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HONG KONG RESEARCH
21st August 2008

Analyst: Paul Sham

DAH SING FINANCIAL HOLDINGS LIMITED (大新金融)

Sector	: Banking	Chairman	: Mr. David Shou-Yeh Wong
HKSE Code	: 0440	Managing Director & Chief Executive	: Mr. Derek Hon-Hing Wong
Market Price	: HK$56.80 (20/08/2008)		
Shares Issued	: 250.4m		
Mkt. Cap.	: HK$14,222.7m		
52 weeks Hi/ Lo	: HK$83.0 / HK$47.50		
HSI	: 20,931.26 (20/08/2008)		
Main Business	: Banking and related financial services		

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2008

Interim Results Highlights

	HK$ million	Vs 1H2007 (%)	Vs 31/12/2007 (%)
• Net interest income	1,225.1	+12.8%	
• Non-interest income	444.3	-20.6%	
• Total operating income	1,669.4	+1.4%	
• Operating expenses	(759.2)	+7.4%	
• Operating profit before impairment losses	910.2	-3.1%	
• Impairment losses on loans and advances	(126.1)	+43.4%	
• Profit before taxation	612.2	-35.3%	
• Taxation	(103.6)	-16.4%	
• **Attributable profit to shareholders**	**377.9**	**-43.1%**	
• Total loans	63,042.3	+12.1%	+2.9%
• Total deposits	82,836.0	+3.9%	-5.4%
• Total assets	122,446.9	+0.4%	-1.4%
• Basic EPS (HK$)	1.50	-43.6%	
• Interim DPS (HK$)	0.68	-9.3%	

Selected Ratios	**1H2008**	**1H2007**	**FY2007**
• Net interest margin	2.24%	2.25%	2.16%
• Cost-income ratio	45.5%	42.90%	39.0%
• Return on average assets	0.80%	1.10%	0.90%
• Return on average equity	9.20%	12.20%	10.20%
• Impaired loan ratio	0.44%	0.38%	0.46%
• Impaired advances coverage	149.1%	166.30%	128.8%
• Loan-deposit ratio	82.9%	70.50%	70.0%
• Capital adequacy ratio	16.4%	17.10%	15.5%
• Average liquidity ratio	46.3%	55.20%	52.4%

- ***1H08 earnings hit by investment write-downs*** Dah Sing Financial Holdings (DSF), reported an interim net profit of HK$378m, dropping 43.1% from 1H07. The poor results were blamed on the SIV-related write-downs (of HK$318m in total), a sharp decline in trading income as a result of the weakened equity market conditions and the weak performance in its insurance business. EPS were HK$1.50. An interim dividend of HK$0.68 per share was declared.

- ***DSB net profit down 16.1%*** DSF's 74.9%-owned banking arm Dah Sing Banking Group (DSB) posted a net profit of HK$516.7m for 1H08, down by 16.1% y-o-y. The milder decline in net profit compared with its parent was mainly attributable to the absence of the pre-tax loss of HK$47.7m in the insurance business.

	HK$ million	Vs 1H2007 (%)	Vs 31/12/2007 (%)
• Net interest income	1,155.5	+12.8%	
• Non-interest income	445.2	+33.0%	
• Total operating income	1,600.7	+17.8%	
• Operating expenses	(681.9)	+8.8%	
• Operating profit before impairment losses	918.8	+25.6%	
• Impairment losses on loans and advances	(126.1)	+43.4%	
• Profit before taxation	618.4	-15.3%	
• Taxation	(100.2)	-9.8%	
• **Attributable profit to shareholders**	**516.7**	**-16.1%**	
• Total loans	63,042.3	+12.1%	+2.9%
• Total deposits	84,581.0	+5.6%	-3.8%
• Total assets	114,642.5	-0.4%	-1.1%
• Basic EPS (HK$)	0.55	-16.7%	
• Interim DPS (HK$)	0.18	-28.0%	
Selected Ratios	**1H2008**	**1H2007**	**FY2007**
• Net interest margin	2.24%	2.25%	2.16%
• Cost-income ratio	42.6%	46.10%	43.0%
• Return on average assets	1.10%	1.10%	0.70%
• Return on average equity	13.70%	12.30%	8.60%
• Impaired loan ratio	0.44%	0.38%	0.46%
• Impaired advances coverage	149.1%	166.30%	127.5%
• Loan-deposit ratio	74.5%	70.20%	69.7%
• Capital adequacy ratio	16.4%	17.10%	15.6%
• Average liquidity ratio	46.3%	55.20%	52.4%

- Strong growth of 12.8% y-o-y was seen in net-interest income. This was driven partly by 2.9% h-o-h growth in total loans, seen primarily in property-related lending (up 6.7% h-o-h), transport loans (up 14.5% h-o-h) and loans used outside HK (up 3.9% h-o-h). Besides this, the widening prime-HIBOR spread helped widen its net-interest margin from 2.16% for FY07 to 2.24% for 1H08.
- Non-interest income showed strong y-o-y growth of 33%. Despite the 73% y-o-y growth of securities brokerage revenues was partially offset by the decline in non-brokerage items such as insurance and retail investment funds service fees, the strong FX gains of HK$101m helped boost the overall non-interest income.
- Operating expense rose by 8.8% y-o-y, driven by inflationary pressure on staff costs, high IT and depreciation expense. With faster growth in operating income, DSB's cost-to-income ratio improved to 42.6% in 1H08 from 46.1% a year earlier.
- Loan impairment charges rose 43.4% y-o-y, mainly due to increased individual impairment charges. The bank revealed that it was caused by some increase in impairments from commercial banking & hire purchase loans and there were no large one-off impairment. The overall credit quality remained healthy, with its impaired loan ratio improving to 0.44% as of 30/06/2008 from 0.46% as of 31/12/2007.
- A further provision of HK$318m for the SIVs for 1H08 (reflected under trading income as a fair value loss of HK$66m, and an impairment charge on available-for-sale securities of HK$252m). The total provision coverage for the SIVs was 87% as of 30/06/2008.
- Associate profit of HK$58m was dragged by weak investment returns from Bank Consortium Trust (the MPF joint-venture) and Great Wall Life in China despite the 17%-stake owned Bank of Chongqing (BOCQ) achieved a set of stronger results, contributing HK$55m to DSB's 1H08 net profit.

- ROE of DSB improved slightly to 13.7% for 1H08 from 12.3% a year earlier. Meanwhile, the bank's CAR stood at 16.4% as of 30/06/2008.

- ***Strong top-line growth in insurance business*** Insurance premium growth was strong at 21% y-o-y and the net-insurance income after claims and expenses also rose by 63% y-o-y for 1H08. However, there was a negative HK98m mark-to-market changes on the insurance investment book, which lead to a bottom-line loss of HK$47.7m, compared with a net profit of HK$157m for 1H07.

Outlook & Prospects

- ***Lacklustre Hong Kong banking operations*** DSB has been known for its niche exposure to the Hong Kong consumer market. However, its pricing power in retail lending has been diminishing amid keen competitions. With the current lacklustre market conditions, we expect the lender is unlikely to grow its banking business substantially in the near future.

- ***Solid underlying performance in insurance business*** Dah Sing Life announced robust 1H08 top-line growth, attributable to the hiring of 329 new agents for the company during 2007. The company also introduced new life-insurance products bundled with savings plans. Meanwhile, Dah Sing Life plans to hire another 50-100 new agents during 2008 and the management also had no plans to change its target of having the insurance business account for 30% of group earnings.

- ***Management remains positive on China expansion plan*** DSB currently holds 17% stake in BOCQ, which contributed $55m to DSB's net profit in 1H08. With strong growth expected in China banking industry, we believe BOCQ will continue to make a positive contribution to the earnings of DSB over the medium term. Its value may even be unlocked if BOCQ undertakes an IPO. On the other, Dah Sing Bank (China) Limited has been formally incorporated in Shenzhen and started business operations on 1st August 2008. Management showed positive attitude toward its China expansion, expecting the profit contributions from mainland businesses accounting for 20%-25% of the bank's profit in 3-5 years.

- ***Small SIV exposure remains*** The original cost of DSF's SIV holdings was HK$1.56bn. In FY07 and 1H08, DSF wrote off HK$1.04bn and HK$318m respectively, leaving the residual SIV exposure to HK$205m, representing 0.16% of total asset as of 30/6/2008. In view of the small net exposures of the SIV investment, we believe it is unlikely to see high one-off losses again going ahead.

- ***Lack of catalyst*** With low-teen ROE, insignificant China exposure and weak franchise/growth prospects in HK banking operations, DSF lacks strong catalysts to boost its FY08 results. Its cheap valuations of 11.6x FY08E PE and 1.26x FY08E PB should be justified by the above negative factors so we remain NEUTRAL on the counter

Recommendation: *Neutral*

Appendix I

I. Impairment allowances, overdue and rescheduled advances of Dah Sing Financial

As % of total customer advances	Individual allowance	Portfolio allowance	Non-performing loans	Overdue and rescheduled advances
As of 30/06/2008	0.28%	0.38%	0.46%	0.49%
As of 31/12/2007	0.23%	0.35%	0.46%	0.56%
As of 30/06/2007	0.24%	0.39%	0.56%	0.59%

II. Comparison of Dah Sing Financial's loan book: 30/06/2008 vs 31/12/2007

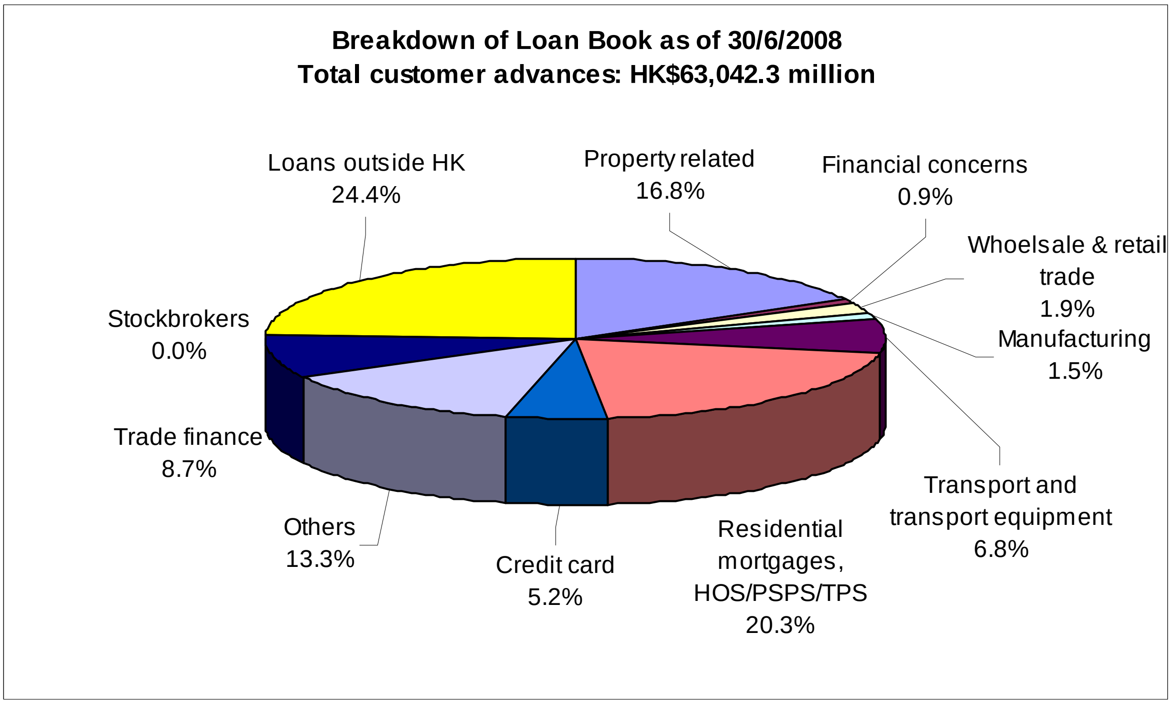
Loans-by industry	**30th June, 2008**	*Up/(down)*	**31st Dec, 2007**
	HK$ million		**HK$ million**
Property related	10,599.3	*+6.9%*	9,912.7
Financial concerns	546.1	*+3.3%*	528.7
Wholesale & retail trade	1,228.9	*+2.0%*	1,204.9
Manufacturing	956.9	*-25.1%*	1,277.4
Transport & transport equipment	4,300.0	*+14.5%*	3,755.3
Residential mortgages, HOS/PSPS	12,813.2	*-2.2%*	13,106.8
Credit card	3,298.1	*-0.4%*	3,311.2
Others	8,381.6	*+5.7%*	7,927.5
Trade finance	5,509.5	*+2.1%*	5,393.6
Stockbrokers	13.3	*-76.0%*	55.4
Loans outside HK	15,395.4	*+3.9%*	14,821.1
	63,042.3	*+2.9%*	61,294.6

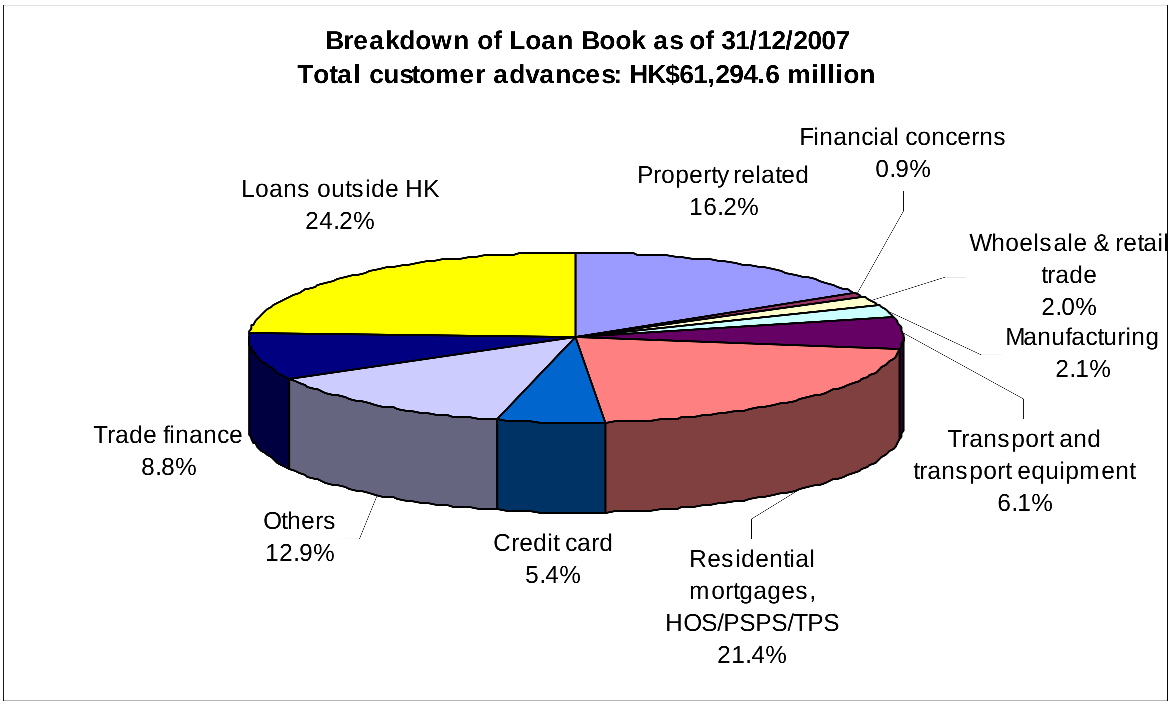
III. Comparison of Dah Sing Financial's loan book: 30/06/2007 vs 30/06/2006

Loans-by industry	**30th June, 2008**	*Up/(down)*	**30th June, 2007**
	HK$ million		**HK$ million**
Property related	10,599.3	*+30.5%*	8,120.3
Financial concerns	546.1	*+20.2%*	454.3
Wholesale & retail trade	1,228.9	*+14.7%*	1,071.1
Manufacturing	956.9	*-26.4%*	1,300.0
Transport & transport equipment	4,300.0	*+10.9%*	3,878.2
Residential mortgages, HOS/PSPS	12,813.2	*-4.4%*	13,396.3
Credit card	3,298.1	*+2.4%*	3,221.0
Others	8,381.6	*-4.4%*	8,767.5
Trade finance	5,509.5	*+19.4%*	4,614.8
Stockbrokers	13.3	*-81.5%*	71.9
Loans outside HK	15,395.4	*+35.7%*	11,349.1
	63,042.3	*+12.1%*	56,244.6

Appendix II

Breakdown of loan book of Dah Sing Financial





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