



Rating
Buy

Asia
China

Banking / Finance
Banks

Company Bank of China Alert

Reuters 3988.HK	Bloomberg 3988 HK	Exchange HKG	Ticker 3988
ADR Ticker BACHY	ISIN US06426M1045		

Date
25 March 2015

Results

Price at 25 Mar 2015 (HKD)	4.40
Price target - 12mth (HKD)	5.17
52-week range (HKD)	4.53 - 3.30
HANG SENG INDEX	24,400

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Stock data

Market cap (HKDm)	1,229,206
Market cap (USDm)	158,503
Free float (%)	87
Avg daily value traded (USDm)	171.6

Source: Deutsche Bank

2014 Review: Solid results; with a small cut in DPS

A small beat driven by robust overseas businesses; top pick maintained

BOC reported FY14 net profit of Rmb169.6bn (up 8.1% yoy), beating our forecasts by 2.2% and consensus estimates by 3.7%. We believe the quality of BOC's results was likely to be the best in class amongst the big four banks, given the strong operating profit growth of 29.9% yoy for its overseas business, which accounted for 23% of the group's profits (2013: 19.4%). With PPOP growth of 18.4% and credit costs of 58bps, BOC reported a ROAA of 1.22% and ROAE of 17.3%. Similar to ABC, BOC lowered the dividend payout ratio to 33% from 35%. Given the 5.4% increase in outstanding number of shares induced by the conversion of the A-share CBs into common equities up to March 2015, BOC's DPS fell by 3% yoy to Rmb0.19, implying a dividend yield of 5.4%. We maintain a Buy rating on BOC's H-shares and a Hold rating on its A-share.

4Q14 - Positives: fees and cost control

BOC recorded 4Q14 net profit of Rmb38.5bn, up 4.8% yoy. The result was driven by PPOP growth of 12.3% yoy and credit costs of 44bps (4Q13: 23bps). Net interest income grew by 0.3% qoq as the 1.3% qoq increase in AIYA was offset by 2bps qoq decline in NIM. Net fee income growth recovered to 14.7% yoy from 0.2% yoy recorded in the previous quarter. As the operating income growth of 8% yoy outpaced operating expense growth of 2.8% yoy, CIR improved to 43.8% in 4Q14 (4Q13: 46.0%).

Stronger than peers asset quality and capital position

BOC's NPL balance rose by 10.8% qoq to 1.18% of loans. Adjusting for the write-off of Rmb16.4bn in 2H14, the NPL formation rate had accelerated to 73bps (ABC: 113bps). BOC's provision to NPL and loan coverage ratio fell to 187.6% and 2.22%, compared with 207.7% and 2.23% in 3Q14. In 4Q14, BOC issued preferred shares worth of Rmb71.9bn and reported conversion of CBs worth of Rmb24.1bn into common equities. As such, its BOC's core tier 1 ratio, tier 1 ratio and CAR improved by 10bps, 83bps and 80bps qoq to 10.61%, 11.35% and 13.87% respectively.

Key beneficiary of "One Belt One Road" strategy

With overseas assets accounting to 27.4% of the group assets as of 2014, we see BOC as a key beneficiary of RMB internationalization and the state-level strategy of "One Belt One Road". With stronger offshore trade flows and more investment opportunities in the neighbor countries, BOC should enjoy stronger overseas growth in its credit demand, financial and advisory businesses.

Deutsche Bank AG/Hong Kong

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