

ICBC (1398 HK / 601398 CH)

High fundamental stability as core strength

- Lower provision expenses to support real economy would expand earnings capacity
- Interest rate cut cycle would raise NIM pressure in coming quarters, but robust balance sheet growth could help offset the impact
- FinTech investment to maximize ICBC's edge in big data; expect CIR to inch up
- Reiterate **BUY** on high fundamental stability. Our GGM- based H/A shr TPs imply target 22E P/B of 0.73x/0.87x

Lower risk buffers to increase earnings. To raise support for the real economy, the government encourages big banks to reduce risk buffers, based on an announcement on Apr 13, 2022. So far, the said request has not been mandatory but we believe major banks, including ICBC, would take steps to fulfill its social responsibility. As such, we factor in a -2% CAGR in the bank's provision expenses over FY21-24E, which would gradually reduce the bank's provisioning ratio and provision coverage ratio to 2.78% and 187.84% by end-24E. Nevertheless, in view of rising asset quality risk from the property sector, we project the bank's NPL ratio to inch up by 1bps-3bps YoY each in FY22E-24E and reach 1.48% by FY24E, assuming the scale of NPL handling remains similar.

More NIM pressure to come. Resurgence of interest rate cut cycle from Dec 2021 in China would once again elevate NIM pressure in banks. Despite declining deposit rates, we expect loan re-pricing would delay the impact of interest rate cut by a few quarters, we forecast ICBC's NIM to narrow by 2bps-5bps YoY each in FY22E-24E to 2.02% by FY24E. In our opinion, its robust total assets and total liabilities CAGRs at 6.0% and 5.8% in FY21-24E would defend the bank against NIM pressure and support NII CAGR at 5.3% in FY21-24E.

CIR on the rise. To maximize the bank's competitive edge in big data, we forecast FinTech investments would continue in coming years. By keeping technology-related expenses at ~3% of its topline revenue, we anticipate CIR to rise mildly to 29.29% by 2024E; operating expenses would increase at 11.2% CAGR over FY21-24E.

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Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	800,075	860,880	908,093	963,560	1,033,704
Chg (% YoY)	3.1	7.6	5.5	6.1	7.3
Net profit* (RMB mn)	315,906	348,338	365,702	386,818	424,358
Chg (% YoY)	1.2	10.3	5.0	5.8	9.7
EPS (RMB)	0.86	0.95	1.00	1.06	1.16
Chg (% YoY)	(0.2)	10.3	5.1	5.9	10.0
BVPS (RMB)	7.48	8.15	8.83	9.54	10.33
Chg (% YoY)	8.0	8.8	8.4	8.1	8.3
P/E (x) – H-shr	4.54	4.12	3.92	3.70	3.36
P/B (x) – H-shr	0.52	0.48	0.44	0.41	0.38
P/E (x) – A-shr	5.49	4.98	4.73	4.47	4.06
P/B (x) – A-shr	0.63	0.58	0.54	0.50	0.46
ROAA (%)	1.00	1.02	1.01	1.01	1.04
ROAE (%)	11.95	12.15	11.72	11.56	11.79
DPS (RMB)	0.266	0.293	0.318	0.336	0.369
Yield (%) H-shr	6.80	7.49	8.13	8.60	9.43
Yield (%) A-shr	5.62	6.20	6.72	7.11	7.80

Note: Company; HKD/CNY=1.16

*Net profit = Net profit attributable to equity holders of the Company

Source(s): Bloomberg, ABCI Securities estimates

Company Report

May 11, 2022

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 7.45
TP (A): RMB 7.70

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Price (H/A shr)	HK\$ 4.54/ RMB 4.73
Est. s price return (H/A shr)	64.10%/ 62.79%
Est. dividend yield (H/A shr)	8.13%/6.72%
Est. total return (H/A shr)	72.23%/ 69.51%
Last Rating & TP (H/A shr)	BUY, HK\$7.52/ BUY, RMB7.63
Previous Report Date	2 Dec, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	5.14/4.08
52Wk H/L (RMB) (A shr)	5.29/4.47
Total issued shares (mn)	356,406.2
Issued H shr (mn)	86,794.0
Issued A shr (mn)	269,612.2
Market cap (HK\$ mn)	1,873,353.0
H-shr market cap (HK\$ mn)	394,044.8
A-shr market cap (HK\$ mn)	1,479,308.2
3-mth avg daily turnover (HK\$ mn) (H shr)	994.89
3-mth avg daily turnover (RMB mn) (A shr)	1,203.19
Major shareholder(s) (%):	
Central Huijin	34.71
MoF	31.14

Source(s): Bloomberg, ABCI Securities

Maintain BUY on high fundamental stability. ICBC's defensiveness against policy and macro changes has been consistently proven. The bank is one of our long-term core holdings in the sector. Leveraging its market-leading position, we believe the bank would continue to show consistent fundamental strength. We adjust our H/A TPs by -0.9% and 0.9% to HK\$ 7.45 and RMB 7.70 by assuming (1) topline and net profit CAGRs at 6.3% and 6.8% in FY21-24E; (2) a higher sustainable ROAE; (3) a higher long-term growth rate; (4) a lower equity risk premium (ERP). The TPs imply 0.73x/0.87x target FY22E P/B. Reiterate **BUY**.

Risk Factors: 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Potential asset quality deterioration in specific sectors and geographical areas; 3) Rising CIR on technology development; 4) Elevating NIM pressure amid interest rate cut cycle; 5) Resurgence or prolonged COVID-19 pandemic.

Exhibit 1: Major changes in 2022E and 2023E forecasts

(RMB mn)	2022E (old)	2022E (new)	change (%)	(RMB mn)	2023E (old)	2023E (new)	change (%)
Net interest income	787,420	722,891	(8.19)	Net interest income	850,176	758,951	(10.73)
Net fee and commission	133,852	137,015	2.36	Net fee and commission	135,860	143,865	5.89
Operating income	938,504	908,093	(3.24)	Operating income	1,002,207	963,560	(3.86)
Operating expenses	(243,310)	(266,187)	9.40	Operating expenses	(262,070)	(295,051)	12.58
Impairment losses	(240,998)	(196,181)	(18.60)	Impairment losses	(246,219)	(196,697)	(20.11)
Profit before tax	455,372	448,451	(1.52)	Profit before tax	495,037	474,401	(4.17)
Income tax expenses	(91,074)	(80,721)	(11.37)	Income tax expenses	(99,007)	(85,392)	(13.75)
Net profit attributable to equity holders	361,945	365,702	1.04	Net profit attributable to equity holders	393,324	386,818	(1.65)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	2.07	2.06	(0.01)	Net interest margin	2.03	2.04	0.01
Net interest spread	1.84	1.86	0.02	Net interest spread	1.81	1.81	-
CIR	24.01	27.21	3.20	CIR	24.27	28.49	4.22
ROAA	0.94	1.01	0.07	Return on average assets	0.93	1.01	0.08
ROAE	12.02	11.72	(0.30)	Return on average equity	12.08	11.56	(0.52)
Dividend payout	31.00	31.00	-	Dividend payout	31.00	31.00	-
CT1 CAR	13.01	14.04	1.03	CT1 CAR	13.03	14.59	1.56
Total CAR	16.63	18.52	1.89	Total CAR	16.42	19.16	2.74
NPL ratio	1.52	1.45	(0.07)	NPL ratio	1.55	1.47	(0.08)
Provision to total loans	2.95	2.88	(0.07)	Provision to total loans	2.99	2.84	(0.15)
Provision coverage ratio	194.08	198.62	4.54	Provision coverage	192.90	193.20	0.30

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes of GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	7.52	7.45	7.63	7.70	
Sustainable ROE (%)	10.66	10.87	10.66	10.87	Raised on stable fundamental outlook
COE (%)	12.86	12.51	11.49	11.51	
Target 22E P/B (x)	0.70	0.73	0.86	0.87	
Rfr (%)	2.88	2.81	2.88	2.81	With reference to China 10Y government bond
Beta*	0.95	0.97	0.82	0.87	Fine-tuned H-shr Bloomberg all-time adjusted beta lower with reference to short term beta
ERP (%)	10.50	10.00	10.50	10.00	Adjusted lower from Bloomberg China country risk on stable fundamentals
LT gr (%)	5.50	6.50	5.50	6.50	Raised on steady macro improvement

* Adjusted figure from all-time beta against HSI for H-share and against Shanghai A share index for A-share

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Net interest income	646,765	690,680	722,891	758,951	806,417
Non-interest income	153,310	170,200	185,202	204,609	227,287
Of which: Fees and commissions	131,215	133,024	137,015	143,865	152,497
Operating income	800,075	860,880	908,093	963,560	1,033,704
Operating expenses	(206,585)	(236,227)	(266,187)	(295,051)	(324,819)
Pre-provision operating profit	593,490	624,653	641,906	668,509	708,884
Impairment loans losses	(202,668)	(202,623)	(196,181)	(196,697)	(190,950)
Operating profit	390,822	422,030	445,725	471,811	517,935
Non-operating income	1,304	2,869	2,726	2,589	2,460
Profit before tax	392,126	424,899	448,451	474,401	520,394
Tax	(74,441)	(74,683)	(80,721)	(85,392)	(93,671)
Minority interests	(1,779)	(1,878)	(2,028)	(2,190)	(2,366)
Net profit attributable to equity holders	315,906	348,338	365,702	386,818	424,358
Dividend to other capital instrument holders	(8,839)	(9,607)	(9,607)	(9,607)	(9,607)
Net profit attributable to ordinary shareholders	307,067	338,731	356,095	377,211	414,751
Growth (%)					
Net interest income	2.3	6.8	4.7	5.0	6.3
Non-interest income	6.6	11.0	8.8	10.5	11.1
Of which: Fees and commissions	0.5	1.4	3.0	5.0	6.0
Operating income	3.1	7.6	5.5	6.1	7.3
Operating expenses	7.5	14.3	12.7	10.8	10.1
Pre-provision operating profit	4.4	5.3	2.8	4.1	6.0
Impairment loans losses	13.2	(0.0)	(3.2)	0.3	(2.9)
Operating profit	0.4	8.0	5.6	5.9	9.8
Non-operating income	(48.3)	120.0	(5.0)	(5.0)	(5.0)
Profit before tax	0.1	8.4	5.5	5.8	9.7
Tax	(5.1)	0.3	8.1	5.8	9.7
Minority interests	56.5	5.6	8.0	8.0	8.0
Net profit attributable to equity holders	1.2	10.3	5.0	5.8	9.7
Dividend to other capital instrument holders	95.3	8.7	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	(0.2)	10.3	5.1	5.9	10.0
Per share (RMB)					
EPS	0.86	0.95	1.00	1.06	1.16
BVPS	7.48	8.15	8.83	9.54	10.33
DPS	0.266	0.293	0.318	0.336	0.369
Key ratio (%)					
Net interest margin	2.15	2.11	2.06	2.04	2.02
Net interest spread	1.97	1.92	1.86	1.81	1.77
Cost to income ratio	24.76	26.36	27.21	28.49	29.29
Return on average assets	1.00	1.02	1.01	1.01	1.04
Return on average equity	11.95	12.15	11.72	11.56	11.79
Effective tax rate	18.98	17.58	18.00	18.00	18.00
Dividend payout	30.87	30.86	31.00	31.00	31.00

Note: Individual items may not sum to total due to rounding difference

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Cash & balance with central banks	3,537,795	3,098,438	2,788,594	2,565,507	2,411,576
Due from FIs and repo	1,821,185	1,490,646	1,272,136	1,136,253	1,051,318
Investment securities	8,591,139	9,257,760	9,905,803	10,549,680	11,182,661
Net loans and advances	18,136,328	20,109,200	22,153,634	24,175,121	26,144,208
Total interest earning assets	32,086,447	33,956,044	36,120,167	38,426,561	40,789,763
Property and equipment	286,279	290,296	293,199	296,131	299,092
Other non-int. earn assets	972,332	925,043	866,891	814,406	766,990
Total assets	33,345,058	35,171,383	37,280,258	39,537,099	41,855,845
Customer deposits	25,134,726	26,441,774	27,803,520	29,343,963	31,063,260
Due to FIs and repo	3,077,693	3,286,972	3,484,190	3,728,084	4,026,330
Subordinated debt and others	1,133,803	1,081,717	1,153,737	1,239,630	1,342,032
Total interest bearing liabilities	29,346,222	30,810,463	32,441,448	34,311,677	36,431,622
Current taxes	89,785	92,443	97,065	102,889	110,091
Deferred tax liabilities	2,881	5,624	7,874	10,629	13,818
Other liabilities	996,655	987,595	1,214,077	1,336,974	1,240,912
Total liabilities	30,435,543	31,896,125	33,760,463	35,762,169	37,796,443
Share capital	356,407	356,407	356,407	356,407	356,407
Other equity instruments	225,819	354,331	354,331	354,331	354,331
Reserves	2,311,276	2,547,017	2,790,153	3,043,776	3,326,615
Minorities	16,013	17,503	18,903	20,415	22,049
Shareholder's equity	2,909,515	3,275,258	3,519,794	3,774,929	4,059,402
Growth (%)					
Cash & balance with central banks	6.6	(12.4)	(10.0)	(8.0)	(6.0)
Due from FIs and repo	(3.5)	(18.1)	(14.7)	(10.7)	(7.5)
Investment securities	12.3	7.8	7.0	6.5	6.0
Net loans and advances	11.1	10.9	10.2	9.1	8.1
Total interest earning assets	10.0	5.8	6.4	6.4	6.1
Property and equipment	(0.1)	1.4	1.0	1.0	1.0
Other non-int. earn assets	51.0	(4.9)	(6.3)	(6.1)	(5.8)
Total assets	10.7	5.5	6.0	6.1	5.9
Customer deposits	9.4	5.2	5.1	5.5	5.9
Due to FIs and repo	21.6	6.8	6.0	7.0	8.0
Subordinated debt and others	3.2	(4.6)	6.7	7.4	8.3
Total interest bearing liabilities	10.5	5.2	5.3	5.8	6.2
Current taxes	(6.7)	3.0	5.0	6.0	7.0
Deferred tax liabilities	53.8	95.2	40.0	35.0	30.0
Other liabilities	39.7	(0.9)	22.9	10.1	(7.2)
Total liabilities	11.0	4.8	5.8	5.9	5.7
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	9.6	56.9	0.0	0.0	0.0
Reserves	9.4	10.2	9.5	9.1	9.3
Minorities	1.2	9.3	8.0	8.0	8.0
Shareholder's equity	8.1	12.6	7.5	7.2	7.5
Key ratio (%)					
CT1 CAR	13.18	13.31	14.04	14.59	14.97
Total CAR	16.88	18.02	18.52	19.16	19.59
NPL ratio	1.58	1.42	1.45	1.47	1.48
Provision to total loans	2.85	2.92	2.88	2.84	2.78
Provision coverage ratio	180.68	205.84	198.62	193.20	187.84

Note: Individual items may not sum to total due to rounding difference

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($\sim +10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2009 (For reference: HSI total return index 2009-21 averaged at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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