



### Stable growth of profits with obvious scale advantages

Rating: Accumulate, CP: HK\$4.40, TP:HK\$5.10

#### Company Introduction

ICBC was founded in 1984, which is the largest listed bank in China. ICBC was restructured to a joint-stock limited company and listed on both A+H Shares on 27 Oct 2006. By the end of 2012, ICBC was the largest bank all over the world in terms of market capitalization, customer deposits and profitability. The Bank owns obvious scale advantages, and currently records 16,648 domestic institutions, 239 overseas institutions and over 1,669 correspondent banks worldwide with 4.11 million corporate banking customers and 282 million personal banking customers.

#### Summary

- According to 1Q2013 report of ICBC (or the Group), by the end of March, net profits achieved to RMB68.813 billion with the year-on-year growth rate of 12.08%, equivalent to the EPS of RMB0.20;
- The Group's total assets increased by 4.65% to RMB18.36 trillion compared to the end of 2012 with stable scale advantages, equivalent to the BVPS of RMB3.42, increased by 6.21%;
- ICBC's profit growth met our expectation based on 1Q report, but we cut the profit forecast in 2013, and estimate the EPS would reach to RMB0.75;
- However, the asset quality of ICBC started to deteriorate caused by the large expansion of loans in recent years. The NPL ratio increased by 0.02ppts to 0.87% with the amount of RMB80.237 billion, up RMB56.62. Meanwhile, coverage ratio went down 7.43ppts to 288.12%;
- In recent days, several bad news came into the market, such as the U.S. will stop QE in future, and the significant decrease of liquidity of Chinese banks, which caused the market's expectation to deteriorate for China's banking sector and the economic environment. However, the PBOC did not announce measures to boost the market immediately as usual, therefore the capital market went down sharply, and the Shibor increased significant and recorded the new high. We believe the market turmoil this time is the warning for the banks' large expansion of loans and the lack of the control in liquidity management and risks in the past few years, which is good for restraining the loans bubble, and will favor the development of the industry in the middle and long term. Therefore, now the deterioration of the market is temporary, and the market will be better gradually. In this process, large financial institutions, especially for state-owned banks, will play the key role to increase the liquidity and smooth the market risks;

#### SATS Ltd

<b>Rating</b>	<b>2.00</b>	<b>Accumulate</b>
- Previous Rating	2.00	Accumulate
<b>Target Price (HKD)</b>	<b>5.10</b>	
- Previous Target Price (HKD)	6.14	
Closing Price (HKD)	4.40	
Expected Capital Gains (%)	15.9%	
Expected Dividend Yield (%)	5.0%	
<b>Expected Total Return (%)</b>	<b>20.9%</b>	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD bn)	479.10	
Enterprise Value (HKD mn)	N/A	
52 week range (HKD)	3.97-6.00	

#### Key Financial Summary

<b>FYE</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13F</b>	<b>12/14F</b>
Operating Profit (RMB mn)	269,867	306,035	336,659	357,232
Net Profit, adj. (RMB mn)	208,265	238,532	261,963	279,420
EPS, adj. (RMB)	0.60	0.68	0.75	0.80
P/E (X)	9.3	8.1	7.4	6.9
BVPS (RMB)	2.74	3.22	3.69	4.13
P/B (X)	2.0	1.7	1.5	1.3
DPS (RMB)	0.20	0.24	0.26	0.28
Div. Yield	3.7%	4.3%	4.7%	5.0%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

#### Valuation Method

DDM

#### Research Analyst

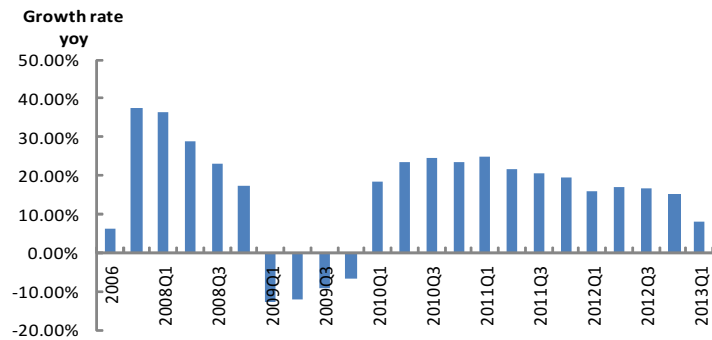
Xingyu Chen

[chenxingyu@phillip.com.cn](mailto:chenxingyu@phillip.com.cn)

+86 21 5169 9400 – 105

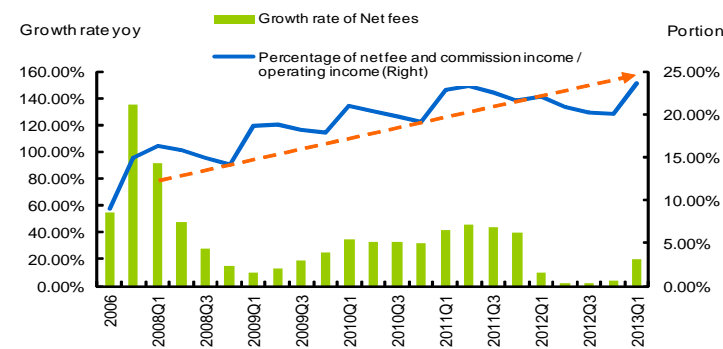
- In all, ICBC showed the stable operating performance and we still have confidence in the development of the Group. However, considering current market risks, we believe the growth of the bank's loans and interested incomes will decrease in future, which bring the negative impact to the bank's performance, and therefore we hold a cautious view for the share price in the short term. We cut ICBC's 12-m target price to HK\$5.10 based on 10% discount of the value from 3-stage DDM, around 16% higher than the latest closing price, equivalent to 8.0xP/E and 1.6XP/B in 2014 respectively. Maintain ICBC to Accumulate.

Fig. 1. Growth of ICBC's net interest income



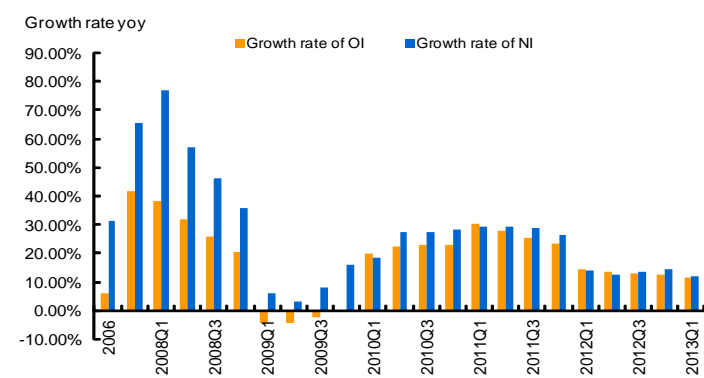
Source: PSR, Company report

Fig. 2. Growth of net fee and commission income of ICBC



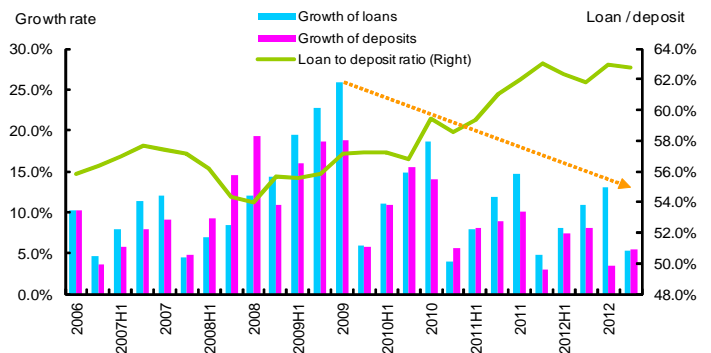
Source: PSR, Company report

Fig. 3. Profit growth of ICBC



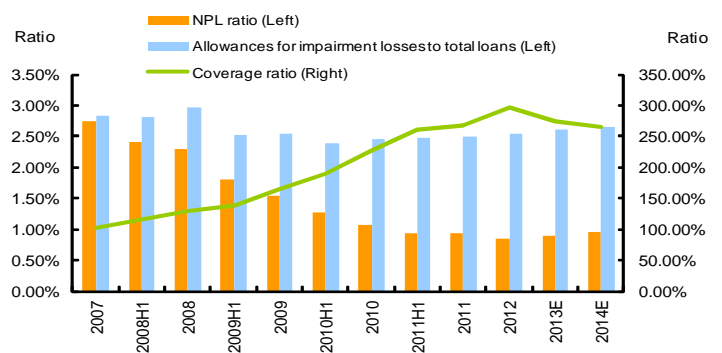
Source: PSR, Company report

Fig. 4. Growth of loans and deposits of ICBC



Source: PSR, Company report

Fig. 5. NPL and coverage ratios of ICBC



Source: PSR, Company report

## Financial Status

Balance Sheet (RMB Million)	2010A	2011A	2012A	2013E	2014E
Cash and balances with banks and other financial institutions	2,282,999	2,762,156	3,174,943	3,180,895	3,371,748
Cash and balances with central bank	248,860	478,002	636,450	891,030	1,158,339
Loans and advances to customers	6,623,372	7,594,019	8,583,289	9,527,451	10,480,196
Financial investments	3,719,282	3,763,694	3,862,216	4,325,682	4,931,277
Investments in associates	40,325	32,750	33,284	36,280	39,908
Fixed assets	103,412	119,028	135,889	149,478	170,405
Deferred tax assets	21,712	21,938	22,789	26,207	28,828
Other assets	134,108	132,140	156,848	130,115	168,691
<b>Total Assets</b>	<b>13,458,622</b>	<b>15,476,868</b>	<b>17,542,217</b>	<b>19,609,597</b>	<b>22,049,925</b>
Deposits and placements to other banks and financial institutions	1,048,002	1,341,290	1,486,805	1,547,764	1,718,018
Certificates of deposit issued	9,314	41,426	38,009	42,570	50,658
Deposits from customers	11,145,557	12,261,219	13,642,910	15,280,059	17,113,666
Current taxation	33,759	51,535	56,922	58,630	64,493
Deferred tax liabilities	318	103	552	607	668
Subordinated term debt	102,264	204,161	232,186	251,880	269,512
Other liabilities	195,578	228,367	384,474	461,369	579,479
<b>Total Liabilities</b>	<b>12,636,965</b>	<b>14,519,045</b>	<b>16,413,758</b>	<b>18,315,620</b>	<b>20,600,155</b>
Shareholders' equity	820,430	956,742	1,124,997	1,290,176	1,445,533
Minority interest	1,227	1,081	3,462	3,801	4,238
<b>Total shareholders' equity</b>	<b>821,657</b>	<b>957,823</b>	<b>1,128,459</b>	<b>1,293,977</b>	<b>1,449,771</b>
Total shareholders' equity and liabilities	13,458,622	15,476,868	17,542,217	19,609,597	22,049,925
Income Statement (RMB Million)	2010A	2011A	2012A	2013E	2014E
Net interest income	303,749	362,764	417,828	464,570	512,335
Net fee and commission income	72,840	101,550	106,064	112,880	120,953
<b>Operating income</b>	<b>380,748</b>	<b>470,601</b>	<b>529,720</b>	<b>590,377</b>	<b>648,625</b>
Operating expenses	(139,480)	(169,613)	(189,940)	(214,632)	(242,534)
Impairment losses	(27,988)	(31,121)	(33,745)	(39,086)	(48,858)
Operating profit	213,280	269,867	306,035	336,659	357,232
<b>Profit before tax</b>	<b>215,426</b>	<b>272,311</b>	<b>308,687</b>	<b>339,841</b>	<b>361,210</b>
Income tax	(49,401)	(63,866)	(69,996)	(77,696)	(81,580)
Effective income tax rate	22.93%	23.45%	22.68%	22.86%	22.59%
<b>Net profit for the period</b>	<b>166,025</b>	<b>208,445</b>	<b>238,691</b>	<b>262,146</b>	<b>279,630</b>
Minority interest	869	180	159	183	210
<b>Net profit attributable to equity holders of the Bank</b>	<b>165,156</b>	<b>208,265</b>	<b>238,532</b>	<b>261,963</b>	<b>279,420</b>
Declared and paid Dividends	64,220	70,864	83,486	91,687	97,797
Items per share	2010A	2011A	2012A	2013E	2014E
Basic EPS(RMB)	0.48	0.60	0.68	0.75	0.80
Book value per share(RMB)	2.35	2.74	3.22	3.69	4.13
Dividend per Share(RMB)	0.18	0.20	0.24	0.26	0.28
Financial ratio	2010A	2011A	2012A	2013E	2014E
P/E (x)	11.5	9.3	8.1	7.4	6.9
P/B (x)	2.4	2.0	1.7	1.5	1.3
Dividend payout ratio	38.88%	34.03%	35.00%	35.00%	35.00%
Dividend Yield	3.31%	3.66%	4.30%	4.73%	5.04%
Net interest margin	2.44%	2.68%	2.66%	2.72%	2.78%
Loan to deposit ratio	59.43%	61.94%	61.39%	60.84%	60.29%
Cost to income ratio	30.99%	29.91%	27.50%	29.97%	29.90%
Return on average assets	1.31%	1.44%	1.47%	1.45%	1.40%
Return on average equity	22.10%	23.44%	23.42%	22.74%	21.98%
Non-performing loan ratio	1.08%	0.94%	0.87%	0.93%	0.97%
Coverage rate	228.20%	266.92%	290.45%	310.95%	320.60%
Core capital adequacy ratio	9.97%	10.07%	10.53%	10.98%	11.20%
Capital adequacy ratio	12.27%	13.17%	13.75%	14.20%	14.85%

Source: Company, PSR



## PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

## PHILLIP RESEARCH STOCK SELECTION SYSTEMS

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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**Contact Information (Regional Member Companies)**

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**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**PhillipCapital Australia**  
Level 37, 530 Collins Street,  
Melbourne, Victoria 3000, Australia  
Tel (613) 96298380  
Fax (613) 96148309  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**PhillipCapital Japan K.K.**  
Nagata-cho Bldg.,  
8F, 2-4-3 Nagata-cho,  
Chiyoda-ku, Tokyo 100-0014  
Tel (81-3) 35953631  
Fax (81-3) 35953630  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 436 Hengfeng Road,  
Greentech Unit 604,  
Postal code 200070  
Tel (86-21) 51699400  
Fax (86-21) 63532643  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005