

ICBC (1398 HK / 601398 CH)

Earnings outlook to mildly improve

- Expect topline growth to turn positive in FY24E; assume NIM pressure to reduce
- Project net fee income to decline in FY23E-24E and recover in FY25E
- Asset quality outlook less of a concern; expect mild improvement in risk buffers
- Reiterate **BUY** on improving earnings outlook. Our GGM- based H/A shr TPs imply target 24E P/B of 0.45x/0.55x

Topline growth to gradually recover in FY24E. Despite the weak topline momentum in 9M23, our base case suggests ICBC's topline growth to turn positive starting from FY24E. With interest rate adjustment in residential mortgage completed in 4Q23, we believe NIM pressure will lessen from FY24E, partly also supported by ICBC's solid balance sheet growth as a result of backing up real economy. For FY23E, NIM would be down 32bps YoY; but the reduction would be much smaller at 9bps and 7bps YoY for FY24E and FY25E; overall, we expect NIM to be 1.44%-1.60% over FY23E-25E. This would support a NII CAGR of 3.8% in FY22-25E. We assume net fee income growth to turn positive in FY25E, considering the policy stance directing big banks to reduce fee rates, as well as the unfavorable capital market and slow recovery in retail consumptions. Overall, we anticipate a topline CAGR of 2.9% over FY22-25E.

Asset quality outlook to stay benign. With the rollout of supportive measures for the real estate sector, we expect the bank's asset quality outlook to remain benign in FY23E-25E. Its NPL ratio would be in the range of 1.31%-1.35%, which is lower than the system average of 1.61% as of Sep 2023, according to the NAFR. The declining NPL ratio would support risk buffers, and our base case estimates ICBC's provisioning ratio and provision coverage ratio to be in the range of 2.98%-3.10% and 220.74%-236.64% in FY23E-25E. Assuming China's macro growth to recover steadily without any new major risk outbreaks, we project provision expenses to expand at 1.3% CAGR over FY22-25E.

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Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	860,880	841,441	822,862	858,865	917,065
Chg (% YoY)	7.6	(2.3)	(2.2)	4.4	6.8
Net profit* (RMB mn)	348,338	360,483	362,146	371,745	396,436
Chg (% YoY)	10.3	3.5	0.5	2.7	6.6
EPS (RMB)	0.95	0.97	0.97	1.00	1.07
Chg (% YoY)	10.3	2.0	0.5	2.8	6.9
BVPS (RMB)	8.15	8.81	9.47	10.15	10.76
Chg (% YoY)	8.8	8.2	7.5	7.2	6.0
P/E (x) – H-shr	3.70	3.62	3.61	3.51	3.28
P/B (x) – H-shr	0.43	0.40	0.37	0.35	0.33
P/E (x) – A-shr	5.04	4.94	4.92	4.78	4.47
P/B (x) – A-shr	0.59	0.54	0.51	0.47	0.45
ROAA (%)	1.02	0.96	0.85	0.77	0.73
ROAE (%)	12.15	11.43	10.66	10.21	10.24
DPS(RMB)	0.293	0.303	0.302	0.310	0.332
Yield (%) H-shr	8.35	8.64	8.60	8.83	9.45
Yield (%) A-shr	6.12	6.34	6.31	6.48	6.93

Note: HKD/CNY=1.07

*Net profit = Net profit attributable to equity holders of the Company

Source(s): Company; Bloomberg, ABCI Securities estimates

Company Report

Nov 29, 2023

Rating (H): BUY
Rating (A): BUY
TP (H): HK\$ 4.91
TP (A): RMB 5.61

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Price (H/A shr)	HK\$ 3.76/ RMB 4.79
Est. share price return (H/A shr)	30.59%/17.12%
Est. dividend yield (H/A shr)	8.60%/6.31%
Est. total return (H/A shr)	39.19%/23.43%
Last Rating & TP (H/A shr)	BUY, HK\$6.32/ BUY, RMB6.51
Previous Report Date*	31 Aug, 2022

*Coverage suspended due to compliance restriction

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$) (H shr)	4.73/3.35
52Wk H/L (RMB) (A shr)	5.47/4.22
Total issued shares (mn)	356,406.2
Issued H shr (mn)	86,794.0
Issued A shr (mn)	269,612.2
Market cap (HK\$ mn)	1,708,188.8
H-shr market cap (HK\$ mn)	326,345.4
A-shr market cap (HK\$ mn)	1,381,843.4
3-mth avg daily turnover (HK\$ mn) (H shr)	858.50
3-mth avg daily turnover (RMB mn) (A shr)	1,178.95
Major shareholder(s) (%):	
Central Huijin	34.72
MoF	31.14
Source(s): Bloomberg, ABCI Securities	

Maintain BUY on improving earnings outlook. By lowering our FY23E/24E earnings by 6.98%/10.30%, our base case suggests a 3.2% CAGR over FY22-25E. By lowering its sustainable ROAE and raise our COE assumptions in the GGM model, we adjust our H/A TPs by -22.3% and -13.8% to HK\$ 4.91 and RMB 5.61. The TPs imply 0.45x/0.55x target FY24E P/B. Reiterate **BUY** on ICBC's market leading position and improving earnings outlook.

Risk Factors: 1) Potential asset quality deterioration in specific sectors and geographical areas; 2) Persisting NIM pressure; 3) Slow recovery in net fee growth; 4) Reducing ROAA and ROAE; 5) High social responsibility given its status as a market leader.

Exhibit 1: Major changes in forecasts

(RMB mn)	2023E (old)	2023E (new)	change (%)	(RMB mn)	2024E (old)	2024E (new)	change (%)
Net interest income	832,037	668,379	(19.67)	Net interest income	907,779	714,966	(21.24)
Net fee and commission	137,045	124,741	(8.98)	Net fee and commission	141,156	122,246	(13.40)
Operating income	1,012,877	822,862	(18.76)	Operating income	1,096,176	858,865	(21.65)
Operating expenses	(293,223)	(243,293)	(17.03)	Operating expenses	(331,858)	(250,592)	(24.49)
Impairment losses	(241,758)	(157,676)	(34.78)	Impairment losses	(255,133)	(170,287)	(33.26)
Profit before tax	480,485	426,674	(11.20)	Profit before tax	511,645	443,150	(13.39)
Income tax expenses	(88,890)	(64,001)	(28.00)	Income tax expenses	(94,654)	(70,904)	(25.09)
Net profit attributable to equity holders	389,303	362,146	(6.98)	Net profit attributable to equity holders	414,422	371,745	(10.30)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Net interest margin	1.86	1.60	(0.26)	Net interest margin	1.75	1.51	(0.24)
CIR	26.79	29.57	2.78	CIR	28.02	29.18	1.16
Return on average assets	0.87	0.85	(0.02)	Return on average assets	0.80	0.77	(0.03)
Return on average equity	11.61	10.66	(0.95)	Return on average equity	11.45	10.21	(1.24)
Dividend payout	31.00	31.00	-	Dividend payout	31.00	31.00	-
CT1 CAR	12.86	13.28	0.42	CT1 CAR	12.55	12.90	0.35
Total CAR	18.77	18.72	(0.05)	Total CAR	18.86	18.93	0.07
NPL ratio	1.47	1.35	(0.12)	NPL ratio	1.48	1.33	(0.15)
Provision to total loans	2.84	2.98	0.14	Provision to total loans	2.78	3.04	0.26
Provision coverage ratio	193.20	220.74	27.54	Provision coverage ratio	187.84	228.57	40.73

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes of GGM assumptions

	H-shr		A-shr		
	old	new	old	new	Reason
TP (HKD/RMB)	6.32	4.91	6.51	5.61	
Sustainable ROE (%)	10.25	10.04	10.25	10.04	Lower ROAE assumptions
COE (%)	12.28	13.73	11.53	12.47	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	7.50	6.80	7.50	6.80	Factor in lower long-term growth assumptions with reference to B/S and earnings growth
Target 24E P/B (x)	0.53	0.45	0.63	0.55	

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Net interest income	690,680	693,687	668,379	714,966	775,837
Non-interest income	170,200	147,754	154,483	143,899	141,227
Of which: Fees and commissions	133,024	129,265	124,741	122,246	123,468
Operating income	860,880	841,441	822,862	858,865	917,065
Operating expenses	(236,227)	(240,884)	(243,293)	(250,592)	(260,615)
Pre-provision operating profit	624,653	600,557	579,569	608,273	656,449
Impairment loans losses	(202,623)	(182,419)	(157,676)	(170,287)	(189,563)
Operating profit	422,030	418,138	421,893	437,986	466,886
Non-operating income	2,869	4,427	4,781	5,164	5,628
Profit before tax	424,899	422,565	426,674	443,150	472,515
Tax	(74,683)	(61,527)	(64,001)	(70,904)	(75,602)
Minority interests	(1,878)	(555)	(527)	(501)	(476)
Net profit attributable to equity holders	348,338	360,483	362,146	371,745	396,436
Dividend to other capital instrument holders	(9,607)	(14,810)	(14,810)	(14,810)	(14,810)
Net profit attributable to ordinary shareholders	338,731	345,673	347,336	356,935	381,626
Growth (%)					
Net interest income	6.8	0.4	(3.6)	7.0	8.5
Non-interest income	11.0	(13.2)	4.6	(6.9)	(1.9)
Of which: Fees and commissions	1.4	(2.8)	(3.5)	(2.0)	1.0
Operating income	7.6	(2.3)	(2.2)	4.4	6.8
Operating expenses	14.3	2.0	1.0	3.0	4.0
Pre-provision operating profit	5.3	(3.9)	(3.5)	5.0	7.9
Impairment loans losses	(0.0)	(10.0)	(13.6)	8.0	11.3
Operating profit	8.0	(0.9)	0.9	3.8	6.6
Non-operating income	120.0	54.3	8.0	8.0	9.0
Profit before tax	8.4	(0.5)	1.0	3.9	6.6
Tax	0.3	(17.6)	4.0	10.8	6.6
Minority interests	5.6	(70.4)	(5.0)	(5.0)	(5.0)
Net profit attributable to equity holders	10.3	3.5	0.5	2.7	6.6
Dividend to other capital instrument holders	8.7	54.2	0.0	0.0	0.0
Net profit attributable to ordinary shareholders	10.3	2.0	0.5	2.8	6.9
Per share (RMB)					
EPS	0.95	0.97	0.97	1.00	1.07
BVPS	8.15	8.81	9.47	10.15	10.76
DPS	0.293	0.303	0.302	0.310	0.332
Key ratio (%)					
Net interest margin	2.11	1.92	1.60	1.51	1.44
Cost to income ratio	26.36	27.43	29.57	29.18	28.42
Return on average assets	1.02	0.96	0.85	0.77	0.73
Return on average equity	12.15	11.43	10.66	10.21	10.24
Effective tax rate	17.58	14.56	15.00	16.00	16.00
Dividend payout	30.86	31.29	31.00	31.00	31.00

Note 1: Individual items may not sum to total due to rounding difference

Note 2: Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Note 3: As FY22A income statement figures have not been restated, we did not use restated balance sheet figures for consistency

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Cash & balance with central banks	3,098,438	3,427,892	3,804,960	4,204,481	4,624,929
Due from FIs and repo	1,490,646	1,906,571	3,110,252	3,766,885	4,484,343
Investment securities	9,257,760	10,527,292	11,790,567	13,146,482	14,592,595
Net loans and advances	20,109,200	22,591,712	25,488,923	28,711,238	32,281,776
Total interest earning assets	33,956,044	38,453,467	44,194,702	49,829,086	55,983,644
Property and equipment	290,296	293,887	296,826	299,794	302,792
Other non-int. earn assets	925,043	862,303	810,617	872,565	960,814
Total assets	35,171,383	39,609,657	45,302,145	51,001,445	57,247,250
Customer deposits	26,441,774	29,870,491	34,807,714	40,203,835	46,001,346
Due to FIs and repo	2,921,029	3,185,564	2,964,572	2,786,698	2,647,363
Subordinated debt	791,375	905,953	1,358,930	1,834,555	2,384,921
Total interest bearing liabilities	30,154,178	33,962,008	39,131,215	44,825,088	51,033,630
Current taxes	92,443	85,581	80,446	76,424	72,603
Deferred tax liabilities	5,624	3,800	2,850	2,423	2,132
Other liabilities	1,643,880	2,044,442	2,337,016	2,104,071	1,926,472
Total liabilities	31,896,125	36,095,831	41,551,527	47,008,005	53,034,836
Share capital	356,407	356,407	356,407	356,407	356,407
Other equity instruments	354,331	354,331	354,331	354,331	354,331
Reserves	2,547,017	2,784,433	3,019,919	3,261,344	3,478,822
Minorities	17,503	18,655	19,961	21,358	22,853
Shareholder's equity	3,275,258	3,513,826	3,750,617	3,993,440	4,212,413
Growth (%)					
Cash & balance with central banks	(12.4)	10.6	11.0	10.5	10.0
Due from FIs and repo	(18.1)	27.9	63.1	21.1	19.0
Investment securities	7.8	13.7	12.0	11.5	11.0
Net loans and advances	10.9	12.3	12.8	12.6	12.4
Total interest earning assets	5.8	13.2	14.9	12.7	12.4
Property and equipment	1.4	1.2	1.0	1.0	1.0
Other non-int. earn assets	(4.9)	(6.8)	(6.0)	7.6	10.1
Total assets	5.5	12.6	14.4	12.6	12.2
Customer deposits	5.2	13.0	16.5	15.5	14.4
Due to FIs and repo	4.9	9.1	(6.9)	(6.0)	(5.0)
Subordinated debt	(0.8)	14.5	50.0	35.0	30.0
Total interest bearing liabilities	5.0	12.6	15.2	14.6	13.9
Current taxes	3.0	(7.4)	(6.0)	(5.0)	(5.0)
Deferred tax liabilities	95.2	(32.4)	(25.0)	(15.0)	(12.0)
Other liabilities	1.1	24.4	14.3	(10.0)	(8.4)
Total liabilities	4.8	13.2	15.1	13.1	12.8
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	56.9	0.0	0.0	0.0	0.0
Reserves	10.2	9.3	8.5	8.0	6.7
Minorities	9.3	6.6	7.0	7.0	7.0
Shareholder's equity	12.6	7.3	6.7	6.5	5.5
Key ratio (%)					
CT1 CAR	13.31	14.04	13.28	12.90	12.21
Total CAR	18.02	19.26	18.72	18.93	18.73
NPL ratio	1.42	1.38	1.35	1.33	1.31
Provision to total loans	2.92	2.90	2.98	3.04	3.10
Provision coverage ratio	205.84	209.47	220.74	228.57	236.64

Note 1: Individual items may not sum to total due to rounding difference

Note 2: Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Note 3: As FY22A income statement figures have not been restated, we did not use restated balance sheet figures for consistency

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ($\sim 9\%$)
Hold	- Market return rate ($\sim 9\%$) $\leq$ Stock return rate $<$ Market return rate ($\sim 9\%$)
Sell	Stock return $<$ - Market return ($\sim 9\%$)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2006 (For reference: HSI total return index 2006-22 averaged at 8.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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