

**Analyst: Paul Sham**
**WING HANG BANK LIMITED (永亨銀行)**

Sector	: Banking	Chairman & Chief Executive	: Dr. Patrick Y. B. Fung
HKSE Code	: 0302	Deputy Chief Executive	Mr. Frank J Wang
Market Price	: HK\$104.6 (18/03/2007)		
Shares Issued	: 294.7m		
Mkt. Cap.	: HK\$30,825.6m		
52 weeks Hi/ Lo	: HK\$121.60 / HK\$80.50		
HSI	: 21,384.61(18/03/2007)		
Main Business	: Banking and related financial services		

**SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2007**
**Final Results Highlights**

	HK\$ million	Vs FY2006 (%)	Vs 30/06/2007 (%)
• Net interest income	2,417.5	+13.7%	
• Other operating income	1,120.4	+41.2%	
• <b>Net (losses) / gains from financial instruments held for trading</b>	<b>(246.3)</b>	<b>-1481.2%</b>	
• Total operating income	3,291.7	+12.1%	
• Operating expenses	(1,305.7)	+21.5%	
• Operating profit before impairment losses	1,985.9	+6.6%	
• Impairment losses on loans and advances	(1.5)	+104.6%	
• <b>Revaluation / disposal gains</b>	<b>244.6</b>	<b>+259.8%</b>	
• Profit before taxation	2,344.2	+18.3%	
• Taxation	(311.0)	-2.5%	
• <b>Attributable profit to shareholders</b>	<b>2,030.6</b>	<b>+22.3%</b>	
• Total loans	74,573.8	+27.2%	+5.1%
• Total deposits	117,278.2	+10.9%	+6.3%
• Total assets	139,657.3	+14.3%	+4.0%
• Basic EPS (HK\$)	6.89	+21.9%	
• Final DPS (HK\$)	2.47	+23.5%	
• Total DPS (HK\$)	3.34	+18.4%	
<b>Selected Ratios</b>	<b>FY2007</b>	<b>FY2006</b>	<b>1H2007</b>
• Net interest margin	1.90%	1.95%	1.92%
• Cost-income ratio	39.7%	36.6%	37.0%
• Return on average assets	1.53%	1.47%	1.52%
• Return on average equity	20.5%	18.9%	19.9%
• Impaired loan ratio	0.44%	0.62%	0.41%
• Impaired advances coverage	74.4%	71.7%	89.7%
• Loan-deposit ratio	63.6%	55.4%	64.3%
• Capital adequacy ratio	16.7%	15.2%	17.2%
• Average liquidity ratio	50.4%	51.6%	52.3%

- **FY2007 net profit topped market expectations** Wing Hang Bank (WHB) reported a 22.3% y-o-y increase in net profit to HK\$2,031m in FY2007, at the top end of the market forecasts - HK\$1,750m to HK\$2,059m, driven by robust fee income and revaluation/disposal gains. Total dividend was up 18.4% to HK\$3.34 per share, as WHB kept its 50% dividend payout ratio.
- **Provision losses offset by revaluation/disposal gains** WHB has total amount of HK\$912m of CDOs and HK\$78m of SIVs. It has made total provisions of HK\$272m (or 27.5% provision coverage) for these securities during 2007, but were largely offset by the revaluation/disposal gains of HK\$245m.

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- **NIM remained under pressure despite strong net interest income growth** Net-interest income rose by 13.7% y-o-y, while the net interest margin fell by 5bps y-o-y. The lower NIM was mainly due to mortgage re-pricing pressure and a narrower spread between Prime and HIBOR.
- **Loan growth driven by Macau and China** Growth in overall loans and loans outside HK were decent at 27.2% and 36.6% y-o-y. Macau loan growth was robust at 45.7%. Loans for use in China also increased by 30.5% due to continuous expansion of the operations in the Mainland.
- **Mild increase in non-interest income** Non-interest income saw only mild growth, up 13.7% y-o-y in FY2007, dragged by provisions in CDOs and SIVs. But fee income from stockbroking fees and wealth management fees recorded strong y-o-y growth of 141% and 55.9% respectively due to the buoyant stock market.
- **Persistent cost discipline** Operating expenses grew by 21.5%, with cost-to-income ratio rising to 39.7%. The deterioration in operating efficiency was due to the acquisition of Inchroy Credit Corporation and investment in business expansion. Despite this, excluding the loss from CDOs and SIVs, the cost-to-income ratio was maintained at 36.9%, the same as last year.
- **Solid results from Macau operations** WHB's growth in regions outside Hong Kong were still strong. Banco Weng Hang's FY2007 net profit was HK\$328m, up 34% y-o-y. Fuelled by the expansion of the leisure industry and the property market, both net interest income (+20.2%) and non-interest income growth (+63.8%) were higher than that of Hong Kong. Macau business now represents 16.2% of Wing Hang's total net profit, versus 14.7% in FY2006.
- **Improvement in asset quality** The bank's impaired loan ratio improved to 0.44% as of 31/12/2007 from 0.62% a year earlier, thanks to higher property prices and the continued improvement in the economy.
- **Strong profitability and financial position** The bank continued to deliver solid return to shareholders, with ROE increasing to 20.5% in FY2007 from 18.9% in FY2006. ROA also increased to 1.53% from 1.47%. Meanwhile, CAR stood at 16.7% as of 31/12/2007, the highest ratio among local lenders.

### Outlook & Prospects

- **Potential rebound in NIM** Wing Hang Bank (China) currently has 4 branches and two sub-branches and is expected to offer a full range of RMB services to local residents. In view of the fast development of business operations in both Macau and China, we expect its net interest margin to widen along with the ongoing enlargement of loan portfolios outside HK.
- **Non-interest income not sustainable in 2008** WHB reported fees income growth of 44.5% y-o-y, largely driven by strong growth in brokerage revenues (+141% y-o-y) and wealth management fees (+55.9%) which are likely to come under pressure if current negative market conditions persist. Other less cyclical fee income such as insurance and credit cards that are not WHB's key products, should not give much help for its overall non-interest income.
- **Macau business remains WHB's distinguishing feature** In view of the fact that Macau's Banco Weng Hang contributed 16.2% of Wing Hang's net profit in FY2007, outlook for Macau business remains positive. We expect loan growth in Macau will remain strong during 2008 due to Macau's robust economic growth and WHB's businesses outside HK will continue to be its growth driver.
- **Valuations already reflect the positives** WHB's profitability, measured by ROE and ROA, is the second-highest among local peers, following Hang Seng Bank. However, as WHB is now trading at 15x 2007 P/E and 2.94x 2007 P/B, we believe the current price should have reflected its superior profitability. We accordingly are "Neutral" on the counter.

**Recommendation: Neutral**

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**I. Impairment allowances, overdue and rescheduled advances of Wing Hang Bank**

As % of total customer advances	Individual allowance	Portfolio allowance	Non-performing loans	Overdue and rescheduled advances
<b>As of 31/12/2007</b>	0.14%	0.18%	0.44%	0.35%
<b>As of 30/06/2007</b>	0.11%	0.26%	0.41%	0.36%
<b>As of 31/12/2006</b>	0.16%	0.29%	0.62%	0.56%

**II. Comparison of Wing Hang Bank's loan book: 31/12/2007 vs 31/12/2006**

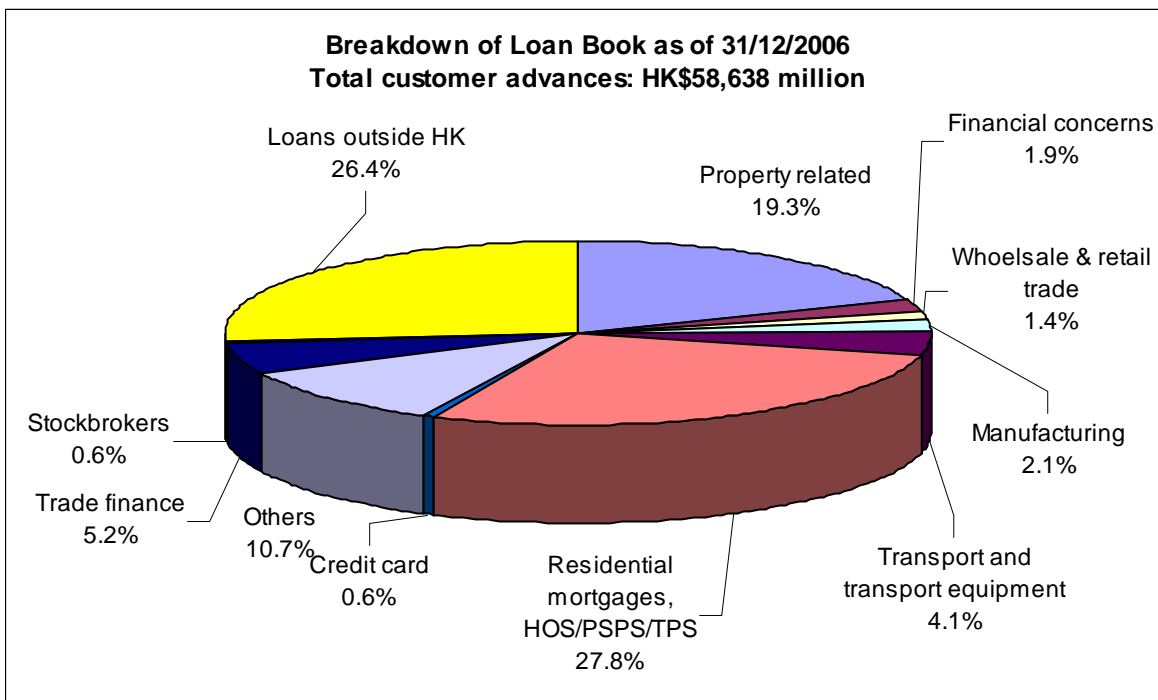
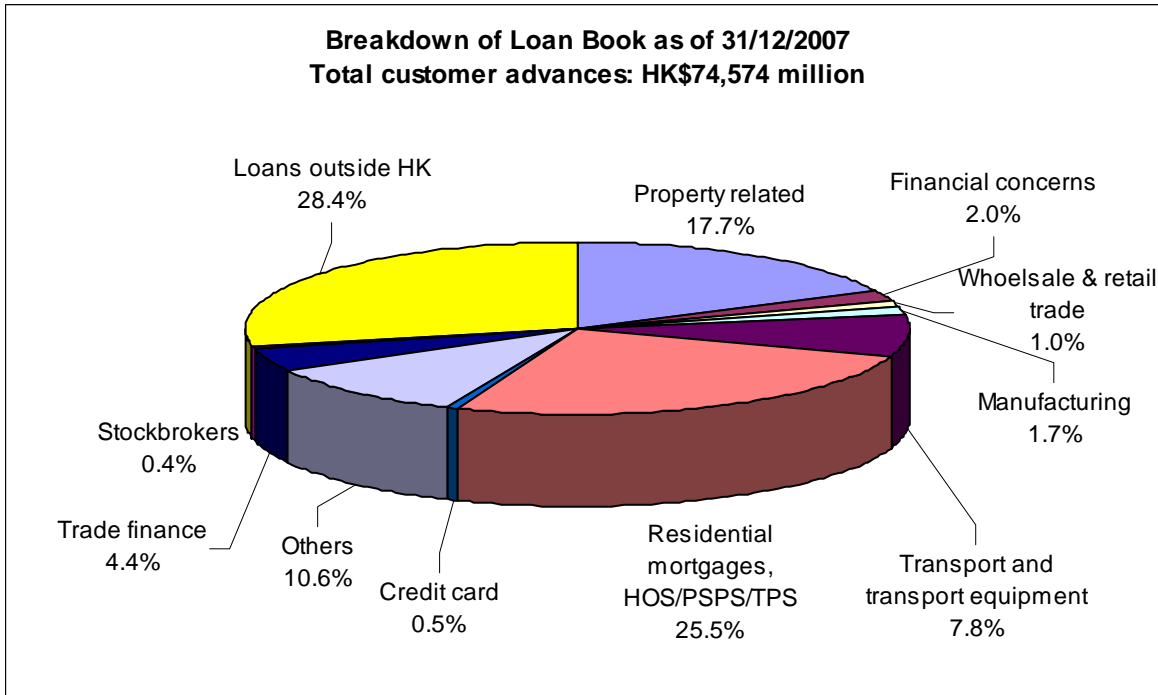
Loans-by industry	31 <sup>st</sup> Dec, 2007 HK\$ million	Up/(down)	31 <sup>st</sup> Dec, 2006 HK\$ million
Property related	13,219.9	+16.9%	11,306.6
Financial concerns	1,491.1	+35.4%	1,101.5
Wholesale & retail trade	757.6	-6.2%	807.7
Manufacturing	1,257.8	+1.3%	1,241.3
Transport & transport equipment	5,837.4	+141.6%	2,416.6
Residential mortgages, HOS/PSPS	19,012.6	+16.8%	16,284.1
Credit card	373.6	+15.6%	323.1
Others	7,872.7	+25.4%	6,279.3
Trade finance	3,283.3	+7.7%	3,049.1
Stockbrokers	323.0	-6.8%	346.5
Loans outside HK	21,144.6	+36.6%	15,482.3
	<u>74,573.8</u>	<u>+27.2%</u>	<u>58,638.2</u>

**III. Comparison of Wing Hang Bank's loan book: 31/12/2007 vs 30/06/2007**

Loans-by industry	31 <sup>st</sup> Dec, 2007 HK\$ million	Up/(down)	30 <sup>th</sup> June, 2007 HK\$ million
Property related	13,219.9	+7.1%	12,344.2
Financial concerns	1,491.1	+35.3%	1,101.7
Wholesale & retail trade	757.6	-3.6%	785.7
Manufacturing	1,257.8	-33.8%	1,900.6
Transport & transport equipment	5,837.4	+5.3%	5,541.8
Residential mortgages, HOS/PSPS	19,012.6	+4.2%	18,247.9
Credit card	373.6	+20.8%	309.3
Others	7,872.7	-13.6%	9,115.0
Trade finance	3,283.3	-1.3%	3,327.4
Stockbrokers	323.0	-72.6%	1,179.9
Loans outside HK	21,144.6	+23.7%	17,088.8
	<u>74,573.8</u>	<u>+5.1%</u>	<u>70,942.3</u>



**Breakdown of loan book of Wing Hang Bank**





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