



**Key Data**

Average PER (x)	5.7
Average PBV (x)	1.1
Average Dividend Yield (%)	5.1
Sector 3 months avg vol (HK\$m)	4,558

Source: Company, Bloomberg, ABCI Securities

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

Net interest income	79.5
Non-interest income	20.5

Source: CBRC

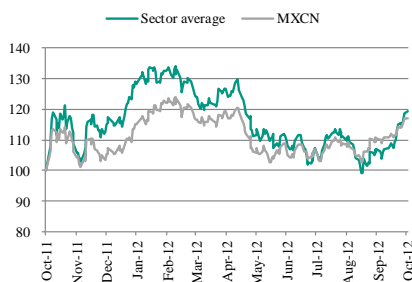
**Share performance (%)**

	Absolute	Relative*
1-mth	11.9	5.4
3-mth	11.5	1.8
6-mth	(5.9)	(4.0)

Source: Bloomberg

\*Relative to MSCI China

**1 year price performance**



Source: Bloomberg

**Analyst:**

Johannes Au  
Tel: (852) 2147 8802  
Email: johannesau@abci.com.hk

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

**Investors turning positive to banks**

**QFII investors have increased stake in A-share banks given most H-shares banks are currently trading at premium. This indicates a turning positive view towards bank sector as low valuations have reflected most negative fundamental factors. We believe investors' focus to shift back to H-shares soon if H to A premium narrowed, and there could be more catalysts if 3Q results surprise the market with stable asset quality and NIM.**

**QFII money favors Chinese banks.** China media reported that QFII investors had increased Rmb550mn stake in 11 A-shares blue chips last week through Haitong Securities, of which Rmb187mn were attributed to 7 A-share banks included ICBC, MSB, BoCom, CNCB, CMB, Shanghai Pudong Development Bank, and Industrial Bank. We believe this reflects that investors are turning positive to Chinese banks as cheap valuation has already factored into most negative expectations.

**H to A share premium/discount.** Looking at latest H-A shares premium/discount trend, we would see that H-share prices of 5 out of 8 dual listed banks are currently trading at premium to their A-shares. This explains the reason why QFII funds are interested in A-share banks for long-term value when A-shares are now trading around 1x 12E PB. We could expect further increase stake in A-share financial sector in near term.

**Upside potential for H-shares.** If continue increase A-share stake by QFII money could narrow H-share premium, we believe investors' focus will shift back to H-share market soon given fewer trading barriers. Meanwhile, there could be more upside catalysts to H-shares if upcoming 3Q results surprise the market with stable asset quality and NIM.

**Risk factors.** Prolonged slowdown of China economy, interest rate liberalization and sharp deterioration of asset quality. Upcoming 3Q12 results in late Oct will reflect the consequence of rate cut in Jun and Jul 2012.

**Sector Valuation Summary**

Companies	Ticker	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	12E PER	12E PBV	12E Yield
CCB	939 HK	Buy	5.87	6.30	7.3	6.4	1.3	5.5
ABC	1288 HK	Buy	3.35	3.45	3.0	6.1	1.2	5.0
MSB	1988 HK	Buy	7.09	7.66	8.0	4.7	1.0	5.4
ICBC	1398 HK	Hold	5.17	4.44	(14.1)	6.6	1.4	4.4
BOC	3988 HK	Hold	3.15	2.94	(6.7)	5.5	0.9	5.7
BoCom	3328 HK	Hold	5.87	5.13	(12.6)	5.6	1.0	5.5
CMB	3968 HK	Hold	14.96	13.47	(10.0)	6.4	1.3	3.9
CNCB	998 HK	Hold	4.19	3.61	(13.8)	4.5	0.8	5.4

Source: Company, Bloomberg, ABCI Securities estimates



**Exhibit 1: H-A shares premium/discount**

	Ticker		Price			12E PB	
	H-share	A-share	H-share (HKD)	A-share (Rmb)	H/A (%)	H-share	A-share
CCB	939	601939	5.87	4.18	17.0	1.3	1.1
ABC	1288	601288	3.35	2.52	10.8	1.2	1.1
MSB	1988	600016	7.09	6.09	(3.0)	1.0	1.0
ICBC	1398	601398	5.17	3.91	10.2	1.4	1.2
BOC	3988	601988	3.15	2.74	(4.2)	0.9	0.9
BoCom	3328	601328	5.87	4.39	11.4	1.0	0.9
CMB	3968	600036	14.96	10.51	18.6	1.3	1.1
CNCB	998	601998	4.19	3.75	(6.9)	0.8	0.8

Source: Bloomberg, ABCI Securities estimates

## Disclosures

### Analyst Certification

I, Au Yu Hang Johannes, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### 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.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from one of the companies mentioned in the report.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is



**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

---

not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2012 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**