

Company Report

ICBC (1398 HK)

Sound 1H22 results; Maintain BUY

- Shareholders' net profit grew by 4.9% yoy in 1H22, in line
- 1H22 results highlighted by stable loan quality
- Maintain BUY rating and cut TP to HKD5.2

Overall performance is stable in 1H22

PPOP increased by 2.8% yoy, and shareholders' NP rose by 4.9% yoy in 1H22. 2) NIM slipped from 2.12% in 1H21 (or 2.10% in 1Q22) to 2.03% in 1H22, due to the policy of reducing the real financing cost of enterprises and LPR cuts. 3) ICBC's results showed resilience highlighted by its stable asset quality at end-1H22. NPL ratio was maintained at 1.41% at end-1H22, compared with 1.42% at end-1Q22. The special mention loan ratio dropped to 1.87% at end-1H22 from 1.99% at end-2021. The allowance to NPL ratio of ICBC at end-1H22 was 207.03%, virtually unchanged from end-2021. There is some increased pressure on asset quality as the balance of NPL rose by 7.7% hoh and the balance of special mention loan rose by 1.3% hoh in 1H22. 4) Quality of real-estate related loans worsened but was still manageable. Both the NPL ratio of real estate corporate loans and that of residential mortgage loans increased hoh at end-1H22. For example, the NPL ratio of real estate corporate loans rose to 5.47% at end-1H22 from 4.79% as of end-2021. 5) The NPL ratio of credit card overdraft deteriorated from 1.90% at end-2021 to 2.24% at end-1H22, in line with the increased unemployment rate in 1H22. 6) ICBC's overall 1H22 result is stable, and it demonstrates a balanced approach between value creation, market standing, and risk management while fulfilled its responsibilities as a large bank to serve the real economy. 7) Looking forward, we expect continuing NIM pressure for the Company due to LPR cuts and relatively weak loan demands, and we expect overall loan quality to remain steady benefiting from a series of cross-/anti- cyclical policies.

Maintain BUY rating and cut TP to HKD 5.2

ICBC is trading at ~3.4x 22E P/E, or ~0.38x 22E P/B. Valuation is not demanding measured by P/B or dividend yield (Fig. 6-7). We slightly revised 22E/23E forecasts for the Company (Fig. 2). ICBC is the industry leader with stable performance records. Maintain BUY on undemanding valuation and its consolidated asset quality, cut TP from HKD 5.74 to HKD5.2, equal to 0.50x 22E P/B (previously 0.55x applied), or a 27% discount to past 5-year avg. P/B. **Key catalysts:** better-than-expected asset quality, NIM expansion; **key downside risks:** worse-than-expected asset quality, NIM pressure.

Financials

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Operating income	800,075	860,880	899,569	943,970	1,002,400
Ord. shareholders' net profit	307,067	338,731	353,551	368,931	384,929
EPS (RMB)	0.86	0.95	0.99	1.04	1.08
BVPS (RMB)	7.48	8.15	8.85	9.57	10.34
P/E (x)	3.9	3.6	3.4	3.3	3.1
P/B (x)	0.45	0.42	0.38	0.36	0.33
ROE (%)	11.95	12.15	11.68	11.24	10.85
Dividend yield (%)	7.8	8.6	9.0	9.4	9.8

Sources: Company data, CMS (HK) estimates; Note: share price is as of Aug. 30, 2022

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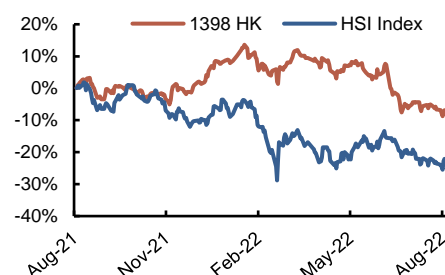
WHAT'S NEW

1H22 results review; Cut TP

BUY

Previous	BUY
Price (Aug. 30, 2022)	HKD4.00
12-month Target Price (Potential up/downside)	HKD5.2 (+30%)
Previous	HKD5.74

Price Performance



Source: Wind

%	1m	6m	12m
1398 HK	(4.6)	(15.2)	(8.8)
HSI	(2.3)	(13.3)	(23.9)

Sector: Bank

Hang Seng Index (Aug. 30, 2022)	19,949
HSCEI (Aug. 30, 2022)	6,840

Key Data

52-week range (HKD)	3.95-4.94
Market cap (HKD mn)	1,478,213
Avg. daily volume (mn)	182.9

Shareholding Structure

Central Huijin Investment Ltd.	34.71%
Ministry of Finance of the People's Republic of China	31.14%
HKSCC Nominees Limited	24.17%
No. of shares outstanding (mn)	356,407
Free float	9.98%

Sources: Bloomberg, Wind, Company data

Related Research

1. ICBC (1398 HK) - In line 1Q22 results (BUY) (May 3, 2022)
2. ICBC (1398 HK) - Resilient business performance; Maintain BUY (BUY) (Mar. 31, 2022)
3. ICBC (1398 HK) - Steady-going performance continued in 3Q21 (BUY) (Nov. 1, 2021)

Focus charts

Figure 1: ICBC 1H22 Key results review

Profitability (%)	1H22	1H21	yoy (hoh)
PPOP growth yoy	2.8	5.4	
Shareholders' net profit growth yoy	4.9	9.9	
Return on average total assets, annualised	0.93	0.96	
Return on weighted average equity, annualised	11.25	11.90	
Net interest spread, annualised	1.85	1.93	
Net interest margin, annualised	2.03	2.12	
Return on risk-weighted assets	1.58	1.60	
Cost-to-income ratio	22.14	21.19	
Asset quality (%)	1H22	end-2021	
Balance of NPL (RMB mn)	315,962	293,429	7.7%
Non-performing loans ratio	1.41	1.42	
Corporate loan NPL ratio	2.03	2.09	
Real estate loan NPL ratio	5.47	4.79	
Personal loan NPL ratio	0.56	0.49	
Personal mortgage loan NPL ratio	0.31	0.24	
Balance of special mention loan (RMB mn)	417,238	412,038	1.3%
Special mention loan ratio	1.87	1.99	
Allowance to NPL	207.03	205.84	
Allowance to total loans ratio	2.93	2.92	
Capital adequacy (%)	1H22	end-2021	
Core tier 1 capital adequacy ratio	13.29	13.31	
Tier 1 capital adequacy ratio	14.90	14.94	
Capital adequacy ratio	18.31	18.02	
Operating performance (RMB mn)	1H22	end-2021	
Net interest income	351,425	336,293(1H21)	4.5%
Net fee and commission income	76,017	75,943(1H21)	0.1%
Average interest-generating assets	34,830,199	32,656,847	6.7%
Including:			
Corporate loans	11,765,245	10,787,207	9.1%
Personal loans	7,855,651	7,415,770	5.9%
Investments	8,664,057	7,999,530	8.3%
Including:			
Short term loans	4,450,319	4,045,145	10.0%
Long term loans	17,074,208	15,951,269	7.0%
Average interest-bearing liabilities	31,142,206	28,837,695	8.0%
Including:			
Customer deposits	26,405,307	24,477,111	7.9%

Sources: Company report, CMS (HK)

Figure 2: Forecast revisions

(RMB mn)	New			Old		Change	
	2021A	2022E	2023E	2022E	2023E	2022E New/Old	2023E New/Old
Net profit for ordinary equity holders of the parent company	338,731	353,551	368,931	358,244	378,809	-1.3%	-2.6%
Net interest income	690,680	721,320	766,709	734,469	786,199	-1.8%	-2.5%
Average interest-generating assets	32,656,847	35,897,198	39,722,476	35,468,530	38,913,658	1.2%	2.1%
Average interest-generating liabilities	28,837,695	31,824,423	35,017,976	31,100,562	33,821,046	2.3%	3.5%
Net Interest Margin (%)	2.11	2.01	1.93	2.07	2.02		

Sources: Company data, CMS (HK) estimates

Figure 3: Inclusive small and micro enterprise (SME) loans

ICBC	2020	2021	1H22	1H22 YTD
Balance of inclusive SME loans (RMB mn)	720,564	1,099,012	1,400,141	27.4%
Inclusive SME loans / Total loans (%)	3.9	5.3	n.a.	
NPL ratio of Inclusive SME loans (%)	n.a.	n.a.	n.a.	
Average rate of Inclusive SME loans (%)	4.13	4.10	n.a.	

Sources: Company data, CMS (HK)

Figure 4: Credit card business – scale and asset quality

ICBC	2020	2021	1H22	1H22 YTD
Balance of credit card overdraft (RMB mn)	681,610	692,339	658,137	-4.9%
Credit card business NPL ratio (%)	1.89	1.90	2.24	
Credit card NPL / Total NPL (%)	4.39	4.49	4.67	
Credit card loans / Total loans (%)	3.7	3.3	2.9	

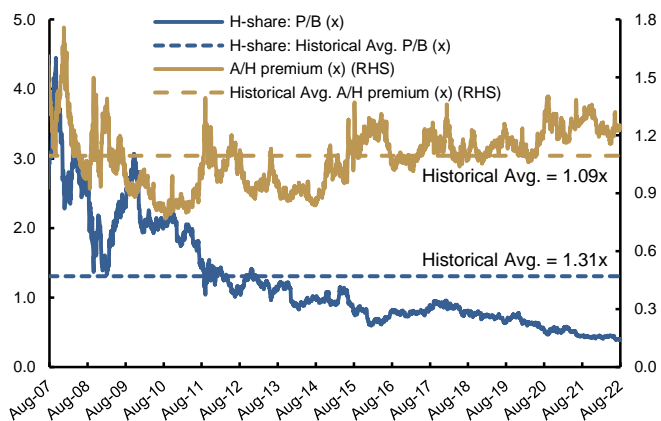
Sources: Company data, CMS (HK)

Figure 5: Sector exposures of ICBC's loans and NPLs (1H22)

	Loan	NPL	NPL ratio	Sector Loans/ Total Loans	Sector NPLs/ Total NPLs
Domestic Corporate	12,044,399	260,798	2.17%	53.9%	82.5%
Transportation, storage and postal services	2,983,434	24,008	0.80%	13.4%	7.6%
Manufacturing	1,899,627	64,477	3.39%	8.5%	20.4%
Leasing & commercial services	1,840,457	39,116	2.13%	8.2%	12.4%
Water, environment and public utility management	1,472,137	20,323	1.38%	6.6%	6.4%
Production and supply of electricity, heat, gas and water	1,120,278	9,324	0.83%	5.0%	3.0%
Real estate	708,147	38,762	5.47%	3.2%	12.3%
Wholesale & retail	553,628	30,019	5.42%	2.5%	9.5%
Construction	393,893	7,357	1.87%	1.8%	2.3%
Mining	224,368	3,414	1.52%	1.0%	1.1%
Other corporate loans	848,430	23,998	2.83%	3.8%	7.6%
Personal	8,139,397	45,587	0.56%	36.4%	14.4%
Residential mortgages	6,449,004	20,255	0.31%	28.9%	6.4%
Personal consumption loans	210,826	3,246	1.54%	0.9%	1.0%
Personal business loans	821,430	7,333	0.89%	3.7%	2.3%
Credit card overdraft	658,137	14,753	2.24%	2.9%	4.7%
Non-Domestic	1,266,002	9,577	0.76%	5.7%	3.0%
Discounted bills	891,562	0	0.00%	4.0%	0.0%
Total	22,341,360	315,962	1.41%		

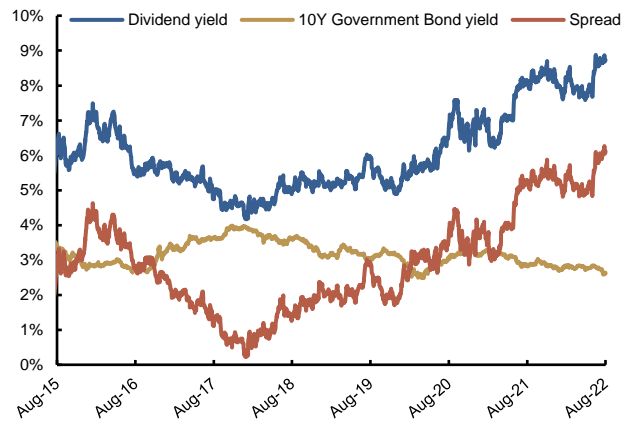
Sources: Company data, CMS (HK); Note: Per "Notice on Establishing a Concentration Management Scheme for Real Estate Loans in Banking Financial Institutions" issued by PBOC and CBIRC, the upper limit of the proportion of real estate loans applied to the 6 large SOE banks is 40%, and the upper limit of the proportion of personal mortgage loans is 32.5%.

Figure 6: P/B valuation and A/H Premium of ICBC



Sources: Wind, Company data, CMS (HK) estimates

Figure 7: Dividend yield of ICBC



Sources: Wind, Company data, CMS (HK) estimates

Valuation comparison

Company	Ticker	Rating	Price Local ccy	TP (HKD)	Mkt Cap (USD mn)	P/E(x)		P/B(x)		ROE (%)		Dividend Yield (%)	
						2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
HK Listed Peers													
Postal Savings Bank of China	1658 HK	BUY	4.69	6.11	58,205	4.6	4.2	0.56	0.53	12.3	13.0	7.0	7.8
Industrial and Commercial Bank of China	1398 HK	BUY	4.00	5.20	213,885	3.4	3.3	0.38	0.36	11.7	11.2	9.0	9.4
Bank of Communications	3328 HK	BUY	4.47	5.88	45,793	3.2	3.0	0.35	0.33	10.9	11.2	9.9	10.5
Agricultural Bank of China	1288 HK	Under review	2.56	Under review	140,256	3.2	3.0	0.34	0.32	11.3	11.0	10.1	10.7
China Construction Bank *	939 HK	NR	4.9	n.a.	155,226	3.4	3.1	0.39	0.36	12.0	11.8	9.0	9.7
Bank of China *	3988 HK	NR	2.7	n.a.	121,493	3.3	3.1	0.34	0.32	10.6	10.5	9.6	10.2
China CITIC Bank *	998 HK	NR	3.4	n.a.	28,358	2.6	2.4	0.26	0.24	10.3	10.4	10.4	11.2
China Minsheng Bank *	1988 HK	NR	2.5	n.a.	21,051	3.1	3.0	0.19	0.18	6.1	6.0	9.3	10.0
China Everbright Bank *	6818 HK	NR	2.4	n.a.	20,898	2.8	2.6	0.27	0.25	10.0	9.9	10.5	11.1
Arithmetic Average						3.3	3.1	0.34	0.32	10.6	10.6	9.4	10.1
Weighted Average						3.4	3.2	0.37	0.34	11.3	11.1	9.3	9.9
China A-share Listed Peers *													
Industrial and Commercial Bank of China	601398 CH	NR	4.4	n.a.	213,885	4.3	4.1	0.49	0.45	11.7	11.6	7.1	7.6
Agricultural Bank of China	601288 CH	NR	2.8	n.a.	140,256	4.1	3.8	0.44	0.41	11.1	11.1	7.7	8.3
Bank of Communications	601328 CH	NR	4.6	n.a.	45,793	3.9	3.7	0.40	0.36	10.0	10.3	8.1	8.7
Postal Savings Bank of China	601658 CH	NR	4.4	n.a.	58,205	4.8	4.2	0.59	0.53	11.9	12.5	6.4	7.3
China Construction Bank	601939 CH	NR	5.5	n.a.	155,226	4.3	4.0	0.50	0.46	12.1	11.9	7.1	7.6
Bank of China	601988 CH	NR	3.0	n.a.	121,493	4.2	3.9	0.43	0.40	10.7	10.8	7.7	8.2
China CITIC Bank	601998 CH	NR	4.5	n.a.	28,358	3.9	3.6	0.40	0.38	10.6	10.7	6.9	7.5
China Minsheng Bank	600016 CH	NR	3.6	n.a.	21,051	5.1	4.8	0.31	0.30	6.0	6.0	5.7	6.0
Industrial Bank	601166 CH	NR	16.8	n.a.	50,562	3.8	3.3	0.52	0.47	14.0	14.5	6.9	8.0
China Everbright Bank	601818 CH	NR	2.9	n.a.	20,898	3.8	3.5	0.38	0.35	10.2	10.3	7.6	8.4
Shanghai Pudong Development Bank	600000 CH	NR	7.2	n.a.	30,538	4.2	4.0	0.35	0.33	8.3	8.1	5.6	5.9
Ping An Bank	000001 CH	NR	12.5	n.a.	35,045	5.8	4.8	0.67	0.60	11.9	12.6	2.3	2.6
Huaxia Bank	600015 CH	NR	5.1	n.a.	11,422	3.5	3.3	0.31	0.28	8.6	8.5	7.3	7.4
Bank of Beijing	601169 CH	NR	4.1	n.a.	12,635	3.5	3.2	0.37	0.33	10.1	10.4	7.8	8.3
Bank of Shanghai	601229 CH	NR	5.9	n.a.	12,067	3.8	3.5	0.41	0.37	11.7	11.7	7.3	7.8
Bank of Ningbo	002142 CH	NR	28.3	n.a.	27,013	8.2	6.8	1.20	1.04	15.6	16.5	2.2	2.7
Arithmetic Average						4.4	4.0	0.49	0.44	10.9	11.1	6.5	7.0
Weighted Average						4.4	4.0	0.49	0.45	11.4	11.5	6.9	7.4

Company	Ticker	Rating	Price Local ccy	TP (HKD)	Mkt Cap (USD mn)	P/E(x)		P/B(x)		ROE (%)		Dividend Yield (%)	
						2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Global Peers *													
HSBC	HSBA LN	NR	529.5	n.a.	123,398	8.1	6.5	0.70	0.67	7.7	10.2	4.7	7.0
Standard Chartered	STAN LN	NR	594.0	n.a.	20,392	7.2	5.8	0.46	0.43	6.3	7.5	2.4	3.2
Barclays	BARC LN	NR	164.7	n.a.	30,918	5.2	5.4	0.45	0.42	8.2	7.7	4.3	5.2
Hang Seng Bank	11 HK	NR	123.0	n.a.	29,788	17.8	11.7	1.30	1.26	7.5	10.6	3.9	5.5
Bank of East Asia	23 HK	NR	9.9	n.a.	3,394	7.9	5.8	0.27	0.26	3.5	4.8	6.4	7.9
BOC Hong Kong	2388 HK	NR	27.3	n.a.	36,301	10.5	8.2	0.92	0.86	8.7	10.6	4.9	6.2
Bank of America	BAC US	NR	34.1	n.a.	273,921	10.6	8.9	1.10	1.02	10.5	11.6	2.5	2.8
J.P. Morgan Chase & Co.	JPM US	NR	114.4	n.a.	335,516	10.2	9.1	1.26	1.17	12.8	13.4	3.5	3.7
Wells Fargo	WFC US	NR	44.1	n.a.	167,425	11.2	8.7	1.02	0.94	9.2	10.9	2.4	3.1
Deutsche Bank	DBK GR	NR	8.5	n.a.	17,341	5.2	4.7	0.28	0.27	5.6	6.1	3.6	5.2
BNP Paribas	BNP FP	NR	46.4	n.a.	57,427	5.2	6.3	0.51	0.47	9.3	7.6	8.7	8.2
Average						9.0	7.4	0.75	0.71	8.1	9.2	4.3	5.3

Sources: Company data, Bloomberg, CMS (HK) estimates; Note: Share prices are as of Aug. 30, 2022; * forecast is based on Bloomberg consensus

Financial Summary

Consolidated Statement of Financial Position

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Cash and balances with the central banks	3,537,795	3,098,438	3,448,090	3,726,536	4,002,225
Due from banks and other financial institutions	1,081,897	827,150	919,482	1,011,431	1,112,574
Derivatives financial assets	134,155	76,140	114,210	108,168	99,506
Reverse repurchase agreements	739,288	663,496	995,244	995,244	995,244
Loans and advances to customers	18,136,328	20,109,200	22,475,982	25,038,024	27,821,909
Financial investments	8,591,139	9,257,760	10,146,091	11,256,264	12,516,428
Investments in associates and joint ventures	41,206	61,782	67,960	74,756	82,232
Property and equipment	286,279	290,296	296,102	302,024	308,064
Deferred income tax assets	67,713	79,259	95,111	104,622	115,084
Other assets	729,258	707,862	743,255	780,418	819,439
Total assets	33,345,058	35,171,383	39,301,528	43,397,487	47,872,705
Due to central banks	54,974	39,723	43,695	48,065	52,871
Financial liabilities at fair value through profit or loss	87,938	87,180	95,545	106,000	117,867
Derivative financial liabilities	140,973	71,337	107,006	101,345	93,229
Due to banks and other financial institutions	2,784,259	2,921,029	3,343,572	3,677,930	4,045,723
Repurchase agreements	293,434	365,943	457,429	571,786	714,732
Certificates of deposit	335,676	290,342	246,791	222,112	199,900
Due to customers	25,134,726	26,441,774	29,541,488	32,632,653	36,007,236
Income taxes payable	89,785	92,443	64,710	67,946	71,343
Deferred income tax liabilities	2,881	5,624	5,905	6,200	6,510
Debt securities issued	798,127	791,375	921,375	1,051,375	1,181,375
Other liabilities	712,770	789,355	907,758	1,043,922	1,200,510
Total liabilities	30,435,543	31,896,125	35,735,274	39,529,333	43,691,298
Share capital	356,407	356,407	356,407	356,407	356,407
Other equity instruments	225,819	354,331	394,331	434,331	474,331
Reserves and retained earnings	2,311,276	2,547,017	2,796,034	3,055,857	3,329,111
Shareholders' equity	2,893,502	3,257,755	3,546,772	3,846,595	4,159,849
Minority interests	16,013	17,503	19,481	21,559	21,559
Total equity	2,909,515	3,275,258	3,566,253	3,868,154	4,181,408

Consolidated Cash Flow Statement

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Net cash from operating activities	1,557,616	360,882	1,181,204	1,355,315	1,504,871
Net cash from investing activities	(1,135,097)	(674,556)	(960,720)	(1,126,330)	(1,267,692)
Net cash from financing activities	(46,949)	(11,553)	(7,993)	(16,512)	(25,221)
Net (decrease) / increase in cash and cash equivalents	375,570	(325,227)	212,492	212,473	211,958
Effect of foreign exchange rate changes	(34,861)	(29,138)	(4,287)	(9,762)	(5,976)
Cash and cash equivalents at end of year	1,791,122	1,436,757	1,644,962	1,847,672	2,053,654

Consolidated Statement of Profit or Loss

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Interest income	1,092,521	1,162,218	1,260,098	1,356,436	1,464,745
Interest expense	(445,756)	(471,538)	(538,778)	(589,727)	(644,240)
Net interest income	646,765	690,680	721,320	766,709	820,505
Fee and commission income	146,668	148,727	151,574	155,266	158,830
Fee and commission expense	(15,453)	(15,703)	(16,096)	(16,498)	(16,910)
Net gain on financial investments	14,051	25,395	30,401	26,124	27,605
Other operating income, net	8,044	11,781	12,370	12,370	12,370
Operating income	800,075	860,880	899,569	943,970	1,002,400
Less: operating expenses	(206,585)	(236,227)	(253,682)	(272,543)	(293,526)
Less: impairment losses	(202,668)	(202,623)	(205,800)	(212,199)	(229,739)
Operating profit	390,822	422,030	440,087	459,229	479,134
Shares of profits of association and joint ventures	1,304	2,869	3,012	3,163	3,321
Profit before taxation	392,126	424,899	443,100	462,392	482,455
Less: income tax expense	(74,441)	(74,683)	(77,542)	(80,919)	(84,430)
Profit for the year	317,685	350,216	365,557	381,473	398,026
Attributable to:					
Ordinary equity holders of the parent company	307,067	338,731	353,551	368,931	384,929

Financial Ratios

	2020A	2021A	2022E	2023E	2024E
EPS for ordinary shares (RMB)	0.86	0.95	0.99	1.04	1.08
BVPS for ordinary shares (RMB)	7.48	8.15	8.85	9.57	10.34
Return on average total assets (%)	1.00	1.02	0.98	0.92	0.87
Return on weighted average equity for ord. shareholders (%)	11.95	12.15	11.68	11.24	10.85
Net interest spread (%)	1.97	1.92	1.82	1.73	1.69
Net interest margin (%)	2.15	2.11	2.01	1.93	1.88
Non-performing loans ratio (%)	1.58	1.42	1.41	1.40	1.39
Allowance to NPL (%)	180.68	205.84	210.00	215.00	220.00
Allowance to total loans ratio (%)	2.85	2.92	2.96	3.01	3.06
Core tier 1 capital adequacy ratio (%)	13.18	13.31	13.31	13.05	12.78
Capital adequacy ratio (%)	16.88	18.02	18.21	18.20	18.10

Sources: Company data, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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