

## ICBC (1398 HK / 601398 CH)

### Stable fundamentals over economic cycles

- Expect fast balance sheet growth to counter pricing difficulties
- NIM continues to decline over the cycle of interest rate cut but we expect pace to slow in coming quarters
- Risk buffers to lessen in compliance with policy to support real economy
- Reiterate **BUY** on stable fundamentals. Our GGM- based H/A shr TPs imply target 23E P/B of 0.58x/0.68x

**Fast balance sheet growth to continue.** In view of pricing difficulties during the interest rate cut cycle and potential increase in asset quality risk under macro uncertainties, banks will defend profitability through expanding business scale. Factoring in a faster balance sheet growth in 1H22, we raise our total asset and total liabilities CAGRs for the bank to 16.5% and 17.4% over FY21A-24E, of which net loans, total investments, and total deposits will grow at 14.4%, 18.0%, and 17.3% CAGRs.

**NIM pressure to reduce.** Rapid LPR cuts since Dec 2021 steepen decline in banks' NIM in 2Q22. Nevertheless, we believe robust balance sheet growth and component management could help counter NIM pressure, as evidenced by ICBC's NII growth at 4.5% YoY despite a NIM contraction of 9bps YoY in 1H22 to 2.03%. We adjust our NIM model accordingly, and expect the bank's NIM to narrow by 11bps-13bps YoY each in 2022E-24E and reach 1.75% by FY24E. Meanwhile, a larger balance sheet would drive NII CAGR at 9.5% over FY21A-24E.

**Gradual reduction of risk buffers.** Following China's policy direction, big banks have started to lower risk buffers since 2Q22. In particular, ICBC's provision ratio and provision coverage ratio were down by 5bps and 2.88ppt QoQ to 2.93% and 207.03% while NPL ratio dropped 1bps QoQ to 1.41%. Our base case expects NPL ratio to remain largely stable. NPLs from real estate sector remain the core uncertainty, pushing up ICBC's FY22E-24E NPL ratio by 1bps-3bps each. Reduction in risk buffers would continue. Our base case projects ICBC's provisioning ratio and provision coverage ratio to lessen to 2.78% and 187.84% by end-24E.

#### Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	800,075	860,880	918,311	1,012,877	1,096,176
Chg (% YoY)	3.1	7.6	6.7	10.3	8.2
Net profit* (RMB mn)	315,906	348,338	361,616	389,303	414,422
Chg (% YoY)	1.2	10.3	3.8	7.7	6.5
EPS (RMB)	0.86	0.95	0.99	1.07	1.14
Chg (% YoY)	(0.2)	10.3	3.9	7.9	6.6
BVPS (RMB)	7.48	8.15	8.82	9.54	10.30
Chg (% YoY)	8.0	8.8	8.2	8.2	8.0
P/E (x) – H-shr	4.04	3.66	3.52	3.26	3.06
P/B (x) – H-shr	0.46	0.43	0.39	0.36	0.34
P/E (x) – A-shr	5.06	4.59	4.41	4.09	3.84
P/B (x) – A-shr	0.58	0.54	0.49	0.46	0.42
ROAA (%)	1.00	1.02	0.94	0.87	0.80
ROAE (%)	11.95	12.15	11.64	11.61	11.45
DPS(RMB)	0.266	0.293	0.315	0.339	0.360
Yield (%) H-shr	7.65	8.43	9.04	9.74	10.36
Yield (%) A-shr	6.10	6.73	7.21	7.77	8.27

Note: HKD/CNY=1.15

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

Source(s): Company; Bloomberg, ABCI Securities estimates

## Company Report

Aug 31, 2022

Rating (H): BUY  
Rating (A): BUY  
TP (H): HK\$ 6.32  
TP (A): RMB 6.51

Analyst : Johannes Au  
Tel: (852) 2147 8802  
johannesau@abci.com.hk

Price (H/A shr)	HK\$ 4.00/ RMB 4.36
Est. s price return (H/A shr)	58.00%/ 49.31%
Est. dividend yield (H/A shr)	9.04%/7.21%
Est. total return (H/A shr)	67.04%/ 56.52%
Last Rating & TP (H/A shr)	BUY, HK\$7.45/ BUY, RMB7.70
Previous Report Date	11 May, 2022

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	4.94/3.95
52Wk H/L (RMB) (A shr)	4.90/4.32
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)	1,691,469.9
H-shr market cap (HK\$ mn)	347,176.2
A-shr market cap (HK\$ mn)	1,344,293.7
3-mth avg daily turnover (HK\$ mn) (H shr)	649.57
3-mth avg daily turnover (RMB mn) (A shr)	787.58
Major shareholder(s) (%):	
Central Huijin	34.71
MoF	31.14

Source(s): Bloomberg, ABCI Securities

**Maintain BUY on stable fundamentals.** ICBC is one of our long-term pick in the sector given its stable fundamentals over economic cycles and market leading position. Nonetheless, in view of macro uncertainties, we lower its sustainable ROAE and raise our risk assumptions in the GGM model and roll over our TP calculation to FY23E BVPS. We adjust our H/A TPs by -15.1% and -15.5% to HK\$ 6.32 and RMB 6.51. The TPs imply 0.58x/0.68x target FY23E 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) Elevating NIM pressure amid interest rate cut cycle; 4) The need of additional capital or funding sources to support balance sheet growth 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	722,891	742,659	2.73	Net interest income	758,951	832,037	9.63
Net fee and commission	137,015	135,019	(1.46)	Net fee and commission	143,865	137,045	(4.74)
Operating income	908,093	918,311	1.13	Operating income	963,560	1,012,877	5.12
Operating expenses	(266,187)	(259,542)	(2.50)	Operating expenses	(295,051)	(293,223)	(0.62)
Impairment losses	(196,181)	(217,981)	11.11	Impairment losses	(196,697)	(241,758)	22.91
Profit before tax	448,451	443,514	(1.10)	Profit before tax	474,401	480,485	1.28
Income tax expenses	(80,721)	(79,833)	(1.10)	Income tax expenses	(85,392)	(88,890)	4.10
Net profit attributable to equity holders	365,702	361,616	(1.12)	Net profit attributable to equity holders	386,818	389,303	0.64
<b>Key indicators (%)</b>			<b>change (ppt)</b>	<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	2.06	1.99	(0.07)	Net interest margin	2.04	1.86	(0.18)
Net interest spread	1.86	1.78	(0.08)	Net interest spread	1.81	1.64	(0.17)
CIR	27.21	26.14	(1.07)	CIR	28.49	26.79	(1.70)
ROAA	1.01	0.94	(0.07)	Return on average assets	1.01	0.87	(0.14)
ROAE	11.72	11.64	(0.08)	Return on average equity	11.56	11.61	0.05
Dividend payout	31.00	31.00	-	Dividend payout	31.00	31.00	-
CT1 CAR	14.04	13.26	(0.78)	CT1 CAR	14.59	12.86	(1.73)
Total CAR	18.52	18.66	0.14	Total CAR	19.16	18.77	(0.39)
NPL ratio	1.45	1.45	-	NPL ratio	1.47	1.47	-
Provision to total loans	2.88	2.88	-	Provision to total loans	2.84	2.84	-
Provision coverage ratio	198.62	198.62	-	Provision coverage	193.20	193.20	-

Source(s): Company, ABCI Securities estimates

**Exhibit 2: Changes of GGM assumptions**

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	7.45	6.32	7.70	6.51	
Sustainable ROE (%)	10.87	10.25	10.87	10.25	Factor in increasing macro uncertainties
COE (%)	12.51	12.28	11.51	11.53	Reduced risk-free rate and higher risk premium
LT gr (%)	6.50	7.50	6.50	7.50	Faster-than-expected balance sheet growth
Target 22E P/B (x)	0.67	0.58	0.81	0.68	

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	742,659	832,037	907,779
Non-interest income	153,310	170,200	175,653	180,840	188,396
Of which: Fees and commissions	131,215	133,024	135,019	137,045	141,156
<b>Operating income</b>	<b>800,075</b>	<b>860,880</b>	<b>918,311</b>	<b>1,012,877</b>	<b>1,096,176</b>
Operating expenses	(206,585)	(236,227)	(259,542)	(293,223)	(331,858)
<b>Pre-provision operating profit</b>	<b>593,490</b>	<b>624,653</b>	<b>658,769</b>	<b>719,654</b>	<b>764,318</b>
Impairment loans losses	(202,668)	(202,623)	(217,981)	(241,758)	(255,133)
<b>Operating profit</b>	<b>390,822</b>	<b>422,030</b>	<b>440,788</b>	<b>477,896</b>	<b>509,185</b>
Non-operating income	1,304	2,869	2,726	2,589	2,460
<b>Profit before tax</b>	<b>392,126</b>	<b>424,899</b>	<b>443,514</b>	<b>480,485</b>	<b>511,645</b>
Tax	(74,441)	(74,683)	(79,833)	(88,890)	(94,654)
Minority interests	(1,779)	(1,878)	(2,066)	(2,293)	(2,568)
<b>Net profit attributable to equity holders</b>	<b>315,906</b>	<b>348,338</b>	<b>361,616</b>	<b>389,303</b>	<b>414,422</b>
Dividend to other capital instrument holders	(8,839)	(9,607)	(9,607)	(9,607)	(9,607)
<b>Net profit attributable to ordinary shareholders</b>	<b>307,067</b>	<b>338,731</b>	<b>352,009</b>	<b>379,696</b>	<b>404,815</b>
<b>Growth (%)</b>					
Net interest income	2.3	6.8	7.5	12.0	9.1
Non-interest income	6.6	11.0	3.2	3.0	4.2
Of which: Fees and commissions	0.5	1.4	1.5	1.5	3.0
<b>Operating income</b>	<b>3.1</b>	<b>7.6</b>	<b>6.7</b>	<b>10.3</b>	<b>8.2</b>
Operating expenses	7.5	14.3	9.9	13.0	13.2
<b>Pre-provision operating profit</b>	<b>4.4</b>	<b>5.3</b>	<b>5.5</b>	<b>9.2</b>	<b>6.2</b>
Impairment loans losses	13.2	(0.0)	7.6	10.9	5.5
<b>Operating profit</b>	<b>0.4</b>	<b>8.0</b>	<b>4.4</b>	<b>8.4</b>	<b>6.5</b>
Non-operating income	(48.3)	120.0	(5.0)	(5.0)	(5.0)
<b>Profit before tax</b>	<b>0.1</b>	<b>8.4</b>	<b>4.4</b>	<b>8.3</b>	<b>6.5</b>
Tax	(5.1)	0.3	6.9	11.3	6.5
Minority interests	56.5	5.6	10.0	11.0	12.0
<b>Net profit attributable to equity holders</b>	<b>1.2</b>	<b>10.3</b>	<b>3.8</b>	<b>7.7</b>	<b>6.5</b>
Dividend to other capital instrument holders	95.3	8.7	0.0	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	<b>(0.2)</b>	<b>10.3</b>	<b>3.9</b>	<b>7.9</b>	<b>6.6</b>
<b>Per share (RMB)</b>					
EPS	0.86	0.95	0.99	1.07	1.14
BVPS	7.48	8.15	8.82	9.54	10.30
DPS	0.266	0.293	0.315	0.339	0.360
<b>Key ratio (%)</b>					
Net interest margin	2.15	2.11	1.99	1.86	1.75
Net interest spread	1.97	1.92	1.78	1.64	1.54
Cost to income ratio	24.76	26.36	26.14	26.79	28.02
Return on average assets	1.00	1.02	0.94	0.87	0.80
Return on average equity	11.95	12.15	11.64	11.61	11.45
Effective tax rate	18.98	17.58	18.00	18.50	18.50
Dividend payout	30.87	30.86	31.80	31.80	31.70

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	3,470,251	3,886,681	4,353,082
Due from FIs and repo	1,821,185	1,490,646	2,410,470	3,327,683	4,484,559
Investment securities	8,591,139	9,257,760	11,016,734	12,999,747	15,209,704
Net loans and advances	18,136,328	20,109,200	23,327,180	26,633,571	30,132,462
<b>Total interest earning assets</b>	<b>32,086,447</b>	<b>33,956,044</b>	<b>40,224,634</b>	<b>46,847,681</b>	<b>54,179,807</b>
Property and equipment	286,279	290,296	293,199	296,131	299,092
Other non-int. earn assets	972,332	925,043	991,110	1,063,333	1,142,671
<b>Total assets</b>	<b>33,345,058</b>	<b>35,171,383</b>	<b>41,508,943</b>	<b>48,207,146</b>	<b>55,621,571</b>
Customer deposits	25,134,726	26,441,774	31,453,198	36,869,724	42,708,191
Due to FIs and repo	3,077,693	3,286,972	3,951,555	4,691,439	5,494,393
Subordinated debt	1,133,803	1,081,717	1,193,306	1,318,531	1,459,137
<b>Total interest bearing liabilities</b>	<b>29,346,222</b>	<b>30,810,463</b>	<b>36,598,059</b>	<b>42,879,694</b>	<b>49,661,721</b>
Current taxes	89,785	92,443	97,065	102,889	110,091
Deferred tax liabilities	2,881	5,624	8,155	11,009	14,312
Other liabilities	996,655	987,595	1,289,956	1,438,959	1,787,084
<b>Total liabilities</b>	<b>30,435,543</b>	<b>31,896,125</b>	<b>37,993,235</b>	<b>44,432,551</b>	<b>51,573,209</b>
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	2,786,067	3,043,441	3,315,575
Minorities	16,013	17,503	18,903	20,415	22,049
<b>Shareholder's equity</b>	<b>2,909,515</b>	<b>3,275,258</b>	<b>3,515,708</b>	<b>3,774,595</b>	<b>4,048,362</b>
<b>Growth (%)</b>					
Cash & balance with central banks	6.6	(12.4)	12.0	12.0	12.0
Due from FIs and repo	(3.5)	(18.1)	61.7	38.1	34.8
Investment securities	12.3	7.8	19.0	18.0	17.0
Net loans and advances	11.1	10.9	16.0	14.2	13.1
<b>Total interest earning assets</b>	<b>10.0</b>	<b>5.8</b>	<b>18.5</b>	<b>16.5</b>	<b>15.7</b>
Property and equipment	(0.1)	1.4	1.0	1.0	1.0
Other non-int. earn assets	51.0	(4.9)	7.1	7.3	7.5
<b>Total assets</b>	<b>10.7</b>	<b>5.5</b>	<b>18.0</b>	<b>16.1</b>	<b>15.4</b>
Customer deposits	9.4	5.2	19.0	17.2	15.8
Due to FIs and repo	21.6	6.8	20.2	18.7	17.1
Subordinated debt	3.2	(4.6)	10.3	10.5	10.7
<b>Total interest bearing liabilities</b>	<b>10.3</b>	<b>5.0</b>	<b>18.8</b>	<b>17.2</b>	<b>15.8</b>
Current taxes	(6.7)	3.0	5.0	6.0	7.0
Deferred tax liabilities	53.8	95.2	45.0	35.0	30.0
Other liabilities	39.7	(0.9)	30.6	11.6	24.2
<b>Total liabilities</b>	<b>11.0</b>	<b>4.8</b>	<b>19.1</b>	<b>16.9</b>	<b>16.1</b>
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	9.4	9.2	8.9
Minorities	1.2	9.3	8.0	8.0	8.0
<b>Shareholder's equity</b>	<b>8.1</b>	<b>12.6</b>	<b>7.3</b>	<b>7.4</b>	<b>7.3</b>
<b>Key ratio (%)</b>					
CT1 CAR	13.18	13.31	13.26	12.86	12.55
Total CAR	16.88	18.02	18.66	18.77	18.86
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

## Disclosures

### Analyst Certification

The analyst, AU Yu Hang, Johannes, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with ICBC.

### Definition of equity rating

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.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2022 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**