

Dah Sing (440 HK) – Unrated Diversified Banks Industry

Key Data

Share price (HK\$)	25.5
52Wk H/L(HK\$)	33.5 / 18.7
Issued shares (mn)	292.8
Market cap (HK\$m)	7,561
3 months avg vol (HK\$m)	7.66
Major shareholder (%): Wong family	40.47

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 1H12 (%)

Personal banking	37.2
Commercial banking	25.8
Treasury	19.7
Insurance business	16.4
Others	0.9

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	2.6	(1.0)
3-mth	(3.8)	(4.6)
6-mth	(11.3)	(8.5)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Improving 2H12 outlook

Both DSB and DSF delivered decent 1H12 results. On bank side, we saw NIM bottomed out in 4Q11 and start picking up from 1H12, with resilient asset quality surprise the market. Insurance business stabilized with outstanding investment performance, both stock trading close to trough valuation in 2008.

Encouraging banking business. Dah Sing Banking (DSB, 2356 HK - Unrated) reported 1H12 net profits at HK\$568mn, up 2% YoY, in line with Bloomberg consensus. We saw net interest margin (NIM) bottom out in 4Q12 with substantially improvement of 15bps from 2H11 to 1.47%, thanks to the continue balance sheet restructuring for better yield and better deposit cost control with retail. Credit cost reduced by 65% YoY, surprised the result with written back from commercial banking. Growth momentum from Bank of Chongqing still solid, contributing 27% of group profit before tax.

Insurance stable with surprise. Dah Sing (DSF, 440 HK) reported 1H12 net profit of HK\$590mn, up 6% YoY or 15% above Bloomberg consensus. Despite both premium income and insurance profit were broadly the same as 1H11, investment income rose substantially on lower interest rates and outperforming equity investments, pointing to annualized yield over 7.5%, compare to 6% in 1H11. Another indication is that agency force issue has been resolved, the group now able to leverage with DSB more effectively in bancassurance, with its premium mix rose from 60% in 2011 to 71% now.

Looking into 2H12. We believe NIM improvement will continue in a gentler manner in 2H12 as we believe funding market has been stabilized, hence competition of deposit cost is easing, and further asset restructuring should drive NIM by another 3-5bps in 2H12. Asset quality may be slightly negative while manageable in 2H12. Insurance arm shall remain stable, although investment yield could slightly lower. DSB and DSF trading at 0.5x and 0.6x 12E consensus P/B respectively.

Risk factors. Sharp deterioration of asset quality, slowdown of China and HK economy.

Forecast and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Operating income (HK\$ mn)	3,699	3,170	2,724	2,793	2,804
YoY chg (%)	19.9	(14.3)	(14.1)	2.5	0.4
Net profit (HK\$ mn)	1,050	106	626	1,006	1,010
YoY chg (%)	(24.8)	(89.9)	489.5	60.7	0.3
EPS (HK\$)	4.20	0.42	2.41	3.67	3.45
BVPS (HK\$)	41.9	38.0	43.8	48.3	52.2
P/E (x)	--	--	--	--	7.4
P/B (x)	--	--	--	--	0.5
ROAE (%)	10.2	1.0	5.9	7.9	6.9

Source: Company, Bloomberg, ABCI Securities estimates

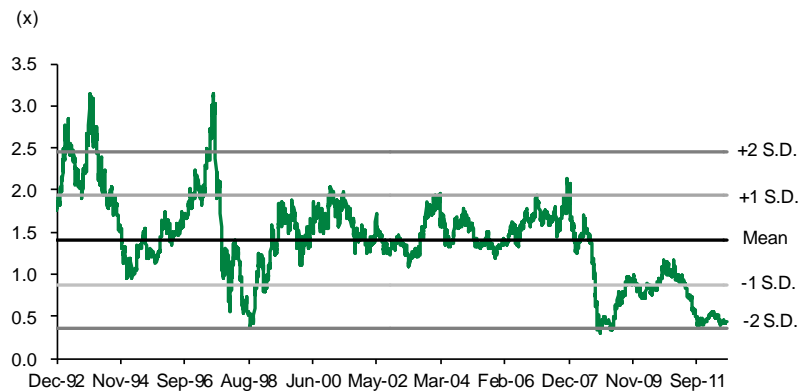


Exhibit 1: Dah Sing Financial (440 HK) – half yearly operating results

(HK\$m)	1H10A	2H10A	1H11A	2H11A	1H12A	1H12A	
						YOY	H-H
Net int income	1,103	1,077	1,100	1,086	1,159	5.4	6.8
NIM (%)	1.87	1.50	1.52	1.32	1.47	(0.05)	0.15
Fee income	173	188	188	195	223	19.1	14.4
Non-int income	287	326	363	256	494	36.0	93.1
Top line	1,390	1,403	1,463	1,341	1,653	13.0	23.2
Operating expenses	(717)	(737)	(824)	(887)	(985)	19.6	11.1
PPOP	672	666	639	454	668	4.4	47.0
Loan Loss Provisions	(35)	(63)	(85)	(96)	(30)	(65.4)	(69.1)
Other income	67	191	243	298	181	(25.3)	(39.1)
Tax	(70)	(144)	(96)	(68)	(81)	(15.0)	18.8
MI	(131)	(147)	(144)	(136)	(147)	2.5	8.7
Net profit	504	503	557	452	591	6.0	30.6
EPS (HK\$)	1.85	1.82	1.90	1.55	2.02		
DPS (HK\$)	0.20	0.86	0.29	0.78	0.29		

Source: Company, ABCI Securities estimates

Exhibit 2: Dah Sing Financial (440 HK) – PB band chart



Source: Bloomberg, ABCI Securities estimates

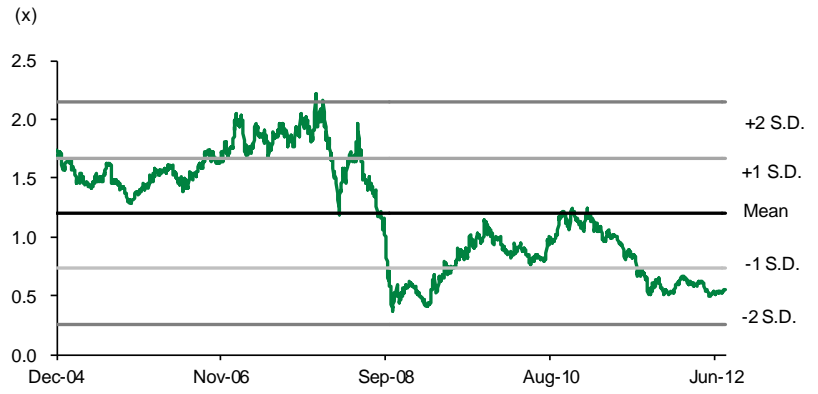
Exhibit 3: Dah Sing Bank (2356 HK) – half yearly operating results

(HK\$m)	1H10A	2H10A	1H11A	2H11A	1H12A	1H12A	
						YOY	H-H
Net int income	996	959	971	948	1,022	5.2	7.8
NIM (%)	1.87	1.50	1.52	1.32	1.47	(0.05)	0.15
Fee income	184	203	204	213	246	20.8	15.9
Non-int income	189	281	325	262	352	8.3	34.4
Top line	1,185	1,240	1,296	1,210	1,373	6.0	13.5
Operating expenses	(644)	(634)	(733)	(794)	(866)	18.1	9.1
PPOP	541	606	562	416	507	(9.8)	21.9
Loan Loss Provisions	(35)	(63)	(85)	(96)	(30)	(65.4)	(69.1)
Other income	63	155	164	266	166	1.5	(37.6)
Tax	(62)	(131)	(85)	(64)	(75)	(11.6)	17.2
MI	(0)	0	0	(0)	0	(96.9)	0.0
Net profit	507	567	556	522	568	2.3	8.9
EPS (HK\$)	0.44	0.48	0.45	0.43	0.46		
DPS (HK\$)	0.07	0.20	0.08	0.20	0.08		

Source: Company, ABCI Securities estimates



Exhibit 4: Dah Sing Bank (2356 HK) – PB band chart



Source: Bloomberg, ABCI Securities estimates



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ABC INTERNATIONAL

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