

**BEA securities**

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HONG KONG RESEARCH**3rd December 2010****Analyst: Paul Sham****Main Board Listing – Research**

重慶農村商業銀行股份有限公司

Chongqing Rural Commercial Bank Co., Ltd. [Stock Code:03618]**Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers**

: Nomura

Morgan Stanley

Sector : Banking**Business** : Commercial banking and retail banking services in Chongqing

<p>Total share offer: *2,185,509,601 H shares (24.28% of the enlarged share capital)</p> <p>Public Offer: 163,914,000 shares (7.5%)</p> <p>Placing: 2,021,595,601 shares (92.5%)</p> <p>Greenshoe: 327,826,440 shares</p> <p><i>*Comprising 2,000,000,000 New shares and 185,509,601 Sale Shares</i></p>	<p><u>Business of Chongqing Rural Commercial Bank ("CRCB")</u></p> <p>CRCB is the largest bank in terms of total assets and total deposits in Chongqing. As of 30th June 2010, its deposits represented approximately 14.8% of total deposits of all banking institutions in Chongqing. It was also the fourth largest bank in terms of total loans, with 11.6% of total loans of all banking institutions in Chongqing.</p> <p>CRCB was the first provincial level rural commercial bank established in Western China and the third provincial level rural commercial bank in China after those in Beijing and Shanghai. It is also the 3rd largest amongst rural commercial banks in the PRC and the 21st largest bank in China in terms of total assets.</p> <p>With nearly 60 years' operating history in Chongqing, CRCB underwent a series of corporate reorganizations to become a joint stock limited company and a commercial bank in June 2008.</p>
<p>Price: HK\$4.50 – HK\$6.00</p> <p>Market Cap: HK\$40.5 billion – HK\$54.0 billion</p> <p>Net profit estimate for FY10: RMB2.85 billion</p> <p>Pro forma fully diluted FY10E PER: 11.86x – 15.81x</p> <p>Adjusted NTA per share: HK\$2.55 – HK\$2.88</p> <p>Staffing: 12,423 (As of 30th June, 2010)</p>	
<p>HK Public Offer period: 3rd December 2010 – 8th December 2010</p> <p>Receiving banks: Bank of China (Hong Kong) HSBC Wing Lung Bank</p> <p>Share registrar: Computershare Hong Kong Investor Services Ltd.</p> <p>Listing date: 16th December 2010</p>	

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**Shareholding Structure after Listing**

Chongqing Yufu Assets Management Company Limited – owned by Chongqing Municipal Government	7.10%
Other state-owned shareholders	16.15%
Other corporate (private) shareholders	35.15%
Individual shareholders – comprising 9,911 employee shareholders and 72,166 individual shareholders	17.32%
Public shareholders of H Shares	24.28%
	100%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$10,291 million (assuming the over-allotment option is not exercised, and at an issue price of HK\$5.25 each, being the midpoint of the indicative price range).

	Percentage
To strengthen the capital base to support the ongoing growth its business	100%

Selected Income Statement Data

	Year ended 31 st December			6 months ended 30 th June	
(RMB million)	2007	2008	2009	2009	2010
Net interest income	4,314	5,183	5,475	2,347	3,440
Non-interest income	1,398	111	202	68	157
Total operating income	5,713	5,294	5,677	2,415	3,597
Profit before income tax	3,002	2,529	2,485	1,201	2,197
Net profit	3,002	1,995	1,888	921	1,660

Selected Balance Sheet Data

	Year ended 31 st December			6 months ended 30 th June 2010
(RMB million)	2007	2008	2009	
Loans to customers	75,399	77,855	101,821	114,513
Total assets	120,487	167,268	201,361	261,615
Deposits from customers	96,351	117,283	153,776	185,402
Loan-to-deposit ratio	78.2%	66.4%	66.2%	61.8%

Selected Financial Ratios

	Year ended 31 st December			6 months ended 30 th June 2010
	2007	2008	2009	
Profitability				
Net interest margin (NIM)	4.16%	3.68%	3.06%	3.04%
Cost-to-income ratio	29.12%	40.84%	49.23%	38.94%
Return on average assets	3.02%	1.39%	1.02%	1.43%
Return on equity	N/A*	25.28%	19.92%	26.18%
Capital adequacy				
Core capital adequacy ratio	N/A*	9.31%	8.14%	8.84%
Capital adequacy ratio	N/A*	9.32%	10.23%	10.50%
Asset quality				
Impaired loan ratio	13.22%	8.68%	3.88%	2.99%
Allowance to impaired loans	63.33%	83.43%	126.85%	148.82%

Remarks (*) Not meaningful given CRCB had a capital deficit at 31st December 2007



Peers comparison - profitability

	Stock code	1H10 NIM	1H10 Cost-income ratio	1H10 ROA	1H10 ROE
ICBC	1398	2.37%	34.2%	1.37%	23.9%
CCB	0939	2.41%	33.6%	1.43%	24.0%
ABC	1288	2.47%	43.0%	0.99%	25.1%
BOC	3988	2.04%	40.0%	1.18%	19.8%
BoCom	3328	2.43%	36.2%	1.16%	22.6%
CMB	3968	2.56%	41.0%	1.21%	24.3%
CITIC Bank	0998	2.60%	37.1%	1.17%	20.1%
Minsheng	1988	2.59%	43.5%	0.98%	17.1%
		2.43%	38.6%	1.19%	22.1%
		NIM	Cost-income	ROA	ROE
CRBC	3618	3.04%	38.9%	1.43%	13.1%

Peers comparison - asset quality

(RMB)	Stock code	1H10 NPL	1H10 Coverage	1H10 LD ratio	1H10 CAR	1H10 Loan (bn)	1H10 Deposit (bn)	1H10 Asset (bn)
ICBC	1398	1.3%	190%	58.6%	11.34%	6,354	10,837	12,960
CCB	0939	1.2%	205%	62.3%	11.70%	5,349	8,591	10,235
ABC	1288	2.3%	136%	55.4%	8.30%	4,623	8,348	9,695
BOC	3988	1.2%	188%	74.7%	11.70%	5,391	7,219	9,685
BoCom	3328	1.2%	161%	76.6%	12.20%	2,070	2,702	3,709
CMB	3968	0.7%	297%	75.8%	11.60%	1,330	1,756	2,282
CITIC Bank	0998	0.8%	170%	73.2%	10.95%	1,192	1,629	1,940
Minsheng	1988	0.8%	206%	78.3%	10.83%	882	1,127	1,426
		1.2%	194%	69.4%	11.08%			
		NPL	Coverage	LD ratio	CAR	Loan	Deposit	Total Asset
CRBC	3618	3.0%	149%	61.8%	10.50%	115	185	262

Peers comparison - valuations

	Stock code	10E P/B	10E P/E	10E Yield
ICBC	1398	2.25x	11.1x	3.95%
CCB	0939	2.25x	11.0x	3.86%
ABC	1288	2.13x	12.1x	3.39%
BOC	3988	1.66x	9.9x	4.18%
BoCom	3328	1.68x	10.0x	3.25%
CMB	3968	2.89x	14.9x	1.71%
CITIC Bank	0998	1.57x	9.61x	2.57%
Minsheng	1988	1.47x	9.36x	1.95%
		1.99x	11.0x	3.11%
		P/B	P/E	
Chongqing Rural	3618	1.76 – 2.08x	11.86x – 15.81x	

**Strengths/Opportunities**

- ✓ CRCB can leverage its dominant position in Chongqing to capture the business opportunity arising from the rapid growth in its county areas. Chongqing is the 7th largest city in China in terms of GDP, as of 31st December 2009, with a population of over 32 million. Since 2000, the Go West Policy has resulted in accelerated economic growth to Chongqing. During 2005 to 2009, Chongqing's nominal GDP and per capita GDP grew at a CAGR of 20.8% and 20.2%, respectively, higher than the CAGR of national nominal GDP and per capita GDP of 16.0% and 15.4% respectively.
- ✓ In 2009, Chongqing's banking penetration as measured by total loans over GDP stood at 135.7%, below Beijing's 261.7%, Shanghai's 199.2% and Tianjin's 148.7%.
- ✓ CRCB owns the strongest asset and deposit base in Chongqing, which is even larger than those Large Commercial Banks (ICBC, CCB, BOC and ABC). This competitive advantage allows CRCB to access stable sources of funding, resulting in higher NIM (CRCB's 3.04% vs industry average's 2.43% in 1H10).
- ✓ CRCB's relatively low loan-to-deposit ratio (CRCB's 61.8% vs industry average's 69.4%) enables it to have faster growth in loan business in the near future.
- ✓ CRCB's fee and commission income is still under-explored, which provides a growth driver in short-to-medium run. During 2007 to 2009, less than 3% of total operating income was contributed from its net fee income.
- ✓ Given the similar business nature, CRCB should be benchmarked with ABC for comparison. Nevertheless, CRCB should trade at a discount with ABC given its risky business nature (focusing on townships or village). Compared with ABC's FY10E P/B and P/E are 2.13x and 12.1x respectively, CRCB is believed to be reasonably priced (1.76 – 2.08x FY10E P/B; 11.86x – 15.81x FY10E P/E) at in order to reflect its inferior business nature.
- ✓ CRCB has sealed cornerstone placement agreements with four investors. Each of them is subject to a six-month lock-up period. Details are as follows:-

<u>Cornerstone Investors</u>	<u>Subscription</u>
Chow Tai Fook Nominee Ltd. (owned by Dato' Dr. Cheng Yu-Tung)	US\$30 million
Fubon Life Insurance (owned by Fubon Financial Holdings)	US\$30 million
Nexus Capital Investing Ltd. (owned by Abu Dhabi International United Investments)	US\$100 million
Value Partners Ltd.	US\$80 million

Weaknesses/Threats

- × ABC should be CRCB's best comparable peer as both of them have significant exposure in county areas. Nevertheless, ABC focuses on 2nd & 3rd tier cities whereas CRCB has large number of outlets covering remote townships or village. The latter business exposure should be more risky and unprofitable in nature which may drag CRCB's performance in the future.
- × CRCB finished its restructuring as late as 2008. Therefore, its asset quality is rather inferior when compared with those listed peers. Its NPL ratio, coverage ratio and CAR ratio all lagged behind the industry average.
- × Unlike Large Commercial Banks and National Commercial banks which have business exposure throughout China, CRCB's business is limited to Chongqing. Regional policy risk will materially impact CRCB's business. Even though CRCB is going to set up branches outside Chongqing and explore more opportunities, the contribution from business outside Chongqing will be minimal as it will compete with strong rivals such as the existing PRC banks as well as foreign-invested banks.

Recommendation: *Trading buy*



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