

Hong Kong: Banks

Equity Research

SHIBOR-driven NIM boost holds positive read-across for BOC HK

BEA 2H13 results read-across largely positive for the sector

BEA's better-than-expected 2H13 earnings (12%/13% above GSe/ Bloomberg consensus) had positive read-across for the sector in terms of: (1) better NIM (group/China NIMs up 15bp/35bp hoh) helped by rise in SHIBOR owing to net interbank lending exposure in China, and (2) higher balance sheet growth, for both loans/deposits, which grew 6%/7% hoh (vs. 3%/3% GSe), led by China (half of incremental growth) and continued growth in trade finance.

... but more so for BOC HK given potentially higher NIM leverage to SHIBOR

We estimate that c.13% of BOC HK's group deposits could be invested in China interbank market (at end-June 2013), i.e. subject to higher SHIBOR rates during 2H13 (25bp/42bp/111bp higher hoh average for overnight/ 1week/ 1month), compared with c.16%/10%/9% for BEA/DSBG/HSB. Hence a 1pp higher SHIBOR curve could translate into c.16bp/13bp/10bp/9bp higher NIM for BEA/BOC HK/DSBG/HSB, which in turn could lead to 16%/8%/7%/5% uplift to 2014E NPAT.

HK banks are enjoying early-cycle benefits from a tighter China

BEA credit cost came in-line with our expectation, although it rose hoh from a low base. HK banks seem to be enjoying the early-cycle benefits from a monetarily tighter China as they are benefiting through NIM/NII from higher interest rate curves, overflow loan demand, but do not yet feel the pain on the asset quality side.

...with uncertain, but perceived adverse later stage impact on asset quality

We forecast gradual upward normalization of current low credit costs but the timing and magnitude of this remains uncertain. BOC HK/HSB which have materially higher PPOP-ROA (vs. BEA/DSBG) seem relatively better placed, if the theme were to play out. We maintain our CL-Buy on BOC and Sell on BEA given their respective pre-provision earnings power, China credit risk exposure, loan loss reserves and valuation, despite potentially higher SHIBOR-to-NIM leverage at BEA. We also maintain Neutral ratings on HSB/DSBG on relatively full valuations at the former and thin PPOP, loan loss reserves buffers and relatively weaker credit risk history, despite relative value, in the latter.

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SUMMARY VALUATION COMPARISON

Ticker	Rating	Price (HK\$)		Potential upside	Total potential return	2014E		
		18-Feb-14	18-Feb-14			P/B (X)	ROE (%)	P/E (X)
BOC Hong Kong (Holdings)	2388.HK	Buy*	23.95	25%	31%	1.5	14.6	10.8
Dah Sing Financial Holdings	0440.HK	Neutral	38.55	23%	27%	0.7	8.6	7.8
Dah Sing Banking Group	2356.HK	Neutral	12.02	11%	15%	0.9	10.0	8.8
Hang Seng Bank	0011.HK	Neutral	124.10	1%	5%	2.1	15.6	14.1
Bank of East Asia	0023.HK	Sell	31.35	2%	5%	1.1	9.1	12.1

*The stock is on the Asia-Pacific Conviction list

RESULTS CALENDAR

HSBC/HSB: Feb 24 (announced)

STAN: Mar 5 (announced)

BOC HK: Mar 26 (Bloomberg expected)

DSBG/DSFH: Mar 20 (Bloomberg expected)

Source: Bloomberg, Datastream, Goldman Sachs Global Investment Research.

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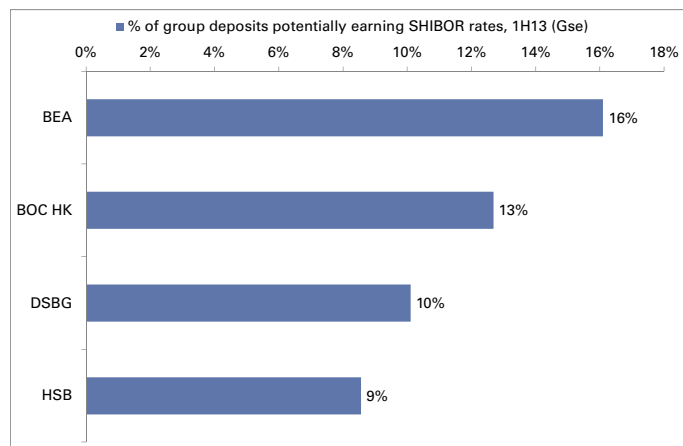
KEY RISKS

Downside: Worse-than-expected China credit and/or HK banking liquidity performance.

Upside: higher SHIBOR; higher China loan growth, potential M&A.

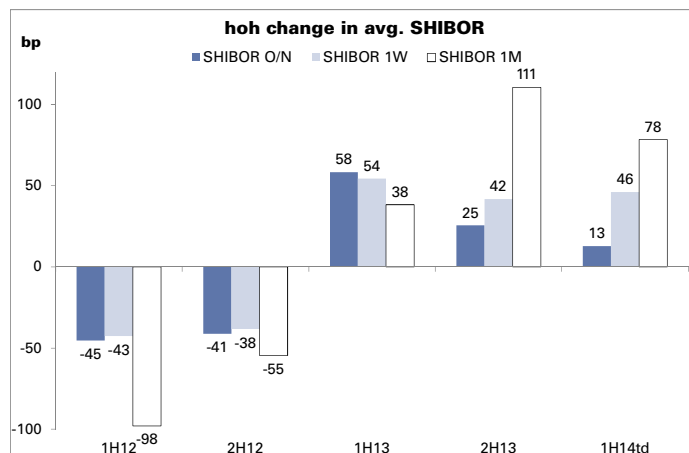
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Exhibit 1: Our estimate of the portion of deposits that could be put to work in China interbank market: BEA followed by BOC HK seem more sensitive to SHIBOR moves



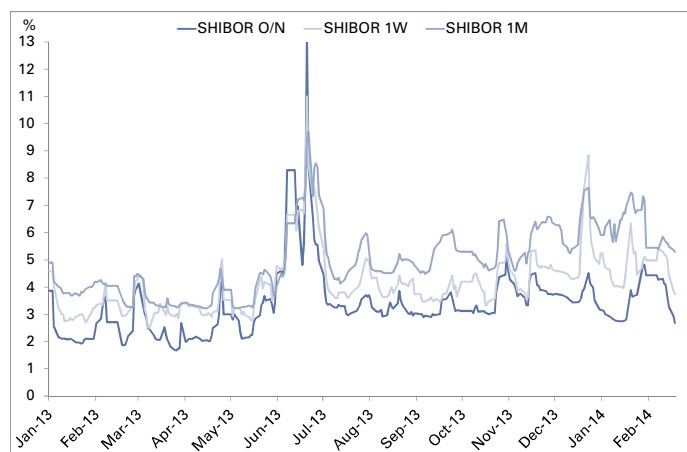
Source: Goldman Sachs Global Investment Research.

Exhibit 2: SHIBOR has trended higher since the beginning of 2013



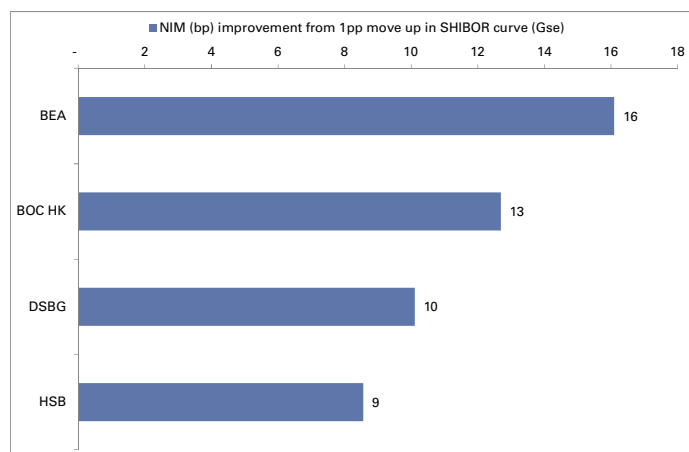
Source: Bloomberg.

Exhibit 3: ... but seems to be falling/stabilizing post CNY



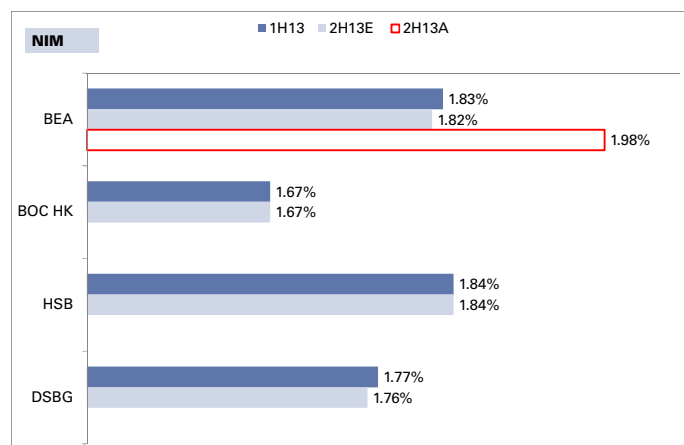
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 4: Assuming our estimate of deposits being put to work in the China interbank market, HK banks' NIM could be meaningfully impacted by 1pp move in average SHIBOR rates



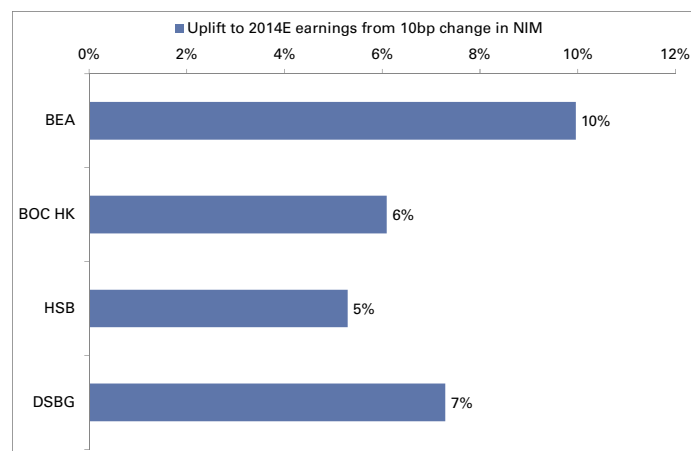
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 5: We were positively surprised by BEA 2H13 NIM, which rose 15bp hoh; our NIM estimates for other HK banks are largely flat hoh



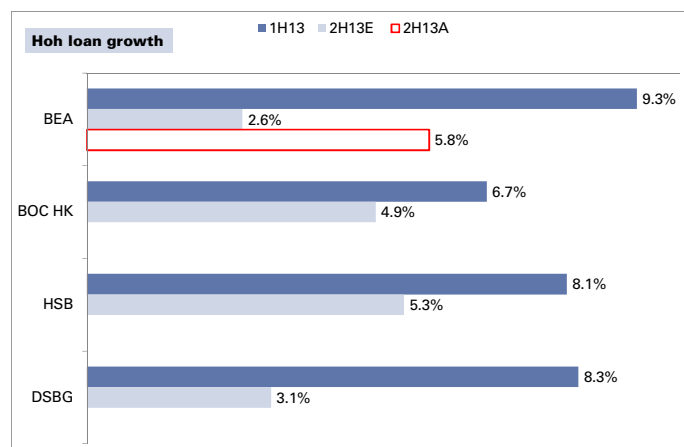
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 6: BEA earnings are the most sensitive to NIM given higher operating leverage



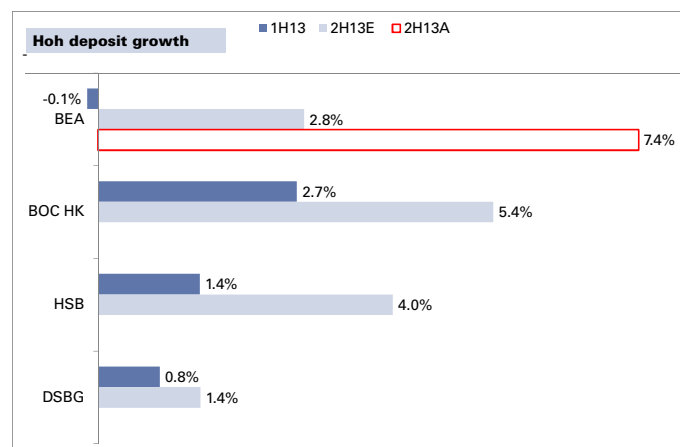
Source: Goldman Sachs Global Investment Research.

Exhibit 7: Another positive surprise from BEA results was higher-than-expected Balance Sheet growth



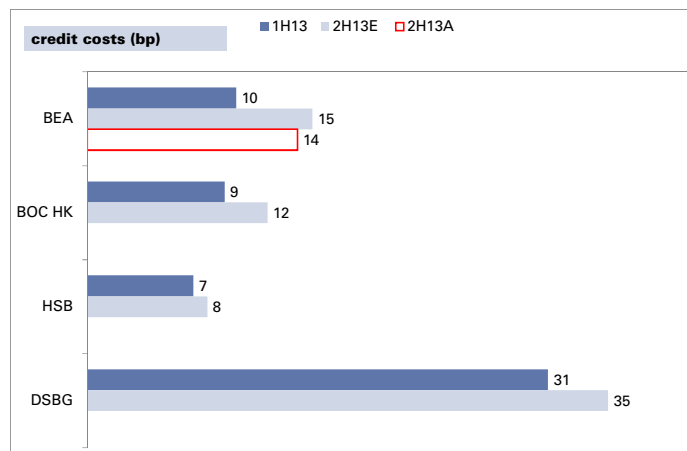
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 8: ... both for loans and deposits, led by China



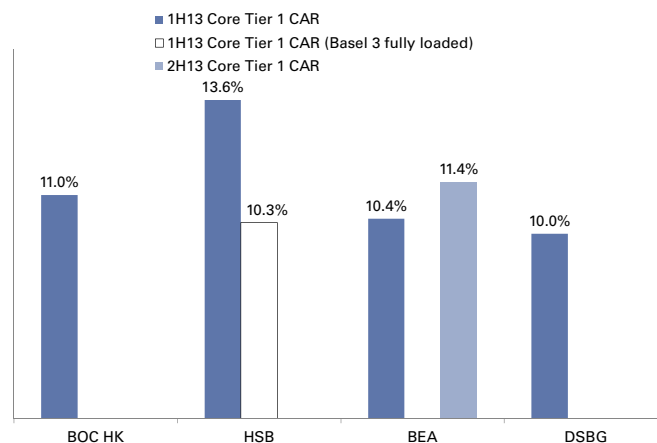
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 9: Judging from BEA's results, HK banks seem to be enjoying the early cycle benefits from China monetary tightening with relatively little impact on asset quality



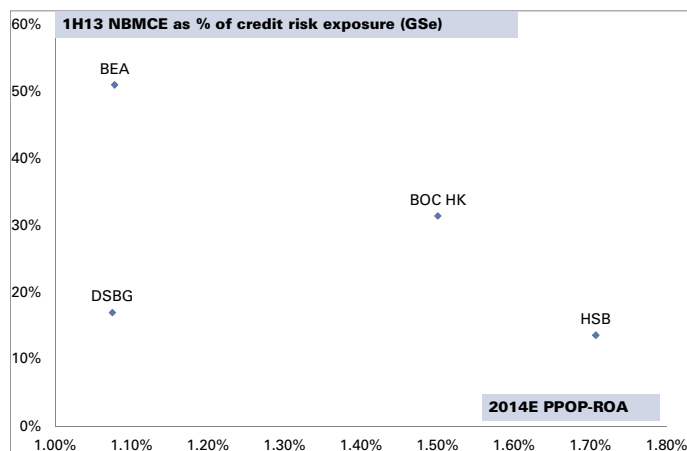
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 10: The third positive from BEA results was that BEA seemed to be closing the CAR gap between itself and peers



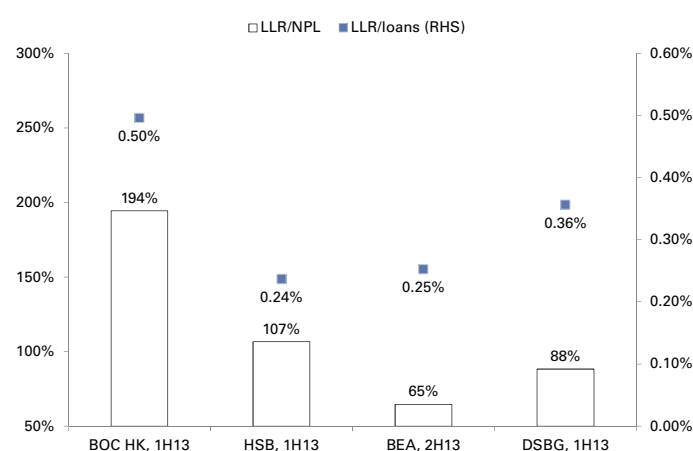
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 11: BEA seems relatively worse placed if later stage asset quality were to happen from the ongoing monetary tightening in China



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 12: BEA also carried relatively thinner reserves against bad/overall loans



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 13: Amongst local HK banks, we continue to prefer BOC HK, which we think offers relatively better value versus BEA or HSB, and continues to be the best way to play the offshore RMB structural theme

	Ticker	Price	TP	Rating	Potential	Total	M&A	P/B (X)			P/E (X)			P/PPOP (X)			
		18-Feb (HK\$)	(HK\$)		up/(down) side	potential return	premium in TP	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	
	HSBC	0005.HK	83.35	101.00	Buy	21%	27%	0%	1.15	1.07	1.02	10.8	9.8	8.6	6.8	6.6	5.9
	STAN	2888.HK	169.40	198.00	Buy	17%	21%	0%	1.14	1.06	0.98	12.2	9.5	8.7	5.9	5.5	5.1
	BOC HK	2388.HK	23.95	30.00	Buy*	25%	31%	0%	1.62	1.53	1.43	11.7	10.8	9.6	9.3	8.4	7.5
	HSB**	0011.HK	124.10	125.00	Neutral	1%	5%	0%	2.28	2.14	2.01	13.6	14.1	13.0	12.3	11.7	10.7
	BEA	0023.HK	31.35	32.00	Sell	2%	5%	0%	1.13	1.07	1.01	11.3	12.1	11.8	9.2	8.4	7.9
	DSBG	2356.HK	12.02	13.40	Neutral	11%	15%	20%	0.91	0.85	0.80	8.5	8.8	8.6	8.4	8.2	8.0
	DSFH	0440.HK	38.55	47.50	Neutral	23%	27%	16%	0.70	0.66	0.62	7.7	7.8	7.5	5.8	5.5	5.3
	Local banks avg					11%	15%		1.48	1.40	1.31	11.3	11.5	10.7	9.8	9.2	8.5

	2014E as % of L/T median				Median since 2004 (X)			EPS growth (%)			Div yld (%)			ROE (%)			
	P/B	P/E	P/PPOP	ROE	P/B	P/E	P/PPOP	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	
	HSBC	73	83	108	98	1.48	11.9	6.1	34	10	14	4.9	5.9	6.9	10.8	11.3	12.1
	STAN	67	80	78	79	1.57	11.9	7.1	(10)	28	9	4.1	4.3	4.6	9.4	11.5	11.6
	BOC HK	82	93	76	96	1.85	11.6	11.1	4	8	12	5.4	5.9	6.6	14.1	14.6	15.4
	HSB**	63	100	79	60	3.39	14.1	14.9	(10)	(4)	9	4.4	4.5	4.7	17.8	15.6	15.9
	BEA	78	89	68	93	1.37	13.5	12.4	2	(7)	3	3.5	3.3	3.4	10.4	9.1	8.8
	DSBG	80	73	84	107	1.07	12.1	9.8	24	(4)	2	3.3	3.3	3.6	10.3	10.0	9.6
	DSFH	61	72	64	84	1.07	10.9	8.6	19	(1)	4	3.6	3.7	4.2	8.7	8.6	8.4
	Local banks avg																
		76	89	77	89	1.92	12.8	12.0	5	(1)	7	4.1	4.2	4.6	13.1	12.3	12.4

**HSB 2013 earnings exclude one-off gains

*The stock is on Asia Pacific Conviction list

Notes: the 12m TPs are based on RIM methodology for HSBC, STAN, BOC HK, HSB, BEA and derived using the above specified M&A premium over the RIM derived fair value for DSBG. DSFH is SOTP-based.

Source: Datastream, Company data, Goldman Sachs Global Investment Research.

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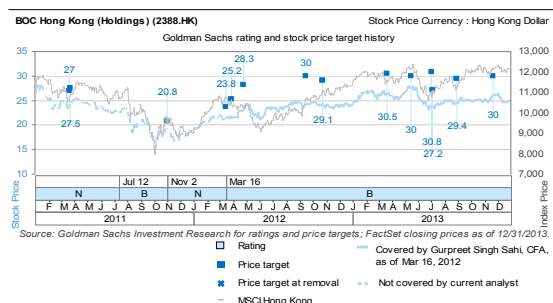
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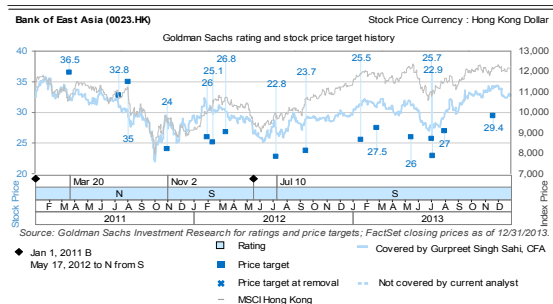
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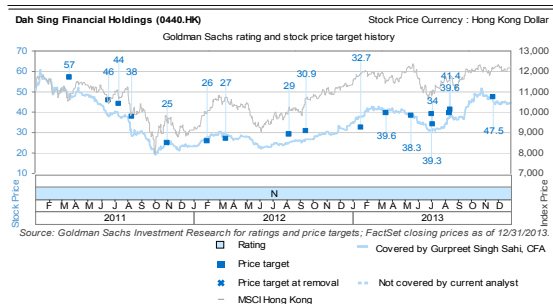
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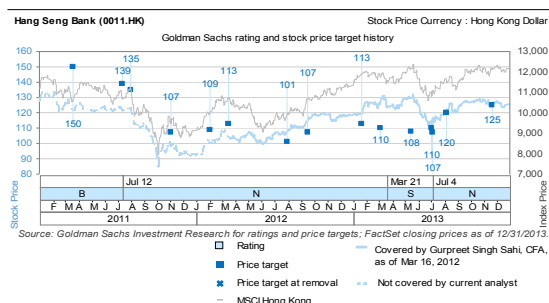
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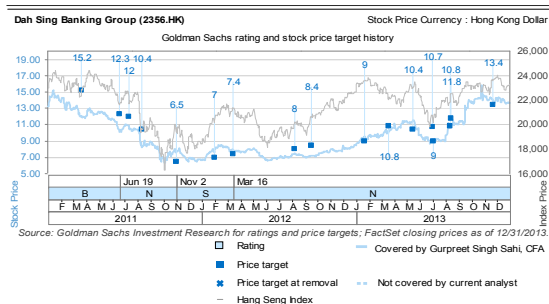
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