

ICBC (1398 HK / 601398 CH)

Market leader with stable fundamentals

- 2019 net profit was broadly in line; NIM would be under mild pressure in 2020E-21E on narrowing spread
- We expect NPL ratio to pick up steadily in 2020E-21E, with risk buffer indicators sustain at similar levels
- We expect higher resource allocation in technology
- Maintain **BUY** on stable fundamentals. Our GGM- based H/A shr TPs imply target 20E P/B at 0.87x/0.98x

Narrowing spreads add to NIM pressure. ICBC's 2019 net profit was reported at RMB 327,822mn, up 4.89% YoY, broadly in line with our forecast. NIM was lower than our forecast by 7bps at 2.24%, meaning that 4Q19 NIM narrowed by 2bps QoQ to 2.18%. The contraction was due to the 7bps and 42bps YoY decrease in loan-deposit spread and interbank asset-liability spread in 2019. Amid the interest rate cut cycle, ICBC's NIM will be under pressure in 2020E-21E. By factoring in the 13bps-16bps and 3bps-9bps reduction in ICBC's loan-deposit spread and interbank asset-liability spread each year in 2020E-21E, we forecast NIM to drop by 11bps/9bps in 2020E/21E to reach 2.04% by 2021E. This would translate into NII/NP CAGRs of 4.8%/4.4% in 2019A-21E.

Benign asset quality with solid risk buffer. Asset quality stayed benign in 2019 - NPL ratio fell 7bps YoY to 1.43% as of Dec 2019, or down by 1bps QoQ in 4Q19. Provisioning ratio and provision coverage were 2.86% and 199.2% as of Dec 2019, indicating solid buffer against potential decline in asset quality. Taking into account of the current macro uncertainties, we forecast ICBC's NPL ratio to increase by 6bps/5bps YoY in 2020E/21E to 1.54% by end-2021E. Assuming a 5%-6% YoY increase in provision expenses, ICBC's provisioning ratio and provision coverage ratio would be 2.97% and 192.86% by 2021E.

Increased resource allocation in technology. In order to enhance long-term operating stability, we believe ICBC would increase its resource allocation in Fintech innovations in coming years. Although technology enhancement has been an ongoing mission for ICBC over the past years, we expect the progress to be expedited and therefore, we factor in higher operating expenses for 2020E-21E with a YoY growth of 8.2%/8.0% each year.

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Results and Valuation

FY ended Dec 31	2017A	2018A	2019A	2020E	2021E
Revenue (RMB mn)	675,654	725,121	776,002	821,162	865,789
Chg (% YoY)	5.3	7.3	7.0	5.8	5.4
Net profit* (RMB mn)	286,049	297,676	312,224	327,822	340,411
Chg (% YoY)	2.9	4.1	5.0	5.1	3.9
EPS (RMB)	0.79	0.82	0.86	0.91	0.94
Chg (% YoY)	2.6	4.1	5.0	5.1	3.9
BVPS (RMB)	5.73	6.30	6.93	7.59	8.26
Chg (% YoY)	8.4	9.9	10.1	9.5	8.9
P/E (x) – H-shr	6.06	5.82	5.55	5.28	5.08
P/B (x) – H-shr	0.84	0.76	0.69	0.63	0.58
P/E (x) – A-shr	6.61	6.35	6.05	5.75	5.54
P/B (x) – A-shr	0.91	0.83	0.75	0.69	0.63
ROAE (%)	13.96	13.36	12.47	11.73	11.23
ROAA (%)	1.14	1.11	1.08	1.05	1.01
DPS(RMB)	0.24	0.25	0.26	0.28	0.29
Yield (%) H-shr	5.03	5.23	5.49	5.86	6.08
Yield (%) A-shr	4.61	4.80	5.03	5.37	5.58

Note: Company; HKD/CNY=1.0898

*Net profit = Net profit attributable to shareholders of the Company

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 7.19
TP (A): RMB 7.46

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Price (H/A shr)	HK\$ 5.22/ RMB 5.22
Est. s price return (H/A shr)	37.7%/42.9%
Est. dividend yield (H/A shr)	5.86%/5.37%
Est. total return (H/A shr)	43.56%/ 48.27%
Last Rating & TP (H/A shr)	BUY, HK\$7.84/ BUY, RMB8.65
Previous Report Date	12 Mar, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	6.11/4.81
52Wk H/L (RMB) (A shr)	6.08/4.93
Total issued shares (mn)	356,506.2
Issued H shr (mn)	86,794.0
Issued A shr (mn)	269,612.2
Market cap (HK\$ mn)	1,991,623.7
H-shr market cap (HK\$ mn)	453,064.9
A-shr market cap (HK\$ mn)	1,538,558.8
3-mth avg daily turnover (HK\$ mn) (H shr)	1,472.67
3-mth avg daily turnover (RMB mn) (A shr)	1,149.73
Major shareholder(s) (%):	
Central Huijin	34.71
MoF	24.17

Source(s): Bloomberg, ABCI Securities

Maintain BUY on stable fundamentals. Given the proven track record, we believe ICBC would be able to weather the macro headwinds with its robust fundamentals. We revise our 2020E/21E net profit forecasts down by 4.59% and 6.63% on persisting NIM pressure. ICBC's H/A shr are currently trading at 0.63x/0.69x 20E P/B. Our GGM-based H/A shr TPs imply target 20E P/B of 0.87x/0.98x. Maintain **BUY**.

Risk Factors: 1) Radical change in business environment induced by heavy-handed supervision and policies; 2) Increasing competition from non-bank financial institutions; 3) Sharp deterioration in asset quality in specific regions; 4) Sharp decline in loan demand; 5) Policy risk in new and fast-growing businesses; 6) Prolonged COVID-19 epidemic.

Exhibit 1: ICBC's 2019 actual results vs. ABCI estimates

(RMB mn)	2019E	2019A	AvE (%)
Net interest income	620,622	606,926	(2.21)
Net fee and commission	152,718	155,600	1.89
Operating income	780,141	776,002	(0.53)
Operating expenses	(189,815)	(192,171)	1.24
Impairment losses	(177,123)	(178,957)	1.04
Profit before tax	400,151	391,789	(2.09)
Income tax expenses	(80,030)	(78,428)	(2.00)
Net profit	318,917	312,224	(2.10)
Key indicators (%)			AvE (ppt)
Net interest margin	2.31	2.24	(0.07)
Net interest spread	2.18	2.08	(0.10)
Cost to income ratio	24.33	24.76	0.43
Return on average assets	1.11	1.08	(0.03)
Return on average equity	13.04	12.47	(0.57)
Dividend payout	30.50	30.50	-
CT1 CAR	12.42	13.20	0.78
Total CAR	15.15	16.77	1.62
NPL ratio	1.59	1.43	(0.16)
Provision to total loans	2.89	2.86	(0.03)
Provision coverage	182.39	199.32	16.93

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in 2020E and 2021E forecasts

(RMB mn)	2020E (old)	2020E (new)	change (%)	(RMB mn)	2021E (old)	2021E (new)	change (%)
Net interest income	683,203	637,316	(6.72)	Net interest income	742,694	666,224	(10.30)
Net fee and commission	161,276	166,390	3.17	Net fee and commission	169,392	178,343	5.28
Operating income	850,791	821,162	(3.48)	Operating income	917,923	865,789	(5.68)
Operating expenses	(201,947)	(207,849)	2.92	Operating expenses	(215,305)	(224,579)	4.31
Impairment losses	(203,990)	(188,731)	(7.48)	Impairment losses	(230,723)	(200,446)	(13.12)
Profit before tax	431,241	411,312	(4.62)	Profit before tax	457,707	427,171	(6.67)
Income tax expenses	(86,248)	(82,262)	(4.62)	Income tax expenses	(91,541)	(85,434)	(6.67)
Net profit attributable to equity holders	343,608	327,822	(4.59)	Net profit attributable to equity holders	364,573	340,411	(6.63)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	2.35	2.13	(0.22)	Net interest margin	2.37	2.04	(0.33)
Net interest spread	2.23	1.98	(0.25)	Net interest spread	2.24	1.86	(0.38)
CIR	23.74	25.31	1.57	CIR	23.46	25.94	2.48
ROAA	1.10	1.05	(0.05)	ROAA	1.09	1.01	(0.08)
ROAE	12.81	11.73	(1.08)	ROAE	12.42	11.23	(1.19)
Dividend payout	30.50	30.50	-	Dividend payout	30.50	30.50	-
CT1 CAR	12.67	12.57	(0.10)	CT1 CAR	12.93	12.74	(0.19)
Total CAR	15.48	16.34	0.86	Total CAR	15.85	16.62	0.77
NPL ratio	1.63	1.49	(0.14)	NPL ratio	1.69	1.54	(0.15)
Provision to total loans	3.05	2.92	(0.13)	Provision to total loans	3.25	2.97	(0.28)
Provision coverage ratio	187.12	195.97	8.85	Provision coverage ratio	192.31	192.86	0.55

Source(s): Company, ABCI Securities estimates

Exhibit 3: Changes of GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	7.84	7.19	8.65	7.46	Roll over to mid-2021 BVPS
Sustainable ROE (%)	11.87	11.14	11.87	11.14	Revise down earnings on NIM pressure
COE (%)	12.54	12.44	11.15	11.55	
Target 20E P/B (x)	0.90	0.87	1.13	0.98	
Rfr (%)	3.30	2.65	3.30	2.65	Referencing China 10Y government bond
Beta	1.20	1.10	1.02	1.00	Referencing Bloomberg data
ERP (%)	7.70	8.90	7.70	8.90	Factor in higher risks as a result of COVID-19 and decelerating economic growth in China
LT gr (%)	5.80	4.70	5.80	4.70	

Source(s): Company, ABCI Securities estimates

Financial statements

ICBC (1398HK/601398CH) Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E
Net interest income	522,078	572,518	606,926	637,316	666,224
Non-interest income	153,576	152,603	169,076	183,847	199,565
Of which: Fees and commissions	139,625	145,301	155,600	166,390	178,343
Operating income	675,654	725,121	776,002	821,162	865,789
Operating expenses	(170,207)	(178,457)	(192,171)	(207,849)	(224,579)
Amortization	(15,987)	(15,746)	(15,605)	(15,917)	(16,371)
Pre-provision operating profit	489,460	530,918	568,226	597,397	624,839
Impairment loans losses	(127,769)	(161,594)	(178,957)	(188,731)	(200,446)
Operating profit	361,691	369,324	389,269	408,666	424,393
Non-operating income	2,950	3,089	2,520	2,646	2,778
Profit before tax	364,641	372,413	391,789	411,312	427,171
Tax	(77,190)	(73,690)	(78,428)	(82,262)	(85,434)
Minority interests	(1,402)	(1,047)	(1,137)	(1,228)	(1,326)
Net profit attributable to equity holders	286,049	297,676	312,224	327,822	340,411
Preference share dividend	4,437	4,506	4,525	4,525	4,525
Net profit attributable to ordinary shareholders	281,612	293,170	307,699	323,297	335,886
Growth (%)					
Net interest income	10.6	9.7	6.0	5.0	4.5
Non-interest income	(9.6)	(0.6)	10.8	8.7	8.5
Of which: Fees and commissions	(3.7)	4.1	7.1	6.9	7.2
Operating income	5.3	7.3	7.0	5.8	5.4
Operating expenses	(3.5)	4.8	7.7	8.2	8.0
Amortization	(4.4)	(1.5)	(0.9)	2.0	2.9
Pre-provision operating profit	9.1	8.5	7.0	5.1	4.6
Impairment loans losses	45.4	26.5	10.7	5.5	6.2
Operating profit	0.3	2.1	5.4	5.0	3.8
Non-operating income	13.3	4.7	(18.4)	5.0	5.0
Profit before tax	0.4	2.1	5.2	5.0	3.9
Tax	(8.3)	(4.5)	6.4	4.9	3.9
Minority interests	63.6	(25.3)	8.6	8.0	8.0
Net profit attributable to equity holders	2.8	4.1	4.9	5.0	3.8
Preference share dividend	(0.3)	1.6	0.4	0.0	0.0
Net profit attributable to ordinary shareholders	2.9	4.1	5.0	5.1	3.9
Per share (RMB)					
EPS	0.79	0.82	0.86	0.91	0.94
BVPS	5.73	6.30	6.93	7.59	8.26
DPS	0.24	0.25	0.26	0.28	0.29
Key ratio (%)					
Net interest margin	2.22	2.30	2.24	2.13	2.04
Net interest spread	2.10	2.16	2.08	1.98	1.86
Cost to income ratio	25.19	24.61	24.76	25.31	25.94
Return on average assets	1.14	1.11	1.08	1.05	1.01
Return on average equity	13.96	13.36	12.47	11.73	11.23
Effective tax rate	21.17	19.79	20.02	20.00	20.00
Dividend payout	30.48	30.47	30.50	30.50	30.50

Note1: Individual items may not sum to total due to rounding difference

Note2: Key ratios may not match with financial reports due to adjustment for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

ICBC (1398HK/601398CH)
Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E
Cash & equivalent	3,613,872	3,372,576	3,317,916	3,351,095	3,384,606
Interbank assets	1,834,242	1,696,498	1,887,554	2,055,462	2,208,641
Investment securities	5,756,704	6,754,692	7,647,117	8,641,242	9,678,191
Net loans and advances	13,892,966	15,306,728	16,282,589	17,270,291	18,292,179
Total interest earning assets	25,097,784	27,130,494	29,135,176	31,318,090	33,563,618
Property and equipment	247,744	290,404	286,561	292,292	301,061
Other non-interest earning assets	741,515	278,642	687,699	786,476	900,395
Total assets	26,087,043	27,699,540	30,109,436	32,396,859	34,765,074
Customer deposits	19,562,936	21,186,473	22,740,858	24,325,346	25,862,364
Interbank liabilities	1,706,549	1,814,495	2,266,573	2,606,559	2,997,543
Subordinated debt	526,940	617,842	742,875	876,593	1,016,847
Total interest bearing liabilities	21,796,425	23,841,271	25,987,103	28,059,502	30,140,309
Current taxes	70,644	84,741	96,192	109,659	123,915
Deferred tax liabilities	433	1,217	1,873	2,341	2,856
Other liabilities	2,078,485	1,427,428	1,332,265	1,297,310	1,328,597
Total liabilities	23,945,987	25,354,657	27,417,433	29,468,813	31,595,677
Share capital	442,458	442,458	562,539	562,539	562,539
Reserves	1,685,033	1,887,543	2,113,647	2,348,741	2,589,254
Minorities	13,565	14,882	15,817	16,766	17,604
Shareholder's equity incl. MI	2,141,056	2,344,883	2,692,003	2,928,046	3,169,397
Growth (%)					
Cash & equivalent	7.9	(6.7)	(1.6)	1.0	1.0
Interbank assets	18.1	(7.5)	11.3	8.9	7.5
Investment securities	5.0	17.3	13.2	13.0	12.0
Net loans and advances	8.8	10.2	6.4	6.1	5.9
Total interest earning assets	8.4	8.1	7.4	7.5	7.2
Property and equipment	0.6	17.2	(1.3)	2.0	3.0
Other non-interest earning assets	0.4	(62.4)	146.8	14.4	14.5
Total assets	8.1	6.2	8.7	7.6	7.3
Customer deposits	9.7	8.3	7.3	7.0	6.3
Interbank liabilities	(15.4)	6.3	24.9	15.0	15.0
Subordinated debt	47.2	17.3	20.2	18.0	16.0
Total interest bearing liabilities	6.7	9.4	9.0	8.0	7.4
Current taxes	34.2	20.0	13.5	14.0	13.0
Deferred tax liabilities	(28.3)	181.1	53.9	25.0	22.0
Other liabilities	23.4	(31.3)	(6.7)	(2.6)	2.4
Total liabilities	8.1	5.9	8.1	7.5	7.2
Share capital	0.0	0.0	27.1	0.0	0.0
Reserves	10.3	12.0	12.0	11.1	10.2
Minorities	18.9	9.7	6.3	6.0	5.0
Shareholder's equity	8.1	9.5	14.8	8.8	8.2
Key ratio (%)					
CT1 CAR	12.77	12.98	13.20	12.57	12.74
Total CAR	15.14	15.39	16.77	16.34	16.62
NPL ratio	1.55	1.50	1.43	1.49	1.54
Provision to total loans	2.39	2.68	2.86	2.92	2.97
Provision coverage ratio	154.07	175.76	199.32	195.97	192.86

Note1: Individual items may not sum to total due to rounding difference

Note2: Key ratios may not match with financial reports due to adjustment for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return $<$ Market return rate (10%)
Sell	Stock return $<$ - Market return (-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 2008 (HSI total return index 2008-19 CAGR at 10%)

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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