



Company Rating:
Hold

Target price: HK\$20.60

Key data

Share price (HK\$)	16.58
52Wk H/L(HK\$)	19.02/12.02
Upside potential (%)	24.2
Issued shares (mn)	21,577
Market cap (HK\$m)	342,218
30-day avg vol (HK\$m)	313
Major shareholder (%)	
China Merchants Group	18.01

Source: Company & Bloomberg

Revenue breakdown by segment (1H12) (%)

Wholesale banking	61.0
Retail banking	39.0

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(11.9)	(8.7)
3-mth	12.9	7.5
6-mth	23.9	5.5

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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CMB (3968 HK)

Diversified Banks Industry

Preliminary earnings beating consensus

CMB reported preliminary 2012 net profit of Rmb45.3bn, beating market consensus and our forecast by 10%. Both loans and deposits growth were in line with our forecasts. With lower-than expected NPL ratio at 0.61%, we believe the earnings surprise was mainly driven by lower loan provisions. With the CBRC statistics concurring with our view that big bank are more defensive on assets quality, we continue to prefer big banks and reiterate our top picks of ICBC, CCB and ABC.

Preliminary figures of CMB. CMB reported preliminary FY2012 net profit of Rmb45.3bn, beating both consensus and our forecasts by 10% and representing 25% Y-Y growth. Given that its operating income was 2.5% above our forecasts at Rmb113.4bn, and loans and deposits grew in line with our expectation at 16% and 14% Y-Y respectively, we believe the main variance to our net profit forecast was the better-than-expected loan provisions in 4Q12, with the fact that its NPL ratio was 19bps lower than our forecast at 0.61%.

CBRC's statistics demonstrated stable asset quality. The CBRC's 4Q12 statistics showed that the overall operating performance of China banks remained stable in 4Q12 with LDR and NIM staying at 65.3% and 2.75% respectively. System NPL ratio remained flat at 0.95%, which resulted in higher provision coverage by 5.4% Q-Q to 295.5%. It is worth noting that in line with our sector view, NPL ratio for big banks appeared more defensive, which slightly went down by 1bp Q-Q, while all banks' NPL ratio rose by 2bps in 4Q12.

More earnings surprises to come. Although the full results of China banks will be announced by the end of March, we believe recent announcement of preliminary results by MSB and CMB increases market expectation on more earnings surprises, which may trigger more profit taking activities. We reiterate our Overweight sector view with which any drop in share price will be a good entry point to the sector. Big banks including ICBC, CCB and ABC are our top picks.

Risk factors. Acceleration of interest rate liberalization, collapse of shadow bank system and increasing competition from non-bank FIs.

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (Rmb mn)	71,692	96,603	110,633	127,667	148,410
Y-Y Chg (%)	38.3	34.7	14.5	15.4	16.2
Net profit (Rmb mn)	25,769	36,129	41,199	45,854	53,446
Y-Y Chg (%)	41.3	40.2	14.0	11.3	16.6
EPS (Rmb)	1.27	1.67	1.91	2.13	2.48
BVPS (Rmb)	6.21	7.65	9.33	11.00	12.98
PE (x)	--	--	7.2	6.5	5.6
PB (x)	--	--	1.48	1.26	1.06
Dividend yield (%)	--	--	3.5	3.8	4.5
ROAE (%)	22.7	24.2	22.5	20.9	20.7

Source: Company, ABCI Securities estimates

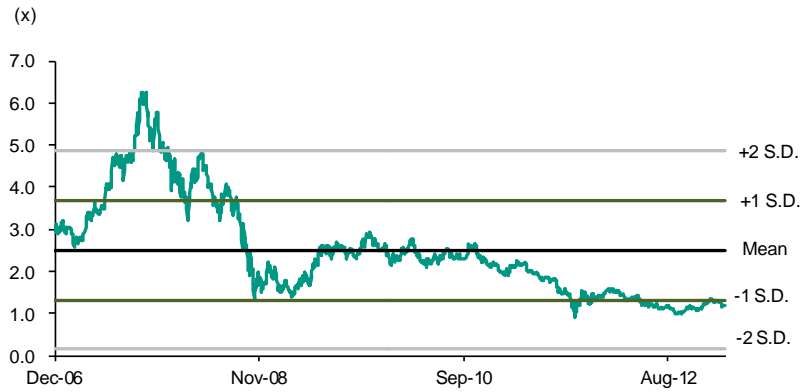


Exhibit 1: CMB preliminary results vs ABCI estimates

(Rmbmn)	2011	2012	Y-Y	ABCI	Actual vs estimate
Operating income	96,157	113,367	17.9%	110,633	2.5%
Net profit	36,129	45,273	25.3%	41,199	9.9%
EPS (Rmb)	1.67	2.10	25.7%	1.91	9.9%
ROAE (%)	24.17	24.77	0.60	22.5	2.27
Total loans	1,641,075	1,904,335	16.0%	1,870,915	1.8%
Total deposits	2,220,060	2,532,638	14.1%	2,522,254	0.4%
NPL (%)	0.56	0.61	0.05	0.80	(0.19)

Source: CMB, ABCI Securities estimates

Exhibit 2: CMB PB band chart



Source: Bloomberg, ABCI Securities estimates



Disclosures

Analyst Certification

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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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