

ICBC (601398 CH)

Earnings unexciting; Highlights on fee and deposit

On 29 Aug, ICBC reported 1H19 net profit of RMB 167.9bn, up 4.7% YoY and accounting for 53.7%/54.4% of CMBIS/consensus full-year estimates. 2Q19 PPOp rose 7.1% YoY, driven by a solid net interest income (+7.5% YoY) and robust net fee income (+12.5%). Impairment charges was flat YoY, helping to offset a higher tax expense due to low-base effect in 2Q18. As a result, bottom-line earnings growth accelerated to 5.2% YoY in 2Q19 (vs 4.1% YoY in 1Q19). The Bank will hold result briefing and reverse road show on 3-4 Sep in Beijing. **We initiate coverage on ICBC's A-share with BUY rating.**

- Results positives:**
 - 1) 1H19 net fee income was up 11.7% YoY**, mainly driven by settlement & clearing and guarantee & commitment businesses. The Bank's non-interest income as of total revenue increased to 24% from 21% in FY18;
 - 2) Deposit growth was strong at 8.0% HoH**, the fastest among large banks and outpacing loan growth of 5.5% HoH, therefore sending LDR down by 1.7ppt HoH to 70.4%.
 - 3) Asset quality continued to improve**, as NPL ratio fell 3bp QoQ to 1.48%, and provision coverage climbed 6.2ppt to 192%. Overdue loan and special mention loan ratio declined 7bp and 21bp to 1.68% and 2.71%, respectively.
 - 4) Lower RWA density**, as RWA grew at a slower pace (+0.7% QoQ) than that of total assets (+2.5% QoQ), likely due to faster growth in retail vs corporate loans.
- Results negatives:**
 - 1) 2Q19 NIM contracted 4bp QoQ to 2.27%**, in line with other large bank peers. Liability cost was up 10bp HoH on deposit cost hike, more than offsetting the 5bp expansion in asset yield. That said, 1H19 NIM only retreated 1bp YoY, vs 7bp YoY slip for CCB (939 HK, BUY);
 - 2) CIR rose 0.6ppt YoY in 2Q19**, possibly due to higher expense on technology development.
 - 3) Annualized ROE in 1H19 declined 0.8ppt to 14.7%**, given the subdued earnings growth.
- Initiate ICBC-A with BUY rating and RMB 7.2 TP.** ICBC-A currently trades at 0.78x FY19E P/B, 3% below its past 5-year mean of 0.8x. Our TP of RMB 7.2 is based on a GGM-derived target P/B of 1.04x and FY19E BPS of RMB 6.9.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income (RMB mn)	675,654	725,121	784,157	835,013	891,201
Net profit (RMB mn)	286,049	297,676	312,748	331,633	353,197
EPS (RMB)	0.79	0.82	0.86	0.92	0.98
EPS CHG (%)	2.9	4.1	5.1	6.1	6.6
P/E (x)	6.9	6.6	6.3	5.9	5.5
P/B (x)	0.95	0.86	0.78	0.71	0.65
Dividend yield (%)	4.4	4.6	4.9	5.2	5.5
ROE (%)	14.3	13.7	13.1	12.6	12.3
NPL ratio (%)	1.55	1.52	1.56	1.59	1.57
Provision coverage (%)	154	176	197	214	234

Source: Company data, CMBIS estimates

BUY (Initiation)

Target Price	RMB 7.20
Up/Downside	+32.8%
Current Price	RMB 5.42

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	1,847,911
Avg 3 mths t/o (RMB mn)	964.27
52w High/Low (RMB)	6.08/5.1
Total Issued Shares (mn)	240,417 (A)
	9,594 (H)

Source: Bloomberg

Shareholding Structure

Huijin	34.71%
MoF	34.60%
Ping An Life	1.03%

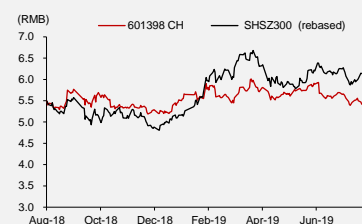
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-5.1%	-3.7%
3-mth	-4.8%	-8.0%
6-mth	-6.1%	-9.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Figure 1: 1H19 results summary

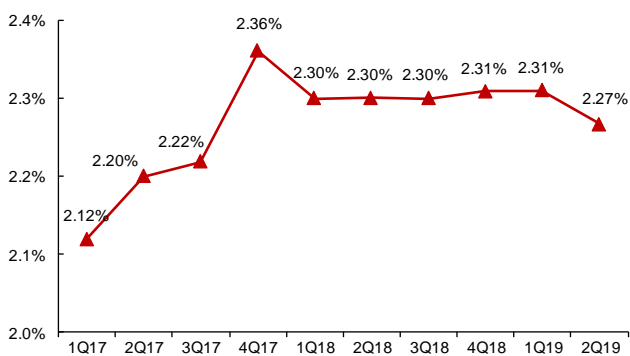
(RMB mn)						
P&L	1H18	1H19	YoY	2Q18	2Q19	YoY
Net interest income	277,616	299,301	7.8%	140,604	151,111	7.5%
Net fee and commission income	79,260	88,501	11.7%	37,647	42,365	12.5%
Operating income	361,302	394,203	9.1%	178,117	192,385	8.0%
Operating expense	(81,958)	(87,154)	6.3%	(41,960)	(46,540)	10.9%
PPoP	279,344	307,049	9.9%	136,157	145,845	7.1%
Impairment losses	(83,458)	(99,180)	18.8%	(41,200)	(40,906)	-0.7%
Pre-tax profit	195,886	207,869	6.1%	94,957	104,939	10.5%
Income tax	(36,559)	(40,519)	10.8%	(13,982)	(19,642)	40.5%
Net profit	160,442	167,931	4.7%	81,640	85,926	5.2%

B/S	4Q18	2Q19	HoH	1Q19	2Q19	QoQ
Gross loans	15,419,905	16,271,224	5.5%	15,932,402	16,271,224	2.1%
Customers' deposits	21,408,934	23,125,437	8.0%	22,574,651	23,125,437	2.4%
Total assets	27,699,540	29,990,476	8.3%	29,246,572	29,990,476	2.5%
NPLs	235,084	240,086	2.1%	240,282	240,086	-0.1%

Key ratios	1H18	1H19	YoY	1Q19	2Q19	QoQ
NIM	2.30%	2.29%	-1bp	2.31%	2.27%	-4bp
ROE	15.5%	14.7%	-0.8ppt	14.4%	14.8%	0.4ppt
NPL ratio	1.54%	1.48%	-6bp	1.51%	1.48%	-3bp
Provision coverage	173.2%	192.0%	18.8ppt	185.9%	192.0%	6.2ppt
LDR	71.7%	70.4%	-1.4ppt	70.6%	0.0%	-70.6ppt
CET-1 CAR	12.3%	12.7%	41bp	12.8%	12.7%	-10bp

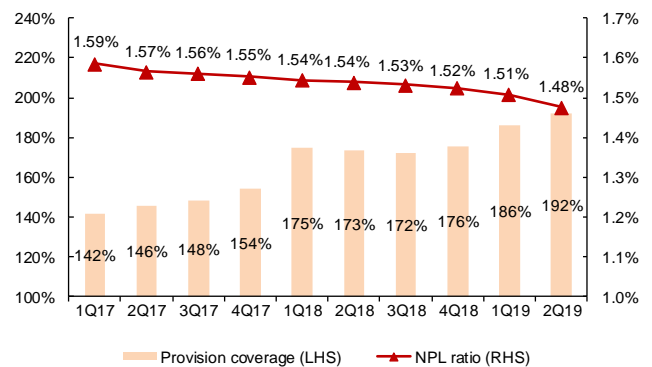
Source: Company data, CMBIS

Figure 2: Quarterly NIM of ICBC



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of ICBC



Source: Company data, CMBIS

Valuation

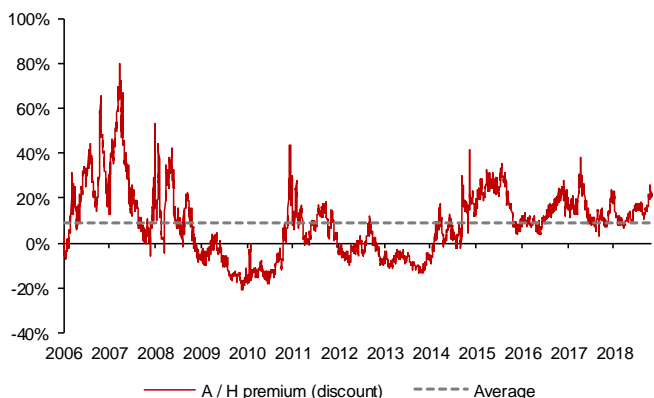
We use Gordon Growth Model to derive the TP for ICBC-A. Our key assumptions include: 1) Cost of equity of 12.5%, 2) Sustainable ROE of 12.8%; 3) Long-term growth rate of 3.0%. Our TP of RMB 7.2 is based on a target P/B of 1.04x and FY19E BVPS of RMB 6.9.

Figure 4: Peers valuation for A-share China banks

Company	Ticker	Mkt. Cap (US\$ mn)	Avg 3M (US\$ mn)	Price (RMB)	P/B (x)		P/E (x)		Dvd yield (%)		ROE (%)	
					FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Nationwide SOE & joint-stock banks												
CCB	601939 CH	186.1	71.5	6.94	0.83	0.75	6.5	6.2	4.6	4.9	13.2	12.7
ABC	601288 CH	163.1	108.7	3.39	0.67	0.62	5.6	5.3	5.4	5.7	12.4	12.0
BOC	601988 CH	135.6	43.0	3.53	0.63	0.59	5.7	5.4	5.4	5.6	11.4	11.0
BoCom	601328 CH	52.4	56.0	5.42	0.57	0.53	5.3	5.1	5.7	6.0	11.0	10.6
CMB	600036 CH	118.6	216.4	33.93	1.48	1.31	9.5	8.5	3.1	3.6	16.3	16.3
CITIC	601998 CH	34.3	15.1	5.59	0.62	0.57	5.9	5.7	4.3	4.6	10.7	10.4
MSB	600016 CH	34.3	49.9	5.83	0.57	0.52	4.9	4.7	5.2	5.6	12.0	11.6
CEB	601818 CH	26.2	37.4	3.75	0.62	0.57	5.6	5.2	4.8	5.2	11.3	11.2
PAB	000001 CH	33.9	172.5	14.13	0.98	0.88	8.8	7.8	1.1	1.3	11.6	11.8
SPDB	600000 CH	46.1	52.0	11.23	0.67	0.60	5.6	5.2	3.3	3.5	12.4	12.0
IND	601166 CH	49.9	178.5	17.18	0.72	0.65	5.5	5.0	4.3	4.8	13.6	13.3
HXB	600015 CH	15.6	14.0	7.26	0.51	0.46	5.3	4.9	3.1	3.3	10.0	9.3
Average					0.74	0.67	6.2	5.8	4.2	4.5	12.2	11.9
Regional city & rural commercial banks												
Bank of Beijing	601169 CH	15.5	30.7	5.23	0.58	0.53	5.3	4.8	5.3	5.9	11.0	10.9
Bank of Shanghai	601229 CH	17.7	32.5	8.92	0.75	0.67	6.1	5.2	4.6	5.3	12.4	12.8
Bank of Nanjing	601009 CH	9.3	45.6	7.85	0.85	0.74	5.3	4.6	5.1	5.8	16.0	16.1
Bank of Ningbo	002142 CH	17.4	56.5	22.32	1.51	1.30	8.9	7.6	2.1	2.5	17.1	17.6
Bank of Jiangsu	600919 CH	10.8	20.0	6.67	0.65	0.59	5.4	4.8	5.1	4.9	15.0	15.1
Bank of Guiyang	601997 CH	3.7	14.0	8.26	0.75	0.64	3.9	3.5	3.5	3.9	16.5	16.0
Bank of Hangzhou	600926 CH	5.8	15.9	8.06	0.79	0.71	7.0	5.9	3.6	4.2	10.8	11.3
Bank of Chengdu	601838 CH	4.1	15.1	8.18	0.83	0.73	5.3	4.5	5.0	5.8	16.5	17.1
JYRCB	002807 CH	1.3	3.9	4.37	0.82	0.77	9.9	9.1	2.2	2.3	7.9	8.0
WXRCB	600908 CH	1.4	4.1	5.27	0.85	0.78	8.0	7.2	2.5	2.7	11.2	11.4
CSRCB	601128 CH	2.9	18.6	7.46	1.21	1.08	10.3	8.8	2.7	3.3	12.8	13.1
WJRCB	603323 CH	1.3	8.9	5.13	0.83	0.77	9.4	8.4	2.9	3.3	8.9	8.9
ZJGRCB	002839 CH	1.4	8.4	5.37	0.95	0.88	10.5	9.3	-	-	9.3	-
Average					0.87	0.78	7.3	6.4	3.7	4.2	12.7	13.2

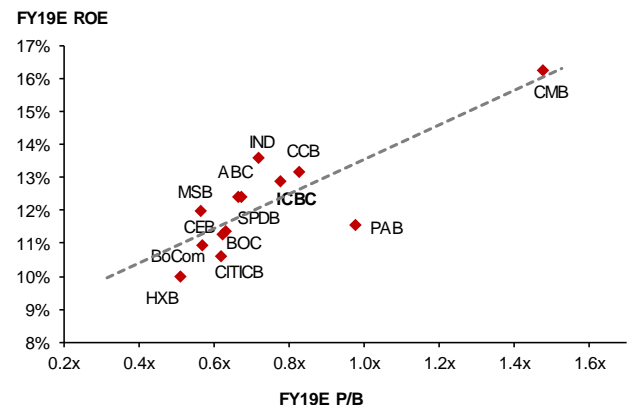
Source: Bloomberg, CMBIS

Figure 5: ICBC's A/H valuation premium (discount)



Source: Bloomberg, CMBIS

Figure 6: P/B vs ROE for A-share China banks



Source: Bloomberg, CMBIS

Financial Summary

Income Statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Interest income	861,594	948,094	1,034,39	1,109,54	1,191,46
Interest expenses	(339,516)	(375,576)	(410,763)	(442,686)	(476,421)
Net interest income	522,078	572,518	623,634	666,861	715,040
Net fee income	139,625	145,301	152,566	160,194	168,204
Others	13,951	7,302	7,957	7,957	7,957
Operating income	675,654	725,121	784,157	835,013	891,201
Operating expenses	(186,194)	(194,203)	(213,849)	(231,982)	(252,005)
PPoP	489,460	530,918	570,308	603,031	639,196
Provision	(127,769)	(161,594)	(182,194)	(191,373)	(200,655)
Operating profit	361,691	369,324	388,115	411,658	438,541
Non-operating income	2,950	3,089	3,089	3,089	3,089
Pre-tax profit	364,641	372,413	391,204	414,747	441,630
Income tax expenses	(77,190)	(73,690)	(77,408)	(82,067)	(87,386)
Minority interests	(1,402)	(1,047)	(1,047)	(1,047)	(1,047)
Net profit	286,049	297,676	312,748	331,633	353,197

Key Ratio

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Op. income mix					
Net interest income	77%	79%	80%	80%	80%
Net fee income	21%	20%	19%	19%	19%
Others	2%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	10.6%	9.7%	8.9%	6.9%	7.2%
Net fee income	-3.7%	4.1%	5.0%	5.0%	5.0%
Operating income	5.3%	7.3%	8.1%	6.5%	6.7%
PPoP	9.1%	8.5%	7.4%	5.7%	6.0%
Net profit	2.8%	4.1%	5.1%	6.0%	6.5%
Gross loans	9.0%	8.3%	8.0%	7.8%	7.8%
Customer deposits	9.7%	9.4%	8.0%	7.5%	7.5%
Efficiency					
Cost-to-income ratio	26.5%	25.7%	26.2%	26.7%	27.2%

Balance Sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Due from central banks	3,538,658	3,302,529	4,060,876	4,333,775	4,627,142
Interbank assets	1,834,242	1,696,498	1,453,443	1,526,115	1,602,421
Investments	5,756,704	6,754,692	7,235,574	7,750,762	8,302,709
Gross loans	14,233,448	15,419,905	16,653,497	17,952,470	19,352,763
Less: provision	340,482	413,177	510,473	610,512	713,007
Other assets	1,064,473	939,093	1,123,559	1,350,026	1,593,022
Total assets	26,087,043	27,699,540	30,016,478	32,302,637	34,765,049
Due to central banks	456	481	625	813	1,057
Interbank liabilities	3,013,161	2,670,650	2,821,250	2,981,087	3,150,793
Customer deposits	19,562,936	21,408,934	23,121,649	24,855,772	26,719,955
Debt securities issued	526,940	617,842	710,518	817,096	939,660
Other liabilities	842,494	656,750	706,750	758,880	815,395
Total liabilities	23,945,987	25,354,657	27,360,792	29,413,649	31,626,860
Shareholders' equity	2,127,491	2,330,001	2,640,803	2,874,106	3,123,307
Incl. Perpetual bonds	-	-	80,000	80,000	80,000
Incl. Preferred stocks	86,051	86,051	86,051	86,051	86,051
Minority interest	13,565	14,882	14,882	14,882	14,882
Total equity	2,141,056	2,344,883	2,655,685	2,888,988	3,138,189

Asset quality					
NPL ratio	1.55%	1.52%	1.56%	1.59%	1.57%
Provision coverage	154%	176%	197%	214%	234%
Provision/ total loans	2.39%	2.68%	3.07%	3.40%	3.68%
Credit costs	0.91%	0.99%	1.11%	1.08%	1.05%
Capital adequacy					
CET-1 CAR	12.8%	13.3%	13.5%	13.8%	14.0%
Tier-1 CAR	13.3%	13.8%	14.0%	14.2%	14.4%
Total CAR	15.1%	15.5%	15.6%	15.6%	15.7%
Profitability					
NIM	2.22%	2.30%	2.27%	2.25%	2.25%
ROE	14.3%	13.7%	13.1%	12.6%	12.3%
ROA	1.12%	1.09%	1.07%	1.05%	1.04%
RoRWA	1.85%	1.77%	1.74%	1.72%	1.71%
Per share					
EPS (RMB)	0.79	0.82	0.86	0.92	0.98
DPS (RMB)	0.24	0.25	0.26	0.28	0.30
BVPS (RMB)	5.73	6.30	6.94	7.60	8.30

Source: Company data, CMBIS estimates

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