



HONG KONG

1398 HK Outperform

Price (at 05:19, 26 Mar 2015 GMT) HK\$5.57

Valuation HK\$ 6.18-7.47

- Gordon Growth

12-month target HK\$ 6.43

Upside/Downside % +15.4

12-month TSR % +21.9

Volatility Index Low

GICS sector Banks

Market cap HK\$bn 1,950

Market cap US\$m 252,325

Free float % 23

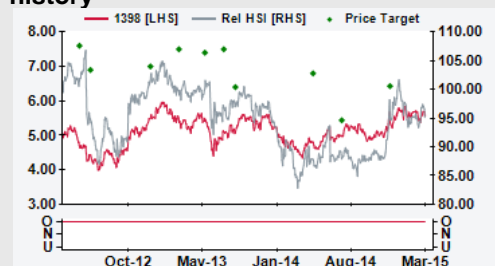
30-day avg turnover US\$m 180.3

Number shares on issue m 350,068

Investment fundamentals

Year end 31 Dec		2013A	2014E	2015E	2016E
Net interest Inc	bn	443.3	488.8	505.0	526.3
Non interest Inc	bn	135.6	138.6	166.6	186.0
Underlying profit	bn	374.8	407.5	434.9	455.7
PBT	bn	338.5	364.1	376.4	390.3
PBT growth	%	9.7	7.5	3.4	3.7
Reported profit	bn	262.6	279.9	287.4	298.1
EPS rep	Rmb	0.75	0.80	0.82	0.85
EPS rep growth	%	9.9	6.6	2.7	3.7
PER rep	x	5.9	5.6	5.4	5.2
Total DPS	Rmb	0.26	0.28	0.29	0.30
Total div yield	%	5.9	6.3	6.4	6.7
ROA	%	1.4	1.4	1.3	1.3
ROE	%	21.9	20.3	18.0	16.4
Equity to assets	%	6.9	7.2	7.5	nmf
P/BV	x	1.2	1.1	0.9	0.8

1398 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

(all figures in Rmb unless noted, TP in HKD)

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26 March 2015

Macquarie Capital Securities Limited

ICBC

Profits pressured, but CET1 sustained

Event

- **Another mediocre finish to 2014.** ICBC's 4Q14 earnings fell -24% QoQ / -3% YoY, with [full-year earnings](#) 1% below consensus and Macq. As with the other banks, 4Q14 revenues came in stronger than we had expected while credit costs spiked, driving the weaker than expected bottom line.
- **As usual we focus on the 4Q14 numbers** rather than full-year results in this quarterly results note. For details on the line-by-line financial statements and ratio analysis for 4Q14, see Figs 1-3 of this note.

Impact

- **Strong 4Q14 net interest income** (+4% QoQ / +13% YoY) was boosted by an up-tick in NIMs (+6bps QoQ / +10bps YoY) despite slower IEA growth (+3% QoQ / +9% YoY). This was a good outcome and the primary driver of revenue growth (+8% QoQ / +13% YoY) in 4Q14. This was 5% ahead our estimate.
- **Credit costs spiked** in 4Q14, with total credit costs of RMB24bn the highest quarterly provisioning number since listing, and annualized credit costs to average assets at 48bps, the highest since the global financial crisis. However, this also allowed ICBC to keep the NPL ratio relatively low at 1.13% (+7bp QoQ / +19bp YoY) with LLR coverage still relatively high at 207%.
- **Solvency looks good, as expected.** Yearend CET1 was 11.92%, with Tier 1 at 12.19% and total CAR at 14.53%. This represents an appropriate level, in our view, as well as a benchmark for comparison of the other large banks (notably ABC but also BOC). The strong solvency position is one of the key defensive characteristics of ICBC's stock in an environment of rising reported NPLs and reduced ROA in the sector.
- **Dividend payout reduced, but c. 6% yield is still there.** ICBC proposed a dividend of 2014 RMB 0.2554 per share or 33% of EPS, which is the lowest historical payout ratio since listing. This DPS translates to a yield of 5.8%, slightly below our 6.3% assumption for 2014E.

Earnings and target price revision

- No change pending a more thorough review of the results.

Price catalyst

- **12-month price target:** HK\$6.43 based on a PBV methodology.
- **Catalyst:** Balance sheet and liquidity strength make it a better proxy on China macro policy as institutions move from underweight to neutral positions.

Action and recommendation

- **Outperform on ICBC, one of our top sector picks and a Marquee stock idea.** For investors looking at banks as a proxy on macro policy, or who are attracted by the yield, we suggest the better quality banks over the Beta plays. We prefer ICBC's H Shares over the A Shares, which trade at a 5% premium.
- **Strong fundamentals, high quant ranking.** Strong capital and liquidity position ICBC well for the operational challenges ahead. Moreover, it currently ranks 11th in our global quant screen of 669 banks (see page 6 for details).

Analysis

Fig 1 ICBC Selected calculated ratios

(%)	4Q13	1Q14	2Q14	3Q14	4Q14
GROWTH PROJECTIONS (YoY)					
Growth in Net Interest Income	8.7	8.5	11.6	12.2	12.9
Growth in Pre Provision Profit	8.8	9.0	8.5	10.8	16.9
Growth in Net Profit	7.9	6.6	7.5	7.7	-3.1
Growth in Assets	7.8	7.5	8.4	7.5	8.9
Growth in Shareholders' Equity	13.3	13.8	15.7	15.9	20.1
ASSET ANALYSIS					
Net interest inc / avg assets	2.46	2.40	2.43	2.48	2.56
Earning assets to Total assets	97.0	96.7	96.8	96.7	96.9
Average Return on Earning Assets	1.25	1.57	1.54	1.48	1.12
Loans to earning assets	54.1	54.3	54.1	55.7	55.2
LOAN ANALYSIS					
Loan growth	12.7	12.0	12.8	12.5	11.1
Corporate loans (% of loans)	71.0	71.7	71.2	69.8	69.0
Consumer loans (% of loans)	27.5	27.1	27.3	27.6	27.8
Discounted bills (% of loans)	1.5	1.2	1.5	2.6	3.2
DEPOSIT ANALYSIS					
Deposit growth	7.2	5.4	8.4	4.4	6.4
Demand dep to total deposit	48.1	47.3	48.0	45.6	46.9
Time deposit to total deposit	50.4	50.9	50.2	52.4	51.0
Pledged and other deposit	1.5	1.8	1.8	2.0	2.1
Deposits to Int Bearing Liab	88.2	87.8	88.5	87.5	86.7
LIQUIDITY					
LDR	67.9	68.4	67.7	70.8	70.9
Loans to Assets	52.5	52.6	52.4	53.9	53.5
Deposits to Earning Assets	79.7	79.4	80.0	78.7	77.9
ASSET QUALITY					
NPL	0.94	0.97	0.99	1.06	1.13
NPL coverage	257.2	245.4	238.0	216.6	206.9
Credit cost to loans	+40 bp	+54 bp	+40 bp	+31 bp	+89 bp
Reserves (B/S) to Loans	2.4	2.4	2.4	2.3	2.3
CAPITAL ADEQUACY					
Tier I CAR	10.62	10.88	11.36	11.79	11.36
Total CAR	13.31	13.22	13.67	14.20	13.67
Equity to assets	6.7	6.9	6.7	7.1	7.4
Core tier 1	10.62	10.88	11.36	11.79	11.92
SPREAD ANALYSIS					
Int. rate received on AIEA	4.48	4.33	4.78	4.53	5.05
Int. rate paid on ttl funds	2.04	2.06	2.05	2.10	2.07
Interest rate spread	2.44	2.27	2.73	2.43	2.99
Net Interest Margin	2.46	2.40	2.43	2.48	2.56
OTHER INCOME					
Non interest inc to total income	21.0	26.2	23.9	17.9	21.0
Fees to non interest income	87.3	91.8	93.0	101.1	91.0
Fees to total income	18.3	24.0	22.2	18.1	19.1
OPERATING EFFICIENCY					
Cost to income ratio	43.3	30.6	32.3	33.2	41.3
Costs to assets	1.35	0.99	1.03	1.00	1.34
Interest bearing liab/Total liab	94.0	94.0	93.8	93.7	94.0
PROFITABILITY					
ROA	1.21	1.52	1.49	1.43	1.09
ROE	18.2	22.3	22.1	20.8	15.0

Source: Company data, Macquarie Research, March 2015

Fig 2 ICBC – P&L (Quarterly)

Rmb mn	4Q13	1Q14	2Q14	3Q14	4Q14	4Q14 QoQ	4Q14 YoY
Net interest revenue	115,699	115,825	121,782	125,327	130,588	4.2%	12.9%
Interest income	200,342	203,145	209,468	215,038	222,228	3.3%	10.9%
Interest expense	84,643	87,320	87,686	89,711	91,640	2.2%	8.3%
Non-interest income	30,728	41,038	38,208	27,361	34,729	26.9%	13.0%
Fees and commissions	26,823	37,682	35,546	27,657	31,612	14.3%	17.9%
Other income	3,905	3,356	2,662	-296	3,117	nmf	-20.2%
Total Operating Income	146,427	156,863	159,990	152,688	165,317	8.3%	12.9%
Total Operating Costs	63,412	47,928	51,684	50,766	68,296	34.5%	7.7%
Pre-provision operation profit	83,015	108,935	108,306	101,922	97,021	-4.8%	16.9%
Total impairment losses	-9,701	-13,776	-10,391	-8,289	-24,273	192.8%	150.2%
Associates	574	498	518	508	633	24.6%	10.3%
Profit before tax	73,888	95,657	98,433	94,141	73,381	-22.1%	-0.7%
Income tax	16,694	22,196	23,513	21,667	17,950	-17.2%	7.5%
Net profit	57,194	73,461	74,920	72,474	55,431	-23.5%	-3.1%
Minorities	78	159	122	110	84	-23.6%	7.7%
Reported profit	57,116	73,302	74,798	72,364	55,347	-23.5%	-3.1%

Source: Company data, Macquarie Research, March 2015

Fig 3 ICBC – Balance sheet (Quarterly)

Rmb mn	4Q13	1Q14	2Q14	3Q14	4Q14	4Q14 QoQ	4Q14 YoY
Cash and Balance with Central bank	3,294,007	3,525,830	3,607,404	3,472,425	3,523,622	1.5%	7.0%
Balance with other banks & fin'l inst'ns	717,984	570,113	642,087	582,741	782,776	34.3%	9.0%
Placement with banks & fin'l institutions	331,903	515,635	540,645	432,604	468,462	8.3%	41.1%
Gross loans and advances to customers	9,922,374	10,372,180	10,646,115	10,853,652	11,026,331	1.6%	11.1%
Total allowance for impairment losses	240,959	246,744	251,680	250,108	257,581	3.0%	6.9%
Total loans and advances to customers	9,681,415	10,125,436	10,394,435	10,603,544	10,768,750	1.6%	11.2%
Total investments	4,322,244	4,349,097	4,476,040	4,401,680	4,433,237	0.7%	2.6%
Interest-earning assets	18,347,553	19,086,111	19,660,611	19,492,994	19,976,847	2.5%	8.9%
Investment in associates	28,515	29,899	30,291	28,860	28,919	0.2%	1.4%
Fixed assets	164,347	168,091	175,368	179,128	199,280	11.3%	21.3%
Deferred tax assets	28,860	25,805	21,480	19,553	24,758	26.6%	-14.2%
Goodwill	0	0	0	0	0	nmf	nmf
Other assets	348,477	424,777	415,927	430,421	380,149	-11.7%	9.1%
Total assets	18,917,752	19,734,683	20,303,677	20,150,956	20,609,953	2.3%	8.9%
Due to Central bank	724	686	745	699	631	-9.7%	-12.8%
Deposits from other banks & financial institutions	1,269,255	1,455,482	1,418,199	1,429,869	1,539,239	7.6%	21.3%
Placements from banks & financial institutions	299,304	233,208	193,858	310,136	380,957	22.8%	27.3%
Customer deposits	14,620,825	15,160,980	15,728,332	15,339,964	15,556,601	1.4%	6.4%
CD issued	130,558	167,190	176,265	181,401	176,248	-2.8%	35.0%
Debt issued	253,018	248,644	255,640	268,726	279,590	4.0%	10.5%
Interest-bearing liabilities	16,573,684	17,266,190	17,773,039	17,530,795	17,933,266	2.3%	8.2%
Other liabilities	1,065,605	1,105,573	1,171,135	1,187,786	1,139,383	-4.1%	6.9%
Total liabilities	17,639,289	18,371,763	18,944,174	18,718,581	19,072,649	1.9%	8.1%
Minority interest	4,329	4,435	4,646	4,794	6,445	34.4%	48.9%
Share capital	351,390	351,391	351,406	351,513	353,495	0.6%	0.6%
Reserves	410,795	422,353	436,130	436,532	527,128	20.8%	28.3%
Retained profit	511,949	584,741	567,321	639,536	650,236	1.7%	27.0%
Total shareholders' equity	1,274,134	1,358,485	1,354,857	1,427,581	1,530,859	7.2%	20.1%

Source: Company data, Macquarie Research, March 2015

Fig 4 ICBC – P&L

Rmb mn	2011	2012	2013	2014E	2015E	2016E
Interest Income	589,580	721,439	767,111	845,949	865,552	900,719
Interest Expense	226,816	303,611	323,776	357,195	360,564	374,401
Net Interest Income	362,764	417,828	443,335	488,754	504,988	526,318
Fees & Commissions	101,550	106,064	122,326	130,889	147,250	165,656
Net trading income	444	510	154	166	180	194
FVPL unrealized gains and losses	-271	-5,114	-2,413	-7,239	3,620	3,800
Realized gains and losses	219	608	625	656	689	724
Other operating income	5,895	9,824	14,874	14,130	14,837	15,579
Total Non-Interest Income	107,837	111,892	135,566	138,603	166,575	185,953
Total revenue	470,601	529,720	578,901	627,357	671,562	712,270
Staff compensation	87,881	96,240	103,455	111,731	120,670	130,324
Net Occupancy & Equipment	21,121	23,487	26,094	29,095	32,150	35,686
Other Expenses	60,611	70,213	74,591	79,066	83,810	90,515
Total Operating Expenses	169,613	189,940	204,140	219,893	236,630	256,525
Pre-Provision OP	300,988	339,780	374,761	407,464	434,932	455,745
Loan Loss Provision Expense	31,832	32,572	38,098	45,353	60,878	67,978
Provisioning for other NPAs	-711	1,173	223	317	104	115
Total provisions	31,121	33,745	38,321	45,669	60,982	68,093
OP after Provisioning	269,867	306,035	336,440	361,795	373,950	387,653
Associate Profit / (Loss)	2,444	2,652	2,097	2,265	2,446	2,642
Exceptional Gain & Loss	0	0	0	0	0	0
Pre-tax profit	272,311	308,687	338,537	364,060	376,396	390,294
Taxation	63,866	69,996	75,572	83,734	86,571	89,768
Net Profit (Gross)	208,445	238,691	262,965	280,326	289,825	300,527
Minority Interests	180	159	316	332	348	366
Preference Share Dividends	0	0	0	120	2,086	2,086
Net profit attributable to common	208,265	238,532	262,649	279,874	287,391	298,074

Source: Company data, Macquarie Research, March 2015

Fig 5 ICBC – Balance sheet

Rmb mn	2011	2012	2013	2014E	2015E	2016E
Cash & Equivalent	2,762,156	3,174,943	3,294,007	3,411,128	3,718,129	4,015,580
Due from banks and other Fis	478,002	636,450	717,984	789,782	868,761	955,637
Financial assets held for trading	30,822	20,463	28,143	30,957	34,053	37,458
Financial assets FVPL	121,386	201,208	344,413	447,737	559,671	587,655
Derivative financial assets	17,460	14,756	25,020	32,526	42,284	44,398
Reverse repo	349,437	544,579	331,903	431,474	560,916	588,962
Precious metals	38,971	55,358	61,821	69,240	76,163	83,780
Total Current Assets (Liquid)	3,798,234	4,647,757	4,803,291	5,212,844	5,859,978	6,313,469
Net Loans to Customers	7,594,019	8,583,289	9,681,415	10,684,086	11,734,448	12,828,684
Receivables	498,804	364,715	324,488	330,978	337,597	344,349
HTM investments	2,424,785	2,576,562	2,624,400	2,690,010	2,743,810	2,798,686
AFS Securities	840,105	920,939	1,000,800	1,106,436	1,211,113	1,321,186
Total financial Investments	3,763,694	3,862,216	3,949,688	4,127,424	4,292,521	4,464,222
Total Earning Assets	15,155,947	17,093,262	18,434,394	20,024,354	21,886,946	23,606,375
Total Fixed Assets	119,028	135,889	164,347	180,782	198,860	218,746
Deferred tax assets	21,938	22,789	28,860	30,303	31,818	33,409
Associates and JVs	32,750	33,284	28,515	29,941	31,438	33,010
Goodwill	6,121	8,821	8,528	8,613	8,699	8,786
Other assets	141,084	248,172	253,108	303,730	318,916	334,862
Total assets	15,476,868	17,542,217	18,917,752	20,577,722	22,476,677	24,235,188
0						
Total Customer Deposits	12,261,219	13,642,910	14,620,825	16,009,803	17,450,686	18,846,741
Due to central banks	100	1,133	724	760	821	887
Financial liabilities FVPL	171,973	319,742	553,607	581,287	627,790	678,014
Derivative liabilities	12,617	13,261	19,168	20,126	21,133	22,189
Due to banks and other FIs	1,341,290	1,486,805	1,269,255	1,205,792	1,266,082	1,329,386
Repo agreements	206,254	237,764	299,304	314,269	339,411	366,564
CDs	41,426	38,009	130,558	189,309	236,636	248,468
Debt securities	204,161	232,186	253,018	265,669	286,922	309,876
Total IBLs	14,239,040	15,971,810	17,146,459	18,587,017	20,229,481	21,802,124
Tax payables	51,535	56,922	55,674	54,453	57,176	60,035
Deferred tax liabilities	103	552	420	441	463	486
Other Liabilities	228,367	384,474	436,736	412,576	448,214	404,698
Total liabilities	14,519,045	16,413,758	17,639,289	19,054,487	20,735,334	22,267,343
0						
Common Stock	349,084	349,620	351,390	351,390	351,390	351,390
Preferred Stock	0	0	0	34,771	34,771	34,771
Equity component of CBs	2,954	2,708	1,960	1,960	1,960	1,960
Other Reserves	291,370	400,128	408,835	436,822	465,561	495,369
Treasury Stock	0	0	0	0	0	0
Retained Earnings	313,334	372,541	511,949	693,876	883,157	1,079,761
Minority Interests	1,081	3,462	4,329	4,416	4,504	4,594
Total equity	957,823	1,128,459	1,278,463	1,523,235	1,741,343	1,967,845
Equity attributable to common	956,742	1,124,997	1,274,134	1,484,049	1,702,069	1,928,480

Source: Company data, Macquarie Research, March 2015

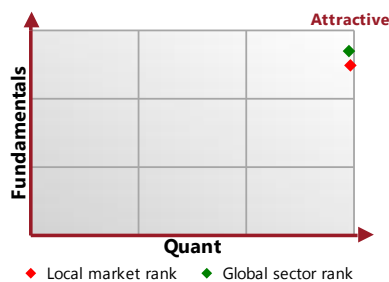
Macquarie Quant View

The quant model currently holds a strong positive view on ICBC. The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

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Global rank in Banks

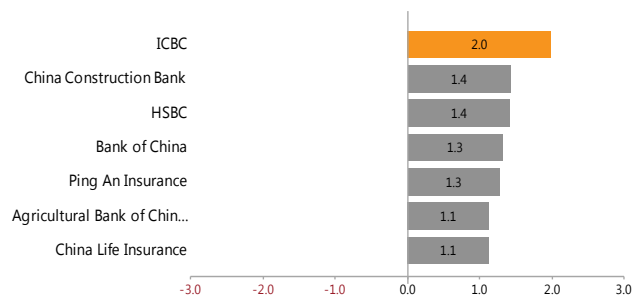
% of BUY recommendations 81% (17/21)
Number of Price Target downgrades 2
Number of Price Target upgrades 3



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.
 Two rankings: Local market (Hong Kong) and Global sector (Banks)

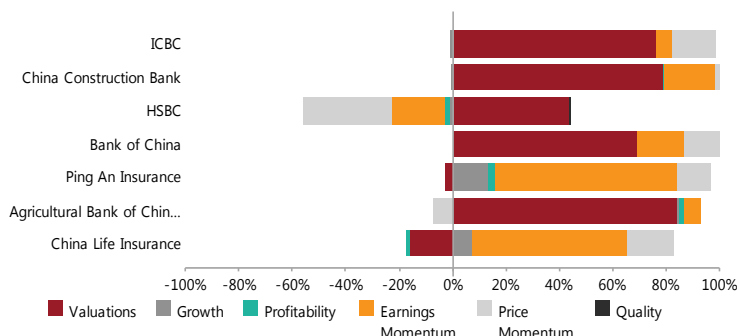
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



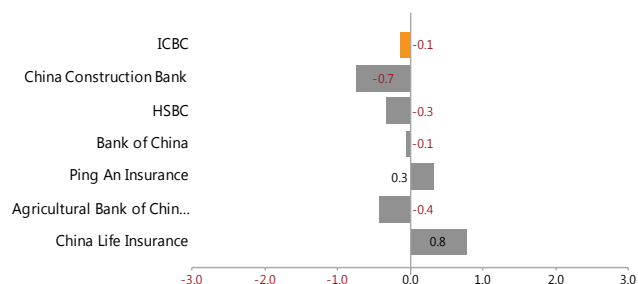
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



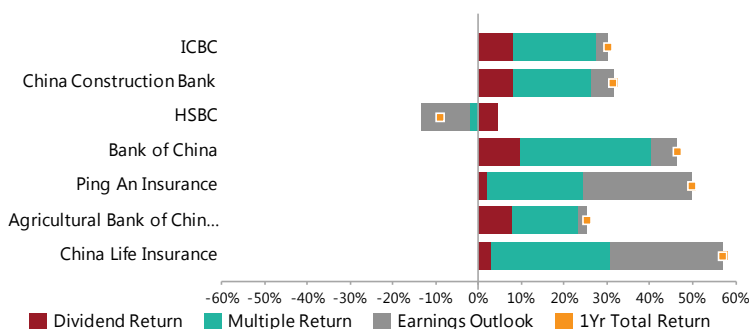
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



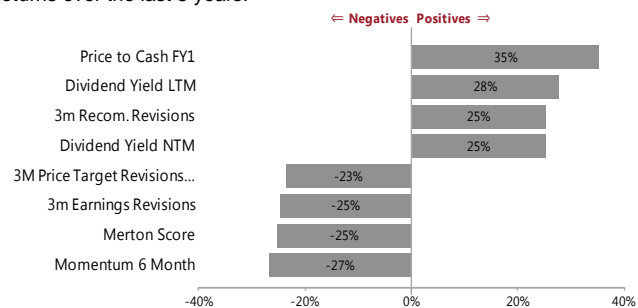
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



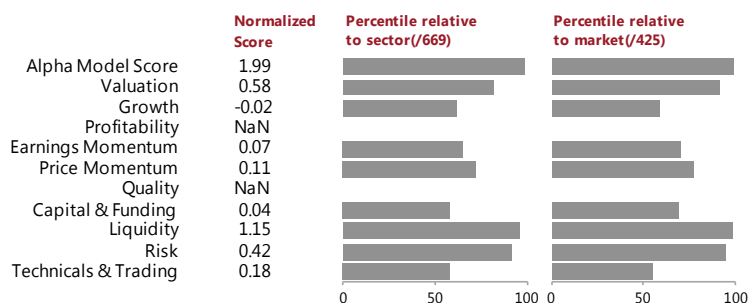
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

Important disclosures:

Recommendation definitions**Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.80%	58.06%	45.07%	44.42%	60.54%	46.81%	(for US coverage by MCUSA, 5.29% of stocks followed are investment banking clients)
Neutral	31.80%	27.37%	30.99%	50.10%	35.37%	33.51%	(for US coverage by MCUSA, 3.08% of stocks followed are investment banking clients)
Underperform	16.39%	14.57%	23.94%	5.48%	4.08%	19.68%	(for US coverage by MCUSA, 0.44% of stocks followed are investment banking clients)

1398 HK vs HSI, & rec history

(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

12-month target price methodology

1398 HK: HK\$6.43 based on a PBV methodology

Company-specific disclosures:

1398 HK: Macquarie Capital Securities Limited makes a market in the securities of Industrial and Commercial Bank of China Ltd.

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Date	Stock Code (BIB code)	Recommendation	Target Price
09-十二月-2014	1398 HK	Outperform	HK\$6.43
17-七月-2014	1398 HK	Outperform	HK\$5.44
21-四月-2014	1398 HK	Outperform	HK\$6.80
30-八月-2013	1398 HK	Outperform	HK\$6.40
26-七月-2013	1398 HK	Outperform	HK\$7.50
30-五月-2013	1398 HK	Outperform	HK\$7.40
13-三月-2013	1398 HK	Outperform	HK\$7.50
17-十二月-2012	1398 HK	Outperform	HK\$7.00
19-六月-2012	1398 HK	Outperform	HK\$6.90
17-五月-2012	1398 HK	Outperform	HK\$7.60

Target price risk disclosures:

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