

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

1 Nov 2023

H: BUY

Last Traded Price (H) (31 Oct 2023): HK\$2.89 (HSI : 17,112)
Price Target 12-mth (H): HK\$3.40 (17.6% upside) (Prev HK\$3.50)

A: BUY

Last Traded Price (A) (31 Oct 2023): RMB3.59 (CSI300 Index : 3,573)
Price Target 12-mth (A): RMB4.10 (14.2% upside) (Prev RMB4.30)

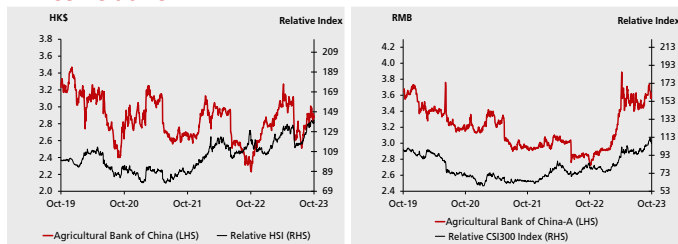
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What's New

- 9M23 net profit to shareholders increased by 5% y-o-y to Rmb207bn, above market expectation due to strong loan growth and lower provision
- Expect more balanced loan volume and pricing mix in FY24F, with NIM downward pressure to be lower than in FY23F
- Expect slightly higher NPL ratio and credit cost in FY24/25F following the strong loan growth
- Reiterate BUY with H-share TP revised down to HK\$3.4

Price Relative



Forecasts and Valuation (H Shares)

FY (RMB m)	2022A	2023F	2024F	2025F
Pre-prov. Profit	451,476	437,362	475,735	519,142
Pre-prov. Profit Gth (%)	(2)	(3)	9	9
Pretax Profit	306,216	303,795	319,758	332,562
Net Profit	241,901	247,524	255,030	265,933
EPS (RMB)	0.69	0.71	0.73	0.76
EPS (HK\$)	0.83	0.85	0.87	0.91
EPS Gth (%)	6	2	3	4
PE (X)	3.5	3.4	3.3	3.2
DPS (HK\$)	0.27	0.27	0.28	0.29
Div Yield (%)	9.2	9.4	9.7	10.1
BV Per Share (HK\$)	7.64	8.23	8.84	9.49
P/Book Value (x)	0.4	0.4	0.3	0.3
ROAE (%)	11.3	10.7	10.2	9.9
ROAE (ex-exceptional) (%)	11.3	10.7	10.2	9.9
ROA (%)	0.77	0.68	0.63	0.60
Earnings Rev (%)		1	(4)	(8)
Consensus EPS (RMB)		0.72	0.75	0.80
Other Broker Recs:		B:21	S:1	H:4

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

Expect more balanced growth ahead

Investment Thesis

Aggressive balance sheet expansion to offset NIM pressure. By the end of Sep 23, ABC continued to post the highest loan growth among peers, at 13% YTD, while NIM dropped the most, by 34bps y-o-y to 1.62%, or -8bps q-o-q. Its competitive advantage is mainly in the areas of rural and county area finance. Its county area loan and deposit balances increased by 18% and 13% YTD, respectively, by the end of Sep 23. Overall, we expect a low single-digit drop in NII in FY23F, with a rebound in FY24/25F, mainly from the growth in its loan balance.

Expect c.3% earnings CAGR for FY22-25F. Our earnings growth assumption is lower than our revenue growth assumption of a c.5% CAGR in the same period, as we see a high potential credit risk associated with the high loan growth, especially with the conservative expectation of China economy growth.

Share price performance supported by steady earnings growth. ABC saw the strongest share price performance among our covered China banks in 2023 YTD and it delivered 9M23 earnings growth that was above market expectations. Its exposure to county areas has been a loan growth engine for the bank when overall credit demand is weak. Looking ahead, we expect ABC to continue to benefit from its advantages through loan balance growth, especially when the China economy yet to fully recover.

We have a BUY rating on ABC with H-share TP revised down to HK\$3.4, based on DDM, which assumes 16.5% cost of equity, 7.5% ROE, and 1% terminal growth. Our earnings assumption for FY24/25F was revised down by 4%/8%, respectively, to reflect the lower NIM environment following the mortgage repricing. The TP implies a 0.4x forward P/B, slightly below its five-year average of 0.6x.

Key Risks

Lower-than-expected economic growth in China and asset quality deterioration.

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)	1,314,443 / 167,998
Major Shareholders (%)	
Central Huijin Investment Ltd.	43.9
Ministry of Finance of the PRC	38.7
National Social Security Fund	7.4
Major H Shareholders (As % of H shares)	
Qatar Investment Authority	8.0
Taiping Asset Management Co., Ltd.	5.0
H Shares-Free Float (%)	87.0
3m Avg. Daily Val. (US\$m)	0.0
GICS Industry: Financials / Banks	

Agricultural Bank of China

WHAT'S NEW

9M23 results above market expectation

9M23 results beat

ABC reported 9M23 net profit to shareholders of c.Rmb207bn, 5% higher y-o-y, above market expectations – and this growth is the highest seen among SOE banks. 9M23 revenue dropped 0.5% y-o-y to Rmb533bn, of which NII dropped by 3.2% y-o-y to Rmb434bn and fee income dropped by 0.9% y-o-y to Rmb24bn. 9M23 NIM dropped by 34bps y-o-y to 1.62% or was c.8bps down q-o-q vis-à-vis quarterly NIM. NPL ratio was stable q-o-q, or 2bps lower than end-Dec 22's level, to 1.35%. The CET-1 ratio, by the end of Sep 23, was 10.4%, and annualised ROE for 9M23 was 11.4%.

Outlook:

1) More balanced loan and NIM growth in FY24/25F
While NIM continues to face downward pressure in 4Q23-1H24, we expect the downward trend to be less than what we have seen this year. ABC is focusing more on balancing its growth between its volume of loan balances and pricing, and will focus more on the comprehensive income from certain customers (e.g., including fee income). We expect ABC to see more balanced volume and pricing growth in FY24/25F when the major overhangs on NIM (e.g., LPR cut, existing mortgage rate cut) are fully digested.

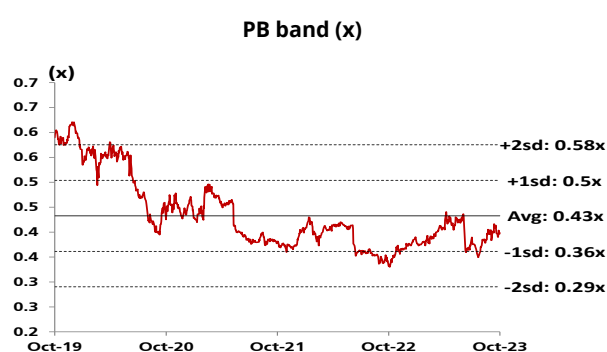
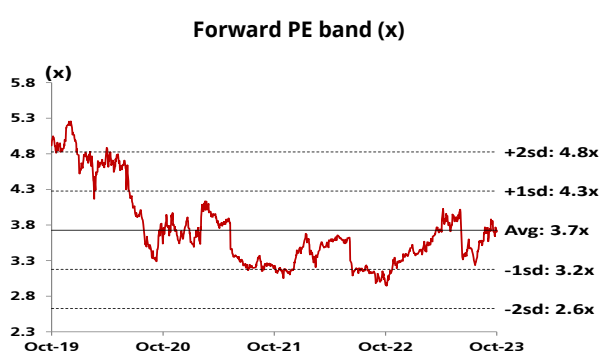
2) NPL ratio and credit cost might be slightly higher

With the expectation of the China economy stabilising, we expect the NPL ratio to be largely stable for ABC in FY23. However, given that the bank saw aggressive balance sheet expansion in FY23, we may be slightly more concerned about the credit risk of its portfolio if the recovery of the China economy in FY24/25F is not as good as expected. Lower provisional costs also contributed to the 9M23 earnings growth, when profit before provisions actually dropped by 3.1% y-o-y. We expect the NPL ratio to be largely stable in FY23 while we may also expect slightly higher NPL ratio and credit costs in the following years vs FY23F's level.

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 the HKEX and SHEX in July 2010. As at 2022, ABC had total assets of Rmb33.9tn and Rmb19.8tn in gross loans.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Agricultural Bank of China

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
NIM (%)	2.12	1.90	1.58	1.55	1.58
Loan growth (%)	13	15	15	12	11
Fee growth (%)	8	1	4	4	2
Cost-to-income (%)	36.1	37.8	38.1	38.1	38.3
Credit cost (%)	1.03	0.79	0.63	0.65	0.70
Customer Deposits Growth (%)	8	15	13	10	8
Yld. On Earnings Assets (%)	3.64	3.55	3.26	3.25	3.30
Avg Cost Of Funds (%)	1.74	1.84	1.86	1.86	1.87

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Interest Income	577,987	589,966	562,948	619,450	689,185
Non-Interest Income	143,759	135,533	144,040	149,166	152,891
Operating Income	721,746	725,499	706,988	768,616	842,076
Operating Expenses	(260,275)	(274,023)	(269,627)	(292,881)	(322,934)
Pre-provision Profit	461,471	451,476	437,362	475,735	519,142
Provisions	(166,000)	(145,326)	(133,767)	(156,188)	(186,799)
Associates	409	66	200	211	219
Exceptionals	0	0	0	0	0
Pre-tax Profit	295,880	306,216	303,795	319,758	332,562
Taxation	(53,944)	(47,528)	(39,493)	(47,964)	(49,884)
Minority Interests	(753)	452	462	475	494
Preference Dividend	(13,798)	(17,239)	(17,239)	(17,239)	(17,239)
Net Profit	227,385	241,901	247,524	255,030	265,933
Net Profit bef Except	227,385	241,901	247,524	255,030	265,933

Growth (%)

Net Interest Income Gth	6.04	2.07	(4.58)	10.04	11.26
Net Profit Gth	10.17	6.38	2.32	3.03	4.28

Margins, Costs & Efficiency (%)

Spread	1.90	1.71	1.40	1.39	1.43
Net Interest Margin	2.09	1.89	1.56	1.54	1.57
Cost-to-Income Ratio	36.1	37.8	38.1	38.1	38.3

Business Mix (%)

Net Int. Inc / Opg Inc.	80.1	81.3	79.6	80.6	81.8
Non-Int. Inc / Opg inc.	19.9	18.7	20.4	19.4	18.2
Fee Inc / Opg Income	11.1	11.2	11.9	11.4	10.6
Oth Non-Int Inc/Opg Inc	8.8	7.5	8.4	8.0	7.5

Profitability (%)

ROAE Pre Ex.	11.5	11.3	10.7	10.2	9.9
ROAE	11.5	11.3	10.7	10.2	9.9
ROA Pre Ex.	0.9	0.8	0.7	0.7	0.6
ROA	0.8	0.8	0.7	0.6	0.6

Source: Company, DBS HK

Agricultural Bank of China

Quarterly Income Statement (RMB m)

FY Dec	3Q2022	4Q2022	1Q2023	2Q2023	3Q2023
Net Interest Income	147,810	141,979	145,607	144,814	143,207
Non-Interest Income	26,002	46,513	43,758	31,615	24,647
Operating Income	173,812	188,492	189,365	176,429	167,854
Operating Expenses	(56,791)	(115,502)	(49,921)	(57,757)	(59,127)
Pre-Provision Profit	117,021	72,990	139,444	118,672	108,727
Provisions	(38,038)	(1,742)	(56,528)	(45,852)	(27,242)
Associates	(20)	(44)	111	122	(44)
Exceptionals	0	0	0	0	0
Pretax Profit	78,963	71,204	83,027	72,942	81,441
Taxation	(10,261)	(10,001)	(10,912)	(11,226)	(7,483)
Minority Interests	84	399	(561)	(36)	164
Net Profit	68,786	49,257	71,554	56,977	74,122

Growth (%)

Net Interest Income Gth	1.0	(4.2)	(3.5)	(3.0)	(3.1)
Net Profit Gth	6.8	8.1	1.8	6.4	7.8

Source: Company, DBS HK

Interim Income Statement (RMB m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Net Interest Income	283,357	294,630	300,177	289,789	290,421
Non-Interest Income	82,897	60,862	63,018	72,515	75,373
Operating Income	366,254	355,492	363,195	362,304	365,794
Operating Expenses	(116,691)	(143,584)	(101,730)	(172,293)	(107,678)
Pre-Provision Profit	249,563	211,908	261,465	190,011	258,116
Provisions	(96,141)	(69,859)	(105,546)	(39,780)	(102,380)
Associates	116	293	130	(64)	233
Exceptionals	0	0	0	0	0
Pretax Profit	153,538	142,342	156,049	150,167	155,969
Taxation	(30,705)	(23,239)	(27,266)	(20,262)	(22,138)
Minority Interests	(555)	(198)	(31)	483	(597)
Net Profit	117,384	110,001	123,858	118,043	128,531

Growth (%)

Net Interest Income Gth	9.4	3.0	5.9	(1.6)	(3.3)
Net Profit Gth	10.1	10.3	5.5	7.3	3.8

Source: Company, DBS HK

Agricultural Bank of China

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Cash/Bank Balance	2,321,406	2,549,130	2,838,678	3,122,545	3,372,349
Government Securities	0	0	0	0	0
Inter Bank Assets	1,503,081	2,303,402	2,372,504	2,728,380	2,810,231
Total Net Loans & Adv.	16,454,503	18,980,973	21,848,474	24,416,231	26,965,211
Investment	7,769,802	9,008,106	10,443,763	10,965,952	11,514,249
Associates	8,297	8,092	8,092	8,092	8,092
Fixed Assets	153,299	152,572	151,848	151,128	150,412
Goodwill	1,381	1,381	1,409	1,437	1,466
Other Assets	857,386	921,832	949,039	1,117,761	1,206,715
Total Assets	29,069,155	33,925,488	38,613,806	42,511,526	46,028,724
Customer Deposits	21,907,127	25,121,040	28,386,775	31,225,453	33,723,489
Inter Bank Deposits	2,696,717	3,737,828	4,859,176	5,588,053	6,258,619
Debts/Borrowings	1,245,385	1,562,875	1,629,874	1,711,368	1,796,936
Others	798,567	829,985	893,304	962,620	1,038,646
Minorities	6,754	5,697	5,233	4,756	4,260
Shareholders' Funds	2,414,605	2,668,065	2,839,444	3,019,277	3,206,773
Total Liab& S/H's Funds	29,069,155	33,925,490	38,613,806	42,511,526	46,028,724

Source: Company, DBS HK

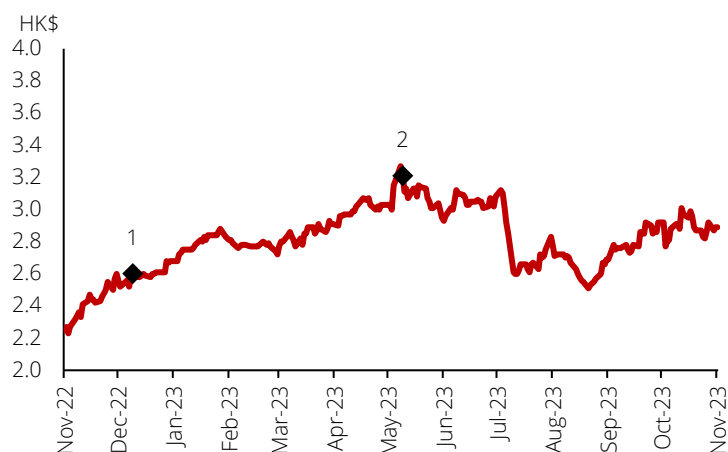
Financial Stability Measures (%)

FY Dec	2021A	2022A	2023F	2024F	2025F
Balance Sheet Structure					
Loan-to-Deposit Ratio	78.4	78.7	80.0	81.2	83.1
Net Loans / Total Assets	56.6	55.9	56.6	57.4	58.6
Investment / Total Assets	26.7	26.6	27.0	25.8	25.0
Cust. Dep./Int. Bear. Liab.	83.0	81.2	79.9	79.2	78.8
Interbank Dep / Int. Bear.	8.3	9.8	11.7	12.8	13.6
Asset Quality					
NPL / Total Gross Loans	1.4	1.4	1.3	1.4	1.4
NPL / Total Assets	0.8	0.8	0.8	0.8	0.8
Loan Loss Reserve Coverage	293.1	288.8	279.4	271.4	273.2
Provision Charge-Off Rate	1.0	0.7	0.6	0.6	0.7
Capital Strength					
Total CAR	17.1	17.2	15.8	15.2	14.8
Tier-1 CAR	11.4	11.2	10.4	10.1	10.0

Source: Company, DBS HK

Agricultural Bank of China

H Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	9-Dec-22	HK\$2.57	HK\$3.10	BUY
2	9-May-23	HK\$3.27	HK\$3.50	BUY

Source: DBS HK

Analyst: Manyi Lu
Ken Shih
Iris GAO

A Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	9-Dec-22	RMB2.90	RMB3.20	BUY
2	9-May-23	RMB3.89	RMB4.30	BUY

Source: DBS HK

Analyst: Manyi Lu
Ken Shih
Iris GAO

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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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