



Key Data

Average PER (x)	5.2
Average PBV (x)	1.0
Average Dividend Yield (%)	5.7
Sector 3 months avg vol (HK\$mn)	4,312

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 1H12 (%)

Net interest income	79.5
Non-interest income	20.5

Source: CBRC

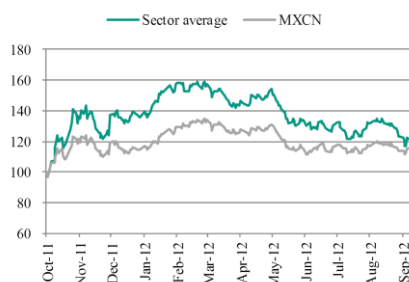
Share performance (%)

	Absolute	Relative*
1-mth	6.3	(0.2)
3-mth	(3.5)	(5.8)
6-mth	(12.8)	(7.6)

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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China Bank Sector – Neutral
Diversified Banks Industry

Loan growth turns cautious

Market generally expects to see a clam Sep loan growth without obvious window dressing effect. Overall pace in line with our full year 15% loan growth expectation despite big banks turned cautious in new loan approval. Our preferring big banks call works well since initiation, reiterate our top Buy of CCB and ABC.

Sep loan growth is clam. Local media estimated Sep 2012 Rmb loan growth of big four banks including ICBC, CCB, ABC and BOC to arrive at Rmb160bn, slower than Aug estimated figure, while the media expects system Rmb loan growth to report at Rmb700bn, similar to Aug 2012 actual figure and slightly higher than Bloomberg consensus of Rmb680bn.

No window dressing expectation. Despite Sep is a quarter end month, which we would normally see a window dressing effect on loan growth data, market does not expect a spike up of loan growth in Sep. Rmb700bn Sep loan growth would means a 3.2% Q-Q loan growth in 3Q12, compare to 4.5% and 4.2% in 1Q12 and 2Q12 respectively, or aggregated to 12.3% loan growth in 9M12. This would points to our full year loan growth around 15% for 2012.

Reducing big four market shares. Another interesting indication from the media estimation is that loan growth market share from big four banks is reducing from 30% in Aug to 23% in Sep. We believe this is mainly because major banks are turning more cautious in their new loan approval under the landscape and market concern on asset quality deterioration.

Prefer big banks. Our stock call of preferring big banks works well with our top Buy CCB and ABC both outperformed peers by achieved 9% gain since our initiation compare to small banks range of 3-6%. Reiterate our stock pick theme to stick with big banks under current challenging banking environment for better diversification and high risk management quality.

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

Sector Valuation Summary

Companies	Ticker	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	12E PER	12E PBV	12E Yield
CCB	939 HK	Buy	5.44	6.30	15.8	5.9	1.2	6.0
ABC	1288 HK	Buy	3.05	3.45	13.1	5.5	1.1	5.5
MSB	1988 HK	Buy	6.20	7.66	23.5	4.1	0.9	6.2
ICBC	1398 HK	Hold	4.59	4.44	(3.3)	5.9	1.2	5.0
BOC	3988 HK	Hold	2.95	2.94	(0.3)	5.1	0.8	6.1
BoCom	3328 HK	Hold	5.33	5.13	(3.8)	5.0	0.9	6.1
CMB	3968 HK	Hold	13.32	13.47	1.1	5.7	1.2	4.4
CNCB	998 HK	Hold	3.77	3.61	(4.2)	4.1	0.7	6.0

Source: Company, 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 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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