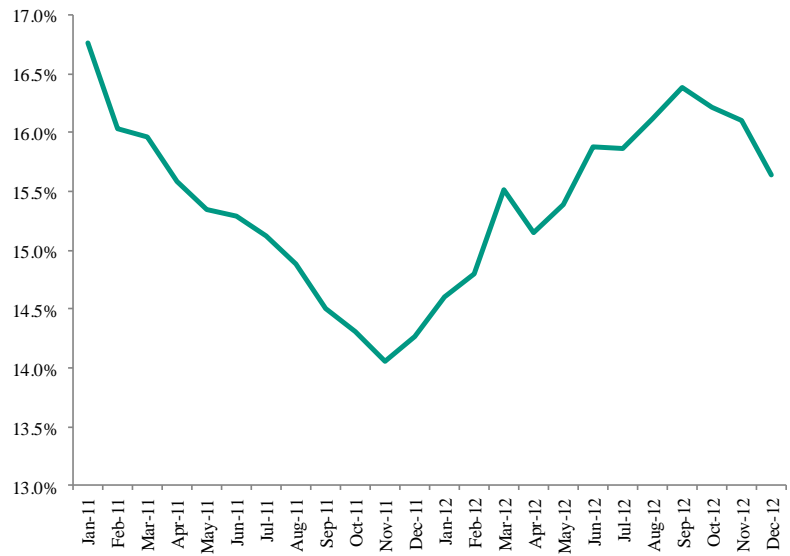
Sector Valuation Summary

Companies	Ticker	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	13E PER	13E PBV	13E Yield
CCB	939 HK	Buy	6.67	7.63	14.4	6.5	1.29	5.0
ICBC	1398 HK	Buy	5.91	6.14	3.9	6.7	1.32	4.1
ABC	1288 HK	Buy	4.22	4.23	0.2	6.9	1.30	4.3
MSB	1988 HK	Buy	10.86	10.10	(7.0)	6.6	1.38	3.9
BOC	3988 HK	Hold	3.76	3.63	(3.5)	6.7	0.96	5.1
BoCom	3328 HK	Hold	6.39	6.01	(5.9)	5.5	0.93	5.6
CMB	3968 HK	Hold	18.44	15.60	(15.4)	7.4	1.40	3.4
CITICB	998 HK	Hold	5.23	4.42	(15.5)	6.0	0.86	4.4

Source: Company, Bloomberg, ABCI Securities estimates

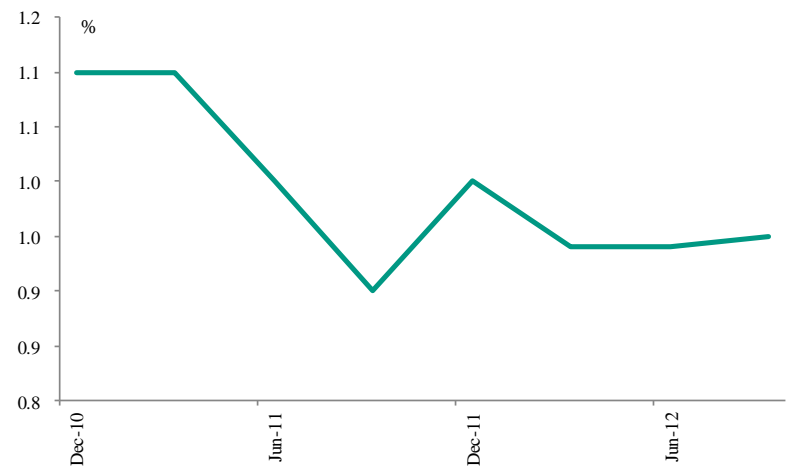


Exhibit 1: China YoY system loan growth



Source: PBOC, ABCI Securities estimates

Exhibit 2: China NPL% trend



Source: PBOC, ABCI Securities estimates

Disclosures

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Definition of equity rating

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

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

Market return: 5-year average market return rate from 2008-2012

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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