

ICBC (1398 HK)

Steady outlook with manageable credit risk

ICBC's FY19 net profit rose 4.9% YoY to RMB312.2bn, in line with CMBIS and consensus estimates. 4Q19 earnings growth slowed to 4.2% YoY from 5.0% YoY in 9M19, due to weaker fee income and higher opex. As such, full-year ROE declined 0.6ppt YoY to 13.1%. Dividend payout was unchanged at 30%.

- Management guided for stable business trend despite COVID-19.** During results briefing, ICBC's management indicated credit demand has been recovering with resumption of work and production since Mar, and the Bank has adequate project reserves on hand. Asset quality may suffer from a temporary hit, mostly from credit card and consumption loans, but full-year impact will be controllable. Asset quality of MSE loan remained solid so far, with <5% of MSE clients applied for extension in loan repayment.
- Results positives: 1) 4Q19 asset quality remained healthy,** as NPL ratio fell 1bp QoQ to 1.43% and provision coverage climbed 1.2ppt to 199.3%. NPL recognition was stringent, with NPLs equivalent to 1.3x >90day overdue loans. 4Q19 impairment charges was down 7.7% YoY, offering a support to bottom-line earnings. **2) Loan mix further leaned toward retail.** Growth of retail loans (+13.3% YoY) outpaced that of corporate loan (6.1% YoY) in FY19, and its proportion increased 1.5ppt to 38.1% of total loans. However, management said that corporate loans will be key driver for credit growth in 1Q20, thanks to favourable policy on infrastructure and manufacturing sectors. **3) Capital position was strengthened.** CET1/tier-1/total CAR edged up 27bp/11bp/12bp QoQ to 13.2%/14.3%/16.8%.
- Results negatives: 1) 4Q19 NIM slid 1bp QoQ to 2.20%,** and FY19 NIM narrowed 6bp YoY to 2.24%. This was mainly due to significant rise in liability cost (+11bp YoY), yet only moderate expansion in asset yield (+3bp YoY) in FY19. In particular, deposit cost hiked 14bp YoY. **2) Loan growth was subdued at 0.6% QoQ in 4Q19,** likely on ICBC's falling risk appetite amid mounting credit risks. Total deposits fell 1.7% QoQ, as the Bank optimized deposit mix by cutting higher-cost structured deposits. **3) 4Q19 fee income retreated 1.9% YoY,** on less revenue from trust & agency businesses and possible lower fee rate under govt's window guidance.
- Maintain BUY and TP of HK\$7.50.** ICBC trades at 0.62x FY20E P/B, 10% below its past 5-year mean. We kept earnings forecast unchanged, and our HK\$7.50 TP is derived from 0.89x target P/B and FY20E BPS of RMB7.58.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	725,121	776,002	828,238	888,703	962,712
Net profit (RMB mn)	297,676	312,224	327,769	347,184	373,112
EPS (RMB)	0.82	0.86	0.91	0.96	1.03
EPS CHG (%)	4.1	5.0	5.1	6.0	7.6
Consensus EPS (RMB)	NA	0.86	0.91	0.95	1.01
P/E (x)	5.7	5.4	5.2	4.9	4.5
P/B (x)	0.74	0.68	0.62	0.57	0.52
Dividend yield (%)	5.4	5.6	5.9	6.2	6.7
ROE (%)	13.7	13.1	12.5	12.1	12.0
NPL ratio (%)	1.52	1.43	1.48	1.43	1.39
Provision coverage (%)	176	199	205	226	249

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$ 7.50**
 (Previous TP **HK\$ 7.50**)
 Up/Downside **+43.7%**
 Current Price **HK\$ 5.22**

China Banking Sector

Terry Sun, CFA
 (852) 3900 0836
 terrysun@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	1,999,405
Avg 3 mths t/o (HK\$ mn)	854.46
52w High/Low (HK\$)	6.05/4.87
Total Issued Shares (mn)	86,794 (H) 269,612 (A)

Source: Bloomberg

Shareholding Structure

Huijin	34.71%
MoF	31.14%
NCSSF	5.72%

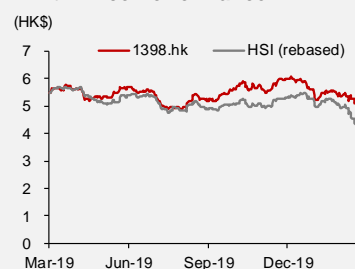
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-4.4%	-12.3%
3-mth	-13.0%	-16.8%
6-mth	0.6%	-9.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

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- Earnings unexciting; Highlights on fee and deposit – 30 Aug 2019
- FY18 earnings in line, NIM trend beat large bank peers – 28 Mar 2019
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Figure 1: 4Q19 results summary

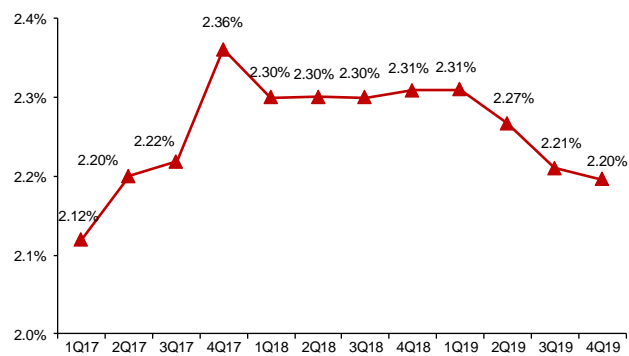
(RMB mn)						
P&L	FY18	FY19	YoY	4Q18	4Q19	YoY
Net interest income	572,518	606,926	6.0%	148,888	153,780	3.3%
Net fee and commission income	145,301	155,600	7.1%	31,562	30,965	-1.9%
Operating income	725,121	776,002	7.0%	185,241	191,318	3.3%
Operating expense	(194,203)	(207,776)	7.0%	(65,737)	(72,156)	9.8%
PPoP	530,918	568,226	7.0%	119,504	119,162	-0.3%
Impairment losses	(161,594)	(178,957)	10.7%	(44,661)	(41,201)	-7.7%
Pre-tax profit	369,324	389,269	5.4%	74,843	77,961	4.2%
Income tax	(73,690)	(78,428)	6.4%	(17,287)	(17,962)	3.9%
Net profit	297,676	312,224	4.9%	58,049	60,512	4.2%

B/S	FY18	FY19	YoY	3Q19	4Q19	QoQ
Gross loans	15,419,905	16,761,319	8.7%	16,660,486	16,761,319	0.6%
Customers' deposits	21,408,934	22,977,655	7.3%	23,368,159	22,977,655	-1.7%
Total assets	27,699,540	30,109,436	8.7%	30,426,381	30,109,436	-1.0%
NPLs	235,084	240,187	2.2%	239,785	240,187	0.2%

Key ratio	FY18	FY19	YoY	3Q19	4Q19	QoQ
NIM	2.30%	2.24%	-6bp	2.21%	2.20%	-1bp
ROE	13.7%	13.1%	-0.6ppt	14.1%	9.9%	-4.2ppt
NPL ratio	1.52%	1.43%	-9bp	1.44%	1.43%	-1bp
Provision coverage	175.8%	199.3%	23.6ppt	198.1%	199.3%	1.2ppt
LDR	72.0%	72.9%	0.9ppt	71.3%	72.9%	1.7ppt
CET-1 CAR	13.3%	13.2%	-11bp	12.9%	13.2%	27bp

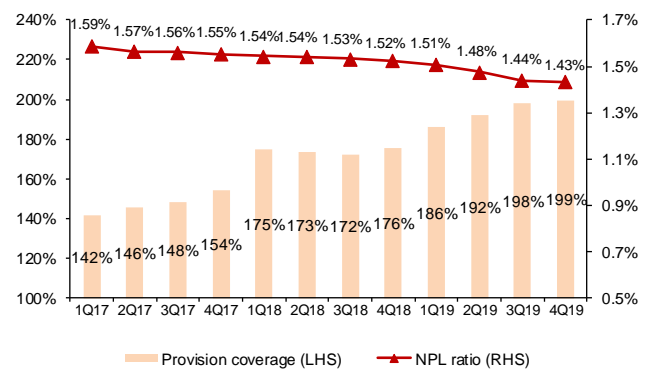
Source: Company data, CMBIS

Figure 2: Quarterly NIM of ICBC



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of ICBC



Source: Company data, CMBIS

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	948,094	1,038,154	1,129,260	1,213,399	1,313,219
Interest expenses	(375,576)	(431,228)	(483,989)	(522,514)	(564,269)
Net interest income	572,518	606,926	645,271	690,885	748,950
Net fee income	145,301	155,600	168,048	181,492	196,011
Others	7,302	13,476	14,919	16,326	17,751
Operating income	725,121	776,002	828,238	888,703	962,712
Operating expenses	(194,203)	(207,776)	(221,827)	(236,279)	(253,286)
PPoP	530,918	568,226	606,411	652,424	709,426
Provision	(161,594)	(178,957)	(197,707)	(219,446)	(244,030)
Operating profit	369,324	389,269	408,704	432,978	465,396
Non-operating income	3,089	2,520	2,520	2,520	2,520
Pre-tax profit	372,413	391,789	411,224	435,498	467,916
Income tax expenses	(73,690)	(78,428)	(82,319)	(87,178)	(93,667)
Minority interests	(1,047)	(1,137)	(1,137)	(1,137)	(1,137)
Net profit	297,676	312,224	327,769	347,184	373,112

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Op. income mix					
Net interest income	79%	78%	78%	78%	78%
Net fee income	20%	20%	20%	20%	20%
Others	1%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	9.7%	6.0%	6.3%	7.1%	8.4%
Net fee income	4.1%	7.1%	8.0%	8.0%	8.0%
Operating income	7.3%	7.0%	6.7%	7.3%	8.3%
PPoP	8.5%	7.0%	6.7%	7.6%	8.7%
Net profit	4.1%	4.9%	5.0%	5.9%	7.5%
Gross loans	8.3%	8.7%	9.0%	8.5%	8.5%
Customer deposits	9.4%	7.3%	7.5%	7.5%	7.5%
Efficiency					
Cost-to-income ratio	25.7%	25.8%	25.6%	25.4%	25.2%

Balance Sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Due from central banks	3,302,529	3,251,881	3,476,819	3,718,627	3,978,571
Interbank assets	1,696,498	1,887,554	1,981,932	2,081,028	2,185,080
Investments	6,754,692	7,647,117	8,237,800	8,876,766	9,568,117
Gross loans	15,419,905	16,761,319	18,269,838	19,822,774	21,507,710
Less: provision	412,731	478,498	555,326	643,630	745,639
Other assets	938,647	1,040,063	1,053,876	1,148,127	1,252,689
Total assets	27,699,540	30,109,436	32,464,938	35,003,692	37,746,527
Due to central banks	481	1,017	1,322	1,719	2,234
Interbank liabilities	2,670,650	2,885,274	3,115,306	3,364,057	3,633,075
Customer deposits	21,408,934	22,977,655	24,700,979	26,553,553	28,545,069
Debt securities issued	617,842	742,875	854,306	982,452	1,129,820
Other liabilities	656,750	810,612	870,175	934,735	1,004,719
Total liabilities	25,354,657	27,417,433	29,542,089	31,836,515	34,314,918
Shareholders' equity	2,330,001	2,676,186	2,907,032	3,151,360	3,415,792
Incl. Perpetual bonds	-	80,000	80,000	80,000	80,000
Incl. Preferred stocks	86,051	126,132	126,132	126,132	126,132
Minority interest	14,882	15,817	15,817	15,817	15,817
Total equity	2,344,883	2,692,003	2,922,849	3,167,177	3,431,609

Asset quality					
NPL ratio	1.52%	1.43%	1.48%	1.43%	1.39%
Provision coverage	176%	199%	205%	226%	249%
Provision/ total loans	2.68%	2.85%	3.04%	3.25%	3.47%
Credit costs	0.99%	1.01%	1.03%	1.05%	1.08%
Capital adequacy					
CET-1 CAR	13.3%	13.5%	13.7%	13.8%	14.0%
Tier-1 CAR	13.8%	14.2%	14.3%	14.4%	14.5%
Total CAR	15.5%	15.7%	15.7%	15.7%	15.7%
Profitability					
NIM	2.30%	2.24%	2.17%	2.15%	2.15%
ROE	13.7%	13.1%	12.5%	12.1%	12.0%
ROA	1.09%	1.06%	1.03%	1.02%	1.01%
RoRWA	1.77%	1.72%	1.68%	1.67%	1.66%
Per share					
EPS (RMB)	0.82	0.86	0.91	0.96	1.03
DPS (RMB)	0.25	0.26	0.28	0.29	0.31
BVPS (RMB)	6.30	6.93	7.58	8.26	9.01

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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