

DBS Group Research . Equity

22 Apr 2022

**H: BUY** (Reinstating coverage)

Last Traded Price (H) ( 21 Apr 2022): HK\$4.74 (HSI : 20,682)

Price Target 12-mth (H): HK\$6.10 (28.7% upside)

**A: BUY** (Reinstating coverage)

Last Traded Price (A) ( 21 Apr 2022): RMB4.78 (CSI300 Index : 3,996)

Price Target 12-mth (A): RMB5.40 (13.0% upside)

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**What's New**

- Expect c.10% y-o-y loan growth with ICBC's traditional advantage in corporate loans
- Expect less NIM pressure than peer average, thanks to its stable funding cost
- Improving asset quality with NPL ratio down 16bps to 1.42% in FY21
- Reinstate coverage with BUY and TP at HK\$ 6.1

## Large and strong

### Investment Thesis

**Steady loan growth to support earnings.** With its traditional strength in corporate loans, we expect ICBC to see c.10% y-o-y loan growth in 2022, supported by more loosening policies.

**Benefiting from stable funding costs.** ICBC's NIM was down by 4bps to 2.11%. The downward extent is among the lowest compared to peers. While we expect further NIM pressure in 2022, we believe ICBC can keep its funding costs stable as it has a broad branch network to acquire depositors.

**Improving asset quality trend.** We expect a stabilising and improving trend of ICBC's asset quality in 2022, given its optimising loan structure and cautious risk management in the whole lending process.

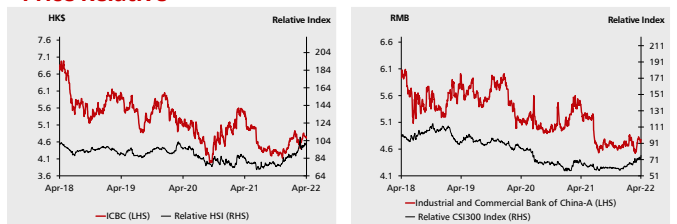
### Valuation:

We reinstate coverage with BUY and TP at HK\$6.10 based on the DDM model and assuming 13.2% cost of equity, 8.5% ROE, and 3.5% terminal growth. Our TP implies a 0.6x FY22F P/BV, slightly below its five-year average of 0.7x.

### Where we differ:

We have 1-3bps higher-than-consensus NIM estimation for FY22-24F as we expect ICBC to see less pressure on NIM in FY22F, aided by a stable LPR and better funding cost structure, and steady fee income growth driven by WMP, bank card, and settlement fees.

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMB m)	2021A	2022F	2023F	2024F
Pre-prov. Profit	624,653	641,699	674,739	717,871
Pre-prov. Profit Gth (%)	5	3	5	6
Pretax Profit	424,899	448,967	471,242	495,562
Net Profit	338,731	358,462	376,724	396,662
EPS (RMB)	0.95	1.01	1.06	1.11
EPS (HK\$)	1.14	1.21	1.27	1.34
EPS Gth (%)	10	6	5	5
PE (X)	4.2	3.9	3.7	3.5
DPS (HK\$)	0.35	0.37	0.39	0.41
Div Yield (%)	7.4	7.8	8.2	8.7
BV Per Share (HK\$)	9.78	10.79	11.66	12.57
P/Book Value (x)	0.5	0.4	0.4	0.4
ROAE (%)	12.2	11.7	11.3	11.0
ROAE (ex-exceptional) (%)	12.2	11.7	11.3	11.0
ROA (%)	0.99	1.00	1.00	1.00
Earnings Rev (%):		New	New	New
Consensus EPS (RMB)		1.00	1.07	1.15
Other Broker Recs:		B:25	S:0	H:3

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

### Key Risks to Our View:

Further NIM contraction and deteriorating NPL, slower economic growth in China.

### At A Glance

Issued Capital - H shares (m shs)	86,794
- Non H shrs (m shs)	269,612
H shs as a % of Total	24
Total Mkt Cap (HK\$m/US\$m)	1,976,348 / 252,013
Major Shareholders (%)	
Central Huijin Investment Ltd.	46.0
Ministry of Finance of the PRC	41.2
Major H Shareholders (As % of H shares)	
Ping An Asset Management Co., Ltd.	14.0
National Social Security Fund	10.0
Temasek Holdings Pte. Ltd.	8.4
H Shares-Free Float (%)	67.6
3m Avg. Daily Val. (US\$m)	126.79
GICS Industry: Financials / Banks	



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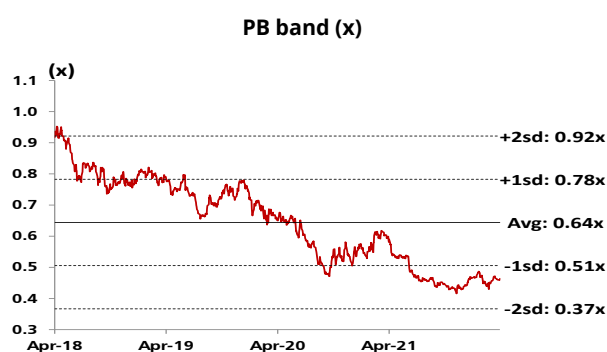
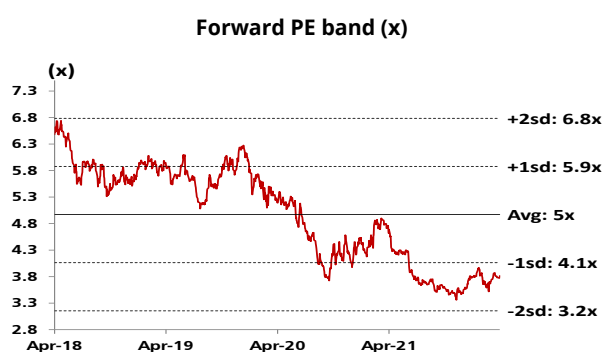
Live more, Bank less

**ICBC**

**Company Background**

ICBC was established in January 1984 and wholly restructured into a joint-stock bank in October 2005. As of 2021, ICBC's total assets amounted to Rmb35.1tr while its gross loans and total deposits reached Rmb20.7tr and Rmb26.4tr respectively. It is the largest commercial bank globally in terms of total assets and market cap. The bank was dual-listed on the HKEX and the SSE on 27 October 2006.

**Historical PE and PB band**



Source: Thomson Reuters, DBS HK

## ICBC

## Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
NIM (%)	2.15	2.11	2.08	2.10	2.15
Loan growth (%)	11	11	10	10	10
Fee growth (%)	(16)	1	4	3	3
Cost-to-income (%)	25.8	27.4	29.0	30.0	30.6
Credit cost (%)	0.97	0.86	0.90	0.86	0.85
Customer Deposits Growth (%)	9	5	5	4	4
Yld. On Earnings Assets (%)	3.62	3.54	3.48	3.49	3.56
Avg Cost Of Funds (%)	1.67	1.64	1.65	1.67	1.70

Source: Company, DBS HK

## Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Interest Income	646,765	690,680	724,578	776,560	838,171
Non-Interest Income	153,310	170,200	178,757	187,067	195,993
<b>Operating Income</b>	<b>800,075</b>	<b>860,880</b>	<b>903,335</b>	<b>963,626</b>	<b>1,034,164</b>
Operating Expenses	(206,585)	(236,227)	(261,636)	(288,888)	(316,292)
<b>Pre-provision Profit</b>	<b>593,490</b>	<b>624,653</b>	<b>641,699</b>	<b>674,739</b>	<b>717,871</b>
Provisions	(202,668)	(202,623)	(195,764)	(206,679)	(225,655)
Associates	1,304	2,869	3,032	3,182	3,346
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>392,126</b>	<b>424,899</b>	<b>448,967</b>	<b>471,242</b>	<b>495,562</b>
Taxation	(74,441)	(74,683)	(78,913)	(82,829)	(87,103)
Minority Interests	(1,779)	(1,878)	(1,984)	(2,083)	(2,190)
Preference Dividend	(8,839)	(9,607)	(9,607)	(9,607)	(9,607)
<b>Net Profit</b>	<b>307,067</b>	<b>338,731</b>	<b>358,462</b>	<b>376,724</b>	<b>396,662</b>
Net Profit bef Except	307,067	338,731	358,462	376,724	396,662

## Growth (%)

Net Interest Income Gth	6.56	6.79	4.91	7.17	7.93
Net Profit Gth	(0.21)	10.31	5.82	5.09	5.29

## Margins, Costs &amp; Efficiency (%)

Spread	1.94	1.90	1.83	1.82	1.86
Net Interest Margin	2.14	2.10	2.07	2.09	2.14
Cost-to-Income Ratio	25.8	27.4	29.0	30.0	30.6

## Business Mix (%)

Net Int. Inc / Opg Inc.	80.8	80.2	80.2	80.6	81.0
Non-Int. Inc / Opg inc.	19.2	19.8	19.8	19.4	19.0
Fee Inc / Opg Income	16.4	15.5	15.3	14.7	14.2
Oth Non-Int Inc/Opg Inc	2.8	4.3	4.5	4.7	4.8

## Profitability (%)

ROAE Pre Ex.	12.0	12.2	11.7	11.3	11.0
ROAE	12.0	12.2	11.7	11.3	11.0
ROA Pre Ex.	1.0	1.0	1.0	1.0	1.0
ROA	1.0	1.0	1.0	1.0	1.0

Source: Company, DBS HK

**ICBC**
**Interim Income Statement (RMB m)**

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Net Interest Income	307,625	306,549	340,216	336,293	354,387
Non-Interest Income	74,174	95,797	(153,420)	90,113	80,087
<b>Operating Income</b>	<b>381,799</b>	<b>402,346</b>	<b>186,796</b>	<b>426,406</b>	<b>434,474</b>
Operating Expenses	(120,622)	(87,925)	(118,660)	(94,991)	(141,236)
<b>Pre-Provision Profit</b>	<b>261,177</b>	<b>314,421</b>	<b>68,136</b>	<b>331,415</b>	<b>293,238</b>
Provisions	(79,777)	(125,456)	(77,212)	(124,547)	(78,076)
Associates	1,180	386	918	1,202	1,667
Exceptionals	0	0	0	0	0
<b>Pretax Profit</b>	<b>182,580</b>	<b>189,351</b>	<b>(8,158)</b>	<b>208,070</b>	<b>216,829</b>
Taxation	(37,909)	(39,555)	(34,886)	(43,561)	(31,122)
Minority Interests	(378)	(1,006)	(773)	(1,036)	(842)
<b>Net Profit</b>	<b>139,768</b>	<b>148,790</b>	<b>(52,656)</b>	<b>163,473</b>	<b>175,258</b>

**Growth (%)**

Net Interest Income Gth	4.3	2.4	10.6	9.7	4.2
Net Profit Gth	5.3	(11.4)	N/A	9.9	N/A

Source: Company, DBS HK

## ICBC

**Balance Sheet (RMB m)**

FY Dec	2020A	2021A	2022F	2023F	2024F
Cash/Bank Balance	3,537,795	3,098,438	3,192,844	3,191,456	3,168,245
Government Securities	0	0	0	0	0
Inter Bank Assets	1,821,185	1,490,646	1,192,517	834,762	667,809
Total Net Loans & Adv.	18,136,328	20,109,200	22,191,234	24,494,999	27,033,564
Investment	7,806,656	8,634,537	8,893,573	8,849,105	8,406,650
Associates	41,206	61,782	61,782	61,782	61,782
Fixed Assets	286,279	290,296	290,296	290,296	290,296
Goodwill	12,689	13,360	13,360	13,360	13,360
Other Assets	1,702,920	1,473,124	658,433	761,132	832,192
<b>Total Assets</b>	<b>33,345,058</b>	<b>35,171,383</b>	<b>36,494,039</b>	<b>38,496,892</b>	<b>40,473,899</b>
Customer Deposits	25,134,726	26,441,774	27,763,863	29,013,237	30,173,766
Inter Bank Deposits	3,132,667	3,326,695	3,659,365	4,025,301	4,427,831
Debts/Borrowings	798,127	791,375	0	0	0
Others	1,370,023	1,336,281	1,453,431	1,581,413	1,721,261
Minorities	16,013	17,503	18,975	20,516	22,137
Shareholders' Funds	2,893,502	3,257,755	3,598,407	3,856,426	4,128,904
<b>Total Liab&amp; S/H's Funds</b>	<b>33,345,058</b>	<b>35,171,383</b>	<b>36,494,039</b>	<b>38,496,892</b>	<b>40,473,899</b>

Source: Company, DBS HK

**Financial Stability Measures (%)**

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Balance Sheet Structure</b>					
Loan-to-Deposit Ratio	74.1	78.2	82.3	87.0	92.4
Net Loans / Total Assets	54.4	57.2	60.8	63.6	66.8
Investment / Total Assets	23.4	24.5	24.4	23.0	20.8
Cust. Dep./Int. Bear. Liab.	85.1	84.9	86.1	87.3	86.7
Interbank Dep / Int. Bear.	11.0	11.4	12.1	12.7	13.3
<b>Asset Quality</b>					
NPL / Total Gross Loans	1.6	1.4	1.3	1.3	1.2
NPL / Total Assets	0.9	0.8	0.8	0.8	0.8
Loan Loss Reserve Coverage	166.0	190.2	216.7	231.5	243.9
Provision Charge-Off Rate	1.1	1.0	0.9	0.8	0.8
<b>Capital Strength</b>					
Total CAR	16.9	18.0	19.1	19.4	19.8
Tier-1 CAR	13.2	13.3	14.3	14.8	15.3

Source: Company, DBS HK

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**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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