



August 29, 2013
Equity Focus
Rating: BUY
TP: HK\$ 4.74

H-Share price (HK\$) 3.29
Est. share price return 44.07%
Est. dividend yield 6.91%
Est. total return 50.98%

Previous Rating & TP BUY; HK\$ 4.74
Previous Report Date Aug 2, 2013

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

Key Data

52Wk H/L(HK\$)	4.44/2.72
Issued shares (mn)	324,794
H-Shares (mn)	30,739
A-Shares (mn)	294,055
Market cap	
H-shares (HK\$ mn)	101,131
A-Shares (HK\$ mn)	912,913
3-mth avg daily turnover (HK\$ mn)	1,616.47
Major shareholder(s) (%):	
Huijin	40.27

Source(s): Company, Bloomberg, ABCI Securities

1H13 PBT breakdown (%)

Corporate banking	66.25
Retail banking	27.15
Treasury operations	5.94
Others	0.66

Source(s): Company, ABCI Securities

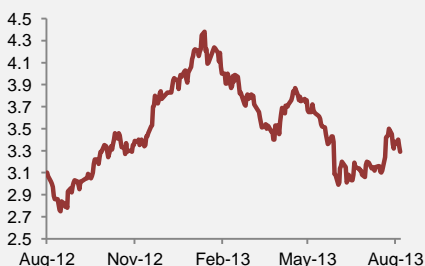
Share performance (%)

	Absolute	Relative*
1-mth	4.7	5.2
3-mth	(9.0)	(6.2)
6-mth	(14.6)	(12.1)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

ABC (1288 HK)

Fastest-growing big bank with benign asset quality; maintain BUY

- ABC's 2Q13 net profit beats our estimate by 13% on lower provisions, thanks to the bank's sector high provisioning ratio
- Management expects a mildly positive asset quality outlook, supported by ABC's below sector average NPL ratio in Eastern China, the most problematic region
- We expect NIM to stay flat in 2H13 while fee income growth may trigger positive surprise to earnings
- Trading at 0.99x FY13E P/B, we like ABC for being the fastest-growing big bank. Maintain BUY with TP at HK\$ 4.74 that implies a 44% upside

2Q13 net profit beats consensus. ABC reported 2Q13 net profit at RMB 45,341mn, beating consensus by 8.6% and our forecast by 13%. Although revenue growth was in line with our estimate at 12.5% YoY, loan provision was lower than expected by 23%, thanks to ABC's high provisioning ratio of 4.3% that was substantially above the 2.5% regulatory level. As a result, 2Q13 net profit grew by 22.39% YoY. Altogether, 1H13 net profits accounted for 54.8% of our full year forecast.

Mildly positive asset quality outlook. ABC's NPL ratio reduced by 2bps from 1.27% in Mar 2013 to 1.25% in June 2013. In particular, 2Q13 NPL ratios in eastern China were below the sector average. The figures in Jiangsu, Zhejiang, and Wenzhou were reported at 0.77%, 1.47% and 2%, respectively. Meanwhile, special mention loans in 1H13 reduced by 47bps HoH to 4.12% while overdue loans were stable at 1.4% of total loan by June 2013. Management expects a mildly positive asset quality outlook for 2H13.

Clear measures to stabilize NIM in 2H13. We estimate 2Q13 NIM narrowed by 8bps to 2.70% mainly on loan re-pricing and higher liability cost during the quarter. Management aims to maintain 2H13 NIM at a similar level to 1H13. This will be achieved by strengthening core deposit base and deposit cost control, as well as modifying asset allocation gradually by having a higher proportion in high-yield asset classes. This was reflected by the increased LDR to 60% in June 2013. 1H13 loan growth was reported at 8% HoH, faster than its deposit growth at 5.7% HoH.

Potential earnings surprise in 2H13 driven by fee income. Fee income in 1H13 grew 22.3% YoY and accounted for 20.16% of total revenue (18.46% in 1H12). Although the substantial increase can be partly attributed to the low base in 1H12, we expect the growth momentum to sustain in 2H13, driven mainly by fee income from settlements and wealth management products. Management confirmed that ABC had already met the requirements of Document No. 8. We favor ABC for being the fastest-growing big bank in China and have selected the Group as one of our top picks. The counter is currently trading at 0.99x 13E P/B and our TP of HK\$ 4.74 implies a 44.1% upside. Reiterate BUY.

Risk factors: 1) Sharp deterioration in asset quality; 2) Deposit competition triggered by interest rate liberalization; 3) Increased competition from non-bank financial institutions.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	379,756	424,964	486,794	540,339	612,551
Chg (% YoY)	29.9	11.9	14.5	11.0	13.4
Net profit (RMB mn)	121,927	145,094	168,651	181,677	199,133
Chg (% YoY)	28.5	19.0	16.2	7.7	9.6
EPS (RMB)	0.38	0.45	0.52	0.56	0.61
Chg (% YoY)	5.0	19.0	16.2	7.7	9.6
BVPS (RMB)	2.00	2.31	2.65	3.01	3.35
Chg (% YoY)	19.8	15.4	14.7	13.8	11.3
P/E (x)	-	5.89	5.07	4.71	4.29
P/B (x)	-	1.14	0.99	0.87	0.78
ROE (%)	20.5	20.7	20.9	19.8	19.3
ROA (%)	1.11	1.16	1.20	1.16	1.14
DPS(RMB)	0.13	0.16	0.18	0.20	0.21
Yield (%)	-	5.95	6.91	7.44	8.15

Source(s): Bloomberg, ABCI estimates

Exhibit 1: ABC's quarterly P&L trend

(RMB mn)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	2Q13A	A vs E	YoY (%)	QoQ (%)
Net interest margin	2.97	2.73	2.76	2.78	2.78	2.75	2.70	(0.05)	(0.03)	(0.08)
Net interest income	85,835	81,850	85,548	88,646	89,288	90,607	90,714	0.12	10.83	1.60
Non-interest income	21,634	21,461	21,425	18,565	30,553	24,964	25,489	2.10	18.77	(16.57)
Topline	107,469	103,311	106,973	107,211	119,841	115,570	116,203	0.55	12.48	(3.04)
Operating expenses	(40,601)	(43,405)	(45,152)	(53,644)	(46,675)	(50,806)	(47,396)	(6.71)	9.19	1.54
POPP	66,868	59,906	61,821	53,567	73,166	64,764	68,807	6.24	14.86	(5.96)
Loan loss provision	(10,733)	(12,039)	(10,849)	(20,614)	(12,442)	(13,102)	(10,029)	(23.45)	(16.70)	(19.39)
Profit before tax	56,135	47,867	50,972	32,953	60,724	51,662	58,778	13.77	22.79	(3.20)
Tax expenses	(12,675)	(10,805)	(11,379)	(7,937)	(13,673)	(11,521)	(13,445)	16.70	24.43	(1.67)
Minority interest	(6)	(17)	(9)	(5)	(40)	(9)	8	(190.50)	(147.06)	(120.00)
Net profit	43,454	37,045	39,584	25,011	47,011	40,132	45,341	12.98	22.39	(3.55)

Source(s): Company, ABCI Securities estimates

Exhibit 2: ABC P/B(x) band chart (Dec 2010- Aug 2013)



Source(s): Company, Bloomberg, ABCI Securities estimates



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Net interest income	307,199	341,879	391,075	431,105	489,928
Non-interest income	72,557	83,085	95,718	109,234	122,623
Of which: fees and commissions	68,750	74,844	86,783	99,074	111,458
Operating income	379,756	424,964	486,794	540,339	612,551
Operating expenses	(144,200)	(167,306)	(198,805)	(235,951)	(280,083)
Amortization	(13,130)	(15,496)	(17,820)	(19,959)	(22,354)
Pre-prov. operating profits	222,426	242,162	270,168	284,429	310,114
Impairment loans losses	(64,225)	(54,235)	(51,088)	(48,427)	(51,437)
Operating profit	158,201	187,927	219,081	236,003	258,678
Profit before tax	158,201	187,927	219,081	236,003	258,678
Tax	(36,245)	(42,796)	(50,389)	(54,281)	(59,496)
Minority interests	(29)	(37)	(41)	(45)	(49)
Net profit	121,927	145,094	168,651	181,677	199,133
Growth (%)					
Net interest income	26.9	11.3	14.4	10.2	13.6
Non-interest income	44.8	14.5	15.2	14.1	12.3
Of which: fees and commissions	49.0	8.9	16.0	14.2	12.5
Operating income	29.9	11.9	14.5	11.0	13.4
Operating expenses	23.4	16.0	18.8	18.7	18.7
Amortization	16.2	18.0	15.0	12.0	12.0
Pre-prov. operating profits	35.5	8.9	11.6	5.3	9.0
Impairment loans losses	47.9	(15.6)	(5.8)	(5.2)	6.2
Operating profit	31.0	18.8	16.6	7.7	9.6
Profit before tax	31.0	18.8	16.6	7.7	9.6
Tax	40.3	18.1	17.7	7.7	9.6
Minority interests	(14.7)	27.6	10.0	10.0	10.0
Net profit	28.5	19.0	16.2	7.7	9.6
Per share data (RMB)					
EPS	0.38	0.45	0.52	0.56	0.61
BVPS	2.00	2.31	2.65	3.01	3.35
DPS	0.13	0.16	0.18	0.20	0.21
Key ratio (%)					
Net interest margin	2.85	2.81	2.80	2.82	2.87
Net interest spread	2.73	2.67	2.53	2.58	2.61
Cost to income ratio	38.0	39.4	40.8	43.7	45.7
Return on average assets	1.11	1.16	1.20	1.16	1.14
Return on average equity	20.5	20.7	20.9	19.8	19.3
Effective tax rate	22.9	23.0	23.0	23.0	23.0
Dividend payout	35.0	35.0	35.0	35.0	35.0
Net interest income	307,199	341,879	391,075	431,105	489,928

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Cash & cash equivalent	2,487,082	2,613,111	2,760,767	2,922,227	3,110,672
Dues from banks	873,997	1,300,233	1,597,406	1,970,087	2,352,118
Investment securities	2,628,052	2,851,448	3,094,142	3,365,717	3,647,778
Net loans and advances	5,410,086	6,153,411	6,981,597	7,873,099	8,806,640
Total interest earning assets	11,399,217	12,918,203	14,433,911	16,131,129	17,917,209
Property and equipment	131,815	141,490	152,809	163,506	174,951
Other non-interest earning assets	146,545	184,649	222,718	264,197	313,419
Total assets	11,677,577	13,244,342	14,809,438	16,558,832	18,405,579
Customer deposits	9,622,026	10,862,935	12,108,887	13,365,321	14,781,619
Due to banks	724,286	934,139	1,167,674	1,424,562	1,709,474
Subordinated debt	119,390	192,639	231,167	265,842	305,718
Total interest bearing liabilities.	10,465,702	11,989,713	13,507,727	15,055,725	16,796,811
Current taxes	37,868	40,419	44,461	48,907	53,798
Deferred tax liabilities	27	15	18	22	26
Other liabilities	524,192	462,841	395,323	473,246	463,561
Total liabilities	11,027,789	12,492,988	13,947,529	15,577,900	17,314,196
Share capital	324,794	324,794	324,794	324,794	324,794
Reserves	324,807	425,021	535,437	654,326	764,633
Minorities	187	1,539	1,678	1,812	1,957
Shareholder's equity	649,788	751,354	861,908	980,932	1,091,384
Growth (%)					
Cash & cash equivalent	19.4	5.1	5.7	5.8	6.4
Dues from banks	25.1	48.8	22.9	23.3	19.4
Investment securities	4.0	8.5	8.5	8.8	8.4
Net loans and advances	13.0	13.7	13.5	12.8	11.9
Total interest earning assets	12.9	13.3	11.7	11.8	11.1
Total assets	13.0	13.4	11.8	11.8	11.2
Customer deposits	8.3	12.9	11.5	10.4	10.6
Due to banks	24.2	29.0	25.0	22.0	20.0
Subordinated debt	91.5	61.4	20.0	15.0	15.0
Total interest bearing liabilities.	9.8	14.6	12.7	11.5	11.6
Total liabilities	12.6	13.3	11.6	11.7	11.1
Shareholder's equity	19.8	15.4	14.7	13.8	11.3
Key ratio (%)					
Loan to deposits	58.6	59.2	60.4	61.7	62.5
Core CAR	9.5	9.7	9.4	9.8	9.8
Total CAR	11.9	12.6	12.4	12.8	12.9
NPL ratio	1.55	1.33	1.52	1.60	1.66
NPL growth	(13.0)	(1.7)	29.6	19.0	15.7
Net bad debt charge ratio	1.2	0.9	0.7	0.6	0.6
Provision to total loans	4.1	4.4	4.5	4.6	4.6
Provision coverage	263.1	326.1	295.8	283.5	277.4

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

Tel: (852) 2868 2183