

26 March 2015

**Outperform**  
**Unchanged**

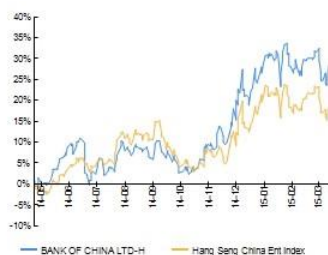
## 海外业务领军者

### 中国银行 (3988:HK)

#### Market Data: Mar,25

Closing Price (HK\$)	4.40
Price Target (HK\$)	5.23
HSCEI	11,969
HSCCI	4,525
52-week High/Low (HK\$)	4.57/3.18
Market Cap (USD Mn)	161,713
Market Cap (HK\$ Mn)	1,254,092
Shares Outstanding (Mn)	294,388
Exchange Rate (RMB-HK\$)	1.26

#### Price Performance Chart:



Source: Bloomberg

#### Analyst

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#### Related Reports

"BANK OF CHINA (3988:HK)-Overseas Chinese " Jan 23,2015

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#### Financial summary and valuation

	2012	2013	2014	2015E	2016E
Net interest income (Rmbm)	256,964	283,585	321,102	347,090	372,802
YOY (%)	12.67	10.36	12.77	8.53	7.41
Net income (Rmbm)	139,656	156,911	169,595	173,432	181,905
YOY (%)	12.46	12.36	8.08	2.21	4.89
EPS (Rmb)	0.50	0.56	0.61	0.62	0.65
Diluted EPS (Rmb)	0.50	0.56	0.61	0.62	0.65
BVPS (Rmb)	2.95	3.31	3.70	4.11	4.53
ROAE (%)	18.05	17.95	17.28	15.85	15.06
NPL ratio (%)	0.95	0.96	1.18	1.36	1.54
CAR (%)	13.63	12.46	13.87	13.89	13.97
PE (x)	6.95	6.19	5.72	5.60	5.34
PB (x)	1.18	1.05	0.93	0.85	0.77

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

**业绩符合预期。**中行周三公布年报业绩。年末生息资产余额同比增长 13%，净息差同比回升 1 个基点至 2.25%。净利息收入同比增速分别达到 13%。全年净利润达到 1700 亿元，基本每股收益 0.61 元，同比增长 8.1%，符合我们的预期。公司核心一级资本充足率由去年末的 9.69% 上升至 10.61%，资本充足率由 12.46% 上升至 13.87%。

**估值反应风险。**在经济下滑背景下，公司不良资产余额较 2013 年末增加 270 亿元至 1000 亿元，不良率由 0.96% 增加至 1.18%，拨备覆盖率下滑 41 个百分点至 188%。目前估值对应 0.85 倍 2015 年 PB，PB 折价和超额拨备隐含的不良率达到 1.9%，高于我们最悲观情景假设下 1.8% 的不良率，风险已完全反映在估值中。

**海外业务先发优势。**中行是跨境人民币业务的先行者和领先者。早在 1929 年中行就成立了第一家境外分支机构，截至目前中行已拥有超过 600 家境外分支机构。截至 2014 年末，来自境外分支机构的存款和贷款分别占到中行总存款和贷款的 19% 和 22%，远超其他同业。一方面，中行海外业务的领先地位将使其更小程度的受存款利率市场化的负面影响，因此中行相比于其他三大行的估值折价将逐步缩小。2014 年境内人民币业务净息差下滑 3 个基点，而境内外币业务净息差上升了 4 个基点。另一方面，随着一带一路的启动，中国主导的海外基建投资将提速，这在短期将提升跨境人民币结算清算等业务需求，中长期将通过项目投资带动当地贷款需求、存款供给和资产质量的改善，而中行将凭借海外业务的领先优势成为最大的受益者，未来 3 年，中行对“一带一路”建设的相关授信金额将达到 1000 亿美元。

**维持增持评级。**我们维持 2015 年和 2016 年 EPS0.62 元和 0.65 元，对应 2.2% 和 4.9% 的同比增速。目前公司股价对应 0.85 倍 2015 年 PB，低于其他三大行 0.90 倍的平均水平。我们维持公司 1 倍的 2015 年目标 PB，维持目标价 5.23 元，对应 19% 的上行空间，重申增持评级。

### Investment highlights :

**Results in line.** Bank of China reported total interest earning assets in 2014 grew 13% YoY and net interest margin (NIM) improved 1bp YoY to 2.25%, driving net interest income up 13% YoY. Net profit arrived at Rmb170bn and basic EPS reached Rmb0.61, representing 8.1% YoY, in line with our expectation. Core tier-one capital adequacy ratio (CAR) increased from 9.69% at end-2013 to 10.61% at end-2014. Meanwhile, CAR rose from 12.46% to 13.87%.

**Risks are priced in.** Amid an ongoing slowdown in economic growth, the bank's non-performing loans (NPL) increased to Rmb100bn at end-2014 (+Rmb27bn vs end-2013), while its NPL ratio rose 0.22ppts YoY to 1.18%. The company's coverage ratio decreased 41ppts YoY to 188%. The NPL ratio implied by its PB discount and excessive provisions reached 1.9%, while the NPL ratio under our worst-case scenario stands at 1.8%. Therefore, we believe the risks are fully priced in.

**Strong positioning.** Bank of China has the most extensive cross-border renminbi business network of the major domestic commercial banks. As of end 2014, BoC deposits at overseas branches accounted for 19% of total deposits, while loans overseas took up 22% of its overall loan book. The lower NIM in its overseas business means that as the government's continues to make progress towards liberalizing interest rates, which will reduce domestic businesses' NIMs, BoC will be less at risk than the other Chinese banks. In 2014, NIM of its RMB business declined by 3bps, while NIM of foreign currencies increased by 4bps. On the other hand, the government promises to encourage domestic firms to build infrastructure projects across Central Asia ('The New Silk Road'). This will boost demand for Rmb settlement services and other overseas business associated with the policy in these countries over the coming years. And BOC's first mover advantage in overseas business makes it the best placed bank to capture these opportunities. It indicated to offer total loan quota of USD 100bn on the new silk road construction.

**Maintain Outperform.** We maintain our EPS forecasts at Rmb0.62 in 15E (+2.2% YoY) and Rmb0.65 in 16E (+4.9% YoY). Currently BoC is trading at 0.85x 15E PB (vs average of 0.90x for the remaining Big Three). Given our expectation of a sector valuation recovery amid monetary easing, we maintain our target 15E PB at 1x and maintain our target price at HK\$5.23. With 19% upside, we maintain Outperform recommendation.

**Figure 1: Valuation table**

Company	Code	Rating	Target price (HK\$)	+/- (%)	Trading PE			Trading PB		
					13A	14E	15E	13A	14E	15E
CRCB	3618 HK	BUY	5.67	19.6%	5.84	5.14	4.56	0.96	0.81	0.72
BOCOM	3328 HK	BUY	8.59	32.6%	6.13	5.78	5.39	0.91	0.77	0.70
CMBC	1988 HK	O-PF	10.90	19.4%	4.86	5.24	4.77	1.04	1.02	0.84
BOC	3988 HK	O-PF	5.23	18.9%	6.21	5.72	5.45	1.06	0.94	0.85
ABC	1288 HK	O-PF	4.19	11.4%	5.82	5.27	4.84	1.15	0.96	0.87
ICBC	1398 HK	Neutral	5.12	-8.1%	5.91	5.55	5.26	1.22	1.07	0.96
CCB	939 HK	Neutral	5.60	-12.1%	5.88	5.47	5.14	1.19	0.98	0.87
CITIC	998 HK	U-PF	5.53	-3.2%	5.41	5.20	5.07	0.94	0.80	0.70
CMB	3968 HK	U-PF	16.72	-8.6%	6.31	6.45	5.80	1.38	1.12	0.97

Source: Company data, SWS Research

# APPENDIX

Figure 1: Forecast Income Statement

RMB million	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015(E)	2016(E)
Interest Income	167,948	215,334	261,871	286,927	261,424	313,533	413,102	506,528	518,995	593,564	652,890	711,429
Interest expense	(66,940)	(93,963)	(109,126)	(123,991)	(102,543)	(119,571)	(185,038)	(249,564)	(235,410)	(273,758)	(305,801)	(338,627)
<b>Net interest income</b>	<b>101,008</b>	<b>121,371</b>	<b>152,745</b>	<b>162,936</b>	<b>158,881</b>	<b>193,962</b>	<b>228,064</b>	<b>256,964</b>	<b>283,585</b>	<b>321,102</b>	<b>347,090</b>	<b>372,802</b>
Fee and commission income	12,698	17,139	39,601	43,712	50,234	59,214	70,018	75,198	88,585	102,281	111,487	121,521
Fee and commission expense	(3,451)	(2,816)	(4,066)	(3,765)	(4,221)	(4,731)	(5,356)	(5,275)	(6,493)	(7,876)	(8,584)	(9,357)
<b>Net fee and commission income</b>	<b>9,247</b>	<b>14,323</b>	<b>35,535</b>	<b>39,947</b>	<b>46,013</b>	<b>54,483</b>	<b>64,662</b>	<b>69,923</b>	<b>82,092</b>	<b>94,406</b>	<b>102,902</b>	<b>112,164</b>
Other operating income	14,851	12,684	(5,568)	(2,226)	27,676	28,073	35,572	39,289	41,832	45,597	49,701	54,174
<b>Operating income</b>	<b>125,106</b>	<b>148,378</b>	<b>182,712</b>	<b>200,657</b>	<b>232,570</b>	<b>276,518</b>	<b>328,298</b>	<b>366,176</b>	<b>407,509</b>	<b>459,809</b>	<b>499,693</b>	<b>539,139</b>
Operating expense	(54,304)	(62,269)	(76,300)	(86,045)	(95,662)	(107,995)	(122,234)	(141,149)	(153,735)	(174,727)	(187,385)	(203,794)
Business tax and surcharges	(5,680)	(6,462)	(8,726)	(11,367)	(11,645)	(14,414)	(18,581)	(18,580)	(18,579)	(19,907)	(21,868)	(23,830)
<b>Operating profit before provisions</b>	<b>65,122</b>	<b>79,647</b>	<b>97,686</b>	<b>103,245</b>	<b>125,263</b>	<b>154,109</b>	<b>187,483</b>	<b>206,447</b>	<b>235,195</b>	<b>265,174</b>	<b>290,440</b>	<b>311,515</b>
Provision for impairment losses	(11,486)	(12,342)	(8,252)	(16,792)	(14,987)	(12,993)	(19,355)	(19,387)	(23,510)	(36,294)	(55,850)	(65,138)
Share of profits of an associate	175	632	1,263	726	821	1,029	516	613	1,092	500	500	501
<b>Profit before tax</b>	<b>53,811</b>	<b>67,937</b>	<b>90,697</b>	<b>87,179</b>	<b>111,097</b>	<b>142,145</b>	<b>168,644</b>	<b>187,673</b>	<b>212,777</b>	<b>228,880</b>	<b>234,590</b>	<b>246,376</b>
Income tax	(22,253)	(19,673)	(28,661)	(21,285)	(25,748)	(32,454)	(38,325)	(41,927)	(49,036)	(51,498)	(52,783)	(55,435)
<b>Net profit attributable to equity holders of the bank</b>	<b>25,921</b>	<b>42,830</b>	<b>56,248</b>	<b>64,360</b>	<b>80,819</b>	<b>104,418</b>	<b>124,182</b>	<b>139,656</b>	<b>156,911</b>	<b>169,595</b>	<b>173,432</b>	<b>181,905</b>
Minority interest	5,637	5,434	5,788	1,534	4,530	5,273	6,137	6,090	6,830	7,707	8,375	9,036

Source : Company data, SWS Research

**Figure2: Forecast Balance Sheet**

RMB million	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015(E)	2016(E)
<b>Assets</b>												
Cash and Balance with central bank	393,609	456,069	855,043	1,312,185	1,581,801	2,252,517	2,566,723	2,004,851	2,214,070	2,421,449	2,663,594	2,903,317
Cash/balances/Placements with banks and other financial institutions	332,099	399,138	386,648	488,465	223,444	213,716	618,366	1,222,873	1,362,633	1,442,065	1,421,501	1,444,854
Loans and advances to customers	2,152,112	2,337,726	2,754,493	3,189,652	4,797,408	5,537,765	6,203,138	6,710,040	7,439,742	8,295,312	9,290,750	10,219,825
Investments	1,700,121	1,917,319	1,758,766	1,722,332	1,845,193	2,095,298	2,043,516	2,250,712	2,297,293	2,504,049	2,729,414	2,975,061
Non interest-bearing assets	162,107	217,401	236,267	239,046	304,097	360,569	398,323	492,139	560,561	531,814	584,129	636,277
<b>Total</b>	<b>4,740,048</b>	<b>5,327,653</b>	<b>5,991,217</b>	<b>6,951,680</b>	<b>8,751,943</b>	<b>10,459,865</b>	<b>11,830,066</b>	<b>12,680,615</b>	<b>13,874,299</b>	<b>15,194,690</b>	<b>16,689,387</b>	<b>18,179,334</b>
<b>Liabilities</b>												
Deposits/Placements from banks and other financial institutions	376,898	368,059	663,815	859,343	1,152,424	1,580,030	1,718,237	1,996,218	2,091,828	2,127,257	2,336,514	2,545,107
Deposits from customers	3,699,464	4,091,118	4,400,111	5,102,111	6,620,552	7,483,254	8,817,961	9,173,995	10,097,786	11,006,587	12,107,245	13,196,898
Debts issued	60,179	60,173	64,391	65,393	76,798	131,887	169,902	199,133	224,704	224,704	224,704	224,704
Other borrowed funds	52,164	63,398	51,708	42,838	-	-	-	-	-	-	-	-
Non interest-bearing liabilities	295,824	331,949	360,535	392,108	356,775	588,544	368,072	449,727	498,504	759,735	834,469	908,967
<b>Total</b>	<b>4,484,529</b>	<b>4,914,697</b>	<b>5,540,560</b>	<b>6,461,793</b>	<b>8,206,549</b>	<b>9,783,715</b>	<b>11,074,172</b>	<b>11,819,073</b>	<b>12,912,822</b>	<b>14,118,282</b>	<b>15,502,933</b>	<b>16,875,675</b>
<b>Shareholders' equity</b>												
Share capital	209,427	253,839	253,839	253,839	253,839	279,147	279,147	279,147	279,365	279,365	279,365	279,365
Reserves	6,804	90,653	98,111	126,992	160,395	216,663	234,199	302,631	320,878	345,053	370,692	397,130
Retained earnings	10,188	38,425	68,480	83,427	100,758	148,355	209,816	242,899	323,673	419,802	508,209	602,974
<b>Total shareholders' equity</b>	<b>226,419</b>	<b>382,917</b>	<b>420,430</b>	<b>464,258</b>	<b>514,992</b>	<b>644,165</b>	<b>723,162</b>	<b>824,677</b>	<b>923,916</b>	<b>1,038,847</b>	<b>1,148,893</b>	<b>1,266,098</b>
Minority Interests	29,100	30,039	30,227	25,629	30,402	31,985	32,732	36,865	37,561	37,561	37,561	37,561
<b>Total shareholders' equity and liabilities</b>	<b>4,740,048</b>	<b>5,327,653</b>	<b>5,991,217</b>	<b>6,951,680</b>	<b>8,751,943</b>	<b>10,459,865</b>	<b>11,830,066</b>	<b>12,680,615</b>	<b>13,874,299</b>	<b>15,194,690</b>	<b>16,689,387</b>	<b>18,179,334</b>

Source : Company data, SWS Research

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