Flash Note: Banking Sector

快讯：银行业

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Monetary growth further narrowed; Banks' risk awareness strengthened

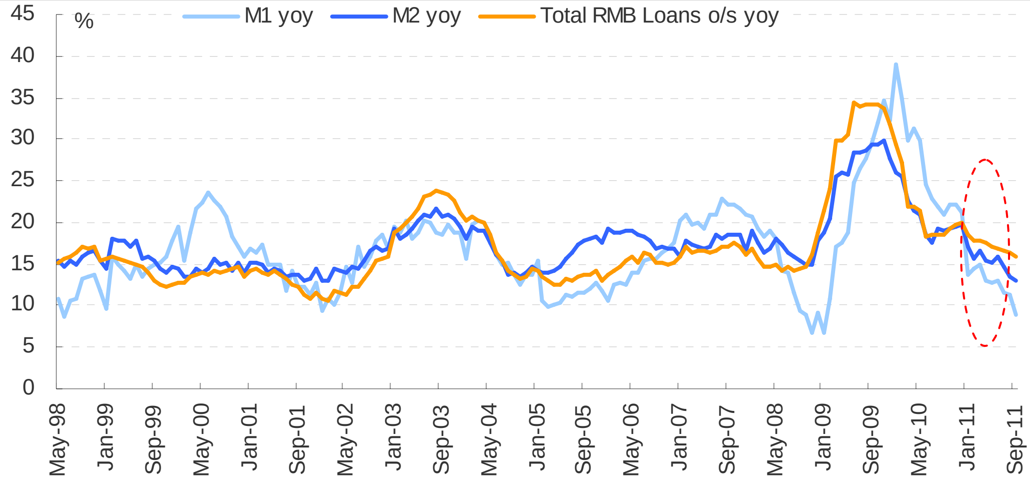
货币增速继续收窄，银行风险意识加强

- **M2 and M1 growth declined further in September.** M2 yoy growth rate in September was 13.0%, 0.5 ppts lower than that of the last month. M1 yoy growth rate was significantly reduced by 2.3 ppts to 8.9% in September. **New RMB loans in Sept. 2011 reached RMB470.0 bn (incl. bills) or RMB490.7 bn (excl. bills), lower than expectations**. The new lending in September declined by 21.8% yoy and 14.3% mom.
- **The tightening of monetary policy seems to be more comprehensive than market expectations.** The M2 growth in Sept.(13%) is far below the official target (16%). What's more surprising is that M1 even recorded one digit growth (8.9%), the lowest level since Feb. 2009, indicating that the economic activities are slowing down.
- **Banks have strengthened risk awareness as concerns over economic slowdown are rising.** The sharp decline in M2 growth is caused by the following reasons: 1) wealth management products extracted deposits from banking system due to higher returns; 2) banks have strengthened risk awareness in their loan issuing, and cut lending to real estate developers and LGFVs.
- **CPI eased for the 2nd month in September, and may provide some room for moderate easing of monetary policy in 4Q11**. **The monthly new loans distributed in 4Q11 need to reach RMB600bn on average to realize the RMB7.5tn whole year credit quota.** However, if there is no easing of monetary policy in 4Q11, the credit quota target is hard to achieve.
- **Maintain "Outperform" rating for the banking sector**, **eying its growing investment value. Major risks faced by banks from regulatory body, LGFV and property exposures have been releasing gradually. Huijin's accumulating of Big-4 State-owned banks supports our view on the sector.** Large banks with sufficient provisions and low LDRs could ease investors' concerns over asset quality and funding cost. We recommend CCB (00939 HK) and ICBC (01398 HK).

- **9 月份 M2 和 M1 同比增速继续下跌。**2011 年 9 月末，M2 同比增长 13.0%，增幅比上月末低 0.5 个百分点。M1 同比增长 8.9%，增幅较上月末低 2.3 个百分点。**9 月份人民币贷款增加 4,700 亿元 (含票据)或 4,907 亿元 (不含票据)，低于预期。**9 月份新增贷款同比减少 21.8%，月环比减少 14.3%。
- **货币紧缩的力度超过市场预期。**9 月份的 M2 增速仅为 13%，大幅低于 16%的目标。更让人吃惊的是 M1 的增速仅为个位数 8.9%，自 2009 年 2 月份以来最低，显示经济活动在减速。
- **由于对经济减速的担忧在上升，银行强化了风险意识。**M2 增速的显著下滑由下列原因导致：1）理财产品由于收益率相对较高，从银行系统吸走了大量的存款；2）银行在发放贷款过程中强化了风险意识，并削减了对开发商和融资平台的贷款。
- **CPI 在 9 月份连续第 2 个月舒缓，为货币政策在第 4 季度适度放松创造了条件。2011 年第 4 季度每月新增贷款平均需要达到 6000 亿元人民币，才能完成全年 7.5 万亿的信贷目标。**但是，如果货币政策在第 4 季度不放松，则该信贷目标难以实现。
- **基于银行业逐渐显现的投资价值，维持其"跑赢大市"评级。银行业的大部分风险，如监管风险、融资平台和地产贷款风险正在逐步释放。**汇金开始增持四大国有银行股票，支持了我们对银行业的投资观点。高拨备和低贷存比的大型银行可以缓解投资者对银行资产质量和资金成本的忧虑。我们推荐建设银行（00939 HK）和工商银行（01398 HK）。

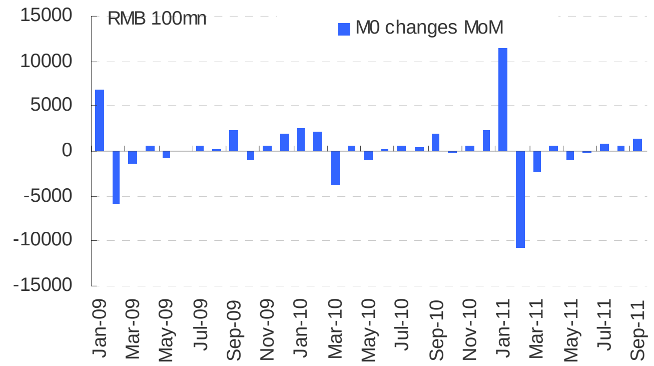
Note: Please turn to the next page to refer to the tables and figures.
注：相关图表在下一页

Exhibit 1: China Monetary Growth



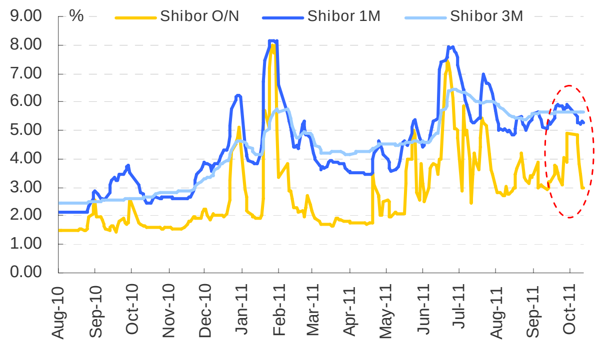
Source: PBOC, Guotai Junan International.

Exhibit 2: M0 changes MoM



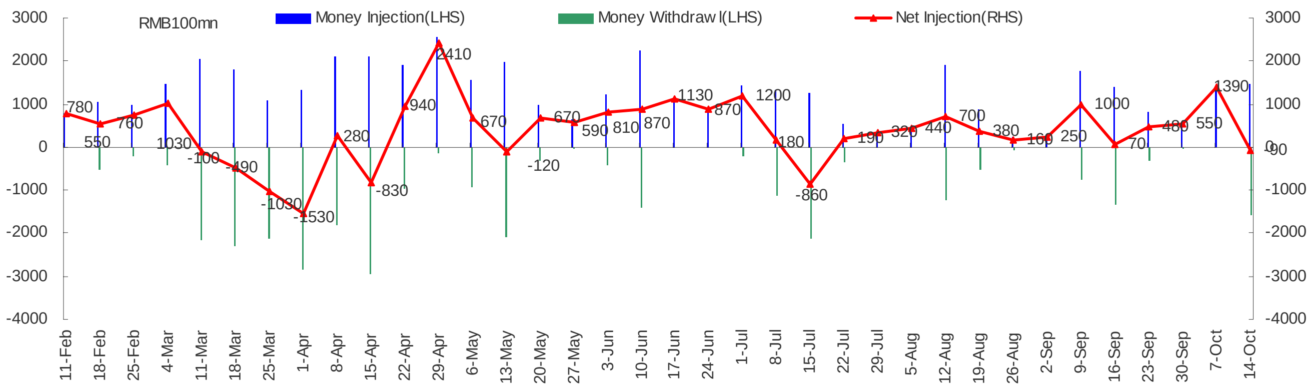
Source: PBOC, Guotai Junan International.

Exhibit 3: Shibor eased after PBOC's injection of money



Source: SHIBOR, Guotai Junan International.

Exhibit 4: PBOC kept pumping liquidity to ease interbank liquidity



Source: PBOC, Guotai Junan International.

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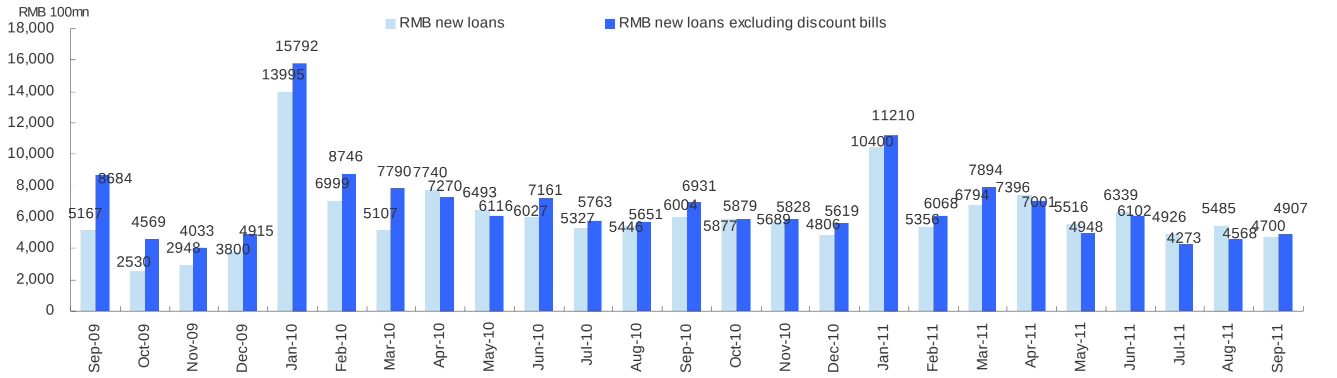
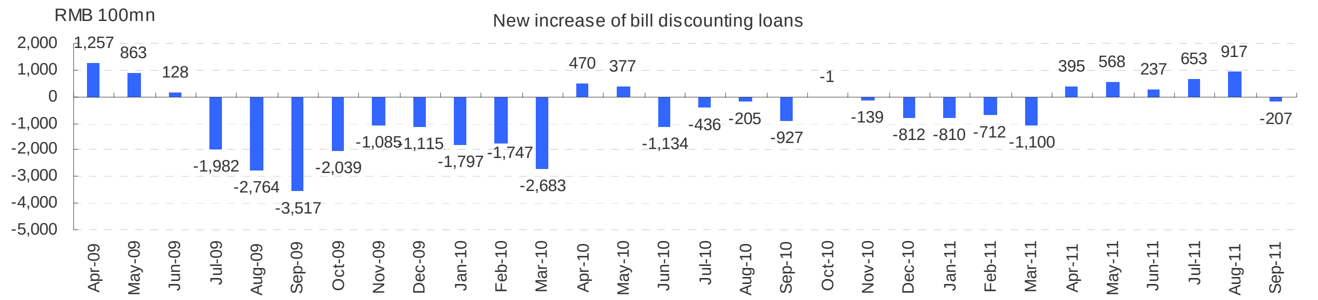
Exhibit 5: China Banks' Monthly RMB New Loans



Source: PBOC, Guotai Junan International.

Exhibit 6: China banks' bill discounting loans



Source: PBOC, Guotai Junan International.

Exhibit 7: Peers comparison

Company/Region		**Last Price**	**Mkt. Cap**	**P/E**			**P/B**			**ROE %**	**ROA%**	**Yield %**
Hong Kong	**Ticker**	**HK$**	**(HK$ mn)**	**11F**	**12F**	**13F**	**11F**	**12F**	**13F**	**11F**	**11F**	**11F**
ICBC- H	1398 HK	4.29	1,497,293	5.8	5.0	4.3	1.3	1.1	1.0	23.9	1.5	6.9
CCB- H	0939 HK	5.13	1,282,556	6.2	5.3	4.7	1.3	1.1	1.0	22.3	1.5	6.4
ABC- H	1288 HK	3.02	980,878	6.3	5.4	4.5	1.3	1.1	0.9	21.6	1.1	4.4
BOC- H	3988 HK	2.69	750,906	4.9	4.0	3.4	0.8	0.7	0.6	18.1	1.2	7.1
Mean (Mkt Cap Weighted)				5.9	5.0	4.3	1.2	1.0	0.9	22.0	1.4	6.2
Median				6.0	5.2	4.4	1.3	1.1	1.0	22.0	1.3	6.6
BankComm- H	3328 HK	4.82	298,289	5.1	4.4	3.9	0.9	0.8	0.6	19.3	1.1	2.9
China Merchants- H	3968 HK	13.46	290,421	7.1	6.4	5.5	1.5	1.2	1.1	22.7	1.3	3.4
CITIC Bank- H	0998 HK	3.58	167,499	4.5	3.9	3.2	0.8	0.7	0.6	19.0	1.2	5.1
Minsheng- H	1988 HK	5.49	146,664	4.9	3.8	3.0	0.9	0.8	0.6	20.6	1.3	2.9
Mean (Mkt Cap Weighted)				5.6	4.9	4.1	1.1	0.9	0.8	20.6	1.2	3.5
Median				5.0	4.2	3.5	0.9	0.8	0.6	20.0	1.3	3.2
BOC Hong Kong- R	2388 HK	18.20	192,425	9.5	9.6	8.4	1.5	1.5	1.3	16.8	1.2	6.7
Sector Mean (Mkt Cap Weighted)				6.0	5.1	4.4	1.2	1.0	0.9	21.6	1.3	5.8
Sector Median				5.8	5.0	4.3	1.3	1.1	0.9	20.6	1.2	5.1

Source: Bloomberg, Guotai Junan International.

Note: Stock prices are based on the market close of 14 Oct. 2011.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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