



Key Data

Average PER (x)	5.5
Average PBV (x)	1.0
Average Dividend Yield (%)	5.1
Sector 3 months avg vol (HK\$mn)	4,113

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 1H12 (%)

Net interest income	79.5
Non-interest income	20.5

Source: CBRC

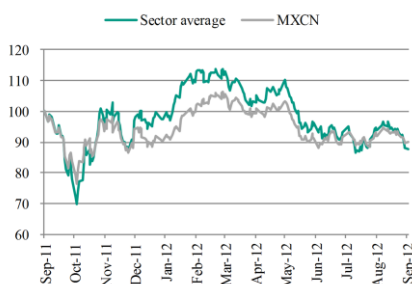
Share performance (%)

	Absolute	Relative*
1-mth	(6.7)	(6.0)
3-mth	(5.9)	(12.6)
6-mth	(22.2)	(14.2)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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**China Bank Sector – Unrated
Diversified Banks Industry**

Outlook remains cautious

This round of 1H12 H-share banks result largely in line with market expectations, with CCB outperforming by improving profitability. Investor concerns mainly on asset quality which we are cautious towards 2H12, despite banks delivered slightly positive tone. We think 1H12 NIM depressions were distorted by interbank cost, which means real rate liberalization impact has yet to coming. We recommend CCB for defensive.

No earning surprise from 1H12. Overall 1H12 results of H-share banks were largely in line with Bloomberg consensus, we only saw China Construction Bank (CCB, 939 HK) and China Citic Bank (CNCB, 998 HK) beating the marketing by 5% and 10%. We are impressed by CCB's record high 2Q12 net profit with 20bps net interest margin (NIM) expansion, which we believe the power of consistent prudence strategy has been started to reflect. Meanwhile CNCB beating for substantially lower than peers credit cost in 2Q12, which we have concern on sustainability.

Asset quality the key focus. Banks delivered a consensus view that asset quality concerns mainly fall on Wenzhou, Zhejiang province, with sector focus in manufacturing, wholesale & retail sectors. Management generally perceive 2H12 assets quality in these area to be manageable without signal of contagion to other regions, while individual banks gave more positive opinion to expect improvement towards 2H12. On this, we would rather remain cautious, and looking to see a steady rising of NPLs.

Distorted NIM depression. Four out of the seven banks disclosed quarterly NIM showed 20-30 narrowing in 2Q12, however we noticed that such squeeze was distorted by the surged or interbank liabilities cost rather than the impact from previous rate cut or interest rate liberalization. We expect NIM impact on rate cut to be reflected from 4Q12 till 2H13 due to re-pricing duration, while any price competition under liberalization is not obvious so far. Under current landscape of deteriorating banking environment, we suggest investor to stick with defensive name like CCB.

Risk factors. Prolonged slowdown of China economy, interest rate liberalization and sharp deterioration of asset quality.

Sector Valuation Summary (2011)

Companies	Ticker	Price (HK\$)	PER	PBV	Div. yield
ICBC	1398 HK	4.2	5.8	1.2	5.9
CCB	939 HK	5.1	6.2	1.2	5.6
ABC	1288 HK	2.8	6.2	1.1	5.6
BOC	3988 HK	2.8	5.3	0.9	6.6
BoCom	3328 HK	5.0	5.1	0.9	5.0
CMB	3968 HK	12.7	6.4	1.3	4.0
MSB	1988 HK	6.0	4.8	0.9	3.0
CNCB	998 HK	3.6	4.2	0.7	4.8

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: H-share banks 1H12 result summary

(%)	Period	ICBC	CCB	ABC	BOC	BoCom	MSB	CMB	CNCB
Growth									
Net profit HoH	1H12	12.5	14.5	20.7	7.6	17.8	36.9	25.7	28.9
Net profit QoQ	2Q12	0.8	6.3	(14.7)	(5.2)	(4.2)	7.7	0.8	26.2
Loan growth HoH	1H12	8.1	8.7	8.0	6.5	9.5	7.9	8.7	7.0
Loan growth QoQ	1Q12	4.7	5.1	4.6	3.9	5.6	3.3	3.8	2.9
Loan growth QoQ	2Q12	3.3	3.4	3.2	2.5	3.7	4.4	4.7	4.0
Deposit growth HoH	1H12	7.5	9.5	10.2	7.5	9.4	10.1	10.6	11.2
Deposit growth QoQ	1Q12	2.9	6.2	5.4	7.9	4.0	2.8	1.8	3.8
Deposit growth QoQ	2Q12	4.5	3.1	4.5	(0.4)	5.2	7.1	8.7	7.2
Major indicators									
LDR	1H12	63.1	66.3	57.3	68.6	71.9	68.3	61.2	70.1
CIR	1H12	25.6	32.7	33.9	29.2	25.6	32.0	32.1	28.5
ROE	1H12	24.3	24.6	23.3	19.0	21.8	27.3	27.0	21.4
Profitability									
NIM	1H12	2.66	2.71	2.85	2.10	2.61	3.14	3.11	2.89
NIM	1Q12	na	2.65	2.97	2.11	2.60	3.29	3.21	3.01
NIM	2Q12	na	2.77	2.73	2.09	2.62	2.99	3.01	2.77
NIM QoQ (bps)	2Q12	na	12	(24)	(2)	2	(30)	(20)	(24)
Asset quality									
NPL%	2011	0.94	1.09	1.55	1.00	0.86	0.63	0.56	0.60
NPL%	1H12	0.89	1.00	1.39	0.94	0.82	0.69	0.56	0.61
NPL % HoH (bps)	1H12	(5.0)	(9.0)	(16.0)	(6.0)	(4.0)	6.0	0.0	1.0
NPL HoH	1H12	2.9	(0.7)	(3.3)	0.5	(8.5)	19.1	8.0	10.0
Special mentioned loan HoH	1H12	7.3	12.9	(2.1)	(0.3)	23.1	15.0	5.5	(27.3)
Overdue loan HoH	1H12	7.0	33.5	15.7	17.4	10.1	63.2	15.5	53.0
Credit cost	1H12	0.24	0.22	0.41	0.28	0.27	0.44	0.25	0.33
NPL coverage	1H12	281.4	262.4	296.3	232.6	273.5	352.4	404.0	273.2
Provision to total loan	1H12	2.51	2.62	4.12	2.19	2.23	2.43	2.24	1.67

Source: Companies, 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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