



August 30, 2013  
Equity Focus  
Rating: BUY  
TP: HK\$ 6.91

H-Share price (HK\$) 5.06  
Est. share price return 36.56%  
Est. dividend yield 6.44%  
Est. total return 43.00%

Previous Rating & TP BUY; HK\$ 6.91  
Previous Report Date Aug 2, 2013

Analyst : Johannes Au  
Tel: (852) 2147 8802  
Email: johannesau@abci.com.hk

**Key Data**

52Wk H/L(HK\$)	6.00/4.05
Issued shares (mn)	349,620
H-Shares (mn)	86,795
A-Shares (mn)	262,855
Market cap	
H-shares (HK\$ mn)	439,178
A-Shares (HK\$ mn)	1,288,995
3-mth avg daily turnover (HK\$ mn)	1,625.91
Major shareholder(s) (%):	
Huijin	35.5

Source(s): Company, Bloomberg, ABCI Securities

**1H13 PBT breakdown (%)**

Corporate banking	49.18
Retail banking	29.34
Treasury operations	20.73
Others	1.11

Source(s): Company, ABCI Securities

**Share performance (%)**

	Absolute	Relative*
1-mth	(0.2)	1.3
3-mth	(6.7)	(2.5)
6-mth	(6.5)	(1.9)

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg

ICBC (1398 HK)

Prudent mentality, proactive strategy. Maintain BUY

- ICBC's 2Q13 revenue was in line with our forecast, though its net profit beat our estimate by 12% on lower loan provisions
- Management believed MSEs and SMEs would be crucial to a bank's success under the interest rate liberalization. We expect ICBC would place more emphasis on this area in the future
- Asset quality in 1H13 indicated that the bank's previous NPL target was too conservative. We estimate NPL ratio to stay below 1% in the coming quarters
- ICBC sees huge opportunity in WMP business. Trading at 1.09x FY13E P/B, we favor ICBC's prudent mentality and diversified businesses. Maintain BUY with TP at HK\$ 6.91, implying a 36.6% upside

**Decent results beat market expectation.** ICBC's 2Q13 net profit arrived at RMB 69,125mn, beating consensus by 6% and our forecast by 12%. Despite top line revenue grew in line with our expectation at 10.5% YoY, NIM was 11bps lower than our forecast or 18bps lower QoQ at 2.48%. Growth in non-interest income was higher than our estimate by 15.8%, driven by investment banking, settlement and clearing, and bank card fees. Besides, loan provisions dropped 19.5% QoQ given ICBC's provisioning ratio was well maintained at the 2.5% level by 1H13.

**New strategy towards interest rate liberalization.** Although 2Q13 NIM squeeze was mainly due to loan re-pricing, ICBC indicated that the interest rate liberalization would pose continuous challenge on NIM. Concurring with our view, management expected that competition would take place in a rational manner with banks being unlikely to increase their deposit costs drastically without any reasonable exit channels. Management believed that the liberalization would provide a good incentive for banks to allocate more resources on MSEs and SMEs as these enterprises could determine a bank's success. ICBC's would gear its future strategy to place more emphasis on the area as well.

**Asset quality expectation was too conservative.** In early 2013, ICBC expected its NPL ratio to reach 1.2% by end of 2013. However, with ICBC's flat QoQ NPL ratio at 0.87%, 3% QoQ reduction in special mention loans and a slight HoH increment of 2bps in overdue loan ratio at 0.73%, we expect NPL to remain below 1% in 2013. According to management, asset quality outlook was still sound. New NPL in 2Q13 was mainly attributable to the YRD region, though asset qualities of some manufacturing industries have already been improving since 2Q13.

**See huge potential in WMPs.** Although the market is cautious on potential risks entailed in banks' WMP business, ICBC sees huge opportunity in this segment on the back of its high risk management standard. ICBC's WMPs balance has grown 20% HoH in 1H13, with only 33.9% of the amount related to non-standard instruments. We favor ICBC for its long-established prudent mentality, leading franchise network and business diversification. The counter is currently trading at its trough valuation at 1.09x 13E P/B, implying a 36.6% upside based on our TP at HK\$ 6.91. Maintain BUY.

**Risk factors:** 1) Sharp deterioration in asset quality; 2) Deposit competition triggered by interest rate liberalization; 3) Increased competition from non-bank financial institutions.

**Results and Valuation**

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	470,601	529,720	592,147	666,794	728,130
Chg (% YoY)	23.6	12.6	11.8	12.6	9.2
Net profit (RMB mn)	208,265	238,532	260,511	294,667	316,968
Chg (% YoY)	26.1	14.5	9.2	13.1	7.6
EPS (RMB)	0.60	0.68	0.75	0.84	0.91
Chg (% YoY)	21.1	14.5	9.2	13.1	7.6
BVPS (RMB)	2.74	3.22	3.70	4.24	4.35
Chg (% YoY)	16.6	17.4	14.9	14.7	2.5
P/E (x)	-	5.92	5.42	4.80	4.46
P/B (x)	-	1.26	1.09	0.95	0.93
ROE (%)	23.4	22.9	21.5	21.2	21.1
ROA (%)	1.44	1.44	1.40	1.40	1.36
DPS(RMB)	0.20	0.24	0.26	0.29	0.32
Yield (%)	-	5.90	6.44	7.29	7.84

Source(s): Bloomberg, ABCI estimates

**Exhibit 1: ICBC's quarterly P&L trend**

(RMB mn)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	2Q13A	A vs E	YoY (%)	QoQ (%)
Net interest margin	na	na	2.69	2.63	2.66	2.59	2.48	(0.11)	na	(0.18)
Net interest income	98,816	105,242	107,311	106,459	106,717	113,501	109,172	(3.81)	3.73	2.30
Non-interest income	31,249	27,521	23,601	29,521	38,026	32,425	37,561	15.84	36.48	(1.22)
Topline	130,065	132,763	130,912	135,980	144,743	145,926	146,733	0.55	10.52	1.37
Operating expenses	(40,703)	(43,828)	(45,697)	(59,712)	(44,829)	(49,226)	(46,920)	(4.68)	7.05	4.66
POPP	89,362	88,935	85,215	76,268	99,914	96,700	99,813	3.22	12.23	(0.10)
Loan loss provision	(10,148)	(9,089)	(6,222)	(8,286)	(12,152)	(13,482)	(9,789)	(27.39)	7.70	(19.45)
Profit before tax	79,828	80,384	79,628	68,847	88,338	84,116	90,024	7.02	11.99	1.91
Tax expenses	(18,456)	(18,515)	(17,158)	(15,867)	(19,525)	(20,187)	(20,839)	3.23	12.55	6.73
Minority interest	(37)	(44)	(28)	(50)	(70)	(19)	(60)	212.52	36.36	(14.29)
Net profit	61,335	61,825	62,442	52,930	68,743	63,910	69,125	8.16	11.81	0.56

Source(s): Company, ABCI Securities estimates

**Exhibit 2: ICBC P/B(x) band chart (Dec 2006- Aug 2013)**


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



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Net interest income	362,764	417,828	468,549	528,755	590,091
Non-interest income	107,837	111,892	123,598	138,038	138,038
Of which: Fees and commissions	101,550	106,064	117,619	132,012	132,012
<b>Operating income</b>	<b>470,601</b>	<b>529,720</b>	<b>592,147</b>	<b>666,794</b>	<b>728,130</b>
Operating expenses	(156,160)	(174,944)	(197,052)	(220,884)	(247,531)
Amortization	(13,453)	(14,996)	(16,709)	(18,474)	(20,267)
<b>Pre-prov. operating profits</b>	<b>300,988</b>	<b>339,780</b>	<b>378,386</b>	<b>427,436</b>	<b>460,332</b>
Impairment loans losses	(31,121)	(33,745)	(42,724)	(47,653)	(51,586)
<b>Operating profit</b>	<b>269,867</b>	<b>306,035</b>	<b>335,662</b>	<b>379,783</b>	<b>408,746</b>
Non-operating income	2,444	2,652	2,891	3,151	3,151
<b>Profit before tax</b>	<b>272,311</b>	<b>308,687</b>	<b>338,553</b>	<b>382,934</b>	<b>411,897</b>
Tax	(63,866)	(69,996)	(77,867)	(88,075)	(94,736)
Minority interests	(180)	(159)	(175)	(192)	(192)
<b>Net profit</b>	<b>208,265</b>	<b>238,532</b>	<b>260,511</b>	<b>294,667</b>	<b>316,968</b>
<b>Growth (%)</b>					
Net interest income	19.4	15.2	12.1	12.8	11.6
Non-interest income	40.0	3.8	10.5	11.7	0.0
Of which: Fees and commissions	39.4	4.4	10.9	12.2	0.0
<b>Operating income</b>	<b>23.6</b>	<b>12.6</b>	<b>11.8</b>	<b>12.6</b>	<b>9.2</b>
Operating expenses	22.6	12.0	12.6	12.1	12.1
Amortization	10.7	11.5	11.4	10.6	9.7
<b>Pre-prov. operating profits</b>	<b>24.8</b>	<b>12.9</b>	<b>11.4</b>	<b>13.0</b>	<b>7.7</b>
Impairment loans losses	11.2	8.4	26.6	11.5	8.3
<b>Operating profit</b>	<b>26.5</b>	<b>13.4</b>	<b>9.7</b>	<b>13.1</b>	<b>7.6</b>
Non-operating income	13.9	8.5	9.0	9.0	0.0
<b>Profit before tax</b>	<b>26.4</b>	<b>13.4</b>	<b>9.7</b>	<b>13.1</b>	<b>7.6</b>
Tax	29.3	9.6	11.2	13.1	7.6
Minority interests	(79.3)	(11.7)	10.0	10.0	10.0
<b>Net profit</b>	<b>26.1</b>	<b>14.5</b>	<b>9.2</b>	<b>13.1</b>	<b>7.6</b>
<b>Per share data (RMB)</b>					
EPS	0.60	0.68	0.75	0.84	0.91
BVPS	2.74	3.22	3.70	4.24	4.35
DPS	0.20	0.24	0.26	0.29	0.32
<b>Key ratio (%)</b>					
Net interest margin	2.61	2.66	2.62	2.63	2.63
Net interest spread	2.49	2.49	2.41	2.38	2.39
Cost to income ratio	33.2	33.0	33.3	33.1	34.0
Return on average assets	1.44	1.44	1.40	1.40	1.36
Return on average equity	23.4	22.9	21.5	21.2	21.1
Effective tax rate	23.5	22.7	23.0	23.0	23.0
Dividend payout	34.0	35.0	35.0	35.0	35.0

Source(s): Company, ABCI Securities estimates



## Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Cash & cash equivalent	2,762,156	3,174,943	3,750,524	4,350,933	4,884,507
Dues from banks	810,287	1,181,029	1,522,609	1,882,022	2,278,793
Investment securities	3,915,902	4,083,887	4,389,496	4,677,791	4,958,922
Net loans and advances	7,594,019	8,583,289	9,568,681	10,644,603	11,777,365
<b>Total interest earning assets</b>	<b>15,082,364</b>	<b>17,023,148</b>	<b>19,231,310</b>	<b>21,555,349</b>	<b>23,899,587</b>
Property and equipment	119,028	135,889	156,272	178,150	203,092
Other non-interest earning assets	275,476	383,180	413,151	437,700	459,586
<b>Total assets</b>	<b>15,476,868</b>	<b>17,542,217</b>	<b>19,800,733</b>	<b>22,171,200</b>	<b>24,562,265</b>
Customer deposits	12,261,219	13,642,910	15,109,110	16,934,259	19,054,235
Due to banks	1,341,290	1,486,805	1,635,486	1,799,034	1,978,937
Subordinated debt	204,161	232,186	260,048	291,254	326,205
<b>Total interest bearing liabilities.</b>	<b>13,848,096</b>	<b>15,399,910</b>	<b>17,043,793</b>	<b>19,065,654</b>	<b>21,402,539</b>
Current taxes	51,535	56,922	68,306	81,968	98,361
Deferred tax liabilities	103	552	635	730	840
Other liabilities	619,311	956,374	1,391,420	1,536,123	1,536,197
<b>Total liabilities</b>	<b>14,519,045</b>	<b>16,413,758</b>	<b>18,504,153</b>	<b>20,684,475</b>	<b>23,037,936</b>
Share capital	349,084	349,620	349,620	349,620	349,620
Reserves	607,658	775,377	943,324	1,133,289	1,170,701
Minorities	1,081	3,462	3,635	3,817	4,008
<b>Shareholder's equity</b>	<b>957,823</b>	<b>1,128,459</b>	<b>1,296,579</b>	<b>1,486,726</b>	<b>1,524,328</b>
<b>Growth (%)</b>					
Cash & cash equivalent	21.0	14.9	18.1	16.0	12.3
Dues from banks	58.5	45.8	28.9	23.6	21.1
Investment securities	4.9	4.3	7.5	6.6	6.0
Net loans and advances	14.7	13.0	11.5	11.2	10.6
<b>Total interest earning assets</b>	<b>14.7</b>	<b>12.9</b>	<b>13.0</b>	<b>12.1</b>	<b>10.9</b>
<b>Total assets</b>	<b>15.0</b>	<b>13.3</b>	<b>12.9</b>	<b>12.0</b>	<b>10.8</b>
Customer deposits	10.0	11.3	10.7	12.1	12.5
Due to banks	28.0	10.8	10.0	10.0	10.0
Subordinated debt	99.6	13.7	12.0	12.0	12.0
<b>Total interest bearing liabilities.</b>	<b>12.5</b>	<b>11.2</b>	<b>10.7</b>	<b>11.9</b>	<b>12.3</b>
<b>Total liabilities</b>	<b>14.9</b>	<b>13.0</b>	<b>12.7</b>	<b>11.8</b>	<b>11.4</b>
<b>Shareholder's equity</b>	<b>16.6</b>	<b>17.8</b>	<b>14.9</b>	<b>14.7</b>	<b>2.5</b>
<b>Key ratio (%)</b>					
Loan to deposits	63.5	64.5	65.0	64.6	63.6
Core CAR	10.1	10.6	9.9	10.0	9.0
Total CAR	13.2	13.7	12.9	12.9	12.0
NPL ratio	0.94	0.85	1.00	1.10	1.16
NPL growth	(0.3)	2.1	31.1	22.8	16.9
Net bad debt charge ratio	0.4	0.4	0.4	0.4	0.4
Provision to total loans	2.5	2.5	2.6	2.7	2.8
Provision coverage	266.9	295.5	261.3	246.0	241.6

Source(s): Company, ABCI Securities estimates



## Disclosures

### Analyst Certification

I, Johannes Au, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is



determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2013 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**