



**Key Data**

Average PER (x)	5.4
Average PBV (x)	1.0
Average Dividend Yield (%)	5.4
Sector 3 months avg vol (HK\$m)	4,814

Source: Company, Bloomberg, ABCI Securities

**Operating income composition in 1H12 (%)**

Net interest income	79.5
Non-interest income	20.5

Source: CBRC

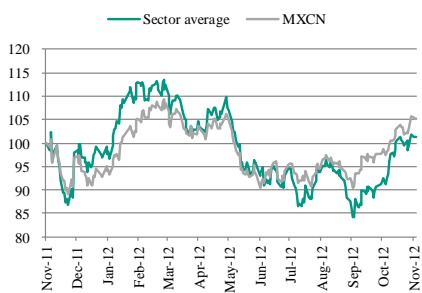
**Share performance (%)**

	Absolute	Relative*
1-mth	9.4	2.7
3-mth	6.5	(2.6)
6-mth	(5.5)	(5.6)

Source: Bloomberg

\*Relative to MSCI China

**1 year price performance**



Source: Bloomberg

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**China Bank Sector – Neutral**  
**Diversified Banks Industry**

**More corporate loans in 4Q12**

Rmb corporate loan growth as a percentage to total loan growth was reduced in 2012 from 78% to 47% given slowdown of economic growth. We expect system loan growth to stable in the rest of 2012 and corporate loan trend to reverse from 4Q12 on the back of better economic outlook. We favor mega banks included CCB and ABC for their lower LDR, which allow them to immune from deposit cost stress when loan growth.

**Focus back in corporate loans.** As we noticed from the first 9 months of 2012, the proportion of Rmb corporate loan growth as a percentage to total loan growth has been gradually reduced from 78% at the beginning of 2012 to only 47% in Sep 2012, after peak at 91% in Feb 2012. Obviously, banks held back their commitments to corporate loans in 3Q12 on the backdrop of slowing economic growth, especially for loans with long durations. We believe this pattern to reverse from 4Q12 with corporate exposures to rise back to 60-70% level in order to support economic growth.

**Big four loan growth accelerated.** Local media reported that big four Chinese banks including ICBC, CCB, ABC and BOC have granted Rmb220bn new loans in Oct 2012, of which Rmb100bn were contributed by last 3 days in the month. We expect Oct 2012 system Rmb loan growth to arrive at Rmb600bn, similar to Sep size. This would mean loan growth in the remaining two months of 2012 shall maintain at Rmb500bn level in order to fulfill the government full year target.

**Mega banks are more comfy to grow.** Reference back to Sep 2012 data point, mega bank including CCB, ABC and ICBC had their LDR below 65% when other H-share banks over 70%. This set for big banks to grow without pressurize by deposit cost competitions. We continue to favor big names in the sector.

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

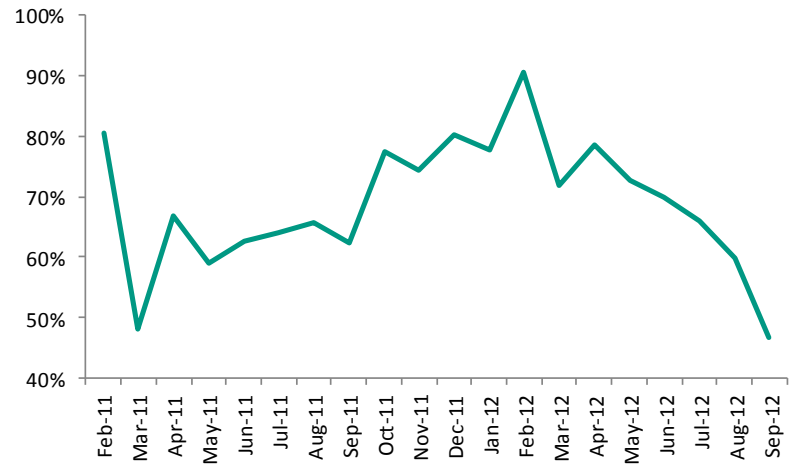
**Sector Valuation Summary**

Companies	Ticker	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	13E PER	13E PBV	13E Yield
CCB	939 HK	Buy	5.99	6.30	5.2	6.2	1.2	5.6
ABC	1288 HK	Buy	3.44	3.45	0.3	5.7	1.1	5.2
MSB	1988 HK	Buy	7.51	7.66	2.0	4.4	0.9	5.6
ICBC	1398 HK	Hold	5.21	4.44	(14.8)	6.4	1.2	4.6
BOC	3988 HK	Hold	3.25	2.94	(9.5)	5.4	0.8	5.9
BoCom	3328 HK	Hold	5.70	5.13	(10.0)	5.1	0.8	6.3
CMB	3968 HK	Hold	14.58	13.47	(7.6)	5.8	1.1	4.3
CNCB	998 HK	Hold	4.05	3.61	(10.9)	4.5	0.7	5.6

Source: Company, Bloomberg, ABCI Securities estimates



*Exhibit 1: Corporate loan growth to total loan growth*



Source: PBOC, 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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