



Company Rating:

Buy

Target price: HK\$33.61

Key data

52Wk H/L(HK\$)	27.1/20.8
Upside potential (%)	31.8
Issued shares (mn)	10,573
Market cap (HK\$m)	269,606
30-day avg vol (HK\$m)	324
Major shareholder (%)	
BOC	66.1

Source: Company & Bloomberg

Revenue breakdown by segment (1H12) (%)

Personal banking	25.6
Corporate banking	30.5
Treasury	24.1
Insurance	19.7
Others	0.1

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(2.1)	1.2
3-mth	7.9	3.3
6-mth	6.1	(7.9)

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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BOCHK (2388 HK)

Diversified Banks Industry

A good start for the result season

BEA kicked off the latest round of HK bank result season with its net profit beating consensus by 23%. This was mainly driven by its strong trading gain momentum continued in 2H12 and the improving NIM. Management guides to a mildly positive 2013 outlook on both the sector NIM and loan growth. We believe any profits taking on good news throughout the result season will provide buying opportunity to investors. Among the HK bank universe, BOCHK continues to be our top pick with decent market share and unique CNH edge.

Result season kicked off in a nice way. Bank of East Asia (BEA, 23 HK) kicked off the result season with 2012 net profit of HK\$6.06bn, beating market consensus by 23%. This was mainly driven by the continued momentum in 2H12 trading gain and improving NIM trend. BEA's overall 2H12 NIM grew HoH by 7bps to 1.7%, with BEA China's NIM down 24bps in 2H12 due to rate cuts in China, implied over 20bps expansion in BEA's domestic NIM. NIM trend both in HK and China were came in line with our expectation.

Management 'mildly-positive' in 2013. BEA's Management is mildly positive to the bank's 2013 NIM outlook. The bank confirmed with our view that China loan pricing was stabilized in 4Q12 and are turning positive in 1Q13 after re-pricing from previous rate cut cycle. Meanwhile, the bank expects loan growth in China and HK will both stay at healthy high single-digit supported by the recovering economies.

Recent correction offers buying opportunity. As we look forward to see some profits taking on good news over the result season, we believe any dip from this point are good entry point given the improving NIM outlook and steady growth both in HK and China on the back of recovering economy. Riding on huge domestic market share and unique CNH advantage, BOCHK trading at mean valuation, is our top pick among HK bank universe.

Risk factors. Slowdown of RMB internationalization, sharp deterioration of China asset quality and macro environment..

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating income (HKD mn)	27,508	30,846	36,495	39,991	44,581
Y-Y Chg (%)	5.6	12.1	18.3	9.6	11.5
Net profit (HKD mn)	16,196	20,430	20,859	22,727	24,968
Y-Y Chg (%)	16.3	26.1	2.1	9.0	9.9
EPS (HKD)	1.53	1.93	1.97	2.15	2.36
BVPS (HKD)	10.89	12.27	13.06	13.84	14.65
PE (x)	--	--	12.9	11.8	10.8
PB (x)	--	--	1.95	1.84	1.74
Dividend yield (%)	--	--	4.7	5.4	6.1
ROAE (%)	14.8	16.7	15.6	16.0	16.6

Source: Company, ABCI Securities estimates



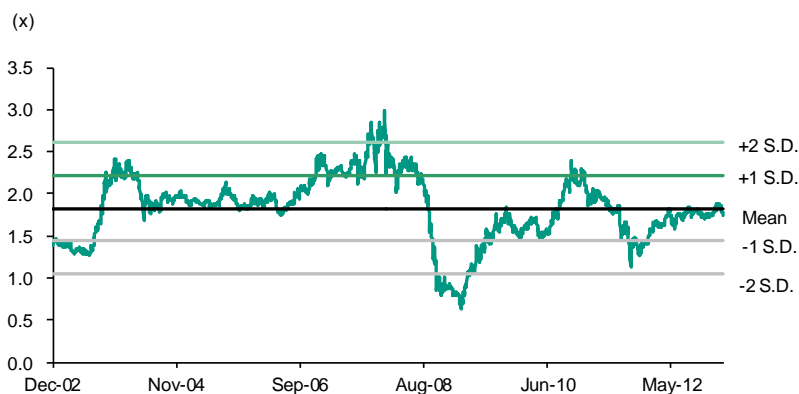
Exhibit 1: HK banks valuation table

	Ticker	Market cap (HKDmn)	Price (HKD)	2013 ROE (%)	2013 PB (x)	2013 PE (x)	2013 div. yield (%)	
Hong Kong								
	BOCHK	2388 HK	269,606	25.50	16.0	1.84	11.86	5.37
	HSB*	11 HK	234,774	122.80	20.7	2.46	13.25	4.29
	BEA*	23 HK	69,597	31.25	8.3	1.20	15.47	3.07
	WHB*	302 HK	26,001	86.05	9.8	1.28	13.86	2.20
	DSFH*	440 HK	12,232	41.25	7.0	0.72	10.47	3.05
	CHB*	1111 HK	6,821	15.68	5.2	0.93	18.45	2.17
			Average	11.2	1.41	13.89	3.36	

Source: Bloomberg, ABCI Securities estimates

*Being Bloomberg consensus data

Exhibit 2: BOCHK PB band chart



Source: Bloomberg, 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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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