



August 26, 2015
Equity Focus
Rating: BUY
TP: HK\$ 3.60

H-Share price (HK\$) 2.25
Est. share price return 60.00%
Est. FY15E dividend yield 6.48%
Est. total return 66.48%

Previous Rating & TP BUY; HK\$ 3.60
Previous Report Date July 16 2015

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Key Data

52Wk H/L(HK\$)	3.17/2.20
Issued shares (mn)	10,995.6
H-Shares (mn)	3,023.6
Unlisted shares (mn)	7,972.0
Market cap	
H-shares (HK\$ mn)	6,803
Unlisted shares (HK\$ mn)	17,937
3-mth avg daily turnover (HK\$ mn)	3.3
Major shareholder(s) (%):	
Harbin Economic Development	19.65

Source(s): Company, Bloomberg, ABCI Securities

1H15 Operating income breakdown (%)

Corporate banking	47.8
Personal banking	20.2
Treasury	31.3
Others	0.7

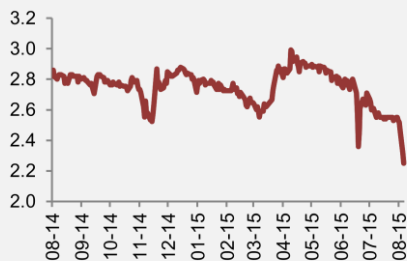
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(13.8)	1.2
3-mth	(22.1)	2.2
6-mth	(17.4)	(4.5)

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

Harbin Bank Co., Ltd. (6138 HK)

Improved cost control and asset quality in agricultural sector; reiterate **BUY**

- HRB's 1H15 net profit grew 6.01% yoy, supported by 8bps yoy expansion in NIM and increased contribution of net fee income to operating income at 17.15%
- Dedication in cost reduction was obvious. CIR lowered by 3.75ppt yoy was achieved through performance-linked remuneration structure and tighter cost control
- Despite overall NPL ratio rose by 23bps hoh, NPL ratio of loans to farmers reduced by 2.3ppt; geographically, NPL ratio in HLJ edged down by 2bps hoh
- The counter is currently trading at 0.52x 16E P/B. Our TP implies a 60.0% upside; reiterate **BUY** on depressed valuation

Better NIM despite interest rate liberalization. HRB reported its 1H15 net profit at RMB 2,102mn yoy, up 6.01% yoy or accounted for 49.2% of our full-year forecast. In particular, HRB's net interest income grew by 8.6% yoy in 1H15, driven by 23.58% hoh growth in 1H15 loan and 8bps yoy expansion in NIM. NIM improvement was mainly supported by a lower interbank funding cost that reduced by 88bps yoy, offsetting the 43bps yoy decline in loan yield and 24bps yoy increase in deposit costs arising from interest rate liberalization. Separately, contribution of net fee income to operating income trended up from 16.53% in 1H14 to 17.15% in 1H15 on the 13.71% yoy increase in net fee income.

Improving CIR on staff cost management. Aside from relying on revenue growth, we believe HRB has also reinforced cost control to cope with a challenging business environment, as reflected by its 3.75ppt yoy improvement in CIR to 28.18% in 1H15. This was mainly achieved by a 54.3% and 40.4% yoy reduction in staff costs and other operating expenses through HRB's enhanced performance-linked remuneration structure and tighter cost control.

NPL for loans to farmers improved. Despite NPL ratio rose by 23bps hoh to 1.36% in 1H15, the negative impacts of previous natural disasters on asset quality has been easing. NPL ratio for loans to farmers improved from 7.15% in Dec 2014 to 4.85% in June 2015. Meanwhile, new NPLs were mainly attributable to loans to small enterprises (+41bps hoh) and loans to small enterprise owners (+96bps hoh). Geographically, Heilongjiang (HLJ), being the core business focus of Harbin (HRB), saw a 2bps hoh reduction in NPL ratio to 1.8%.

Reiterate BUY on depressed valuation. The counter is currently trading at 0.52x 16E P/B. Our TP of HK\$ 3.60 implies a 60.0% upside; reiterate **BUY** on depressed valuation.

Risk factors: 1) Asset quality deterioration in HLJ; 2) Pricing competition from big banks entering the local regions; 3) Failure to optimize business mix and elevate LDR; 4) Cross-region business development risk.

Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	8,544	10,253	11,798	13,522	15,218
Chg (% YoY)	10.8	20.0	15.1	14.6	12.5
Net profit (RMB mn)	3,350	3,807	4,275	4,786	5,244
Chg (% YoY)	17.0	13.6	12.3	12.0	9.6
EPS (RMB)	0.30	0.35	0.39	0.44	0.48
Chg (% YoY)	-17.6	13.6	12.3	12.0	9.6
BVPS (RMB)	2.42	2.74	3.05	3.43	3.87
Chg (% YoY)	7.9	13.5	11.1	12.6	12.9
P/E (x)	5.91	5.20	4.63	4.14	3.77
P/B (x)	0.74	0.66	0.59	0.52	0.46
ROAE (%)	18.36	15.46	13.43	13.44	13.06
ROAA (%)	1.14	1.15	1.17	1.18	1.16
DPS(RMB)	0.04	0.10	0.12	0.13	0.14
Yield (%)	2.11	5.72	6.48	7.25	7.95

Source(s): Bloomberg, ABCI estimates



Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Net interest income	6,818	8,398	9,213	10,033	10,659
Net fee and commission	1,247	1,600	2,240	3,025	3,932
Other operating income	479	255	344	464	627
Operating income	8,544	10,253	11,798	13,522	15,218
Operating expenses	(3,591)	(4,433)	(5,231)	(6,068)	(6,918)
Impairment losses	(506)	(709)	(936)	(1,153)	(1,399)
Investment in associates	3	17	20	23	26
Profit before tax	4,450	5,127	5,651	6,323	6,927
Income tax expenses	(1,079)	(1,287)	(1,356)	(1,518)	(1,662)
MI	(21)	(34)	(20)	(20)	(20)
Net profit	3,350	3,807	4,275	4,786	5,244
Growth (%)					
Net interest income	2.4	23.2	9.7	8.9	6.2
Net fee and commission	83.8	28.3	40.0	35.0	30.0
Other operating income	28.0	(46.8)	35.0	35.0	35.0
Operating income	10.8	20.0	15.1	14.6	12.5
Operating expenses	18.7	23.5	18.0	16.0	14.0
Impairment losses	(39.5)	40.1	31.9	23.2	21.3
Investment in associates	(65.7)	430.8	15.0	15.0	15.0
Profit before tax	15.3	15.2	10.2	11.9	9.5
Income tax expenses	9.3	19.3	5.4	11.9	9.5
MI	187.8	64.9	(41.6)	0.0	0.0
Net profit	17.0	13.6	12.3	12.0	9.6
Per share (RMB)					
EPS	0.30	0.35	0.39	0.44	0.48
BVPS	2.42	2.74	3.05	3.43	3.87
DPS	0.04	0.10	0.12	0.13	0.14
Key ratio (%)					
Net interest margin	2.64	2.71	2.70	2.62	2.54
Net interest spread	2.56	2.50	2.48	2.37	2.31
Cost to income ratio	42.03	43.24	44.34	44.88	45.46
Return on average assets	1.14	1.15	1.17	1.18	1.16
Return on average equity	18.36	15.46	13.43	13.44	13.06
Effective tax rate	24.25	25.09	24.00	24.00	24.00
Dividend payout	12.47	29.75	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2017E)

As of Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Cash and bank	51,552	53,871	54,948	56,047	57,168
Due from bank and FIs	84,982	65,475	66,784	68,788	71,539
Net loans	103,515	121,014	139,854	159,912	180,827
Investment securities	71,036	86,647	101,957	118,014	134,313
Total IEA	311,085	327,007	363,544	402,761	443,847
Other assets	11,090	16,634	20,793	25,367	30,440
Total assets	322,175	343,642	384,337	428,128	474,288
Customer deposits	224,178	232,197	250,773	273,342	297,943
Due to bank and FIs	70,489	70,740	84,888	100,168	116,195
Subordinated debt	3,500	4,498	5,623	7,028	8,786
Total IBL	298,167	307,435	341,284	380,539	422,923
Other liabilities	4,081	6,044	9,547	9,869	8,763
Total liabilities	302,248	313,479	350,830	390,408	431,686
Share capital	8,247	10,996	10,996	10,996	10,996
Retained earnings	4,031	5,487	8,479	11,829	15,500
Reserves	7,450	13,048	13,700	14,522	15,684
MI	200	632	332	373	422
Total equity	19,927	30,163	33,507	37,720	42,601
Growth (%)					
Cash and bank	(0.6)	4.5	2.0	2.0	2.0
Due from bank and FIs	18.5	(23.0)	2.0	3.0	4.0
Net loans	21.4	16.9	15.6	14.3	13.1
Investment securities	38.8	22.0	17.7	15.7	13.8
Total IEA	19.6	5.1	11.2	10.8	10.2
Total assets	19.3	6.7	11.8	11.4	10.8
Customer deposits	20.1	3.6	8.0	9.0	9.0
Due to bank and FIs	17.6	0.4	20.0	18.0	16.0
Subordinated debt	0.0	28.5	25.0	25.0	25.0
Total IBL	19.2	3.1	11.0	11.5	11.1
Total liabilities	19.4	3.7	11.9	11.3	10.6
Total equity	17.7	51.4	11.1	12.6	12.9
Key ratio (%)					
Loan to deposits	47.26	53.37	57.17	60.03	62.31
CT1 CAR	10.68	13.94	13.91	14.03	14.25
Total CAR	11.95	14.64	14.60	14.71	14.92
NPL ratio	0.85	1.13	1.25	1.35	1.40
NPL growth	61.24	55.51	27.97	23.62	17.33
Net bad debt charge ratio	0.52	0.62	0.70	0.75	0.80
Provision to total loans	2.29	2.35	2.45	2.55	2.60
Provision coverage	269.44	208.23	196.00	188.89	185.71

Source(s): Company, 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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