

FIG
 Commercial Banks
 Equity – Hong Kong

Hold

Target price (HKD)	13.30
Share price (HKD)	12.86
Upside/Downside (%)	3.4

Performance	1M	3M	12M
Absolute (%)	-1.1	3.2	8.9
Relative ^A (%)	0.3	-1.2	-2.5

Index ^A	Hang Seng Index
RIC	2356.HK
Bloomberg	2356 HK

Market cap (USDm)	2,310
Market cap (HKDm)	18,024
Free float (%)	25

25 March 2015

York Pun*, CFA

Analyst
 The Hongkong and Shanghai Banking Corporation Limited
 +852 2822 4396
 yorkkypun@hsbc.com.hk

Anthony Lam*

Associate
 The Hongkong and Shanghai Banking Corporation Limited
 +852 2822 4202
 anthony.t.y.lam@hsbc.com.hk

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Dah Sing Banking Group (2356 HK)

Hold: Good results in 2014 but challenges remain

- ▶ **FY14 earnings were 12% ahead of our forecast**
- ▶ **But outlook for income growth and credit quality remains challenging; capital pressure has also risen**
- ▶ **We establish a Hold rating and set a HKD13.3 fair value TP**

Good results in 2014. Dah Sing Banking Group (DSBG) reported net profit up 16% y-o-y to HKD2bn in 2014, 12% ahead of our forecast. The y-o-y earnings growth is driven by a full-fledged revenue increase across net interest income (as higher volume offset lower margins), fee income, trading income and associate contribution, which together offset the higher operating cost and impairment. ROE reached 11% on a full-year basis while the CET1 ratio was 11.4%. The company also announced a final DPS of HKD0.26, maintaining its full-year pay-out ratio of nearly 25%.

Looking forward, we see **challenges remaining** in the following areas:

- ▶ **Margin pressure** could sustain on a competitive environment and excess liquidity in Hong Kong whilst loan growth may slow down on the back of a more conservative macro outlook. This could check overall income growth.
- ▶ **Impairment cost**, which was up 53% y-o-y in 2014, might rise further. We believe the better NPL ratio reported by DSBG at end-2014 is temporary in nature.
- ▶ **Associate income** from Bank of Chongqing (BOCQ) dropped h-o-h in 2H14 and could remain lacklustre in view of the challenging macro environment in China.
- ▶ **Capital pressure** could have increased. Despite the rights issue completed in 2014, we think the bar has probably risen recently with the fundraising activities of its peers (such as a share placement just completed by Bank of East Asia). Moreover, there might also be capital need from BOCQ, which reported a core CAR of 9.6% as of end-2014.

We establish a Hold rating on DSBG under our new rating system (versus Underweight previously, due to valuation). We have not changed our forecasts (DSBG has not released its full annual report); our target price of HKD13.3 is based on 0.8x target PB, which is derived from a sum-of-the-parts approach that separately values the core business of DSBG (at 0.8x PB) and its shareholding in BOCQ (at 1x book value).

Key risks. Significant changes in macro and monetary conditions, depending on the direction, are upside or downside risks. We believe DSBG is in the spotlight when it comes to M&A expectations, which could lead its share price to appreciate beyond fair value.

DSBG: Summary and comparison of 2H14/FY14 results (HKDm unless otherwise specified)

Income statement summary	2H13	1H14	2H14	YoY g	HoH g	FY13	FY14	YoY g
Net interest income	1,454	1,471	1,519	5%	3%	2,797	2,990	7%
Net fee income	354	404	427	21%	6%	702	832	18%
Other operating income	191	136	207	8%	53%	318	343	8%
Total operating income	1,999	2,011	2,154	8%	7%	3,817	4,165	9%
Operating expenses	(1,067)	(1,003)	(1,125)	5%	12%	(1,976)	(2,127)	8%
Pre-provision operating profits (PPOP)	932	1,008	1,029	10%	2%	1,842	2,038	11%
Loan impairments	(172)	(225)	(248)	44%	11%	(310)	(473)	53%
Non-operating income (inc. BOCQ)	317	379	315	-1%	-17%	471	694	48%
Pre-tax earnings	1,077	1,163	1,096	2%	-6%	2,002	2,259	13%
Tax expenses	(133)	(114)	(112)	-16%	-2%	(246)	(225)	-8%
Net profits	944	1,049	985	4%	-6%	1,756	2,034	16%
Balance sheet summary								
Customer deposits	129,843	139,358	142,580	10%	2%	129,843	142,580	10%
Customer loans (re-stated)	107,581	114,621	115,864	8%	1%	107,581	115,864	8%
Total assets	167,227	179,268	185,328	11%	3%	167,227	185,328	11%
Net asset values	17,050	19,152	19,941	17%	4%	17,050	19,941	17%
Key performance ratios				(bp)				
Net interest margin	1.81%	1.79%	1.74%	(7)	(5)	1.79%	1.76%	(3)
Gross loan to deposits ratio	82.9%	82.2%	81.3%	(159)	(99)	82.9%	81.3%	(159)
Cost to income ratio	53.4%	49.9%	52.2%	(117)	235	51.8%	51.1%	(68)
Impaired loans ratio	0.40%	0.47%	0.35%	(5)	(12)	0.40%	0.35%	(5)
ROA (annualized)	1.1%	1.2%	1.1%	(7)	(13)	1.1%	1.2%	7
ROE (annualized)	11.5%	11.6%	10.1%	(139)	(152)	10.8%	11.0%	17

Source: Company data, HSBC

Disclosure appendix

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The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

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Upside/Downside is the percentage difference between the target price and the share price.

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For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

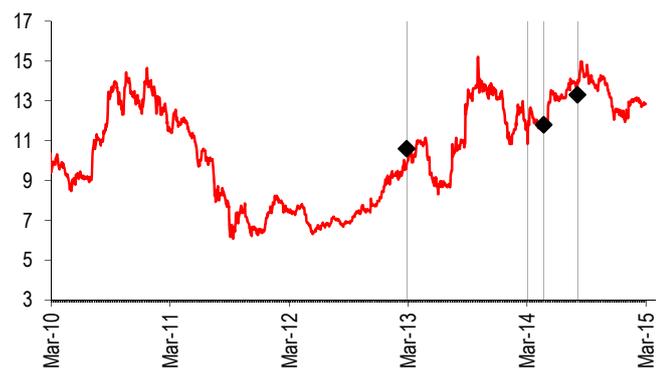
As of 25 March 2015, the distribution of all ratings published is as follows:

Buy	41%	(30% of these provided with Investment Banking Services)
Hold	39%	(28% of these provided with Investment Banking Services)
Sell	20%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

Share price and rating changes for long-term investment opportunities

Dah Sing Banking Group (2356.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Overweight	Neutral	20 March 2013
Neutral	Restricted	26 March 2014
Restricted	Neutral	15 May 2014
Neutral	Underweight	27 August 2014
Target Price	Value	Date
Price 1	10.59	20 March 2013
Price 2	Restricted	26 March 2014
Price 3	11.80	15 May 2014
Price 4	13.30	27 August 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
DAH SING BANKING GROUP	2356.HK	12.86	24-Mar-2015	1, 4, 5, 6

Source: HSBC

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Issuer of report

The Hongkong and Shanghai Banking Corporation Limited

Level 19, 1 Queen's Road Central
Hong Kong SAR

Telephone: +852 2843 9111

Fax: +852 2596 0200

Website: www.research.hsbc.com

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