

ICBC (1398 HK / 601398 CH)

Topline growth to gradually resume

- Positive sign in 1Q24 NIM despite unfavorable interest rate cycle persists
- Liability cost management critical to sustain NIM improvement
- Net fee income growth may accelerate on wealth management-related fees
- Mild improvement in asset quality and risk buffer to be expected
- Maintain **BUY**; our GGM- based H/A shr TPs imply target 24E P/B of 0.47x/0.58x

Positive NIM trend emerges. Based on our calculation, ICBC's 1Q24 NIM expanded by 5bps QoQ to 1.48%, the largest increase among the big banks. On the asset side, big banks will continue to support the real economy by lowering social financing costs. Still, we believe higher credit allocation to the five policy outlined segments (technology finance, green finance, inclusive finance, pension finance, and digital finance) could support the average lending yield for banks. The average lending rate rose slightly by 16bps QoQ to 3.99% in Mar 2024, according to the quarterly monetary policy report by PBOC; on a YoY basis, however, the average lending rate still dropped by 35bps YoY. Downside pressure on the sector average corporate lending rate has been easing, which was down 2bps QoQ to 3.73%, or 22bps YoY in Mar 2024.

Liability cost management critical to NIM outlook. We believe NIM outlook will depend more on the liability cost management. In 1Q24, major banks continued to lower deposit interest rates and reduced offering high-yield deposit products, which we think is responsible for the NIM improvement in some major listed banks. NIM trend may turn around sooner than expected, though more evidence in coming quarters are needed before we raise our NIM forecast. Referencing the bank's 1Q24 NIM at 1.48%, we, our base case suggests a FY24E NIM at 1.46%, down 15bps YoY. We expect NIM to narrow by 8bps-9bps each in FY25E/26E, resulting in an NII CAGR of 2.4% over FY23-26E. Total assets/liabilities would grow at 12.0%/12.4% CAGRs over the same period.

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Results and Valuation

FY ended Dec 31	2022A	2023A	2024E	2025E	2026E
Revenue (RMB mn)	842,352	806,458	812,884	831,686	855,102
Chg (% YoY)	(2.2)	(4.3)	0.8	2.3	2.8
Net profit* (RMB mn)	361,132	363,993	368,914	378,447	388,885
Chg (% YoY)	3.7	0.8	1.4	2.6	2.8
EPS (RMB)	0.97	0.98	0.99	1.02	1.05
Chg (% YoY)	2.2	0.8	1.4	2.7	2.9
BVPS (RMB)	8.82	9.55	10.26	10.99	11.76
Chg (% YoY)	8.2	8.3	7.5	7.1	7.0
P/E (x) – H-shr	4.48	4.44	4.38	4.27	4.15
P/B (x) – H-shr	0.49	0.46	0.42	0.40	0.37
P/E (x) – A-shr	5.65	5.61	5.53	5.38	5.23
P/B (x) – A-shr	0.62	0.58	0.54	0.50	0.47
ROAA (%)	0.97	0.87	0.78	0.71	0.67
ROAE (%)	11.45	10.66	10.03	9.60	9.22
DPS(RMB)	0.304	0.306	0.308	0.316	0.325
Yield (%) H-shr	7.00	7.04	7.07	7.26	7.47
Yield (%) A-shr	5.55	5.58	5.61	5.76	5.92

Note: HKD/CNY=1.08

*Net profit refers to Net profit attributable to equity holders of the Company unless otherwise stated

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

Company Report

May 24, 2024

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 5.17
TP (A): RMB 5.97

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Price (H/A shr)	HK\$ 4.70/ RMB 5.49
Est. share price return (H/A shr)	10.00%/8.74%
Est. dividend yield (H/A shr)	7.07%/5.61%
Est. total return (H/A shr)	17.07%/14.35%
Last Rating & TP (H/A shr)	BUY, HK\$4.91/ BUY, RMB5.61
Previous Report Date	29 Nov, 2023

Source(s): Bloomberg, ABCI Securities estimates

Key Data

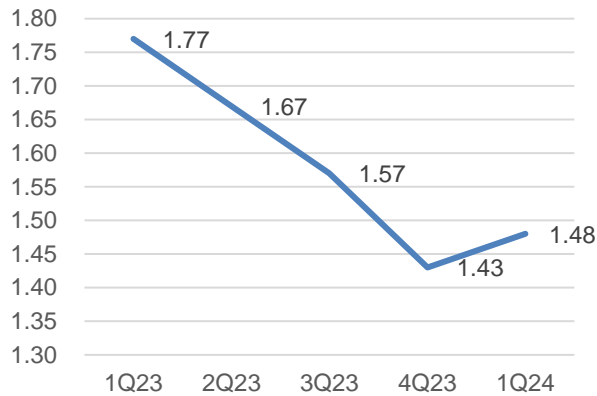
52Wk H/L (HK\$) (H shr)	4.80/3.35
52Wk H/L (RMB) (A shr)	5.64/4.52
Total issued shares (mn)	356,406.2
Issued H shr (mn)	86,794.0
Issued A shr (mn)	269,612.2
Market cap (HK\$ mn)	2,006,516.5
H-shr market cap (HK\$ mn)	407,931.8
A-shr market cap (HK\$ mn)	1,598,584.7
3-mth avg daily turnover (HK\$ mn) (H shr)	1,100
3-mth avg daily turnover (RMB mn) (A shr)	1,600
Major shareholder(s) (%):	
Central Huijin	35.07
MoF	31.14

Source(s): Bloomberg, ABCI Securities



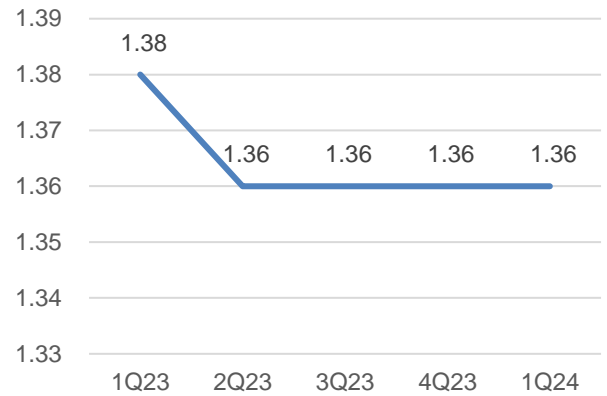
Wealth management-related net fee income to recover. With banks ceasing high-yield deposit products, we expect money from deposits could shift to wealth management products (WMPs). The change could release NIM pressure and enhance net fee income growth - though policy-driven reduction in some fee rates in 3Q23 could offset some of the momentum in 1H24. Considering these factors, we expect net fee income growth to turn positive in FY25E and project a net fee income CAGR of 0.7% over FY23-26E. Overall, we anticipate a topline CAGR of 2.0% over FY23-26E.

Exhibit 1: ICBC's quarterly NIM (%)



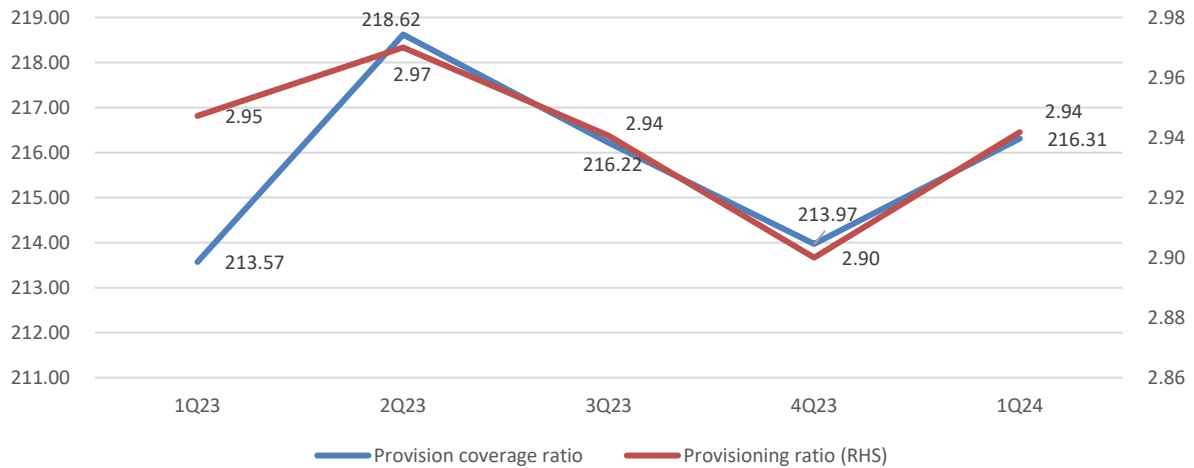
Note: 2Q-4Q NIM are estimated based on ABCI calculation
Source(s): Company, ABCI Securities estimates

Exhibit 2: ICBC's quarterly NPL ratio (%)



Source(s): Company, ABCI Securities

Exhibit 3: ICBC's provisioning ratio and provision coverage ratio (%)



Note: Q1/Q3 provisioning ratio are estimated based on ABCI calculation
Source(s): Company, ABCI Securities estimates

Asset quality to mildly improve. As one of China's leading banks, we are confident that ICBC's high standard of risk management will differentiate the bank. Its NPL ratio has remained stable at 1.36% since 2Q23 despite the gradual release of risk from the property sector. Although we expect supportive measures for the property sector to continue rolling out, time will be needed for effects to show. We believe that new NPLs emerged from property developers in 1Q24, but ICBC was able to maintain a stable NPL ratio by increasing NPL handling. Aside from the risk from the property sector, a

new challenge could arise from balancing sustainability credit support and avoiding the arises of risk from the five policy outlined segments. Overall, we expect ICBC to remain conservative and NPL ratio would reduce mildly to 1.31% by end-FY26E. The declining NPL ratio would provide some support risk buffers, and our base case estimates the provisioning ratio and provision coverage ratio to be in the range of 2.97%-3.05% and 220.00%-232.82% for FY24E-26E. Consequently, provision expenses CAGR would be -0.7% over FY23-26E.

Exhibit 4: ICBC's key performance indicators vs. industry average (%)

	ICBC (2023)	Industry average (4Q23)	variance
Net interest margin**	1.61	1.69 (annualized)	-0.08
Cost-to-income ratio**	28.28	35.26	-6.98
Return on average assets**	0.87	0.70 (annualized)	0.17
Return on average equity**	10.66	8.93 (annualized)	1.73
CT1 CAR	13.72	10.54	3.18
Total CAR	19.10	15.06	4.04
NPL ratio	1.36	1.59	-0.23
Provision to total loans	2.90	3.27	-0.37
Provision coverage ratio	213.97	205.14	8.83
Total assets growth	12.84	9.90	2.94
Total liabilities growth	13.37	10.10	3.27
Earnings growth YoY (2023)	0.79	3.23	-2.44

Note: *Green/red represents better/worse than average

**As disclosure period of the bank and NFRA are different, figures are not directly comparable on period basis, these performance indicators are included to demonstrate the bank's positions compare to sector average for reference only

Source(s): Company, NFRA, ABCI Securities

Exhibit 5: ICBC's key performance indicators vs. big banks average (%)

	ICBC (2023)	Big banks average (4Q23)	variance
Net interest margin**	1.61	1.62 (annualized)	-0.01
Return on average assets**	0.87	0.79 (annualized)	0.08
Total CAR	19.10	17.56	1.54
NPL ratio	1.36	1.26	0.10
Provision to total loans	2.90	3.13	-0.23
Provision coverage ratio	213.97	248.48	-34.51
Earnings growth YoY	0.79	1.77	-0.98

Note: *Green/red represents better/worse than average

**As disclosure period of the bank and NFRA are different, figures are not directly comparable on period basis, these performance indicators are included to demonstrate the bank's positions compare to sector average for reference only

Source(s): Company, NFRA, ABCI Securities

Exhibit 6: Key financial performance in 1Q24

(RMB mn)	1Q23	1Q24	change (%)
Net interest income	168,412	161,401	(4.16)
Net fee and commission	40,486	39,342	(2.83)
Operating income	218,461	210,165	(3.80)
Operating expenses	(47,953)	(48,585)	1.32
Impairment losses	(65,022)	(60,075)	(7.61)
Profit before tax	106,586	102,455	(3.88)
Net profit attributable to equity holders	90,164	87,653	(2.78)
Key indicators (%)	1Q23	1Q24	change (ppt)
Net interest margin	1.77	1.48	(0.29)
Cost-to-income ratio	20.80	21.79	0.99
ROAA	0.89	0.76	(0.13)
ROAE	11.22	10.06	(1.16)
	Dec-23	Mar-24	
CT1 CAR	13.72	13.78	0.06
Total CAR	19.10	19.21	0.11
NPL ratio	1.36	1.36	-
Provision to total loans	2.90	2.94	0.04
Provision coverage ratio	213.97	216.31	2.34

Source(s): Company, ABCI Securities

Maintain BUY on steady growth. In view of persisting NIM pressure and slow net fee income recovery, we lowering our FY24E/25E topline and net profit forecasts by 5.35%/9.31% and 0.76%/4.54%, we estimate ICBC's net profit CAGR to be 2.2% over FY23-26E. In our Gordon growth model, we roll over calculation based on its FY24E BVPS, and lower COE assumptions, such positive impacts to TPs are partly offset by the lower sustainable ROAE. We raise our H/A TPs by 5.3%/6.4% to HK\$ 5.17/RMB 5.97. The TPs imply 0.47x/0.58x target FY24E P/B. We maintain a BUY rating. After the recent rally in the sector, we believe further upside would need to be driven by more supportive policies to banks' operation or a turnaround in sector profitability.

Exhibit 7: Major changes in forecasts

(RMB mn)	2024E (old)	2024E (new)	change (%)	(RMB mn)	2025E (old)	2025E (new)	change (%)
Net interest income	714,966	661,490	(7.48)	Net interest income	775,837	681,392	(12.17)
Net fee and commission	122,246	118,163	(3.34)	Net fee and commission	123,468	119,345	(3.34)
Operating income	858,865	812,884	(5.35)	Operating income	917,065	831,686	(9.31)
Operating expenses	(250,592)	(242,278)	(3.32)	Operating expenses	(260,615)	(247,124)	(5.18)
Impairment losses	(170,287)	(150,111)	(11.85)	Impairment losses	(189,563)	(148,005)	(21.92)
Profit before tax	443,150	425,266	(4.04)	Profit before tax	472,515	441,233	(6.62)
Income tax expenses	(70,904)	(55,285)	(22.03)	Income tax expenses	(75,602)	(61,773)	(18.29)
Net profit attributable to equity holders	371,745	368,914	(0.76)	Net profit attributable to equity holders	396,436	378,447	(4.54)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.51	1.46	(0.05)	Net interest margin	1.44	1.38	(0.06)
CIR	29.18	29.80	0.62	CIR	28.42	29.71	1.29
Return on average assets	0.77	0.78	0.01	Return on average assets	0.73	0.71	(0.02)
Return on average equity	10.21	10.03	(0.18)	Return on average equity	10.24	9.60	(0.64)
Dividend payout	31.00	31.00	-	Dividend payout	31.00	31.00	-
CT1 CAR	12.90	13.68	0.78	CT1 CAR	12.21	13.31	1.10
Total CAR	18.93	20.01	1.08	Total CAR	18.73	20.29	1.56
NPL ratio	1.33	1.35	0.02	NPL ratio	1.31	1.33	0.02
Provision to total loans	3.04	2.97	(0.07)	Provision to total loans	3.10	3.01	(0.09)
Provision coverage ratio	228.57	220.00	(8.57)	Provision coverage ratio	236.64	226.32	(10.32)

Source(s): Company, ABCI Securities estimates

Exhibit 8: Changes of GGM assumptions

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	4.91	5.17	5.61	5.97	Roll over to FY24E BVPS
Sustainable ROE (%)	10.04	9.88	10.04	9.88	Lower ROAE assumptions
COE (%)	13.73	13.40	12.47	12.09	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	6.80	6.80	6.80	6.80	
Target 24E P/B (x)	0.45	0.47	0.55	0.58	

Source(s): Company, ABCI Securities estimates

Risk Factors: 1) Potential asset quality deterioration in specific sectors and geographical areas; 2) Persisting NIM pressure; 3) Slow recovery in net fee growth; 4) Reducing ROAA and ROAE; 5) High social responsibility given its status as a market leader; 6) Potential dilution effect from issuance of additional capital instruments.



Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2022A	2023A	2024E	2025E	2026E
Net interest income	691,985	655,013	661,490	681,392	704,025
Non-interest income	150,367	151,445	151,394	150,294	151,077
Of which: Fees and commissions	129,325	119,357	118,163	119,345	121,732
Operating income	842,352	806,458	812,884	831,686	855,102
Operating expenses	(239,351)	(238,698)	(242,278)	(247,124)	(253,302)
Pre-provision operating profit	603,001	567,760	570,606	584,562	601,800
Impairment loans losses	(182,677)	(150,816)	(150,111)	(148,005)	(147,738)
Operating profit	420,324	416,944	420,495	436,558	454,062
Non-operating income	4,396	5,022	4,771	4,675	4,582
Profit before tax	424,720	421,966	425,266	441,233	458,644
Tax	(62,610)	(56,850)	(55,285)	(61,773)	(68,797)
Minority interests	(978)	(1,123)	(1,067)	(1,014)	(963)
Net profit attributable to equity holders	361,132	363,993	368,914	378,447	388,885
Dividend and interest to other capital instrument holders	(14,810)	(14,964)	(14,964)	(14,964)	(14,964)
Net profit attributable to ordinary shareholders	346,322	349,029	353,950	363,483	373,921
Growth (%)					
Net interest income	0.2	(5.3)	1.0	3.0	3.3
Non-interest income	(11.7)	0.7	(0.0)	(0.7)	0.5
Of which: Fees and commissions	(2.8)	(7.7)	(1.0)	1.0	2.0
Operating income	(2.2)	(4.3)	0.8	2.3	2.8
Operating expenses	1.3	(0.3)	1.5	2.0	2.5
Pre-provision operating profit	(3.5)	(5.8)	0.5	2.4	2.9
Impairment loans losses	(9.8)	(17.4)	(0.5)	(1.4)	(0.2)
Operating profit	(0.4)	(0.8)	0.9	3.8	4.0
Non-operating income	53.2	14.2	(5.0)	(2.0)	(2.0)
Profit before tax	(0.0)	(0.6)	0.8	3.8	3.9
Tax	(16.2)	(9.2)	(2.8)	11.7	11.4
Minority interests	(47.9)	14.8	(5.0)	(5.0)	(5.0)
Net profit attributable to equity holders	3.7	0.8	1.4	2.6	2.8
Dividend and interest to other capital instrument holders	54.2	1.0	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	2.2	0.8	1.4	2.7	2.9
Per share (RMB)					
EPS	0.97	0.98	0.99	1.02	1.05
BVPS	8.82	9.55	10.26	10.99	11.76
DPS	0.304	0.306	0.308	0.316	0.325
Key ratio (%)					
Net interest margin	1.92	1.61	1.46	1.38	1.29
Cost-to-income ratio	27.22	28.28	29.80	29.71	29.62
Return on average assets	0.97	0.87	0.78	0.71	0.67
Return on average equity	11.45	10.66	10.03	9.60	9.22
Effective tax rate	14.74	13.47	13.00	14.00	15.00
Dividend payout	31.23	31.29	31.00	31.00	31.00

Note 1: Individual items may not sum to total due to rounding difference

Note 2: Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Note 3: FY22A figures restated

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	2022A	2023A	2024E	2025E	2026E
Cash & balance with central banks	3,427,892	4,042,293	4,466,734	4,913,407	5,404,748
Due from FIs and repo	2,056,599	2,340,974	2,814,546	3,331,008	3,894,728
Investment securities	10,533,702	11,849,668	13,212,380	14,665,742	16,205,644
Net loans and advances	22,591,676	25,386,933	28,540,934	32,049,127	35,850,976
Total interest-earning assets	38,609,869	43,619,868	49,034,594	54,959,284	61,356,096
Property and equipment	293,887	298,878	304,856	314,001	326,561
Other non-interest earning assets	706,390	778,333	858,716	941,259	1,033,011
Total assets	39,610,146	44,697,079	50,198,165	56,214,545	62,715,669
Customer deposits	29,870,491	33,521,174	38,722,995	44,300,623	50,264,289
Due to FIs and repo	3,187,712	3,369,858	3,167,667	3,009,283	2,858,819
Debt issued	905,953	1,369,777	1,849,199	2,403,959	3,004,948
Total interest-bearing liabilities	33,964,156	38,260,809	43,739,861	49,713,864	56,128,057
Current taxes	85,581	63,322	60,156	57,750	56,017
Deferred tax liabilities	3,950	3,930	3,891	3,852	3,813
Other liabilities	2,041,040	2,592,430	2,363,746	2,146,852	1,962,550
Total liabilities	36,094,727	40,920,491	46,167,654	51,922,318	58,150,437
Share capital	356,407	356,407	356,407	356,407	356,407
Other equity instruments	354,331	354,331	354,331	354,331	354,331
Reserves	2,785,371	3,046,149	3,299,679	3,560,992	3,833,587
Minorities	19,310	19,701	20,095	20,497	20,907
Shareholder's equity	3,515,419	3,776,588	4,030,512	4,292,227	4,565,232
Growth (%)					
Cash & balance with central banks	10.6	17.9	10.5	10.0	10.0
Due from FIs and repo	38.0	13.8	20.2	18.3	16.9
Investment securities	13.8	12.5	11.5	11.0	10.5
Net loans and advances	12.3	12.4	12.4	12.3	11.9
Total interest-earning assets	13.7	13.0	12.4	12.1	11.6
Property and equipment	1.2	1.7	2.0	3.0	4.0
Other non-interest earning assets	(23.6)	10.2	10.3	9.6	9.7
Total assets	12.6	12.8	12.3	12.0	11.6
Customer deposits	13.0	12.2	15.5	14.4	13.5
Due to FIs and repo	9.1	5.7	(6.0)	(5.0)	(5.0)
Debt issued	14.5	51.2	35.0	30.0	25.0
Total interest-bearing liabilities	12.6	12.7	14.3	13.7	12.9
Current taxes	(7.4)	(26.0)	(5.0)	(4.0)	(3.0)
Deferred tax liabilities	(29.8)	(0.5)	(1.0)	(1.0)	(1.0)
Other liabilities	24.2	27.0	(8.8)	(9.2)	(8.6)
Total liabilities	13.2	13.4	12.8	12.5	12.0
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	0.0	0.0	0.0	0.0	0.0
Reserves	9.4	9.4	8.3	7.9	7.7
Minorities	10.3	2.0	2.0	2.0	2.0
Shareholder's equity	7.3	7.4	6.7	6.5	6.4
Key ratio (%)					
CT1 CAR	14.04	13.72	13.68	13.31	13.23
Total CAR	19.26	19.10	20.01	20.29	20.98
NPL ratio	1.38	1.36	1.35	1.33	1.31
Provision to total loans	2.90	2.90	2.97	3.01	3.05
Provision coverage ratio	209.47	213.97	220.00	226.32	232.82

Note 1: Individual items may not sum to total due to rounding difference

Note 2: Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Note 3: FY22A figures restated

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, AU Yu Hang Johannes, being the person 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 ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim +7\%$)
Sell	Stock return $<$ - Market return ($\sim -7\%$)

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 2005 (For reference: HSI total return index 2005-23 averaged at 7.4%)

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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