

# China / Hong Kong Company Update

# Agricultural Bank of China

Bloomberg: 1288 HK EQUITY | 601288 CH Equity | Reuters: 1288.HK | 601288.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Apr 2022

**H: HOLD** (Reinstating coverage)

Last Traded Price (H) (21 Apr 2022): HK\$3.00 (HSI : 20,682)

Price Target 12-mth (H): HK\$3.10 (3.3% upside)

**A: HOLD** (Reinstating coverage)

Last Traded Price (A) (21 Apr 2022): RMB3.07 (CSI300 Index : 3,996)

Price Target 12-mth (A): RMB3.20 (4.3% upside)

### Analyst

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### What's New

- Cautious about its SME, county-area corporate loan exposure, which is more vulnerable to uncertainties
- Expect steady loan growth with a relatively low LDR
- Expect stable bond yield ahead, which is supportive to ABC's yield due to its high bond exposure
- Reinstate coverage with HOLD and TP at HK\$ 3.10

## High exposure to vulnerable SME loans

### Investment Thesis

**Concerns about its exposure to SMEs.** In FY21, ABC had a total loan balance of Rmb3.5tn county-area corporate loans and inclusive SME loans account for 27.4% of total loans, the highest among its peers. We are more concerned about the asset quality of such loans, as SMEs are more vulnerable to supply chain breaks resulting from lockdowns and geopolitical uncertainties.

**Positivity on strong loan growth to offset low loan yield.** We expect ABC's loan growth to remain at a healthy level, supported by its relatively low LDR at c.78.4% by FY21.

**Stable bond yield supportive for the bank.** ABC has c.26% of total assets in bond, the highest among its peers. We expect the 10-yr China government bond yield to be maintained at the current level of c.2.8% by the end of 2022.

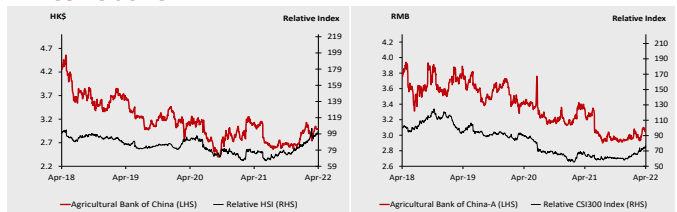
### Valuation:

We reinstate our coverage with HOLD and TP at HK\$3.10, based on DDM, assuming a 15.8% cost of equity, 8.5% ROE, and 3.5% terminal growth. The TP implies a 0.4x FY22F P/BV, or slightly lower than its five-year average of c.0.6x.

### Where we differ:

We have a higher estimation of its provision cost in FY22-24F, given our cautious view on its asset quality. Though we expect a lower NPL ratio overall, we view the company to have a higher risk than its peers, given its higher exposure to more vulnerable county-area and SME corporate loans when the economy is faced with high uncertainty.

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMB m)	2021A	2022F	2023F	2024F
Pre-prov. Profit	461,471	487,012	528,121	579,313
Pre-prov. Profit Gth (%)	7	6	8	10
Pretax Profit	295,880	302,605	317,300	332,799
Net Profit	227,385	232,867	244,845	257,479
EPS (RMB)	0.65	0.67	0.70	0.74
EPS (HK\$)	0.78	0.80	0.84	0.88
EPS Gth (%)	10	2	5	5
PE (X)	3.8	3.8	3.6	3.4
DPS (HK\$)	0.25	0.25	0.27	0.28
Div Yield (%)	8.3	8.5	8.9	9.3
BV Per Share (HK\$)	7.05	7.61	8.20	8.83
P/Book Value (x)	0.4	0.4	0.4	0.3
ROAE (%)	11.5	10.9	10.6	10.4
ROAE (ex-exceptional) (%)	11.5	10.9	10.6	10.4
ROA (%)	0.81	0.77	0.75	0.74
Earnings Rev (%):		New	New	New
Consensus EPS (RMB)		0.69	0.73	0.79
Other Broker Recs:		B:25	S:1	H:3

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

### Key Risks to Our View:

Asset quality better than expected; higher-than-expected growth in China economy

### At A Glance

Issued Capital - H shares (m shs)	30,739
- Non H shrs (m shs)	319,244
H shs as a % of Total	9
Total Mkt Cap (HK\$m/US\$m)	1,290,159 / 164,514
Major Shareholders (%)	
Central Huijin Investment Ltd.	43.9
Ministry of Finance of the PRC	38.8
National Social Security Fund	7.4
Major H Shareholders (As % of H shares)	
China Life Insurance Co Ltd	5.1
H Shares-Free Float (%)	94.9
3m Avg. Daily Val. (US\$m)	43.46
GICS Industry: Financials / Banks	



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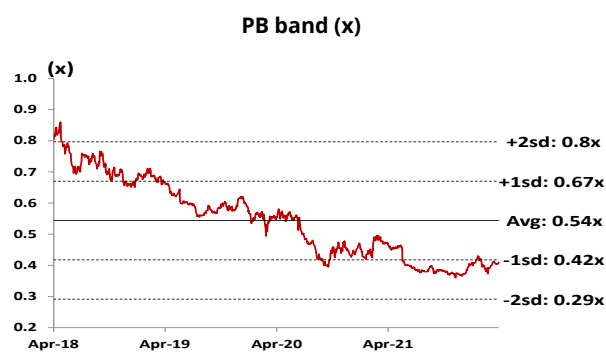
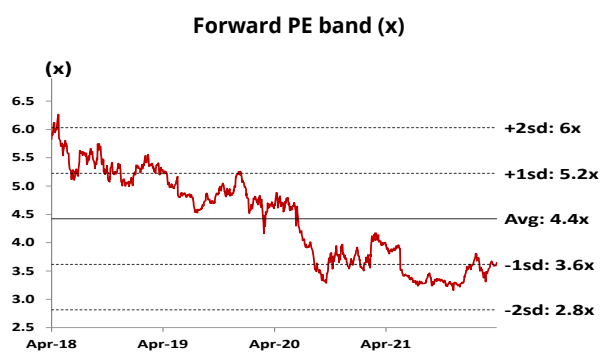


## Agricultural Bank of China

### Company Background

The Agricultural Bank of China (ABC) was first established in 1951 as the Agricultural Bank. Since the late 1970s, it has evolved from a state-owned specialised bank into a wholly state-owned commercial bank and subsequently a state-owned commercial bank. In January 2009, it was restructured into a joint stock limited liability company. ABC was listed on both HKEX and SHEX in July 2010. As at 2021, ABC had total assets of Rmb29tn and Rmb17.2tn in gross loans.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Agricultural Bank of China

### Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
NIM (%)	2.20	2.12	2.07	2.07	2.10
Loan growth (%)	14	13	12	12	11
Fee growth (%)	(14)	8	8	8	8
Cost-to-income (%)	34.9	36.1	37.0	37.3	37.4
Credit cost (%)	1.16	1.03	1.03	1.05	1.10
Customer Deposits Growth (%)	10	8	8	8	7
Yld. On Earnings Assets (%)	3.67	3.64	3.62	3.63	3.66
Avg Cost Of Funds (%)	1.71	1.74	1.76	1.76	1.77

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Interest Income	545,079	577,987	613,340	668,364	735,256
Non-Interest Income	114,253	143,759	159,697	174,194	189,856
<b>Operating Income</b>	<b>659,332</b>	<b>721,746</b>	<b>773,037</b>	<b>842,558</b>	<b>925,112</b>
Operating Expenses	(229,897)	(260,275)	(286,025)	(314,437)	(345,799)
<b>Pre-provision Profit</b>	<b>429,435</b>	<b>461,471</b>	<b>487,012</b>	<b>528,121</b>	<b>579,313</b>
Provisions	(164,903)	(166,000)	(184,825)	(211,259)	(246,975)
Associates	518	409	418	439	460
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>265,050</b>	<b>295,880</b>	<b>302,605</b>	<b>317,300</b>	<b>332,799</b>
Taxation	(48,650)	(53,944)	(55,170)	(57,849)	(60,675)
Minority Interests	(475)	(753)	(770)	(808)	(847)
Preference Dividend	(9,530)	(13,798)	(13,798)	(13,798)	(13,798)
<b>Net Profit</b>	<b>206,395</b>	<b>227,385</b>	<b>232,867</b>	<b>244,845</b>	<b>257,479</b>
Net Profit bef Except	206,395	227,385	232,867	244,845	257,479

### Growth (%)

Net Interest Income Gth	11.96	6.04	6.12	8.97	10.01
Net Profit Gth	(0.53)	10.17	2.41	5.14	5.16

### Margins, Costs & Efficiency (%)

Spread	1.95	1.90	1.86	1.87	1.88
Net Interest Margin	2.15	2.09	2.05	2.06	2.08
Cost-to-Income Ratio	34.9	36.1	37.0	37.3	37.4

### Business Mix (%)

Net Int. Inc / Opg Inc.	82.7	80.1	79.3	79.3	79.5
Non-Int. Inc / Opg inc.	17.3	19.9	20.7	20.7	20.5
Fee Inc / Opg Income	11.3	11.1	11.2	11.2	11.0
Oth Non-Int Inc/Opg Inc	6.0	8.8	9.4	9.5	9.5

### Profitability (%)

ROAE Pre Ex.	11.4	11.5	10.9	10.6	10.4
ROAE	11.4	11.5	10.9	10.6	10.4
ROA Pre Ex.	0.8	0.9	0.8	0.8	0.8
ROA	0.8	0.8	0.8	0.8	0.7

Source: Company, DBS HK

## Agricultural Bank of China

### Quarterly Income Statement (RMB m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Net Interest Income	151,294	140,112	143,245	146,360	148,270
Non-Interest Income	8,827	54,387	28,510	33,267	27,595
<b>Operating Income</b>	<b>160,121</b>	<b>194,499</b>	<b>171,755</b>	<b>179,627</b>	<b>175,865</b>
Operating Expenses	(69,732)	(63,642)	(53,049)	(56,593)	(86,991)
<b>Pre-Provision Profit</b>	<b>90,389</b>	<b>130,857</b>	<b>118,706</b>	<b>123,034</b>	<b>88,874</b>
Provisions	(25,690)	(50,237)	(45,904)	(45,488)	(24,371)
Associates	534	210	(94)	212	81
Exceptionals	0	0	0	0	0
<b>Pretax Profit</b>	<b>65,233</b>	<b>80,830</b>	<b>72,708</b>	<b>77,758</b>	<b>64,584</b>
Taxation	(14,744)	(14,642)	(16,063)	(13,221)	(10,018)
Minority Interests	101	(327)	(228)	(106)	(92)
<b>Net Profit</b>	<b>43,260</b>	<b>65,861</b>	<b>51,523</b>	<b>64,431</b>	<b>45,570</b>

### Growth (%)

Net Interest Income Gth	19.7	8.1	10.8	8.5	(2.0)
Net Profit Gth	49.0	2.6	21.4	14.0	5.3

Source: Company, DBS HK

### Interim Income Statement (RMB m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Net Interest Income	249,239	258,897	286,182	283,357	294,630
Non-Interest Income	55,644	80,877	33,376	82,897	60,862
<b>Operating Income</b>	<b>304,883</b>	<b>339,774</b>	<b>319,558</b>	<b>366,254</b>	<b>355,492</b>
Operating Expenses	(118,943)	(108,043)	(121,854)	(116,691)	(143,584)
<b>Pre-Provision Profit</b>	<b>185,940</b>	<b>231,731</b>	<b>197,704</b>	<b>249,563</b>	<b>211,908</b>
Provisions	(65,296)	(99,174)	(65,729)	(96,141)	(69,859)
Associates	70	(2)	520	116	293
Exceptionals	0	0	0	0	0
<b>Pretax Profit</b>	<b>120,714</b>	<b>132,555</b>	<b>132,495</b>	<b>153,538</b>	<b>142,342</b>
Taxation	(30,162)	(23,365)	(25,285)	(30,705)	(23,239)
Minority Interests	101	(356)	(119)	(555)	(198)
<b>Net Profit</b>	<b>88,253</b>	<b>106,634</b>	<b>99,761</b>	<b>117,384</b>	<b>110,001</b>

### Growth (%)

Net Interest Income Gth	N/A	8.9	14.8	9.4	3.0
Net Profit Gth	N/A	(10.6)	13.0	10.1	10.3

Source: Company, DBS HK

## Agricultural Bank of China

### Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Cash/Bank Balance	2,437,275	2,321,406	2,472,767	2,607,592	2,721,516
Government Securities	0	0	0	0	0
Inter Bank Assets	1,797,339	1,503,081	1,052,157	736,510	478,731
Total Net Loans & Adv.	14,552,433	16,454,503	18,458,361	20,577,668	22,847,309
Investment	7,239,590	7,769,802	8,338,846	8,949,565	9,605,012
Associates	8,865	8,297	8,297	8,297	8,297
Fixed Assets	151,154	153,299	155,474	157,681	159,918
Goodwill	1,381	1,381	1,409	1,437	1,466
Other Assets	1,017,010	857,386	768,214	576,838	400,359
<b>Total Assets</b>	<b>27,205,047</b>	<b>29,069,155</b>	<b>31,255,523</b>	<b>33,615,587</b>	<b>36,222,607</b>
Customer Deposits	20,372,901	21,907,127	23,550,162	25,316,424	27,215,155
Inter Bank Deposits	2,631,532	2,696,717	2,966,389	3,263,028	3,654,591
Debts/Borrowings	1,119,276	1,245,385	1,298,991	1,363,940	1,432,137
Others	870,592	798,567	853,349	912,357	975,952
Minorities	5,957	6,754	7,416	8,112	8,843
Shareholders' Funds	2,204,789	2,414,605	2,579,218	2,751,725	2,935,929
<b>Total Liab&amp; S/H's Funds</b>	<b>27,205,047</b>	<b>29,069,155</b>	<b>31,255,523</b>	<b>33,615,587</b>	<b>36,222,607</b>

Source: Company, DBS HK

### Financial Stability Measures (%)

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Balance Sheet Structure</b>					
Loan-to-Deposit Ratio	74.5	78.4	81.9	85.1	88.0
Net Loans / Total Assets	53.5	56.6	59.1	61.2	63.1
Investment / Total Assets	26.6	26.7	26.7	26.6	26.5
Cust. Dep./Int. Bear. Liab.	82.6	83.0	83.0	82.7	82.3
Interbank Dep / Int. Bear.	9.1	8.3	8.6	9.1	9.7
<b>Asset Quality</b>					
NPL / Total Gross Loans	1.6	1.4	1.4	1.3	1.3
NPL / Total Assets	0.9	0.8	0.8	0.8	0.9
Loan Loss Reserve Coverage	260.6	293.1	319.3	346.4	361.1
Provision Charge-Off Rate	1.1	1.0	1.0	1.0	1.0
<b>Capital Strength</b>					
Total CAR	16.6	17.1	16.5	16.3	16.0
Tier-1 CAR	11.0	11.4	11.3	11.3	11.3

Source: Company, DBS HK

## Agricultural Bank of China

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**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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