

## ICBC (1398 HK / 601398 CH)

### Steady growth with faster online development

- We raise our earnings forecasts on lower provisions backed by resilient asset quality
- Strengthening online business franchises while maintaining its clout in physical outlet network
- Mild NIM pressure to persist over 21E-23E
- Maintain **BUY** on stable fundamentals. Our GGM- based H/A shr TPs imply target 21E P/B of 0.78x/0.94x

**Raise earnings forecast on resilient asset quality.** We raise ICBC's FY21E/22E earnings forecast by 9.24%/8.27% on lower provision assumptions. ICBC's asset quality stayed benign in 1Q21, with NPL ratio flat QoQ at 1.58%. Thanks to business diversification, we believe its NPL ratio would be in the range of 1.6%-1.65% over FY21E-23E, or up by 2bps-3bps YoY each in FY21E-23E. Assuming provisioning ratio and provision coverage ratio would remain stable at 2.92%-2.99% and 180.98%-182.5% over FY21E-23E, we forecast provision expenses to grow at 8.5% CAGR over FY20-23E, lower than our previous estimates.

**Accelerating online franchise development.** Given the policy priority of digitalization in China, ICBC will speed up its online business development. Nevertheless, we believe ICBC would consider the online platform as supplementary to the physical branch outlets, which is one of its core competitive edges. As of Dec 2020, ICBC had 16,623 outlets (+ 18 outlets in 2020). In 2020, ICBC invested Rmb23.8bn in Fintech, which equivalent to 3.0% of top line or 11.5% of operating expenses. We project ICBC's operating expenses to grow at 6.9% CAGR over FY20-23E on larger Fintech investment. Assuming top line to grow at 6.2% CAGR over FY20-23E, ICBC's CIR would stay at 23.65%-24.26% in FY21E-23E.

**Mild NIM pressure to persist.** ICBC's 1Q21 NIM was down 6bps YoY to 2.14%, compared to the 15bps YoY dropped in FY20. Despite solid loan demand amid the recovering macro economy, we project NIM to narrow by 6bps-9bps YoY each in FY21E-23E to 1.92% by FY23E - a result of stabilizing asset yield and rising deposit cost. Our base case forecast NII would grow at 7.3% CAGR over FY20-23E.

(Continue next page)

#### Results and Valuation

FY ended Dec 31	2019A	2020A	2021E	2022E	2023E
Revenue (RMB mn)	776,002	800,075	858,606	908,378	958,228
Chg (% YoY)	7.0	3.1	7.3	5.8	5.5
Net profit* (RMB mn)	312,224	315,906	325,357	347,707	376,948
Chg (% YoY)	4.9	1.2	3.0	4.4	5.1
EPS (RMB)	0.86	0.86	0.89	0.93	0.98
Chg (% YoY)	5.0	(0.2)	3.1	4.5	5.2
BVPS (RMB)	6.93	7.48	8.12	8.77	9.46
Chg (% YoY)	10.1	8.0	8.4	8.1	7.9
P/E (x) – H-shr	4.86	4.87	4.72	4.52	4.29
P/B (x) – H-shr	0.60	0.56	0.52	0.48	0.44
P/E (x) – A-shr	5.94	5.95	5.78	5.53	5.25
P/B (x) – A-shr	0.74	0.69	0.63	0.58	0.54
ROAA (%)	1.08	1.00	0.93	0.88	0.84
ROAE (%)	13.05	11.95	11.62	11.40	11.17
DPS(RMB)	0.26	0.27	0.28	0.30	0.31
Yield (%) H-shr	6.27	6.35	6.75	7.05	7.41
Yield (%) A-shr	5.12	5.19	5.52	5.76	6.05

Note: Company; HKD/CNY=1.1927

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

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

May 4, 2021

Rating (H): BUY  
Rating (A): BUY  
TP (H): HK\$ 7.56  
TP (A): RMB 7.65

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Price (H/A shr)	HK\$ 5.00/ RMB 5.13
Est. s price return (H/A shr)	51.20%/ 49.12%
Est. dividend yield (H/A shr)	6.75%/5.52%
Est. total return (H/A shr)	57.95%/ 54.64%
Last Rating & TP (H/A shr)	BUY, HK\$6.75/ BUY, RMB7.50
Previous Report Date	15 Oct, 2020

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	5.75/3.96
52Wk H/L (RMB) (A shr)	5.85/4.88
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)	2,093,280.1
H-shr market cap (HK\$ mn)	433,970.2
A-shr market cap (HK\$ mn)	1,659,309.9
3-mth avg daily turnover (HK\$ mn) (H shr)	1,382.19
3-mth avg daily turnover (RMB mn) (A shr)	1,518.72
Major shareholder(s) (%):	
Central Huijin	34.71
MoF	31.14

Source(s): Bloomberg, ABCI Securities

**Maintain BUY on stable fundamentals.** High business diversification would support ICBC's fundamentals and a net profit CAGR of 4.2% over FY20-23E. We revise up our H/A TPs by 12.0% and 2.0% to HK\$7.56 and RMB 7.65 by rolling over our calculation to mid-22 BVPS and higher sustainable ROAE assumption. The TP implies 0.78x/0.94x target 21E P/B. ICBC's H/A shr are currently trading at 0.52x/0.63x 21E P/B. 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) Policy risk in new and fast-growing businesses; 5) Prolonged COVID-19 pandemic; 6) Top line growth may not be able to justify Fintech investment.

**Exhibit 1: 1Q21 results summary**

(RMB mn)	1Q21	1Q20	YoY (%)
Net interest income	166,601	160,954	3.51
Net fee and commission	41,164	40,616	1.35
Operating income	214,120	206,187	3.85
Operating expenses	(43,457)	(39,979)	8.70
Impairment losses	(62,862)	(59,492)	5.66
Profit before tax	108,420	107,120	1.21
Income tax expenses	(22,123)	(22,107)	0.07
Net profit	85,730	84,494	1.46
<b>Key indicators (%)</b>			<b>AvE (ppt)</b>
Net interest margin	2.14	2.20	(0.06)
Cost to income ratio	19.28	18.38	0.90
Return on average assets	1.02	1.09	(0.07)
Return on average equity	12.65	13.44	(0.79)
	<b>Mar-21</b>	<b>Dec-20</b>	<b>QoQ (ppt)</b>
CT1 CAR	13.29	13.18	0.11
Total CAR	17.01	16.88	0.13
NPL ratio	1.58	1.58	-
Provision to total loans	2.89	2.85	0.04
Provision coverage	183.22	180.68	2.54

Source(s): Company, ABCI Securities

**Exhibit 2: Changes in 2021E and 2022E forecasts**

(RMB mn)	2021E (old)	2021E (new)	change (%)	(RMB mn)	2022E (old)	2022E (new)	change (%)
Net interest income	687,953	704,670	2.43	Net interest income	717,709	751,959	4.77
Net fee and commission	168,297	133,839	(20.47)	Net fee and commission	176,712	137,185	(22.37)
Operating income	865,617	858,606	(0.81)	Operating income	902,188	908,378	0.69
Operating expenses	(206,187)	(220,042)	6.72	Operating expenses	(218,369)	(234,579)	7.42
Impairment losses	(270,977)	(230,549)	(14.92)	Impairment losses	(275,578)	(247,401)	(10.22)
Profit before tax	373,989	409,254	9.43	Profit before tax	394,030	427,574	8.51
Income tax expenses	(74,798)	(81,851)	9.43	Income tax expenses	(78,806)	(85,515)	8.51
Net profit attributable to equity holders	297,828	325,357	9.24	Net profit attributable to equity holders	313,752	339,707	8.27
<b>Key indicators (%)</b>			<b>change (ppt)</b>	<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	1.87	2.06	0.19	Net interest margin	1.71	1.98	0.27
Net interest spread	1.66	1.83	0.17	Net interest spread	1.51	1.76	0.25
CIR	23.82	23.65	(0.17)	Cost to income ratio	24.20	23.89	(0.31)
ROAA	0.79	0.93	0.14	Return on average assets	0.73	0.88	0.15
ROAE	9.99	11.62	1.63	Return on average equity	9.80	11.40	1.60
Dividend payout	30.00	31.00	1.00	Dividend payout	30.00	31.00	1.00
CT1 CAR	11.47	13.27	1.80	CT1 CAR	10.82	13.03	2.21
Total CAR	14.51	16.87	2.36	Total CAR	13.59	16.51	2.92
NPL ratio	1.60	1.60	-	NPL ratio	1.65	1.63	(0.02)
Provision to total loans	3.09	2.92	(0.17)	Provision to total loans	3.20	2.95	(0.25)
Provision coverage ratio	193.13	182.50	(10.63)	Provision coverage	193.94	180.98	(12.96)

Source(s): Company, ABCI Securities estimates

**Exhibit 3: Changes of GGM assumptions**

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	6.75	7.56	7.50	7.65	Roll over to mid-2022 BVPS
Sustainable ROE (%)	9.56	10.01	9.56	10.01	Better earnings on lower provision expenses
COE (%)	11.17	11.68	9.91	10.53	
Target 21E P/B (x)	0.74	0.78	0.93	0.94	
Rfr (%)	3.16	3.23	3.16	3.23	With reference to China 10Y government bond
Beta	0.89	0.96	0.75	0.83	With reference to Bloomberg data
ERP (%)	9.00	8.80	9.00	8.80	Lower risk premium on recovering macro environment in China
LT gr (%)	5.00	5.00	5.00	5.00	

Source(s): Company, ABCI Securities estimates



## Financial statements

### Consolidated income statement

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Net interest income	632,217	646,765	704,670	751,959	798,718
Non-interest income	143,785	153,310	153,936	156,419	159,509
Of which: Fees and commissions	130,573	131,215	133,839	137,185	140,615
<b>Operating income</b>	<b>776,002</b>	<b>800,075</b>	<b>858,606</b>	<b>908,378</b>	<b>958,228</b>
Operating expenses	(192,171)	(190,289)	(203,094)	(217,038)	(232,494)
Amortization	(15,605)	(16,296)	(16,948)	(17,541)	(18,418)
<b>Pre-provision operating profit</b>	<b>568,226</b>	<b>593,490</b>	<b>638,564</b>	<b>673,799</b>	<b>707,316</b>
Impairment loans losses	(178,957)	(202,668)	(230,549)	(247,401)	(258,867)
<b>Operating profit</b>	<b>389,269</b>	<b>390,822</b>	<b>408,015</b>	<b>426,398</b>	<b>448,449</b>
Non-operating income	2,520	1,304	1,239	1,177	1,118
<b>Profit before tax</b>	<b>391,789</b>	<b>392,126</b>	<b>409,254</b>	<b>427,574</b>	<b>449,567</b>
Tax	(78,428)	(74,441)	(81,851)	(85,515)	(89,913)
Minority interests	(1,137)	(1,779)	(2,046)	(2,353)	(2,706)
<b>Net profit attributable to equity holders</b>	<b>312,224</b>	<b>315,906</b>	<b>325,357</b>	<b>339,707</b>	<b>356,948</b>
Preference share dividend	4,525	8,839	8,839	8,839	8,839
<b>Net profit attributable to ordinary shareholders</b>	<b>307,699</b>	<b>307,067</b>	<b>316,518</b>	<b>330,868</b>	<b>348,109</b>
<b>Growth (%)</b>					
Net interest income	10.4	2.3	9.0	6.7	6.2
Non-interest income	(5.8)	6.6	0.4	1.6	2.0
Of which: Fees and commissions	(10.1)	0.5	2.0	2.5	2.5
<b>Operating income</b>	<b>7.0</b>	<b>3.1</b>	<b>7.3</b>	<b>5.8</b>	<b>5.5</b>
Operating expenses	7.7	(1.0)	6.7	6.9	7.1
Amortization	(0.9)	4.4	4.0	3.5	5.0
<b>Pre-provision operating profit</b>	<b>7.0</b>	<b>4.4</b>	<b>7.6</b>	<b>5.5</b>	<b>5.0</b>
Impairment loans losses	10.7	13.2	13.8	7.3	4.6
<b>Operating profit</b>	<b>5.4</b>	<b>0.4</b>	<b>4.4</b>	<b>4.5</b>	<b>5.2</b>
Non-operating income	(18.4)	(48.3)	(5.0)	(5.0)	(5.0)
<b>Profit before tax</b>	<b>5.2</b>	<b>0.1</b>	<b>4.4</b>	<b>4.5</b>	<b>5.1</b>
Tax	6.4	(5.1)	10.0	4.5	5.1
Minority interests	8.6	56.5	15.0	15.0	15.0
<b>Net profit attributable to equity holders</b>	<b>4.9</b>	<b>1.2</b>	<b>3.0</b>	<b>4.4</b>	<b>5.1</b>
Preference share dividend	0.4	95.3	0.0	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	<b>5.0</b>	<b>(0.2)</b>	<b>3.1</b>	<b>4.5</b>	<b>5.2</b>
<b>Per share (RMB)</b>					
EPS	0.86	0.86	0.89	0.93	0.98
BVPS	6.93	7.48	8.12	8.77	9.46
DPS	0.26	0.27	0.28	0.30	0.31
<b>Key ratio (%)</b>					
Net interest margin	2.30	2.15	2.06	1.98	1.92
Net interest spread	2.12	1.97	1.83	1.76	1.69
Cost to income ratio	25.79	24.76	23.65	23.89	24.26
Return on average assets	1.08	1.00	0.93	0.88	0.84
Return on average equity	13.05	11.95	11.62	11.40	11.17
Effective tax rate	20.02	18.98	20.00	20.00	20.00
Dividend payout	30.44	30.87	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)	2019A	2020A	2021E	2022E	2023E
Cash & equivalent	3,317,916	3,537,795	3,714,685	3,900,419	4,095,440
Interbank assets	1,887,554	1,821,185	1,816,137	1,832,128	1,860,659
Investment securities	7,647,117	8,591,139	9,793,898	11,116,075	12,561,164
Net loans and advances	16,326,552	18,136,328	19,976,177	21,918,512	23,948,075
<b>Total interest earning assets</b>	<b>29,179,139</b>	<b>32,086,447</b>	<b>35,300,897</b>	<b>38,767,134</b>	<b>42,465,339</b>
Property and equipment	286,561	286,279	289,142	292,033	294,954
Other non-interest earning assets	643,736	972,332	1,158,673	1,359,190	1,569,618
<b>Total assets</b>	<b>30,109,436</b>	<b>33,345,058</b>	<b>36,748,711</b>	<b>40,418,357</b>	<b>44,329,910</b>
Customer deposits	22,977,655	25,134,726	27,443,839	29,910,804	32,560,243
Interbank liabilities	2,266,573	2,784,259	3,396,796	4,076,155	4,809,863
Subordinated debt	742,875	798,127	861,977	930,935	1,005,410
<b>Total interest bearing liabilities</b>	<b>26,223,900</b>	<b>28,985,053</b>	<b>32,002,706</b>	<b>35,252,499</b>	<b>38,746,928</b>
Current taxes	96,192	89,785	91,581	93,412	95,281
Deferred tax liabilities	1,873	2,881	3,601	4,430	5,360
Other liabilities	1,095,468	1,357,824	1,515,926	1,699,465	1,867,359
<b>Total liabilities</b>	<b>27,417,433</b>	<b>30,435,543</b>	<b>33,613,814</b>	<b>37,049,806</b>	<b>40,714,927</b>
Share capital	562,539	582,226	582,226	582,226	582,226
Reserves	2,113,647	2,311,276	2,536,498	2,769,990	3,016,259
Minorities	15,817	16,013	16,173	16,335	16,498
<b>Shareholder's equity incl. MI</b>	<b>2,692,003</b>	<b>2,909,515</b>	<b>3,134,897</b>	<b>3,368,551</b>	<b>3,614,983</b>
<b>Growth (%)</b>					
Cash & equivalent	(1.6)	6.6	5.0	5.0	5.0
Interbank assets	11.3	(3.5)	(0.3)	0.9	1.6
Investment securities	13.2	12.3	14.0	13.5	13.0
Net loans and advances	6.7	11.1	10.1	9.7	9.3
<b>Total interest earning assets</b>	<b>7.6</b>	<b>10.0</b>	<b>10.0</b>	<b>9.8</b>	<b>9.5</b>
Property and equipment	(1.3)	(0.1)	1.0	1.0	1.0
Other non-interest earning assets	131.0	51.0	19.2	17.3	15.5
<b>Total assets</b>	<b>8.7</b>	<b>10.7</b>	<b>10.2</b>	<b>10.0</b>	<b>9.7</b>
Customer deposits	7.3	9.4	9.2	9.0	8.9
Interbank liabilities	24.9	22.8	22.0	20.0	18.0
Subordinated debt	20.2	7.4	8.0	8.0	8.0
<b>Total interest bearing liabilities</b>	<b>9.0</b>	<b>10.5</b>	<b>10.4</b>	<b>10.2</b>	<b>9.9</b>
Current taxes	13.5	(6.7)	2.0	2.0	2.0
Deferred tax liabilities	53.9	53.8	25.0	23.0	21.0
Other liabilities	(9.1)	23.9	11.6	12.1	9.9
<b>Total liabilities</b>	<b>8.1</b>	<b>11.0</b>	<b>10.4</b>	<b>10.2</b>	<b>9.9</b>
Share capital	27.1	3.5	0.0	0.0	0.0
Reserves	12.0	9.4	9.7	9.2	8.9
Minorities	6.3	1.2	1.0	1.0	1.0
<b>Shareholder's equity</b>	<b>14.8</b>	<b>8.1</b>	<b>7.7</b>	<b>7.5</b>	<b>7.3</b>
<b>Key ratio (%)</b>					
CT1 CAR	13.20	13.18	13.27	13.03	12.80
Total CAR	16.77	16.88	16.87	16.51	16.19
NPL ratio	1.43	1.58	1.60	1.63	1.65
Provision to total loans	2.86	2.85	2.92	2.95	2.99
Provision coverage ratio	199.32	180.68	182.50	180.98	181.21

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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### 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 2008 (For reference: HSI total return index 2008-20 CAGR 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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