

ICBC (601398 CH)

Solid asset quality but disappointing margin

ICBC reported 9M19 net profit of RMB 251.7bn, up 5.0% YoY and accounting for 80.5%/81.6% of CMBIS/consensus full-year estimates. In 3Q19, PPOP had a decent growth of 7.5% YoY, mainly driven by strong non-interest income (+12.5% YoY) and lower CIR (-0.6ppt YoY), despite narrowing NIM. The Bank set aside higher provisions (+15.2% YoY), and bottom-line earnings growth picked up moderately at 5.8% YoY (vs 4.7% YoY in 1H19). 9M19 annualized ROE fell 0.7ppt YoY to 14.4%.

■ **Results positives:** 1) **9M19 non-interest income rose 13.2% YoY**, with double-digit growth in fee income from payment, settlement, credit card, and agency sales businesses. 2) **Asset quality continued to improve.** NPL ratio declined 4bps QoQ to 1.44% with benign formation ratio, and provision coverage climbed 6.1ppts QoQ to 198.1%. According to management, the deviation between worsening macro environment and solid asset quality trend was attributed to the ongoing optimization of credit allocation; 3) **Loan mix further leaned toward retail**, as retail loan growth (+3.2% QoQ) outpaced corporate loan growth (+1.9% QoQ) in 3Q19. 4) **Capital position was strengthened.** CET1/tier-1/total CAR edged up by 19bps/97bps/90bps QoQ to 12.93%/14.16%/16.65%, following the RMB 70bn preference shares and RMB 80bn perpetual bonds issued in 3Q19.

■ **Results negatives:** 1) **Deposit growth slowed to 1.0% in 3Q19** (vs 2.4% in 2Q19). But management pointed out that big banks are still in favorable position to attract deposit inflow during the implementation of new asset management rule; 2) **3Q19 NIM contracted 6bps QoQ to 2.21%.** It was primarily due to rising funding cost amid deposit competition, although the impact from LPR reform is limited on overall loan yield at the moment. NIM may further narrow in 4Q19 based on guidance, but likely by a smaller magnitude. As of 3Q19, over 50% of new loans and around 20% of outstanding loans were priced by LPR.

■ **Maintain BUY and raise TP to RMB 7.8.** ICBC-A currently trades at 0.86x FY19E P/B, slightly above its past 5-year mean of 0.8x. We kept our earnings forecast unchanged and rolled forward the valuation basis to FY20. Our new HK\$ 7.8 TP is derived from 1.03x target P/B and FY20E BVPS of RMB 7.6.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income (RMB mn)	675,654	725,121	784,157	835,013	891,201
Net profit (RMB mn)	286,049	297,676	312,748	331,633	353,197
EPS (RMB)	0.79	0.82	0.86	0.92	0.98
EPS CHG (%)	2.9	4.1	5.1	6.1	6.6
P/E (x)	7.6	7.3	6.9	6.5	6.1
P/B (x)	1.04	0.95	0.86	0.79	0.72
Dividend yield (%)	4.0	4.2	4.4	4.7	5.0
ROE (%)	14.3	13.7	13.1	12.6	12.3
NPL ratio (%)	1.55	1.52	1.56	1.59	1.57
Provision coverage (%)	154	176	197	214	234

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	RMB 7.80
(Previous TP	RMB 7.20)
Up/Downside	+30.4%
Current Price	RMB 5.98

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Stock Data

Mkt Cap (RMB mn)	2,047,577
Avg 3 mths t/o (RMB mn)	823
52w High/Low (RMB)	6.08/5.1
Total Issued Shares (mn)	269,612 (A)
	86,794 (H)

Source: Bloomberg

Shareholding Structure

Huijin	34.71%
MoF	31.14%
NCSSF	5.89%

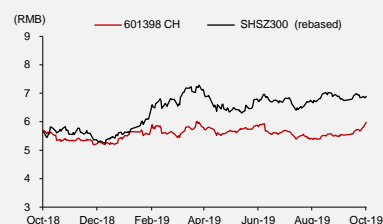
Source: Company data

Share Performance

	Absolute	Relative
1-mth	7.6%	8.5%
3-mth	4.0%	2.7%
6-mth	1.9%	6.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

- Earnings unexciting; Highlights on fee and deposit – 30 Aug 2019
- FY18 earnings in line, NIM trend beat large bank peers – 28 Mar 2019
- Stable earnings recovery – 31 Aug 2018

Figure 1: 3Q19 results summary

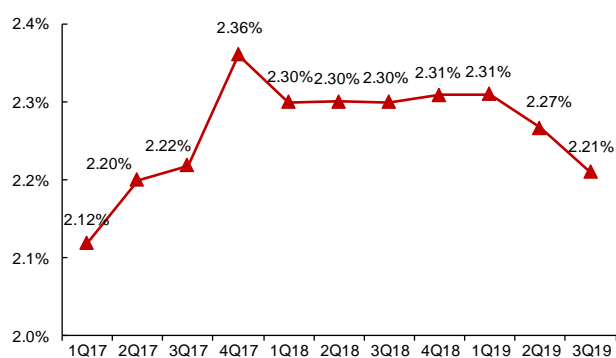
(RMB mn)						
P&L	9M18	9M19	YoY	3Q18	3Q19	YoY
Net interest income	423,630	453,146	7.0%	146,014	153,845	5.4%
Net fee and commission income	113,739	124,635	9.6%	34,479	36,134	4.8%
Operating income	539,880	584,684	8.3%	178,578	190,481	6.7%
Operating expense	(128,466)	(135,620)	5.6%	(46,508)	(48,466)	4.2%
PPoP	411,414	449,064	9.2%	132,070	142,015	7.5%
Impairment losses	(116,933)	(137,756)	17.8%	(33,475)	(38,576)	15.2%
Pre-tax profit	294,481	311,308	5.7%	98,595	103,439	4.9%
Income tax	(56,403)	(60,466)	7.2%	(19,844)	(19,947)	0.5%
Net profit	239,627	251,712	5.0%	79,185	83,781	5.8%

B/S	3Q18	3Q19	YoY	2Q19	3Q19	QoQ
Gross loans	15,263,939	16,660,486	9.1%	16,271,224	16,660,486	2.4%
Customers' deposits	21,307,707	23,368,159	9.7%	23,125,437	23,368,159	1.0%
Total assets	28,198,135	30,426,381	7.9%	29,990,476	30,426,381	1.5%
NPLs	234,042	239,785	2.5%	240,086	239,785	-0.1%

Key ratios	9M18	9M19	YoY	2Q19	3Q19	QoQ
NIM	2.30%	2.26%	-4bp	2.27%	2.21%	-6bp
ROE	15.1%	14.4%	-0.7ppt	14.8%	14.1%	-0.6ppt
NPL ratio	1.53%	1.44%	-9bp	1.48%	1.44%	-4bp
Provision coverage	172.3%	198.1%	25.8ppt	192.0%	198.1%	6.1ppt
LDR	71.6%	71.3%	-0.3ppt	70.4%	71.3%	0.9ppt
CET-1 CAR	12.5%	12.9%	45bp	12.7%	12.9%	19bp

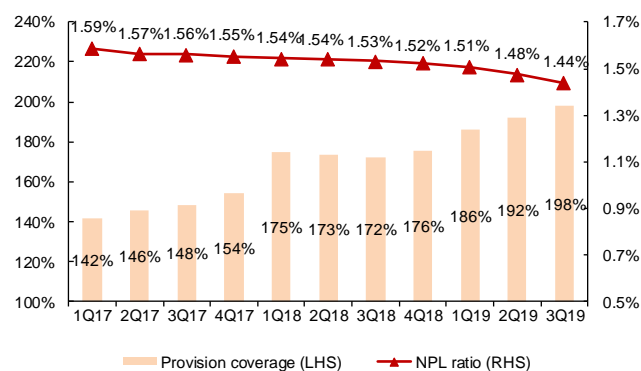
Source: Company data, CMBIS

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 Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Interest income	861,594	948,094	1,034,39	1,109,54	1,191,46
Interest expenses	(339,516)	(375,576)	(410,763)	(442,686)	(476,421)
Net interest income	522,078	572,518	623,634	666,861	715,040
Net fee income	139,625	145,301	152,566	160,194	168,204
Others	13,951	7,302	7,957	7,957	7,957
Operating income	675,654	725,121	784,157	835,013	891,201
Operating expenses	(186,194)	(194,203)	(213,849)	(231,982)	(252,005)
PPoP	489,460	530,918	570,308	603,031	639,196
Provision	(127,769)	(161,594)	(182,194)	(191,373)	(200,655)
Operating profit	361,691	369,324	388,115	411,658	438,541
Non-operating income	2,950	3,089	3,089	3,089	3,089
Pre-tax profit	364,641	372,413	391,204	414,747	441,630
Income tax expenses	(77,190)	(73,690)	(77,408)	(82,067)	(87,386)
Minority interests	(1,402)	(1,047)	(1,047)	(1,047)	(1,047)
Net profit	286,049	297,676	312,748	331,633	353,197

Key Ratio

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Op. income mix					
Net interest income	77%	79%	80%	80%	80%
Net fee income	21%	20%	19%	19%	19%
Others	2%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	10.6%	9.7%	8.9%	6.9%	7.2%
Net fee income	-3.7%	4.1%	5.0%	5.0%	5.0%
Operating income	5.3%	7.3%	8.1%	6.5%	6.7%
PPoP	9.1%	8.5%	7.4%	5.7%	6.0%
Net profit	2.8%	4.1%	5.1%	6.0%	6.5%
Gross loans	9.0%	8.3%	8.0%	7.8%	7.8%
Customer deposits	9.7%	9.4%	8.0%	7.5%	7.5%

Efficiency

Cost-to-income ratio	26.5%	25.7%	26.2%	26.7%	27.2%
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Balance Sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Due from central banks	3,538,658	3,302,529	4,060,876	4,333,775	4,627,142
Interbank assets	1,834,242	1,696,498	1,453,443	1,526,115	1,602,421
Investments	5,756,704	6,754,692	7,235,574	7,750,762	8,302,709
Gross loans	14,233,448	15,419,905	16,653,497	17,952,470	19,352,763
Less: provision	340,482	413,177	510,473	610,512	713,007
Other assets	1,064,473	939,093	1,123,559	1,350,026	1,593,022
Total assets	26,087,043	27,699,540	30,016,478	32,302,637	34,765,049
Due to central banks	456	481	625	813	1,057
Interbank liabilities	3,013,161	2,670,650	2,821,250	2,981,087	3,150,793
Customer deposits	19,562,936	21,408,934	23,121,649	24,855,772	26,719,955
Debt securities issued	526,940	617,842	710,518	817,096	939,660
Other liabilities	842,494	656,750	706,750	758,880	815,395
Total liabilities	23,945,987	25,354,657	27,360,792	29,413,649	31,626,860
Shareholders' equity	2,127,491	2,330,001	2,640,803	2,874,106	3,123,307
Incl. Perpetual bonds	-	-	80,000	80,000	80,000
Incl. Preferred stocks	86,051	86,051	86,051	86,051	86,051
Minority interest	13,565	14,882	14,882	14,882	14,882
Total equity	2,141,056	2,344,883	2,655,685	2,888,988	3,138,189

Asset quality

NPL ratio	1.55%	1.52%	1.56%	1.59%	1.57%
Provision coverage	154%	176%	197%	214%	234%
Provision/ total loans	2.39%	2.68%	3.07%	3.40%	3.68%
Credit costs	0.91%	0.99%	1.11%	1.08%	1.05%

Capital adequacy

CET-1 CAR	12.8%	13.3%	13.5%	13.8%	14.0%
Tier-1 CAR	13.3%	13.8%	14.0%	14.2%	14.4%
Total CAR	15.1%	15.5%	15.6%	15.6%	15.7%

Profitability

NIM	2.22%	2.30%	2.27%	2.25%	2.25%
ROE	14.3%	13.7%	13.1%	12.6%	12.3%
ROA	1.12%	1.09%	1.07%	1.05%	1.04%
RoRWA	1.85%	1.77%	1.74%	1.72%	1.71%

Per share

EPS (RMB)	0.79	0.82	0.86	0.92	0.98
DPS (RMB)	0.24	0.25	0.26	0.28	0.30
BVPS (RMB)	5.73	6.30	6.94	7.60	8.30

Source: Company data, CMBIS estimates

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