



March 23, 2015
Equity Focus
Rating: BUY
TP: HK\$ 7.56

H-Share price (HK\$) 6.30
Est. share price return 20.00%
Est. dividend yield 4.95%
Est. total return 24.95%

Previous Rating & TP BUY; HK\$ 7.56
Previous Report Date Mar 5 2015

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Key Data

52Wk H/L(HK\$)	6.58/4.87
Issued shares (mn)	2,705.2
H-Shares (mn)	1,157.2
Domestic shares (mn)	1,548.0
Market cap	
H-shares (HK\$ mn)	7,290
Domestic shares (HK\$ mn)	9,752
3-mth avg daily turnover (HK\$ mn)	13.12
Major shareholder(s) (%):	
DSB	17.0

Source(s): Company, Bloomberg, ABCI Securities

2014 PBT breakdown (%)

Corporate banking	71.26
Retail banking	12.03
Treasury operations	16.71

Source(s): Company, ABCI Securities

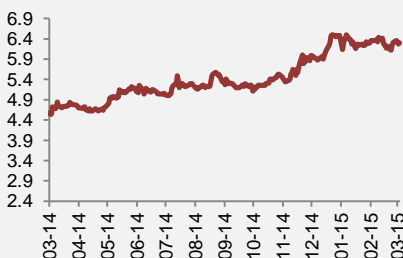
Share performance (%)

	Absolute	Relative*
1-mth	(0.9)	0.2
3-mth	6.6	1.4
6-mth	19.1	16.3

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg

BoCQ (1963 HK)

Rising asset quality concern; maintain **BUY** on undemanding valuation

- BoCQ's FY14 net profit was in line with our forecast to grow 21.4% yoy. Variances came from larger-than-expected loan provision for increasing NPL and CBRC's provision requirement
- Better loan and investment yields were able to offset rising deposit cost. NIM stayed flat at 2.81%, but we expect mild squeezes in 2015E-16E on rate cuts
- We turn cautious against rising NPL in non-Chongqing regions, and expect asset quality deterioration to persist in the next few quarters
- The counter is currently trading at 0.7x FY15E P/B. Maintain **BUY** on BoCQ with TP at HK\$ 7.56, implying a 20% upside

Earnings in line with expectation. BoCQ's 2014 net profit was reported at RMB 2,827mn, representing a yoy growth of 21.4% and was in line with consensus and our forecast. Although revenue grew 41% yoy, impairment loss surged faster than expected by 66.1% yoy and increased the bank's provisioning ratio to 2.19% in 2014 from 2.06% in 2013. We expect high impairment to persist in coming quarters as the bank strives to fulfill the 2.5% provision requirement set by CBRC.

Stable NIM amid competition. We are impressed by BoCQ's NIM remaining stable at 2.81% given the increasing competition amid interest rate liberalization. Investment yield rose from 5.88% in 2013 to 6.56% in 2014 on increasing corporate bond investment mix from 15.7% to 36.5%, which offset the 33bps yoy rise in deposit cost. Deposit cost was driven up by the increasing proportion of time deposit for duration matching with loan portfolio. Loan yield improved by 10bps yoy in 2014, but we expect mild declines to occur in 1H15 on re-pricing impact from previous rate cuts. Overall, we forecast a mild NIM squeeze in 2015E-16E.

Rising asset quality risk. Although BoCQ's NPL ratio was still below peer average at 0.69% after a 30bps yoy increase in 2014, we are cautious against the distribution of new NPLs. New NPL is arising from construction, transportation, and mining sectors, aside from the manufacturing and wholesale & retail sectors that have been the major NPL contributors in the recent quarters. Geographically, management confirmed that worsening NPL was mainly from non-home regions, where NPL ratio increased by 105bps yoy to 1.8%. Based on the macroeconomic trend, we expect asset quality deterioration to persist in the next few quarters.

Maintain BUY on low valuation. BoCQ is currently trading at 0.7x FY15E P/B. Our TP of HK\$7.56 implies a 20% upside. While big banks would be more defensive than its smaller peers, we maintain **BUY** for BoCQ on undemanding valuation.

Risk factors: 1) Asset quality deterioration in the region of operation; 2) Pricing competition from big banks entering local regions; 3) Failure to optimize business mix in retail banking.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Revenue (RMB mn)	4,658	5,875	7,483	8,311	9,579
Chg (% YoY)	30.4	26.1	27.4	11.1	15.3
Net profit (RMB mn)	1,925	2,329	2,827	3,068	3,386
Chg (% YoY)	29.4	21.0	21.4	8.5	10.4
EPS (RMB)	0.95	1.10	1.05	1.13	1.25
Chg (% YoY)	29.4	15.5	-4.5	8.0	10.4
BVPS (RMB)	4.09	4.98	5.88	7.20	8.38
Chg (% YoY)	28.0	21.9	18.0	22.5	16.3
P/E (x)	5.29	4.58	4.80	4.44	4.03
P/B (x)	1.23	1.01	0.86	0.70	0.60
ROE (%)	26.17	21.43	19.20	17.05	16.07
ROA (%)	1.36	1.28	1.17	1.11	1.03
DPS(RMB)	0.05	0.22	0.27	0.25	0.31
Yield (%)	0.99	4.44	5.40	4.95	6.21

Source(s): Bloomberg, ABCI estimates



Consolidated Income Statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Net interest income	4,150	5,179	6,232	7,212	8,285
Net fee and commission	368	645	909	1,022	1,206
Other operating income	140	51	343	77	88
Operating income	4,658	5,875	7,483	8,311	9,579
Operating expenses	(1,901)	(2,283)	(2,805)	(3,506)	(4,208)
Impairment losses	(240)	(536)	(890)	(770)	(918)
Investment in associates	1	1	2	2	2
Profit before tax	2,518	3,057	3,790	4,036	4,456
Income tax expenses	(593)	(728)	(963)	(969)	(1,069)
Net profit	1,925	2,329	2,827	3,068	3,386
Growth (%)					
Net interest income	25.0	24.8	20.3	15.7	14.9
Net fee and commission	26.9	75.2	41.0	12.5	18.0
Other operating income	(450.0)	(63.4)	567.8	(77.6)	15.0
Operating income	30.4	26.1	27.4	11.1	15.3
Operating expenses	31.0	20.1	22.9	25.0	20.0
Impairment losses	30.4	123.2	66.1	(13.5)	19.2
Investment in associates	na	na	41.8	1.5	20.0
Profit before tax	30.1	21.4	24.0	6.5	10.4
Income tax expenses	32.4	22.8	32.3	0.6	10.4
Net profit	29.4	21.0	21.4	8.5	10.4
Per share					
EPS	0.95	1.10	1.05	1.13	1.25
BVPS	4.09	4.98	5.88	7.20	8.38
DPS	0.05	0.22	0.27	0.25	0.31
Key ratio (%)					
Net interest margin	2.85	2.81	2.81	2.65	2.54
Net interest spread	2.66	2.61	2.56	2.44	2.34
Cost to income ratio	40.81	32.37	31.02	42.19	43.93
Return on average assets	1.36	1.28	1.17	1.11	1.03
Return on average equity	26.17	21.43	19.20	17.05	16.07
Effective tax rate	23.6	24.0	25.4	24.0	24.0
Dividend payout	5.3	26.0	25.9	22.0	25.0

Source(s): Company, ABCI Securities estimates



Consolidated Balance Sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E
Cash and bank	25,243	32,823	35,699	45,689	51,172
Due from bank and FIs	18,532	32,143	54,409	52,233	65,291
Net loans	75,257	88,638	104,115	125,944	149,621
Investment securities	32,132	47,431	70,980	70,489	83,908
Total IEA	151,164	201,035	265,203	294,355	349,992
Other assets	4,999	5,752	9,328	7,607	8,748
Total assets	156,163	206,787	274,531	301,962	358,741
Customer deposits	114,043	148,801	167,932	226,922	272,306
Due to bank and FIs	27,659	33,750	81,636	46,574	52,163
Subordinated debt	1,790	4,778	3,785	6,593	7,385
Total IBL	143,492	187,328	253,353	280,089	331,854
Other liabilities	4,413	5,979	5,275	2,393	4,223
Total liabilities	147,905	193,308	258,628	282,483	336,077
Share capital	2,021	2,705	2,705	2,705	2,705
Retained earnings	4,554	5,676	6,955	10,325	12,865
Reserves	1,683	5,098	6,243	6,449	7,094
Total equity	8,258	13,479	15,903	19,479	22,664
Growth (%)					
Cash and bank	30.5	30.0	8.8	28.0	12.0
Due from bank and FIs	(23.9)	73.4	69.3	(4.0)	25.0
Net loans	19.8	17.8	17.5	21.0	18.8
Investment securities	88.0	47.6	49.6	(0.7)	19.0
Total IEA	22.3	33.0	31.9	11.0	18.9
Total assets	22.6	32.4	32.8	10.0	18.8
Customer deposits	27.7	30.5	12.9	35.1	20.0
Due to bank and FIs	(2.8)	22.0	141.9	(42.9)	12.0
Subordinated debt	79.9	166.9	(20.8)	74.2	12.0
Total IBL	20.8	30.5	35.2	10.6	18.5
Total liabilities	22.3	30.7	33.8	9.2	19.0
Total equity	28.0	63.2	18.0	22.5	16.3
Key ratio (%)					
Loan to deposits	67.20	60.82	63.39	56.87	56.35
CT1 CAR	9.39	10.82	9.63	10.57	10.36
Total CAR	12.83	13.26	11.00	12.61	12.39
NPL ratio	0.33	0.39	0.69	0.50	0.50
NPL growth	12.86	39.57	106.42	32.93	18.92
Net bad debt charge ratio	0.34	0.64	0.85	0.65	0.65
Provision to total loans	1.80	2.06	2.19	2.40	2.50
Provision coverage	537.70	526.36	318.87	480.00	500.00

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 2009-2013

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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