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Asia Pacific
Financial services

UWT Asian Banks
vs Asian Markets

Overweight

Indonesia
Thailand
Malaysia
Philippines
Singapore
Korea

Underweight

China
Hong Kong
India
Australia
Japan
Taiwan

STAN - OPF
HSBC - UPF

Worse India & Sing safety

HDFC Bank appears highly vulnerable, given its strong relative performance and as peer private bank, ICICI, capitulates towards the underperformance seen among other Asian banks. With worsening macro data the likelihood of a credit cycle in India rises, but this bank is not priced for this. We are adding market capitalisation to our OWT countries by adding Singapore, from UWT to OWT. With its Asean exposure and good capital position, with limited China risks (unlike Hong Kong), it stands out. We prefer UOB given its greater Asean mix and limited China lending, unlike DBS.

HDFC Bank is vulnerable

- HDFC Bank at 3x PB is outperforming Asian banks, making it vulnerable
- The India PMI is down and other data released also show worsening trends
- ICICI has nearly caught up to Asian banks in past 30 days; a recent change
- HDFC Bank's accrued interest is up 60% YoY: possibly a sign of rising late loans

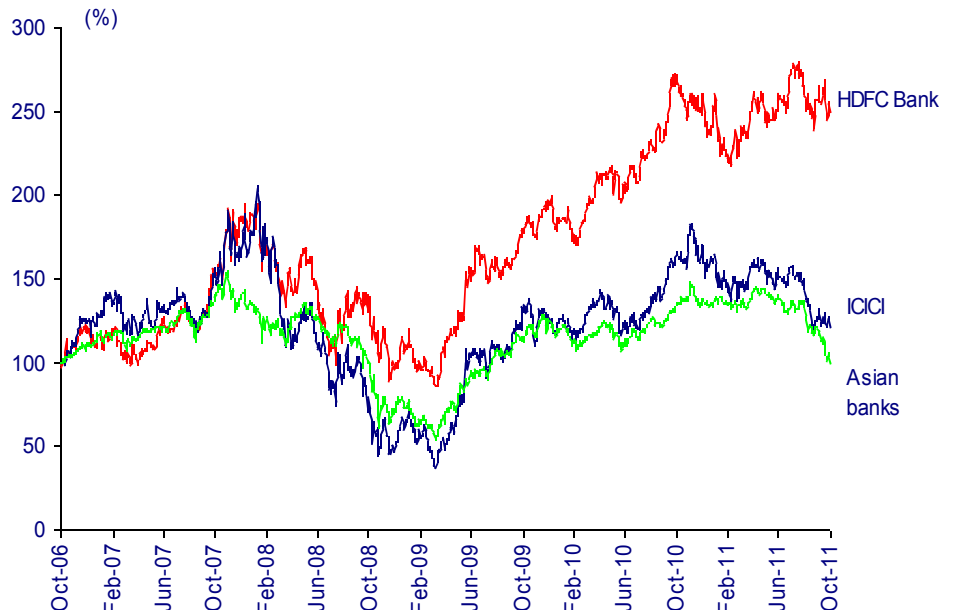
Singapore banks move to OWT

- We upgrade Singapore banks to OWT vs Asian banks, from UWT
- Its Asean exposure is a relative positive, as are its high Tier I and low LDR
- Limited China lending is too positive, unlike for HK banks, but this excludes DBS
- Our top recommendation here is UOB, with its above average ROA, Asean lending

Value-trap banks range from 2% to 7%

- We include China, Korea, Japan, India PSU and Taiwan banks as value-trap banks
- The range of market cap to assets is 2% for Japan to 7% for China
- There remains considerable risk on China banks (UWT)
- Korea's move to IFRS will support valuations (OWT)

HDFC Bank is vulnerable – Relative price performance over 5 years



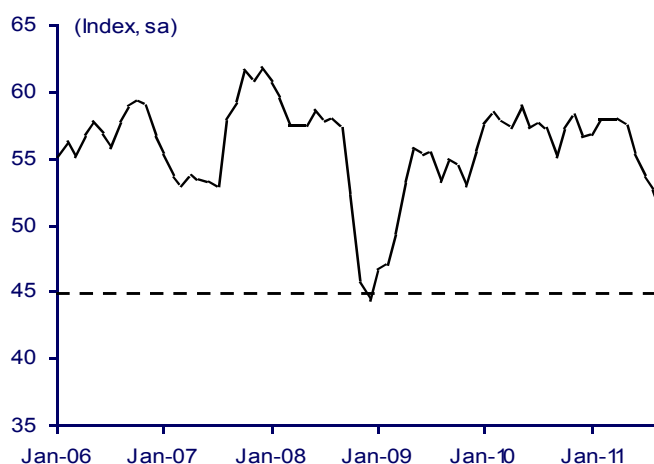
Source: CLSA Asia-Pacific Markets, Datastream

Worse India & Sing safety

HDFC Bank appears vulnerable at 3x PB and where ICICI has recently traded a lot lower. With worsening macro numbers and with an NPL cycle likely, expect shares to see pressure relative to Asian banks. We add Singapore to our OWT markets, giving some more breadth to the market capitalisation where we are positive. Asean exposure, high Tier I ratios and low LDRs are also positive features, as well as limited China lending. China's banks remain expensive vs 'value-trap' countries trading on 7% market capitalisation to assets vs 2-6% for others. Maybe high growth, high return India PSU banks are the most comparable, at 5%, which is clearly not a positive.

Figure 1

India PMI



Source: CLSA Asia-Pacific Markets

HDFC Bank is vulnerable

Growth of interest accrued (contained in the Other Asset account) is high at HDFC Bank at 60%. This is likely a symptom of increasing late loans, but which are not yet deemed impaired or NPL. We note that when growth was similarly high in 2006 and 2007, LLP/loans was at its height at 200bps per year. Certainly other factors can be at work here during the years of 2006-07, but our concern is that with the pace of growth in Accrued Interest, there is a higher degree of disappointment likely for HDFC Bank stock price. This is especially the case when we consider longer term LLP/loan levels, but where we have fairly stable estimates during coming years...and low vs long term averages. Of course, this makes one really wonder, regarding Yes Bank with 133% growth in Interest Accrued.

Figure 2

HDFC Bank – Interest accrued and LLP/loans

Rs m	Mar 04	Mar 05	Mar 06	Mar 07	Mar 08	Mar 09	Mar 10	Mar 11
Interest accrued	4,300	5,140	9,220	15,930	11,900	15,930	14,340	22,932
% ch YoY	-35	20	79	73	-25	34	-10	60
LLP/loans (%)	1.60	1.40	2.05	1.95	2.32	1.90	1.68	1.16

Source: CLSA Asia-Pacific Markets, Co reports, Note: Interest Accrued contained in the Other Asset account.

Figure 3

Accrued interest growth (% ch) [March 11 vs March 10]

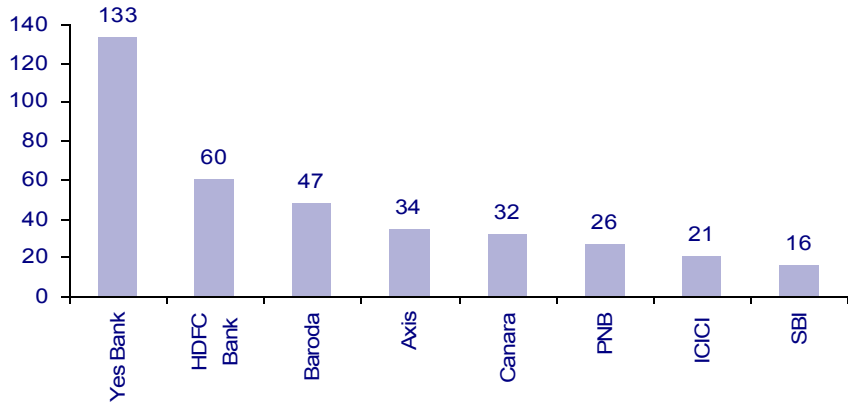
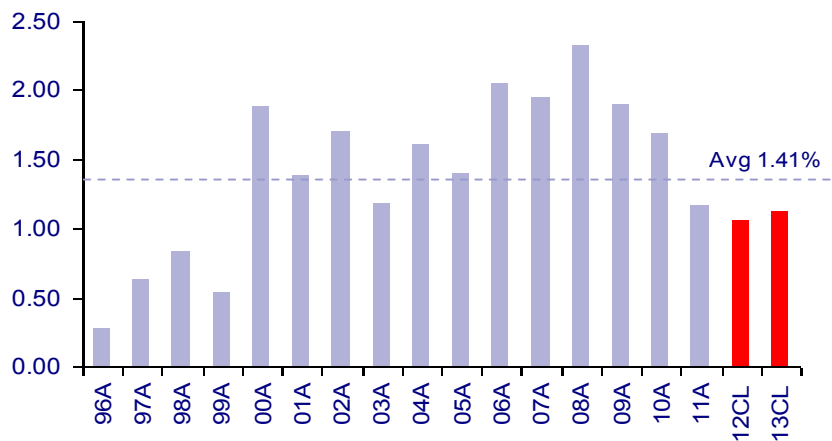


Figure 4

HDFC Bank – LLP to loans (%)



Source: CLSA Asia-Pacific Markets, Co reports

Singapore banks move to OWT

Where we are in need of some market capitalisation for our positive relative recommendations, we upgrade Singapore banks from UWT to OWT. Their exposure in Asean is positive, high Tier I ratios and low LDRs, too. What is also relatively positive for these banks - unlike HK - is they have little exposure to China lending - aside from DBS. Also, as it increasingly appears like we are moving more toward a crisis in European banking, Singapore banks can provide some relative defensive feature, like in the Asian Financial Crisis. In recent months, relative performance has been strong, for Singapore banks - maybe this is the beginning?

Figure 5

Singapore banks geographical exposure

As % of total loans	DBS	UOB	OCBC	Total
Singapore	49	65	54	55
HK	22	na	na	9
Mainland China	11	6	12	10
Rest of Asia	9	22	27	18
Other	9	7	7	8
Total	100	100	100	100

Source: CLSA Asia-Pacific Markets, Co reports

Figure 6

Singapore banks vs Asian banks (relative performance)

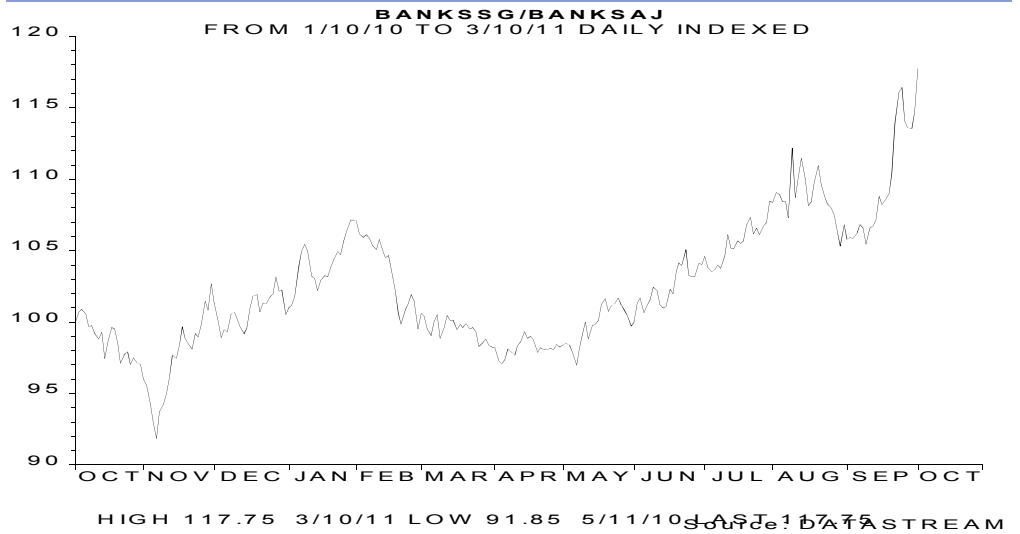


Figure 7

Asian banks: UWT vs OWT countries and market capitalisation (US\$bn)

UWT	Mkt cap \$bn	OWT	Mkt cap \$bn
China	702	Indonesia	66
HK	54	Thailand	41
India	101	Malaysia	55
Australia	222	Philippines	12
Taiwan	58	Singapore	63
Japan	141	Korea	58
HSBC	134	STAN	49
Total	1412	Total	344
% of total	80	% of total	20

Source: CLSA Asia-Pacific Markets, Datastream

Value-trap banks range from 2% to 7%

The cheapest banking systems, which we would call the value-trap countries, have a wide range of market cap to assets at 2% for Japan at the low end and 7% at the high end of for China. To us this best illustrates the risks for stock performance of China's banks, despite their being down 40% YTD. The most comparable banking group to China are India PSU banks, which have a similar ROE at nearly 20% and operate in a relatively high growth country. We reiterate our UWT on China banks vs Asian banks. For Korea, which trades lower than both, we believe there is less relative downside risk, but more so due to accounting changes. This is the first year where Korea's banks will operate under IFRS and as such, we do not expect the LLP volatility which has been unique to these banks within Asia. We maintain our OWT on Korea vs Asian banks.

Figure 8

Market capitalisation to assets (%)

China	Taiwan	Korea	India PSU	Japan
7.1	6.2	5.3	5.2	2.0

Source: CLSA Asia-Pacific Markets, Datastream

Figure 9

Asian bank valuations

	Mktcap/ asset(%)	P/E(x)			P/B (x)			Div yields (%)			ROAE (%)			ROAA (%)			EPS growth (%)			CAR (%)		
		10A	11CL	12CL	10A	11CL	12CL	10A	11CL	12CL	10A	11CL	12CL	10A	11CL	12CL	10A	11CL	12CL	10A	11CL	12CL
Hong Kong	10.9	10.8	9.2	8.6	1.55	1.41	1.29	5.0	5.4	5.3	15.1	15.8	15.4	1.19	1.22	1.19	30	18	7	14.9	14.9	14.2
China	7.1	5.7	5.1	5.0	1.10	0.96	0.83	5.2	6.0	5.0	20.9	19.7	18.1	1.15	1.17	1.11	32	10	4	12.0	12.5	12.6
India - PSU	5.2	6.4	5.7	4.8	1.09	0.95	0.82	2.9	3.4	4.2	19.2	17.9	18.5	1.07	0.99	1.01	17	11	19	13.5	12.6	12.5
India - Private	19.1	17.6	14.0	11.2	2.62	2.27	1.95	1.2	1.6	1.9	16.7	17.8	18.9	1.51	1.48	1.48	32	25	24	16.2	14.8	13.9
Indonesia	27.5	11.8	11.3	9.5	2.75	2.36	1.98	2.5	2.6	3.1	22.4	22.2	22.3	2.38	2.55	2.64	50	9	20	18.1	17.7	16.6
Korea	5.3	7.2	5.4	6.8	0.80	0.70	0.65	3.5	5.9	3.5	10.4	14.0	9.9	0.71	1.03	0.77	68	37	(21)	14.6	15.1	15.4
Malaysia	15.3	13.7	11.8	10.6	2.11	1.94	1.77	3.6	4.6	5.3	16.6	17.2	17.3	1.29	1.35	1.37	25	16	11	15.0	15.2	15.4
Philippines	12.8	12.3	11.5	10.2	1.45	1.35	1.26	1.5	2.1	2.3	12.1	11.6	12.2	1.15	1.13	1.19	39	6	12	16.6	16.8	15.8
Singapore	9.7	10.9	10.6	9.8	1.27	1.18	1.09	4.3	4.3	4.5	9.9	10.8	10.8	0.97	1.00	1.00	27	3	7	18.6	17.6	18.0
Taiwan	6.2	13.4	9.7	7.8	1.02	0.95	0.88	3.2	3.9	5.0	7.2	9.3	10.9	0.48	0.63	0.71	33	39	24	12.2	11.8	11.5
Thailand	13.1	12.2	9.2	8.3	1.54	1.37	1.23	3.1	4.2	5.1	13.1	15.7	15.6	1.28	1.49	1.49	26	33	11	15.7	15.6	15.7
Asian average	12.2	10.9	9.3	8.5	1.54	1.39	1.24	3.4	4.2	4.2	14.6	15.4	15.1	1.21	1.30	1.29	35	19	9	15.3	15.1	14.9
Japan	2.0	6.6	6.5	6.0	0.57	0.56	0.51	4.5	4.5	4.5	8.8	8.7	8.9	0.30	0.31	0.33	32	1	8	15.6	15.9	16.3
Australia	8.5	11.1	9.6	8.8	1.65	1.57	1.45	6.9	7.7	8.3	14.6	15.9	16.2	0.86	0.96	1.00	41	16	9	11.4	11.6	12.1
HSBC	4.9	10.1	7.1	6.7	0.90	0.80	0.74	4.5	5.2	6.7	9.5	12.0	11.7	0.55	0.73	0.71	119	42	7	15.2	15.2	15.0
Stanchart	7.7	9.9	9.8	8.9	1.10	1.09	1.01	3.6	3.9	4.5	12.9	11.7	12.0	0.89	0.84	0.84	21	1	10	18.4	18.3	18.3

Source: CLSA Asia-Pacific Markets

Figure 10

Top BUYs vs Asian banks

Bank	Mktcap (US\$bn)	Mktcap/ assets (%)	1 yr price		3m Avg turnover (US\$m)	PE(x)		PB(x)		EPS gwth(%)		Yield (%)		ROE (%)		ROA (%)	
			perf (%)	rel perf (%)		11CL	12CL	11CL	12CL	11CL	12CL	11CL	12CL	11CL	12CL	11CL	12CL
BCA	20	49.6	5	11	15	18.6	15.8	4.50	3.83	13.9	18.1	2.1	2.4	26.1	26.2	2.80	2.96
BRI	15	30.6	5	12	34	9.8	8.5	2.77	2.09	15.6	15.8	1.8	2.0	31.7	28.1	3.20	3.44
BBL	8	11.8	(16)	(6)	49	8.4	7.5	1.00	0.93	20.8	11.8	5.4	6.7	12.4	12.9	1.47	1.53
KBANK	9	14.3	(4)	8	48	9.6	8.5	1.71	1.49	39.5	12.8	3.1	4.1	19.2	18.7	1.59	1.61
UOB	21	11.3	(9)	6	53	10.3	9.3	1.24	1.15	(3.7)	10.6	4.2	4.2	11.3	11.7	1.15	1.20
OCBC	21	9.8	(10)	6	47	11.7	11.1	1.31	1.21	3.1	5.8	3.8	4.0	10.6	10.4	0.92	0.89
Maybank	18	13.7	(10)	(4)	29	12.1	10.6	1.80	1.65	21.0	14.6	6.1	7.1	15.7	16.2	1.25	1.29
BPI	5	20.3	(2)	5	2	15.5	13.7	2.32	2.21	5.3	13.1	5.1	5.1	15.1	16.5	1.36	1.41
Shinhan	17	7.0	(9)	(3)	84	6.5	7.1	0.87	0.80	47.0	(8.4)	2.4	3.7	14.6	11.7	1.15	1.00
STAN	49	7.7	(33)	(11)	20	9.8	8.9	1.09	1.01	1.2	10.2	3.9	4.5	11.7	12.0	0.84	0.84
Average	182	17.6	(8)	2	38	11.2	10.1	1.86	1.64	16.4	10.4	3.8	4.4	16.8	16.5	1.57	1.62

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: BUY = Expected to outperform the local market by >10%; O-PF = Expected to outperform the local market by 0-10%; U-PF = Expected to underperform the local market by 0-10%; SELL = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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