

Analyst: Vincent Leung

## **Main Board Listing – Research**

大新銀行集團有限公司

Dah Sing Banking Group Limited [Stock Code: 2356]

Global Coordinator, Sponsor, Joint Bookrunner and Joint Lead Manager : HSBC

Joint Bookrunner and Joint Lead Manager : CLSA Limited

Sector : Banking

Business : Retail banking, commercial banking and treasury operations

<b>Total share offer:</b> <u>182,000,000</u> shares <b>(20.0% of the enlarged share capital)</b> <b>^HK Public Offering:</b> 18,200,000 shares (10%) <b>Int'l Placing:</b> 136,500,000 shares (75%) - 54,600,000 new shares - 81,900,000 sale shares <b>*Preferential Offer:</b> 27,300,000 shares (15%) <b>Greenshoe:</b> 27,300,000 shares	<b><u>Business of Dah Sing Banking Group</u></b> Dah Sing Banking Group Limited (DSBG), which is a spin-off of Dah Sing Financial Holdings Limited (DSFH) (Stock code: 0440), is the holding company of the banking-related interests of DSFH, including Dah Sing Bank (100%-owned), MEVAS Bank (100%-owned) and D.A.H. Hambros Bank (75.5%-owned; an offshore private bank licensed in Guernsey, Channel Islands). Currently, DSBG has a network of 44 branches in Hong Kong and has recently opened a branch in Shenzhen. It had a customer base of over 700,000 and had 501,000 credit cards in issue as of 31 <sup>st</sup> December 2003. It was indicated that the main purposes of seeking a listing for DSBG are to raise additional capital for organic growth as well as to acquire new businesses.
<b>Price:</b> HK\$12.66 – HK\$13.86 per share <b>Market Cap. :</b> HK\$11.52 billion – HK\$12.61 billion <b>FY2003 P/B:</b> 1.67x – 1.80x (pro forma) <b>Historical FY2003 P/E:</b> 13.09x – 14.34x <b>Adjusted NTA per share:</b> HK\$7.58 – HK\$7.71 <b>Staffing:</b> 1,208	
<b>Book opens:</b> 14 <sup>th</sup> June 2004 <b>Book closes:</b> 24 <sup>th</sup> June 2004 <b>IPO commences:</b> 18 <sup>th</sup> June 2004 <b>IPO ends:</b> 24 <sup>th</sup> June 2004 <b>Receiving bank:</b> HSBC Dah Sing Bank <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited <b>Listing date:</b> 30 <sup>th</sup> June 2004	

^ Including 1.82 million shares to be offered by DSBG at the offer price on a preferential basis to certain employees of the Group.

\*- These shares are reserved for the subscription by registered DSFH shareholders (other than overseas & US shareholders as well as directors or any of their associates), whose names appeared at the close of business on 12<sup>th</sup> June 2004, on the basis of 1 reserved share for every 5 DSFH shares.

### **Major Shareholder after Listing** (Assuming the over-allotment option is not exercised)

Dah Sing Financial Holdings Limited (Stock code: 0440)

80.0%

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### Use of Proceeds

#### **⊕ Dah Sing Banking Group Limited (Stock code :2356)**

Net proceeds from the offer to be received by Dah Sing Banking Group Limited (the listing entity) are estimated to be HK\$1,216 mln-HK\$1,333 mln. *(Assuming the over-allotment option is not exercised)*

- To support the growth and expansion of the Group organically, by M&A and through investments, joint ventures and/or alliances in the PRC

#### **⊕ Dah Sing Financial (Stock Code: 440)**

Net proceeds from the offer to be received by Dah Sing Financial (sale shares of 81.9 million) are estimated to be HK\$1,043 mln.

*(Assuming the over-allotment option is not exercised and an issue price of HK\$13.26, being the midpoint of the proposed range of issue prices of HK\$12.66 and HK\$13.86 per offer share)*

- To support the growth and expansion of DSFH
- To pay a special dividend of HK\$0.80 per share (cash or scrip) to DSFH shareholders; the distribution for shares, in which Mr. David Wong Shou-yeh (the chairman of both DSFH and DSBG) has a deemed interest, will be in the form of scrip

### Financial Highlights

#### Consolidated financial figures

	Year ended 31 <sup>st</sup> December		
	2003 HK\$ million	2002 HK\$ million	2001 HK\$ million
Net interest income	1,683.4	1,829.0	1,699.0
Non-interest income	534.2	550.1	443.7
Operating income	2,217.6	2,379.1	2,142.7
Operating expenses	(781.1)	(868.2)	(907.1)
Operating profit before provisions	1,436.5	1,510.9	1,235.6
Charge for bad and doubtful debts	(534.7)	(703.9)	(411.1)
<b>Attributable profit</b>	<b>879.8</b>	<b>776.3</b>	<b>850.7</b>
Dividends	507.5	440.0	440.0
Total customer loans	27,942.4	28,156.9	29,274.4
Total customer deposits	40,152.2	37,589.1	33,153.1
Total assets	62,164.3	58,796.8	52,985.1

#### Select ratios

	Year ended 31 <sup>st</sup> December		
	2003	2002	2001
<b><u>Profitability ratios</u></b>			
Net interest margin	3.05%	3.74%	3.76%
Cost-to-income ratio	35.22%	36.49%	42.37%
Return on average assets	1.45%	1.39%	1.68%
Return on average equity	15.91%	15.08%	18.31%
<b><u>Asset &amp; credit quality ratios</u></b>			
NPL ratio	1.55%	1.67%	2.07%
NPL coverage (general and specific provisions)	111.8%	103.1%	87.5%
Overdue & rescheduled loans as a % of total customer loans	2.06%	2.03%	2.57%
General provisions as a % of total customer loans	0.98%	1.00%	0.90%
Specific provisions as a % of total customer loans	0.84%	0.79%	1.05%
Credit-card charge-off ratio	9.4%	14.6%	4.7%
<b><u>Other ratios</u></b>			
Loan-to-deposit ratio	72.3%	77.9%	90.6%
Capital adequacy ratio	20.4%	19.9%	18.6%
Average liquidity ratio	65.9%	54.9%	46.2%

**Breakdown of pre-tax profit by business segments:**

	Year ended 31 <sup>st</sup> December					
	2003		2002		2001	
	HK\$ million	%	HK\$ million	%	HK\$ million	%
Personal banking	233.7	23.2	108.7	12.9	159.0	16.3
Commercial banking	371.9	37.0	335.6	39.6	405.1	41.8
Treasury	490.6	48.8	445.0	52.5	444.2	45.8
Elimination/unallocated	(90.7)	(9.0)	(40.9)	(5.0)	(38.3)	(3.9)
	<u>1,005.5</u>	<u>100.0</u>	<u>848.4</u>	<u>100.0</u>	<u>970.0</u>	<u>100.0</u>

**Strengths / Opportunities**

- ✓ The Group has achieved better-than-industry-average net-interest margins, ROEs and NPL ratios for each of the 3 years ended 31<sup>st</sup> December 2003.
- ✓ The recovery of Hong Kong's economy should further leverage its consumer-lending focus with declining provisions on unsecured personal lending.
- ✓ DSBG is one of the major beneficiaries under the CEPA, which has enabled it to open its 1<sup>st</sup> branch in Shenzhen.
- ✓ The Group intends to declare dividends in respect of each financial year, with a dividend payout ratio of approximately 50%. Shareholders of DSBG will receive interim dividends for the first 6 months ended 30<sup>th</sup> June 2004.
- ✓ Shares of DSBG are valued at a 1.57x-1.80x price-to-book, which is at the top end of the Hong Kong-listed mid-sized local banks, such as Wing Hang Bank's 1.87x, Wing Lung Bank's 1.42x and ICBC (Asia)'s 1.18x. Nevertheless, its above-average ROE of more than 15% should justify this valuation.
- ✓ The more attractive valuation of DSBG should attract switching from DSFH's existing shareholders. Assuming an issue price of HK\$13.26 per share and a holding-company discount of 20%, DSFH is trading at 1.83x its estimated pro-forma 2003 book value (1.46x without factoring in the 20% holding-company discount).

**Weaknesses / Threats**

- × Competition in the local banking industry is extremely intense.
- × Interest-rate risk is a concern for DSBG, especially in a rising-interest-rate environment, as it has higher-than-average exposure to debt securities (including trading, held-to-maturity and non-trading), which represented 32% of its total assets as at 31<sup>st</sup> December 2003.
- × DSBG's profitability is vulnerable to interest-rate volatility as over 45% of its pre-tax profit were generated by the treasury operation in each of the 3 years ended 31<sup>st</sup> December 2003.
- × There is a concern of low share liquidity immediately following the listing with a free float of 20.0% only (22.6% if the over-allotment option is exercised in full). Meanwhile, DSFH intends to increase the public float of DSBG to 25% or above within 18 months from the date of listing. This may be done by issuing new additional shares or by DSFH selling existing shares.

**Recommendation:**    **Trading Buy and / or switching from DSFH (stock code: 440) to DSBG (stock code: 2356)**