

Company update

Industrial and Commercial Bank of China -A

Research Team
China | Financials

Rating BUY (as at 28 February 2022)
 Last Close CNY 4.67
 Fair Value CNY 5.80

A laggard among its peers

- **Top-line growth accelerated**
- **Asset quality remained stable**
- **Undemanding valuation but lack of catalysts**

Investment thesis

ICBC's diversified business mix, strong balance sheet and high profitability makes it a quality bank within the sector that is more resilient to China's moderating economic growth.

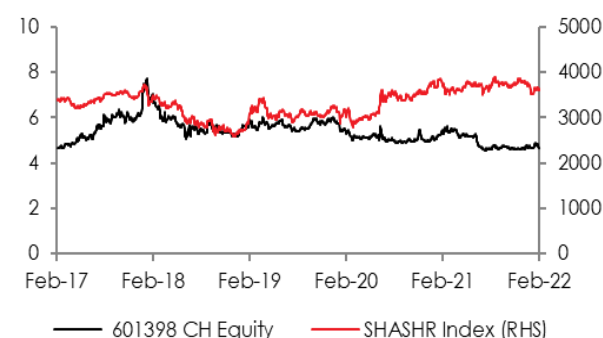
Investment summary

- **Top-line growth accelerated** – While ICBC's 3Q21 net profit growth accelerated to 11% y/y, its profit growth continued to lag behind its peers i.e., the Big-5 SOE banks. Revenue growth accelerated from 6% y/y in 1H21 to 10% y/y in 3Q21, mainly driven by trading and investment income with net gain on financial investments surged 310% y/y to CNY10.6bn in 3Q21. Having said that, core earnings remained relatively weak, with net interest margin (NIM) edged down modestly by 1bp q/q to 2.09% and fee income growth stayed flat y/y in 3Q21.
- **Asset quality remained stable** – Non-performing loans (NPL) ratio edged down 2bps q/q to 1.52% in 3Q21. NPL coverage improved further by 4.8ppt q/q to around 197%.
- **Undemanding valuation but lack of catalysts** – Looking ahead, management expects NIM trend to gradually stabilize in light of ICBC's effort to continue optimising its funding cost and asset mix to cope with downward pressure on asset yield. The stock is trading at 0.52x forward Price-to-Book (vs. 11.5% forward Return-on-Equity and is close to -2 s.d. to historical averages) and is offering more than 6% forward dividend yield. Despite that valuation is undemanding, we believe there is a lack of positive catalysts. In the medium- to long-term, we maintain our preference to retail-focused banks within the Chinese banks sector. We maintain our Fair Value estimate at CNY5.8 based on an unchanged

Security information

Ticker	601398 CH
Market Cap (CNY bn)	1,583.1
Daily turnover (CNY m)	756.0
Free Float	7%
Shares Outstanding (m)	269,612
Top Shareholder	CHINA INVESTMENT COR 46.26%

Price performance chart



Financial summary

CNY bn	2020	2021E	2022E
Net interest income	646.8	679.5	736.0
Pre-provision profits	593.5	642.3	696.5
Net profit	307.1	312.8	318.2
EPS (RMB)	0.9	0.9	0.9
DPS (RMB)	0.3	0.3	0.3

Key ratios

%	2020	2021E	2022E
ROAA	0.9%	0.9%	0.8%
ROAE	11.6%	11.0%	1.7%
Net interest margin	2.3%	2.1%	1.9%
NPL ratio	1.6%	1.8%	1.9%
Core Tier-1 ratio	13.2%	12.8%	12.4%

Source: Bloomberg, Company, Internal estimates

valuation multiple of 0.67x forward Price-to-Book, which is set at -1 s.d. to historical average.

ESG updates

- **Increased focus on SME lending and talent management; challenges in risk controls** – ICBC has strong talent management practices and sector-leading growth of small/micro-loans in FY20. There has been marginal improvement in corporate governance. ICBC reported a total of CNY 203bn in impairment losses on assets in FY20 and this may indicate challenges related to product risk control.
- ICBC's corporate governance practices appear to be on par with peers, driven by pay and accounting practices. In terms of board and ownership structures, the state controls 69.1% voting power and has 4 of 12 directors on the board. Further, the chairman is an executive director, impeding the board's independent oversight of management.
- In terms of corporate behavior, ICBC enforces ethical policies and provides ethical training to all employees. Yet, it appears to lag leading peers in adopting industry leading compliance practices.

Potential catalysts

- Slowdown in macroeconomic growth is less than expected, particularly in rural areas.
- Further improvement in asset quality.
- Better-than-expected stabilisation in net interest margin trend.

Investment risks

- Weaker-than-expected economic growth.
- Keen competition from other financial institutions and loss of deposit market share.
- Higher-than-expected operation costs and funding costs.
- Further contraction in fee income growth

Valuation analysis

	Price/Earnings		Price/Book		Dividend Yield (%)		ROE (%)	
	2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E
IND & COMM BK OF CHINA-A (601398 CH)	5.1	4.7	0.6	0.5	6.1	6.5	11.8	11.6
AGRICULTURAL BANK OF CHINA-A (601288 CH)	4.7	4.4	0.5	0.5	6.7	7.0	11.0	10.9
BANK OF CHINA LTD-A (601988 CH)	4.7	4.4	0.5	0.4	6.7	7.2	10.6	10.5
CHINA CONSTRUCTION BANK-A (601939 CH)	5.2	4.9	0.6	0.6	5.9	6.3	12.1	11.9

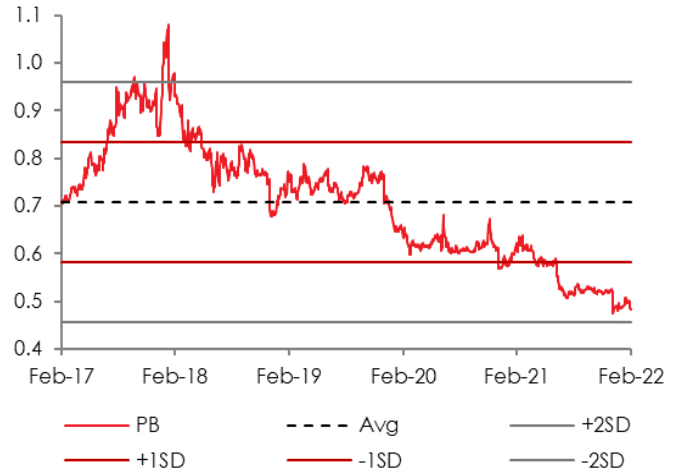
Source: Bloomberg

Price/Earnings chart



Source: Bloomberg

Price/Book chart



Source: Bloomberg

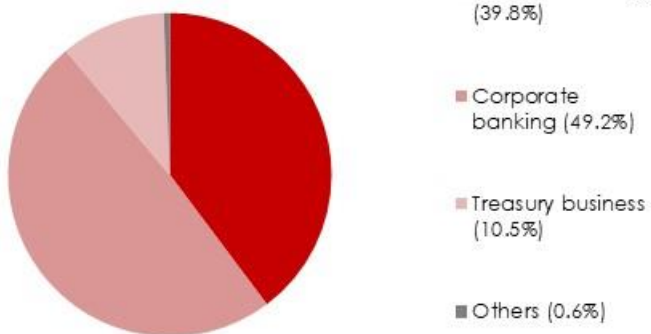
Company overview (as of 31 December 2020)

Company description

Industrial and Commercial Bank of China (ICBC) is the largest commercial bank in China in terms of assets, loans and deposits. As of the end of 2018, it had total assets of CNY27 trillion, total loans of CNY15tn, and total deposits of CNY21tn, implying a market share of more than 10% in loans and deposits. ICBC is a leading provider of commercial banking services and has a dominant position in consumer and corporate banking segments.

FY20 revenue breakdown

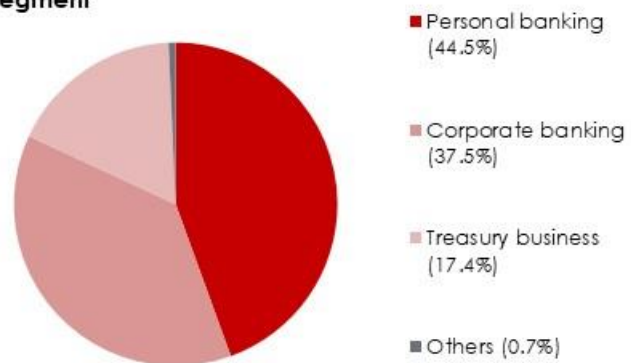
By segment



Source: Bloomberg

FY20 pretax income breakdown

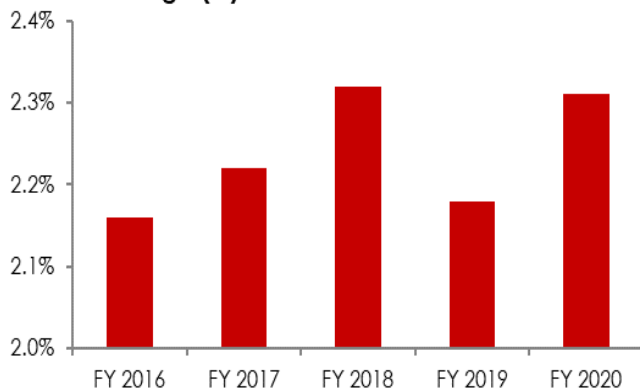
By segment



Source: Bloomberg

Net interest margin

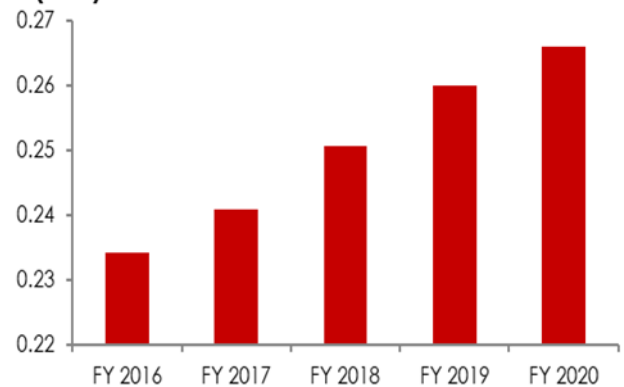
Net interest margin (%)



Source: Company data

Dividends per share

DPS (CNY)



Source: Bloomberg

Company financials

In Millions of CNY except Per Share	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
12 Months Ending	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
Net Revenue	660,835	694,523	742,167	791,779	815,528
- Net Interest Income	472,189	522,406	572,747	633,195	649,120
- Total non-interest Income	188,646	172,117	169,420	158,584	166,408
- Provisions for loan losses	86,138	124,096	147,347	162,108	171,830
Net Revenue after Provisions	574,697	570,427	594,820	629,671	643,698
- Total non-interest expense	214,022	208,736	225,496	240,402	252,876
Operating Income or Losses	360,675	361,691	369,324	389,269	390,822
- Foreign Exchange Losses (Gains)	—	—	—	—	—
- Net Non-Operating Losses (Gains)	(2,604)	(2,950)	(3,089)	(2,520)	(1,304)
Pretax Income	363,279	364,641	372,413	391,789	392,126
- Income Tax Expense (Benefit)	84,173	77,190	73,690	78,428	74,441
Income Before XO Items	279,106	287,451	298,723	313,361	317,685
- Extraordinary Loss Net of Tax	-	-	-	-	-
- Minority/Non Controlling Interests (Credits)	857	1,402	1,047	1,137	1,779
Net Income/Net Profit (Losses)	278,249	286,049	297,676	312,224	315,906
Net Inc Avail to Common Shareholders	273,799	281,612	293,170	307,699	307,067
Abnormal Losses (Gains)	(618)	1,879	(3,872)	(2,528)	(2,646)
Tax Effect on Abnormal Items	155	(470)	968	632	662
Normalized Income	273,336	283,021	290,266	305,803	305,083
Basic Earnings per Share	1	1	1	1	1
Basic Weighted Avg Shares	356,407	356,407	356,407	356,407	356,407
Diluted EPS Before Abnormal Items	0.8	0.8	0.8	0.9	0.9
Diluted EPS Before XO Items	0.8	0.8	0.8	0.9	0.9
Diluted EPS	0.8	0.8	0.8	0.9	0.9
Diluted Weighted Avg Shares	356,407	356,407	356,407	356,407	356,407

Profitability Ratios

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
12 Months Ending	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
Returns					
Return on Common Equity	15.2	14.3	13.7	13.1	12.0
Return on Assets	1.2	1.1	1.1	1.1	1.0
Return on Capital	5.8	5.5	5.6	5.6	4.9
Return on Invested Capital	7.1	7.4	7.7	7.7	7.0
Margins					
Operating Margin	54.6	52.1	49.8	49.2	47.9
Incremental Operating Margin	(0.9)	3.0	16.0	40.2	6.5
Pretax Margin	37.1	35.3	33.3	32.0	31.1
Income before XO Margin	42.2	41.4	40.3	39.6	39.0
Net Income Margin	42.1	41.2	40.1	39.4	38.7
Net Income to Common Margin	41.4	40.5	39.5	38.9	37.7
Additional					
Effective Tax Rate	23.2	21.2	19.8	20.0	19.0
Dvd Payout Ratio	30.5	30.5	30.5	30.4	30.9
Sustainable Growth Rate	10.6	10.0	9.5	9.1	8.3

Credit Ratios

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
12 Months Ending	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
Total Debt/EBIT	8.2	9.1	8.0	8.5	10.1
Net Debt/EBIT	(5.4)	(6.0)	(5.7)	(4.9)	(3.6)
EBIT to Interest Expense	—	—	—	—	—
Long-Term Debt/Total Assets	1.5	2.0	2.2	2.6	2.5
Net Debt/Equity	(97.9)	(101.3)	(90.5)	(70.7)	(48.1)

Source: Bloomberg

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