

ICBC (1398 HK)

Resilient NIM and stable NPL ratio to outstand

ICBC's 1Q20 net profit rose 3.0% YoY to RMB84.5bn, accounting for 25.8%/26.6% of CMBIS/consensus full-year estimates. Key earnings drivers included robust asset expansion and better cost efficiency, despite weaker non-interest income. The Bank should be able to maintain a steady operating trend, as quality project reserves and broad customer resources back up strong credit growth and decent asset quality.

■ **Results positives:** 1) **NIM remained flat QoQ at 2.20%**. Management indicated that interests on both asset and liability sides retreated in 1Q20, but they expected to see better-than-peers margin trend due to strict control on funding cost. 2) **NPL ratio was unchanged QoQ at 1.43%** albeit higher NPL formation, suggesting faster disposal and write-offs. Provision coverage was also stable at 199.4%. 3) **Solid asset expansion of 6.6% in 1Q20**, driven by 4.5% QoQ and 6.7% QoQ increase in loans and investments. Despite with COVID-19's impact, new loan mix was relatively balanced between corporate (+5.7% QoQ) and retail (+2.6% QoQ) segments. New corporate loans were mainly allocated to regions with stronger economy, such as Greater Bay Area and Yangtze River Economic Belt. ICBC targeted to boost retail consumption loans when the pandemic wanes. 4) **1Q20 CIR declined 0.7ppt YoY to 19.4%**.

■ **Results negatives:** 1) **Non-interest income fell 3.2% YoY**, due to FX trading losses. Growth in net fee and commission income also softened to 2.5% YoY in 1Q20, from 7.1% YoY in FY19. 2) **Capital adequacy ratio declined**, as CET1 and total CAR slid 5bp and 25bp QoQ to 13.15% and 16.52%, respectively. 3) **1Q20 ROE was down 0.9ppt to 13.4%**.

■ **Maintain BUY with lower TP of HK\$7.30.** We trim our FY20-21E earnings forecasts by 1.6-2.5%, as we lower fee income growth to reflect possible concessionary measures to support the real economy. Our new TP of HK\$7.30 is based on GGM-derived target P/B of 0.86x and FY20E BPS of RMB7.6.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	725,121	776,002	820,458	875,492	943,397
Net profit (RMB mn)	297,676	312,224	322,633	338,463	360,361
EPS (RMB)	0.82	0.86	0.89	0.94	1.00
EPS CHG (%)	4.1	5.0	3.4	5.0	6.6
Consensus EPS (RMB)	NA	NA	0.89	0.93	0.97
P/E (x)	5.7	5.5	5.3	5.0	4.7
P/B (x)	0.75	0.68	0.62	0.57	0.53
Dividend yield (%)	5.3	5.6	5.8	6.0	6.4
ROE (%)	13.7	13.1	12.3	11.9	11.6
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\$ 7.30
(Previous TP	HK\$ 7.50)
Up/Downside	+39.0%
Current Price	HK\$ 5.25

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,962,958
Avg 3 mths t/o (HK\$ mn)	1,466
52w High/Low (HK\$)	6.11/4.81
Total Issued Shares (mn)	86,794 (H)
	269,612 (A)

Source: Bloomberg

Shareholding Structure

Huijin	34.71%
MoF	31.14%
NCSSF	5.72%

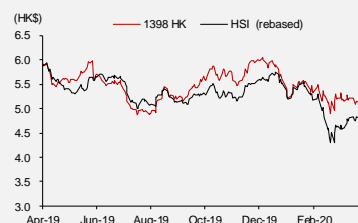
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-0.8%	-4.0%
3-mth	-7.8%	6.1%
6-mth	-6.8%	2.3%
12-mth	-11.8%	7.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

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Figure 1: 1Q20 results summary

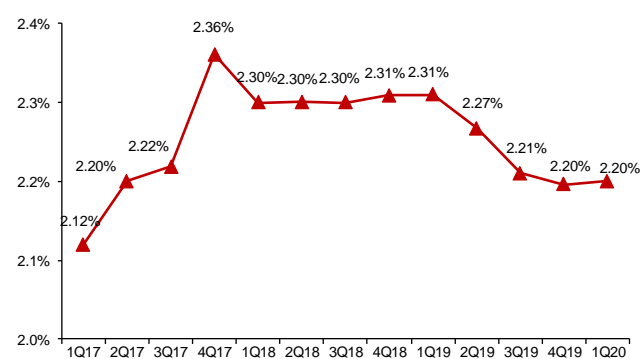
(RMB mn)						
P&L	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
Net interest income	153,780	154,287	0.3%	148,190	154,287	4.1%
Net fee and commission income	30,965	47,283	52.7%	46,136	47,283	2.5%
Operating income	191,318	206,187	7.8%	201,818	206,187	2.2%
Operating expense	(72,156)	(39,979)	-44.6%	(40,614)	(39,979)	-1.6%
PPoP	119,162	166,208	39.5%	161,204	166,208	3.1%
Impairment losses	(41,201)	(59,492)	44.4%	(58,274)	(59,492)	2.1%
Pre-tax profit	77,961	106,716	36.9%	102,930	106,716	3.7%
Income tax	(17,962)	(22,107)	23.1%	(20,877)	(22,107)	5.9%
Net profit	60,512	84,494	39.6%	82,005	84,494	3.0%

B/S	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
Gross loans	16,761,319	17,515,921	4.5%	15,932,402	17,515,921	9.9%
Customers' deposits	22,977,655	24,220,294	5.4%	22,574,651	24,220,294	7.3%
Total assets	30,109,436	32,094,478	6.6%	29,246,572	32,094,478	9.7%
NPLs	240,187	250,103	4.1%	240,282	250,103	4.1%

Key ratio	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
NIM	2.20%	2.20%	0bp	2.31%	2.20%	-11bp
ROE	9.9%	13.4%	3.5ppt	14.4%	13.4%	-0.9ppt
NPL ratio	1.43%	1.43%	-1bp	1.51%	1.43%	-8bp
Provision coverage	199.3%	199.4%	0.1ppt	185.9%	199.4%	13.5ppt
LDR	72.9%	72.3%	-0.6ppt	70.6%	72.3%	1.7ppt
CET-1 CAR	13.2%	13.2%	-5bp	12.8%	13.2%	31bp

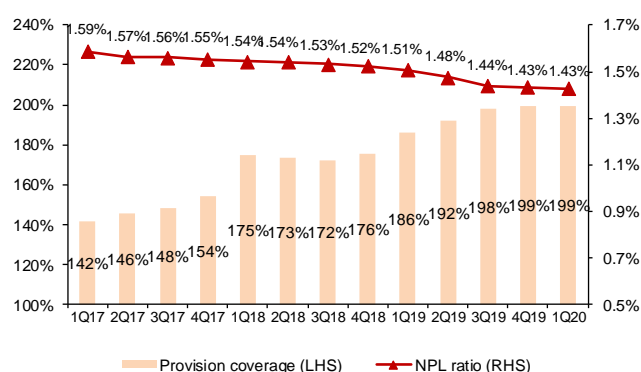
Source: Company data, CMBIS

Figure 2: Quarterly NIM of ICBC



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of ICBC



Source: Company data, CMBIS

Figure 4: Adjustments of earnings forecasts

	Net profit (RMB mn)			EPS (RMB)			Fee income growth YoY		
	Old	New	Change	Old	New	Change	Old	New	Change
FY20E	327,769	322,633	-1.6%	0.91	0.89	-1.9%	8.0%	3.0%	-5ppt
FY21E	347,184	338,463	-2.5%	0.96	0.94	-2.4%	8.0%	5.0%	-3ppt

Source: Company, CMBIS estimates

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	160,268	168,281	176,695
Others	7,302	13,476	14,919	16,326	17,751
Operating income	725,121	776,002	820,458	875,492	943,397
Operating expenses	(194,203)	(207,776)	(220,468)	(233,972)	(249,913)
PPoP	530,918	568,226	599,990	641,520	693,484
Provision	(161,594)	(178,957)	(197,707)	(219,446)	(244,030)
Operating profit	369,324	389,269	402,283	422,075	449,454
Non-operating income	3,089	2,520	2,520	2,520	2,520
Pre-tax profit	372,413	391,789	404,803	424,595	451,974
Income tax expenses	(73,690)	(78,428)	(81,033)	(84,995)	(90,476)
Minority interests	(1,047)	(1,137)	(1,137)	(1,137)	(1,137)
Net profit	297,676	312,224	322,633	338,463	360,361

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Op. income mix					
Net interest income	79%	78%	79%	79%	79%
Net fee income	20%	20%	20%	19%	19%
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%	3.0%	5.0%	5.0%
Operating income	7.3%	7.0%	5.7%	6.7%	7.8%
PPoP	8.5%	7.0%	5.6%	6.9%	8.1%
Net profit	4.1%	4.9%	3.3%	4.9%	6.5%
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%	25.7%	25.6%	25.3%

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	1,048,740	1,135,811	1,230,238
Total assets	27,699,540	30,109,436	32,459,802	34,991,376	37,724,076
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	2,901,896	3,139,044	3,393,341
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	2,917,713	3,154,861	3,409,158

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%	13.6%	13.8%	13.9%
Tier-1 CAR	13.8%	14.2%	14.3%	14.4%	14.4%
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%	12.3%	11.9%	11.6%
ROA	1.09%	1.06%	1.02%	0.99%	0.98%
RoRWA	1.77%	1.72%	1.66%	1.62%	1.61%
Per share					
EPS (RMB)	0.82	0.86	0.89	0.94	1.00
DPS (RMB)	0.25	0.26	0.27	0.28	0.30
BVPS (RMB)	6.30	6.93	7.56	8.23	8.94

Source: Company data, CMBIS estimates

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