

ICBC (1398 HK)

Stable growth of the performance

CHINA | BANKING | COMPANY REPORT

6 January 2015

Stable profit growth

According to 3Q results of ICBC (or the Group) last year, by the end of Sep, net profit was RMB220.464 billion, up 7.26% y-y, equivalent to the EPS of RMB0.63. The profit growth declined quarter by quarter.

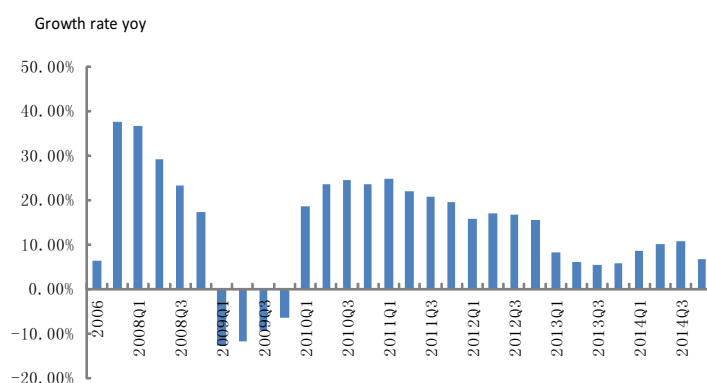
The decreased profit growth was mainly because of the decrease of net interest incomes and intermediate business incomes, which increased by 10.77% and 5.64% y-y respectively. The decrease rate of intermediate business incomes was higher than our previous expectation.

Total assets increased by 6.52% to RMB20.15 trillion compared to the end of 2013, remained stable growth, and the BVPS was RMB4.06, up 11.85%.

The asset quality of ICBC started to decrease caused by the large expansion of loans in recent years. By the end of 3Q2014, the NPL ratio increased by 0.13ppts to 1.06%, and we expect it would be around 1.05% in 2014. NPLs amounted to RMB115.471 billion, increased largely by RMB21.782 billion compared with the end of 2013. Coverage ratio went down 38.43ppts to 216.60%.

In all, ICBC's performance still maintains stable, and faces two main issues, one is the risk of the deterioration of the asset quality, and the other is the capital pressure, but we expect it should be decrease after the issuance of the preferred stock in 2015. Considering the large increase of the share price recently, we hold a cautious view for the price performance in the short term, but increase ICBC's 12-m target price to HK\$6.70 based on 5% discount of its intrinsic value from 3-stage DDM, around 15.5% higher than the latest closing price, equivalent to 6.2xP/E and 1.1xP/B in 2015 respectively, the valuation is quite reasonable. Maintain Accumulate rating.

The growth of ICBC's net interest incomes



Source: Company, Phillip Securities (HK) Research

Accumulate (Maintain)

CMP HK\$5.80

TARGET HK\$6.70 (+16%)

COMPANY DATA

O/S SHARES (MN) :	86,794
MARKET CAP (HK\$ MN) :	503,405
52 - WK HI/LO (HK\$) :	5.90/ 4.00

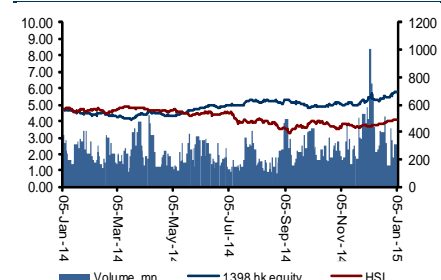
SHARE HOLDING PATTERN, %

MOF:	33.57
Huijin	33.57
SSF	2.71

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
HTS	7.66	18.13	25.27
HSI	-1.17	1.74	4.57

PRICE & HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

Key Financial Summary

FYE	12/13	12/14F	12/15F	12/16F
Operating Profit (RMB mn)	338,694	358,258	387,164	407,297
Net Profit, adj. (RMB mn)	264,475	277,150	299,422	315,127
EPS, adj. (RMB)	0.75	0.79	0.85	0.90
P/E (X)	6.2	5.9	5.5	5.2
BVPS (RMB)	3.63	4.22	4.88	5.47
P/B (X)	1.3	1.1	1.0	0.9
DPS (RMB)	0.26	0.28	0.30	0.31
Div. Yield	5.7%	5.9%	6.4%	6.7%

Source: Bloomberg, PSR est.

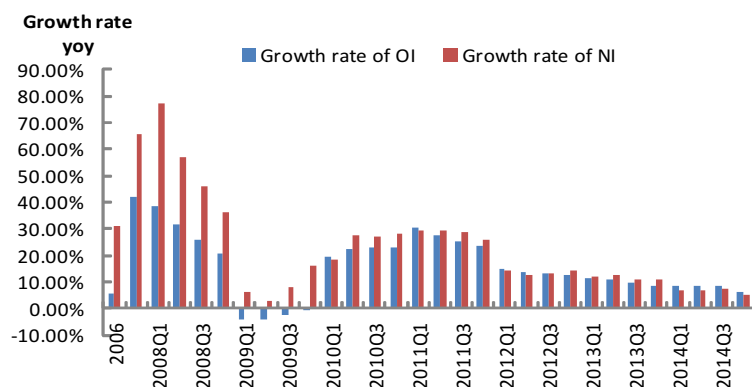
*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

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Due to the tightening monetary policy in the whole year of 2014, the growth of the bank's interest incomes slowed down continually, and meanwhile, the asset quality trended to go down, therefore we expect the impairment losses would maintain at the rapid growth, which grew 13.4% y-y in 3Q2014, and would increase by 14% y-y as expected in 2014, in line with our estimation. ICBC's net profit would only increase by 5% y-y in 2014.

The growth of ICBC's profits

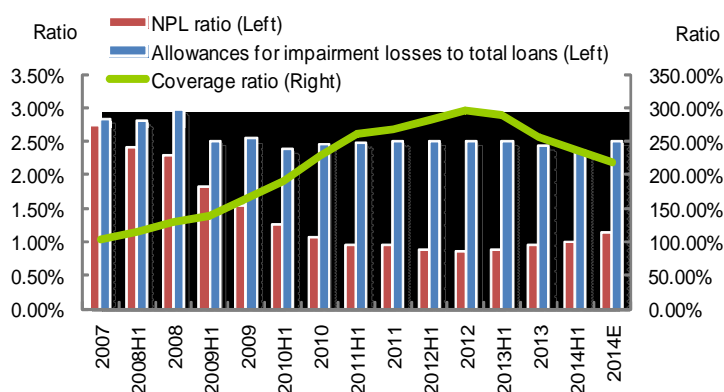


Source: Company, Phillip Securities (HK) Research

The asset quality went down

The asset quality of ICBC started to decrease caused by the large expansion of loans in recent years. By the end of 3Q2014, the NPL ratio increased by 0.13ppts to 1.06%, and we expect it would be around 1.05% in 2014. NPLs amounted to RMB115.471 billion, increased largely by RMB21.782 billion compared with the end of 2013. Coverage ratio went down 38.43ppts to 216.60%.

The NPL ratio of ICBC



Source: CNBS, Company, Phillip Securities (HK) Research

Risk

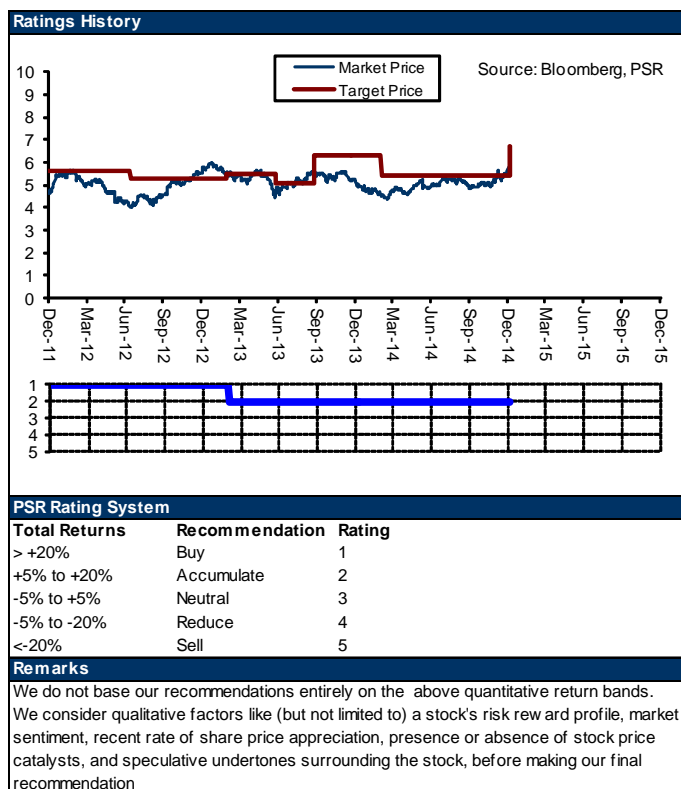
Lower-than-expected growth of main business incomes;
The deterioration of the asset quality due to the sharp growth of the NPLs;
Share price decreases largely affected by the market environment.

FINANCIALS

FYE	FY12	FY13	FY14F	FY15F	FY16F
Valuation Ratios					
P/E (X)	6.8	6.2	5.9	5.5	5.2
P/B (X)	1.4	1.3	1.1	1.0	0.9
Dividend Payout ratio	35.00%	35.00%	35.00%	35.00%	35.00%
Dividend Yield	5.14%	5.66%	5.93%	6.41%	6.74%
Per share data (RMB)					
EPS, reported	0.68	0.75	0.79	0.85	0.90
EPS, adj.	0.68	0.75	0.79	0.85	0.90
DPS	0.24	0.26	0.28	0.30	0.31
BVPS	3.22	3.63	4.22	4.88	5.47
Growth					
Net interest income	12.6%	8.5%	6.4%	8.9%	8.0%
Net fee and commission income(exp.)	4.4%	16.7%	8.8%	13.7%	11.9%
Operating income	13.4%	10.7%	5.8%	8.1%	5.2%
Net Income, adj.	14.5%	10.9%	4.8%	8.0%	5.2%
Key Ratios					
Net interest margin	2.66%	2.56%	2.67%	2.65%	2.63%
Loan to deposit ratio	62.91%	66.22%	69.55%	70.57%	70.89%
Cost to income ratio	29.24%	26.70%	23.90%	24.30%	26.10%
Return on average assets	1.45%	1.44%	1.40%	1.36%	1.30%
Return on average equity	23.02%	21.92%	20.11%	18.73%	17.32%
Non-performing loan ratio	0.85%	0.94%	1.05%	1.13%	1.21%
Coverage rate	295.55%	257.19%	225.30%	218.00%	203.00%
Core capital adequacy ratio	10.62%	10.57%	11.80%	11.40%	11.20%
Capital adequacy ratio	13.66%	13.12%	13.90%	13.30%	12.85%
Income Statement (RMB mn)					
Net interest income	529,720	574,610	611,255	665,373	718,315
Net fee and commission income	106,064	123,800	134,649	153,065	171,268
Operating income	529,720	574,610	611,255	665,373	718,315
Operating expenses	(189,940)	(199,437)	(211,403)	(228,315)	(251,147)
Impairment losses	(33,745)	(36,479)	(41,594)	(49,893)	(59,871)
Operating profit	306,035	338,694	358,258	387,164	407,297
Profit before tax	308,687	341,081	360,669	389,647	409,904
Income tax	(69,996)	(76,296)	(83,162)	(89,815)	(94,306)
Effective income tax rate	22.68%	22.37%	23.06%	23.05%	23.01%
Net profit for the period	238,691	264,785	277,507	299,832	315,598
Minority interest	159	310	357	410	472
Net profit attributable to equity holders of the Bank	238,532	264,475	277,150	299,422	315,127
Declared and paid Dividends	83,486	91,958	97,003	104,798	110,294
Balance Sheet (RMB mn)					
Cash and balances with banks and other financial institutions	3,174,943	3,294,007	3,557,528	3,806,554	4,073,013
Cash and balances with central bank	636,450	717,984	574,387	660,545	759,627
Loans and advances to customers	8,583,289	9,681,415	10,920,636	12,078,224	13,165,264
Financial investments	3,862,216	3,949,688	4,186,669	4,689,070	5,251,758
Investments in associates	33,284	28,515	31,367	35,130	39,346
Fixed assets	135,889	164,347	184,069	209,838	239,216
Deferred tax assets	22,789	28,860	29,149	32,063	35,270
Other assets	156,848	130,115	168,691	171,446	180,085
Total Assets	17,542,217	18,917,752	20,785,813	23,100,603	25,485,794
Deposits and placements to other banks and financial institutions	1,486,805	1,269,255	1,459,643	1,649,397	1,830,831
Certificates of deposit issued	38,009	130,558	208,893	250,671	300,806
Deposits from customers	13,642,910	14,620,825	15,702,766	17,116,015	18,570,876
Current taxation	56,922	55,674	59,571	64,337	68,197
Deferred tax liabilities	552	420	567	709	886
Subordinated term debt	232,186	253,018	278,320	300,585	324,632
Other liabilities	384,474	436,736	524,083	678,688	878,901
Total Liabilities	16,413,758	17,639,289	19,298,194	21,377,943	23,554,731
Shareholders' equity	1,124,997	1,274,134	1,482,098	1,715,984	1,923,900
Minority interest	3,462	4,329	5,521	6,676	7,163
Total shareholders' equity	1,128,459	1,278,463	1,487,619	1,722,660	1,931,063
Total shareholders' equity and liabilities	17,542,217	18,917,752	20,785,813	23,100,603	25,485,794

Source: PSR

Source: Company, Phillip Securities (HK) Research Estimates



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

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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