

Sector rating: Overweight

Key Data

Average 13E PER (x)	5.6
Average 13E PBV (x)	1.0
Average Dividend Yield (%)	5.2
Sector 3 months avg vol (HK\$m)	6,320

Source: Company, Bloomberg, ABCI Securities

Operating income composition in 4Q12 (%)

Net interest income	80.2
Non-interest income	19.8

Source: CBRC

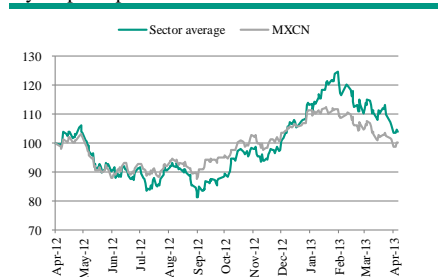
Share performance (%)

	Absolute	Relative*
1-mth	(9.7)	(3.0)
3-mth	(8.9)	0.8
6-mth	15.2	9.8

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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China Bank Sector Diversified Banks Industry

Robust loan growth momentum

System loan in March 2013 was reported at Rmb1,060bn, beating consensus by 19%. Significant rebound from February figure was in line with our expected 1Q13 loan target. Meanwhile, momentum in non-bank loan financing was resumed in March 2013, with the reliance on bank loans reduced from 69% in February 2013 to 48% in March 2013. Big banks with better loan capacity (relatively low LDR) will benefit from robust financing demand. ICBC, CCB and ABC remain as our top picks.

Robust loan growth in March. The PBOC announced March 2013 new loan at Rmb1,060bn, beating Bloomberg consensus by 19%. This represented a 14.9% Y-Y growth, or a 70.9% rebound M-M, given fewer business days in February 2013. Total Rmb loan grew by Rmb2.75tn in the first quarter, marked at 30% of our full year loan growth target of Rmb9-9.5tn, which was in line with our '3:3:2:2' distribution expectations over the four quarters respectively.

Financing channels back to normal stance. After we saw 69% of social financing supported by bank loans in February 2013, momentum in alternative financing sources was resumed in March 2013. Bank loans as a percentage to total financing reduced to 48% accordingly, similar to January 2013 level. Trust loan and entrusted loans together accounted for 24% (compared to 29% in December 2012) and the use of corporate bonds rose back to 15% (bounce back from 9% in January 2013).

Larger growth capacity for big banks. As we expect strong financing demand to continue on the back of economic recovery, low LDR therefore will provide banks with loan capacity. After recent correction, the banking sector is trading at 1.5-2 s.d below historical mean P/B. Reiterate our Buy rating on big banks including ICBC, CCB and ABC, which have low LDR range at 59-66%, compared to an average of 72% from the rest of banks which is close to the 75% regulatory limit.

Risk factors. Acceleration of interest rate liberalization, sharp deterioration of asset quality and increasing competition from non-bank FIs.

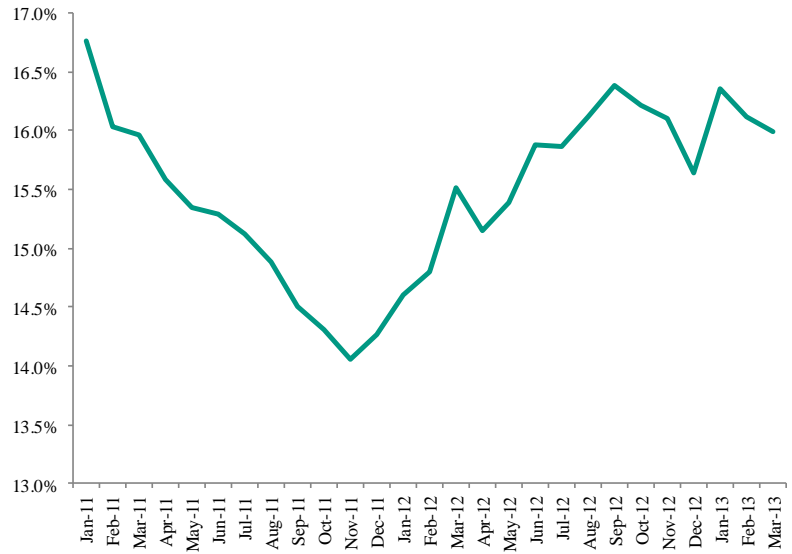
Sector Valuation Summary

Companies	Ticker	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	13E PER	13E PBV	13E Yield
CCB	939 HK	Buy	5.26	7.36	39.9	5.8	1.18	5.0
ICBC	1398 HK	Buy	6.20	8.74	41.0	5.9	1.19	6.0
ABC	1288 HK	Buy	3.53	5.55	57.2	5.7	1.09	5.4
MSB	1988 HK	Buy	9.33	14.02	50.3	5.3	1.16	4.5
BOC	3988 HK	Hold	3.52	4.33	23.0	6.1	0.90	5.1
BoCom	3328 HK	Hold	5.85	7.12	21.7	4.8	0.85	6.6
CMB	3968 HK	Hold	15.68	20.60	31.4	6.1	1.19	4.1
CITICB	998 HK	Hold	4.22	5.91	40.0	4.8	0.69	5.1

Source: Company, Bloomberg, ABCI Securities estimates



Exhibit 1: China Y-Y system loan growth



Source: PBOC, ABCI Securities

Exhibit 2: China bank loans to total social financing



Source: PBOC, ABCI Securities



Disclosures

Analyst Certification

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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 2008-2012

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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