

China / Hong Kong Company Update

ICBC

Bloomberg: 1398 HK EQUITY | 601398 CH Equity | Reuters: 1398.HK | 601398.SS

Refer to important disclosures at the end of this report

The DBS Group Research . Equity

7 Nov 2023

H: BUY

Last Traded Price (H) (6 Nov 2023):HK\$3.79(HSI : 17,967)

Price Target 12-mth (H):HK\$5.30 (39.8% upside)

A: BUY

Last Traded Price (A) (6 Nov 2023):RMB4.71(CSI300 Index : 3,633)

Price Target 12-mth (A):RMB5.80 (23.1% upside) (Prev RMB6.10)

Analysts

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What's New

- 9M23 net profit to shareholders increased by 0.8% y-o-y to Rmb269bn, in line with market expectation
- NIM dropped by 31bps y-o-y to 1.67%, in line with market trend
- Asset quality largely stable by Sep 23 with NPL ratio at 1.36%
- Reiterate BUY with TP unchanged at HK\$5.3 with negatives largely in price and attractive dividend yield of >10%

Steady loan balance expansion supports revenue

Investment Thesis

The largest commercial bank in China. ICBC is the largest bank in China in terms of assets. It has a balanced mix in all segments with strength in corporate business. The corporate loan balance expanded by c.17% y-o-y as of end-3Q23 to c.Rmb16tn. As a major SOE bank, it follows policy guidance and issues corporate loans to mainly support new infrastructure, premium manufacturing, inclusive finance, etc.

Expect c.2% earnings CAGR in FY22-25F, which is lower than China's expected GDP growth. Large SOE banks are taking on more responsibilities to support the real economy, and we expect a higher downward impact on NIM from the existing mortgage repricing and LGFV restructuring sides. Meanwhile, we expect steady loan demand recovery in FY24-25F, from both the corporate and retail segments, with the expectation of the China's consumption recovery and the stabilisation of its property sector.

China's economic growth is the main share price driver. Like other major SOE banks, ICBC's growth is positively correlated with the outlook on China's economy. With China's GDP growth projected at 5%/4.5% in 2023/24, as per the DBS house view, we are cautiously optimistic about the overall earnings performance of ICBC in 2024. We see that the concerns about China's property sector, LGFV restructuring, NIM downward pressure, etc., are largely in the price now. More signals of China's economy stabilising would be a key share price catalyst.

Reiterate BUY with TP unchanged at HK\$5.3. Our TP is based on the DDM model and assumes 15% cost of equity, 7% ROE, and 1% terminal growth, which is in line with our assumptions for SOE bank peers and takes into account the long-term slowing trend of China's economy as the base gets larger. We have revised down our earnings assumption for FY23/24F by 3%-4% to reflect the downward pressure on NIM while rolling over the valuation base to FY24F. Our TP implies c.0.43x FY24F P/B, below its five-year average of close to 0.7x.

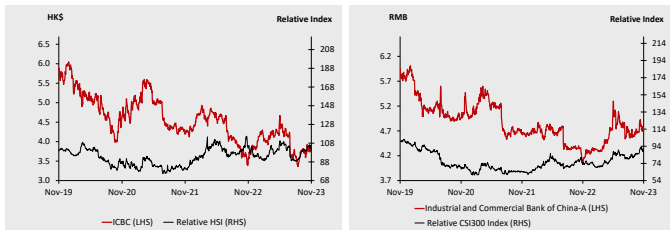
Key Risks

Slowdown in China's economy and asset quality deterioration.

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)	1,700,258 / 217,295
Major Shareholders (%)	
Central Huijin Investment Ltd.	45.9
Ministry of Finance of the People's Republic of China	41.2
Major H Shareholders (As % of H shares)	
Ping An Asset Management Co., Ltd.	14.0
National Social Security Fund	8.9
Temasek Holdings Pte. Ltd.	7.0
H Shares-Free Float (%)	70.1
3m Avg. Daily Val. (US\$m)	120.54
GICS Industry: Financials / Banks	

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMB m)	2022A	2023F	2024F	2025F
Pre-prov. Profit	600,557	574,496	623,313	683,630
Pre-prov. Profit Gth (%)	(4)	(4)	8	10
Pretax Profit	422,565	417,419	438,174	450,369
Net Profit	345,673	341,283	358,989	369,392
EPS (RMB)	0.97	0.96	1.01	1.04
EPS (HK\$)	1.16	1.15	1.21	1.24
EPS Gth (%)	2	(1)	5	3
PE (X)	3.3	3.3	3.1	3.0
DPS (HK\$)	0.36	0.36	0.38	0.39
Div Yield (%)	9.6	9.5	10.0	10.2
BV Per Share (HK\$)	10.58	11.50	12.33	13.17
P/Book Value (x)	0.4	0.3	0.3	0.3
ROAE (%)	11.4	10.4	10.1	9.8
ROAE (ex-exceptional (%)	11.4	10.4	10.1	9.8

Earnings Rev (%)	(4)	(4)	(8)
Consensus EPS (RMB)	0.99	1.02	1.07
Other Broker Recs:	B:18	S:1	H:2

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

ICBC

WHAT'S NEW

9M23 results in line with expectation

9M23 results in line with market expectations

ICBC reported 9M23 net profit to shareholders of c.Rmb269bn, or 0.8% y-o-y growth, in line with market expectations. Revenue dropped by 4.5% y-o-y to Rmb624bn, with NII having reduced by 4.7% y-o-y to Rmb502bn while fee income was down 6.1% y-o-y to Rmb99bn. 9M23 NIM dropped by 31bps to 1.67%. The drop is in line with the market trend of the Big Four Banks. NPL ratio was stable q-o-q or 2bp lower than end-Dec 22's level, at 1.36%. 9M23 annualised ROE dropped by 0.76ppt vs. the same period last year, to 10.56%.

Outlook

1) Factors impacting NIM

In 3Q23, the quarterly NIM for ICBC dropped by 9bps q-o-q, the highest drop among the Big Four Banks. The NIM trend is determined by 1) the trend of the capital market, 2) credit demand and supply, 3) PBOC's monetary policy, and 4) the management of both liabilities and assets.

In ICBC's case, though the macroeconomic environment remains challenging, we see some supportive signs, including 1) positive signs in retail loan growth, including a marginally better trend in the early repayment of mortgages and more focus on consumption loans and 2) lower funding costs due to the reduced deposit rate. The deposit rate was marginally lower q-o-q in 3Q23. Overall, we expect continuous downward pressure on ICBC's NIM, to the tune of a few bps, in 4Q23-FY24F, in line with the market trend.

2) Asset quality

We expect overall stable asset quality in FY23-24F for ICBC. The key concern is still China property. ICBC saw some signs of improvement in the China property sector's asset quality in 3Q23 and expects it to continue.

On the LGFV side, 1) ICBC saw quite a few provinces announcing the issuance of special bonds to repay local government debt. Market liquidity is improving, which is positive to banks' risk management and 2) commercial banks including ICBC will stick to the "market oriented" principal in the LGFV debt restructuring progress and focus on the long-term development capability of the project.

3) Loan growth

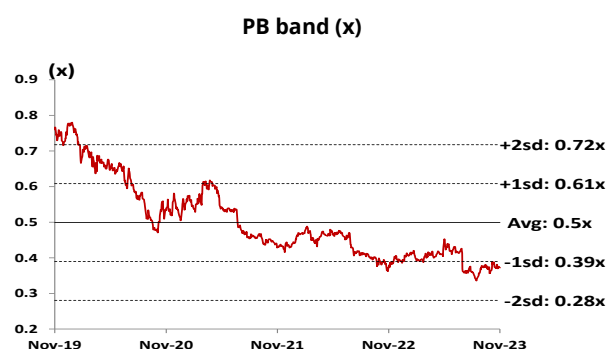
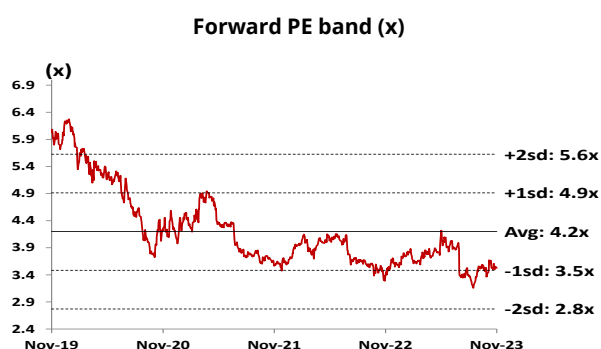
We expect 11%-12% y-o-y growth in the loan balance for ICBC, which is slightly higher than our overall expectation for China's loan growth. ICBC continues to fulfil the regulators' requirements and also considers the commercial sustainability of supporting policy-supportive sectors.

We reiterate BUY on ICBC, as we see the negative expectations are largely in price now when its H-share is trading at c.0.3x FY24F P/B with a >10% FY23/24F dividend yield.

Company Background

ICBC was established in January 1984 and wholly restructured into a joint-stock bank in October 2005. As of 2022, ICBC's total assets amounted to Rmb39.6tn while its gross loans and total deposits reached Rmb23.2tn and Rmb29.9tn, 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	2021A	2022A	2023F	2024F	2025F
NIM (%)	2.11	1.92	1.64	1.59	1.61
Loan growth (%)	11	12	13	11	9
Fee growth (%)	1	(3)	(1)	3	2
Cost-to-income (%)	27.4	28.6	29.7	29.1	28.8
Credit cost (%)	0.86	0.65	0.50	0.55	0.65
Customer Deposits Growth (%)	5	13	14	14	13
Yld. On Earnings Assets (%)	3.54	3.54	3.27	3.21	3.21
Avg Cost Of Funds (%)	1.64	1.82	1.83	1.79	1.78

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Interest Income	690,680	693,687	664,595	721,939	799,962
Non-Interest Income	170,200	147,754	152,321	157,159	159,917
Operating Income	860,880	841,441	816,916	879,099	959,879
Operating Expenses	(236,227)	(240,884)	(242,420)	(255,786)	(276,249)
Pre-provision Profit	624,653	600,557	574,496	623,313	683,630
Provisions	(202,623)	(182,419)	(161,450)	(189,729)	(237,980)
Associates	2,869	4,427	4,373	4,591	4,718
Exceptionals	0	0	0	0	0
Pre-tax Profit	424,899	422,565	417,419	438,174	450,369
Taxation	(74,683)	(61,527)	(60,778)	(63,800)	(65,575)
Minority Interests	(1,878)	(555)	(548)	(576)	(592)
Preference Dividend	(9,607)	(14,810)	(14,810)	(14,810)	(14,810)
Net Profit	338,731	345,673	341,283	358,989	369,392
Net Profit bef Except	338,731	345,673	341,283	358,989	369,392

Growth (%)

Net Interest Income Gth	6.79	0.44	(4.19)	8.63	10.81
Net Profit Gth	10.31	2.05	(1.27)	5.19	2.90

Margins, Costs & Efficiency (%)

Spread	1.90	1.72	1.43	1.42	1.43
Net Interest Margin	2.10	1.92	1.63	1.59	1.59
Cost-to-Income Ratio	27.4	28.6	29.7	29.1	28.8

Business Mix (%)

Net Int. Inc / Opg Inc.	80.2	82.4	81.4	82.1	83.3
Non-Int. Inc / Opg inc.	19.8	17.6	18.6	17.9	16.7
Fee Inc / Opg Income	15.5	15.4	15.7	15.1	14.1
Oth Non-Int Inc/Opg Inc	4.3	2.2	2.9	2.8	2.6

Profitability (%)

ROAE Pre Ex.	12.2	11.4	10.4	10.1	9.8
ROAE	12.2	11.4	10.4	10.1	9.8
ROA Pre Ex.	N/A	N/A	N/A	N/A	N/A
ROA	N/A	N/A	N/A	N/A	N/A

Source: Company, DBS HK

ICBC
Quarterly Income Statement (RMB m)

FY Dec	3Q2022	4Q2022	1Q2023	2Q2023	3Q2023
Net Interest Income	175,739	167,337	168,412	168,575	164,539
Non-Interest Income	32,653	21,551	50,049	41,870	30,075
Operating Income	208,392	188,888	218,461	210,445	194,614
Operating Expenses	(59,257)	(79,131)	(47,953)	(57,426)	(59,617)
Pre-Provision Profit	149,135	109,757	170,508	153,019	134,997
Provisions	(35,781)	(12,789)	(65,022)	(57,233)	(25,560)
Associates	1,119	1,121	1,100	1,283	1,153
Exceptionals	0	0	0	0	0
Pretax Profit	114,473	98,089	106,586	97,069	110,590
Taxation	(19,543)	(4,800)	(15,816)	(13,119)	(15,381)
Minority Interests	(34)	628	(606)	(370)	(280)
Net Profit	94,896	82,666	90,164	79,946	94,929
Growth (%)					
Net Interest Income Gth	0.5	(6.8)	(4.8)	(3.0)	(6.4)
Net Profit Gth	7.4	(4.9)	0.0	2.5	0.0

Source: Company, DBS HK

ICBC

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Cash/Bank Balance	3,098,438	3,427,892	3,916,021	4,444,684	5,022,493
Government Securities	0	0	0	0	0
Inter Bank Assets	1,490,646	2,056,654	2,365,152	2,838,183	3,405,819
Total Net Loans & Adv.	20,063,481	22,545,957	25,437,406	28,377,016	31,031,690
Investment	8,634,537	9,786,228	10,569,126	11,414,656	12,327,829
Associates	61,782	65,790	65,790	65,790	65,790
Fixed Assets	290,296	293,887	296,826	299,794	302,792
Goodwill	13,360	15,793	15,793	15,793	15,793
Other Assets	1,518,843	1,417,945	2,015,874	2,642,203	3,830,879
Total Assets	35,171,383	39,610,146	44,681,989	50,098,119	56,003,086
Customer Deposits	26,441,774	29,870,491	34,052,360	38,649,428	43,673,854
Inter Bank Deposits	3,326,695	3,908,271	4,377,264	4,814,990	5,296,489
Debts/Borrowings	791,375	905,953	905,953	905,953	905,953
Others	1,336,281	1,410,012	1,555,960	1,691,845	1,840,333
Minorities	17,503	19,310	20,285	20,832	21,394
Shareholders' Funds	3,257,755	3,496,109	3,770,167	4,015,070	4,265,063
Total Liab& S/H's Funds	35,171,383	39,610,146	44,681,989	50,098,119	56,003,086

Source: Company, DBS HK

Financial Stability Measures (%)

FY Dec	2021A	2022A	2023F	2024F	2025F
Balance Sheet Structure					
Loan-to-Deposit Ratio	78.2	77.7	76.8	75.4	73.0
Net Loans / Total Assets	57.0	56.9	56.9	56.6	55.4
Investment / Total Assets	24.5	24.7	23.7	22.8	22.0
Cust. Dep./Int. Bear. Liab.	84.9	84.7	84.9	85.6	86.1
Interbank Dep / Int. Bear.	11.4	11.8	11.8	11.5	11.4
Asset Quality					
NPL / Total Gross Loans	1.4	1.4	1.4	1.4	1.4
NPL / Total Assets	0.8	0.8	0.8	0.8	0.8
Loan Loss Reserve Coverage	205.8	206.9	198.5	193.7	199.9
Provision Charge-Off Rate	1.0	0.8	0.6	0.7	0.7
Capital Strength					
Total CAR	18.0	19.3	18.6	17.9	17.1
Tier-1 CAR	13.3	14.0	13.8	13.4	13.0

Source: Company, DBS HK

ICBC

H Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	8-May-23	HK\$4.47	HK\$5.30	Buy

Source: DBS HK
 Analyst: Manyi Lu
 Ken Shih
 Iris GAO

A Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	8-May-23	RMB4.99	RMB6.10	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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