

ICBC (1398.HK)

Operating performance maintained stable

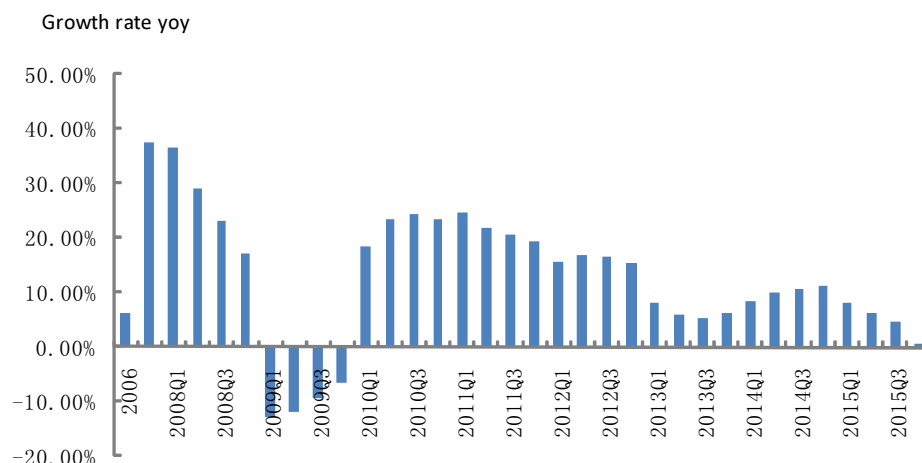
CHINA | BANKING | COMPANY REPORT

18 December 2015

Summary

- According to 3Q results of ICBC (or the Group) this year, by the end of Sep, net profit was RMB221.761 billion, up slightly 0.59% y-y, equivalent to the EPS of RMB0.62. The profit growth declined quarter by quarter, in line with our previous expectation;
- The decreased profit growth was mainly because of the decrease of incomes, net interest incomes and intermediate business incomes increased by 4.7% and 10.2% y-y to RMB379.945 billion and 111.183 billion respectively. Meanwhile, the impairment loss would continue to increase significantly, which is one of main reasons of the large decrease of net profit;
- Total assets increased by 7.25% to RMB22.10 trillion compared to the end of 2014, remained the stable growth, and the BVPS achieved to RMB4.62, up 9.22%;
- The asset quality of ICBC continued to go down. By the end of 3Q2015, the NPL ratio increased largely by 0.31ppts to 1.44%, and we expect it would be around 1.50% in 2015, while the coverage ratio went down 49.27ppts to 157.63%;
- In all, ICBC's performance met our expectation, and faces two main issues, one is the decrease of the profit growth, and the other is the deterioration of the asset quality, however, we expect the Group's profit would increase slightly in 2015, but it will go down in the next two years. Considering the large decrease of the share price recently, the valuation becomes attractive, and we give ICBC's 12-m target price at HK\$6.00, around 31% higher than the latest closing price, equivalent to 6.5xP/E and 0.9xP/B in 2016 respectively. Upgrade to Buy rating. (Closing price as at 16 Dec 2015)

The growth of ICBC's net interest incomes



Source: Company, Phillip Securities (HK) Research

Buy (Upgrade)

CMP: HK\$ 4.58

(Closing price as at 16 Dec 2015)

TARGET HK\$ 6.00 (+31%)

COMPANY DATA

O/S SHARES (MN) :	86,794
MARKET CAP (HK\$ MN) :	397,517
52 - WK HI/LO (HK\$) :	7.10/ 4.30

SHARE HOLDING PATTERN, %

Huijin:	35.00
MOF	34.60
HKSCC	24.30

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
HTS	-2.55	-3.17	-12.93
HSI	-1.41	1.15	-5.76

KEY FINANCIALS

Key Financial Summary

FYE	12/14	12/15F	12/16F	12/17F
Operating Profit (RMB mn)	359,455	360,970	356,680	354,323
Net Profit, adj. (RMB mn)	275,811	276,466	273,929	272,564
EPS, adj. (RMB)	0.78	0.78	0.77	0.76
P/E (X)	4.9	4.9	4.9	4.9
BVPS (RMB)	4.33	4.93	5.39	5.86
P/B (X)	0.9	0.9	0.9	0.9
DPS (RMB)	0.27	0.27	0.27	0.27
Div. Yield	7.1%	7.1%	7.1%	7.1%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

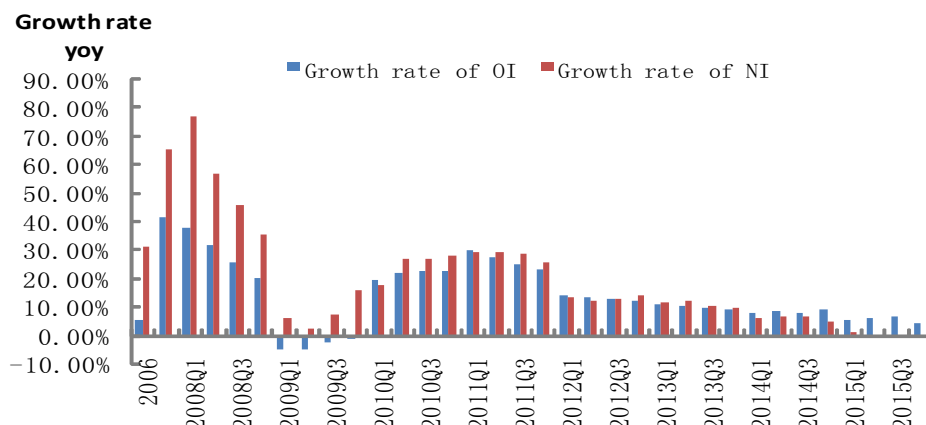
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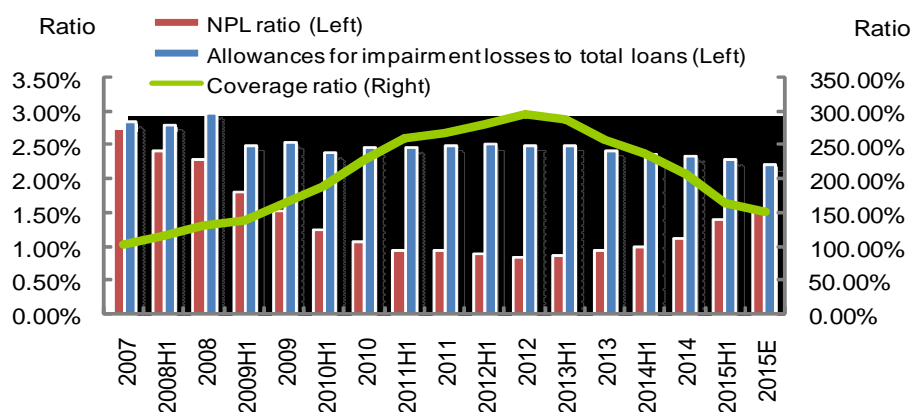
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The growth of ICBC's profits



Source: Company, Phillip Securities (HK) Research

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 may decrease largely affected by the market environment in the short term if the U.S. increased interest rates.

FINANCIALS

Balance Sheet	2013A	2014A	2015E	2016E	2017E
Cash and balances with banks and other financial institutions	3,294,007	3,523,622	3,171,260	3,234,685	3,461,113
Loans and advances to customers	9,681,415	10,768,750	11,910,238	13,101,261	14,280,375
Financial investments	3,949,688	4,086,409	4,699,370	5,263,295	5,789,624
Total Assets	18,917,752	20,609,953	22,409,852	24,746,872	27,311,256
Deposits and placements to other banks and financial institutions	1,269,255	1,539,239	2,001,011	2,541,284	3,176,604
Deposits from customers	14,620,825	15,556,601	16,956,695	18,398,014	19,961,845
Other liabilities	436,736	464,690	418,221	501,865	577,145
Total Liabilities	17,639,289	19,072,649	20,639,726	22,810,920	25,203,412
Shareholders' equity	1,274,134	1,530,859	1,757,993	1,919,334	2,088,335
Minority interest	4,329	6,445	12,133	16,618	19,508
Total shareholders' equity	1,278,463	1,537,304	1,770,126	1,935,952	2,107,843
Total shareholders' equity and liabilities	18,917,752	20,609,953	22,409,852	24,746,872	27,311,256
Income Statement	2013A	2014A	2015E	2016E	2017E
Net interest income	443,335	493,522	496,817	502,892	510,316
Net fee and commission income	122,326	132,497	149,154	170,200	201,314
Operating income	578,901	634,858	664,448	697,151	741,036
Operating expenses	(204,140)	(218,674)	(223,047)	(231,969)	(243,568)
Impairment losses	(38,321)	(56,729)	(80,430)	(108,501)	(143,145)
Operating profit	336,440	359,455	360,970	356,680	354,323
Profit before tax	338,537	361,612	363,191	359,013	356,866
Income tax	(75,572)	(85,326)	(86,179)	(84,456)	(83,611)
Effective income tax rate	22.32%	23.60%	23.73%	23.52%	23.43%
Net profit for the period	262,965	276,286	277,012	274,558	273,255
Minority interest	316	475	546	628	691
Net profit attributable to equity holders of the Bank	262,649	275,811	276,466	273,929	272,564
Declared and paid Dividends	91,958	96,534	96,763	95,875	96,834
Items per share	2013A	2014A	2015E	2016E	2017E
Basic EPS(RMB)	0.74	0.78	0.78	0.77	0.76
Book value per share(RMB)	3.63	4.33	4.93	5.39	5.86
Dividend per Share(RMB)	0.26	0.27	0.27	0.27	0.27
Financial ratio	2013A	2014A	2015E	2016E	2017E
P/E (x)	5.2	4.9	4.9	5.0	5.0
P/B (x)	1.1	0.9	0.8	0.7	0.7
Dividend payout ratio	35.01%	35.00%	35.00%	35.00%	35.53%
Dividend Yield	6.78%	7.12%	7.10%	7.03%	7.10%
Net interest margin	2.57%	2.66%	2.47%	2.40%	2.35%
Loan to deposit ratio	66.22%	69.22%	70.24%	71.21%	71.54%
Cost to income ratio	28.80%	27.93%	24.13%	24.50%	25.10%
Return on average assets	1.44%	1.40%	1.29%	1.16%	1.05%
Return on average equity	21.90%	19.67%	16.81%	14.90%	13.60%
Non-performing loan ratio	0.94%	1.13%	1.53%	1.75%	2.02%
Coverage rate	257.19%	206.90%	151.00%	133.00%	117.00%
Core capital adequacy ratio	10.57%	11.92%	12.64%	11.90%	11.40%
Capital adequacy ratio	13.12%	14.53%	14.50%	13.95%	13.56%

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 16 December 2015)

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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