

Analyst: Paul Sham
中國工商銀行股份有限公司
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED

Sector	: Banking	Chairman	: Mr. Jiang Jianqing
HKSE Code	: 01398	Vice Chairman & Head of the Bank	: Mr. Yang Kaisheng
Market Price	: HK\$5.65(30/03/2015)		
Shares Issued	: 86,794m (H share)		
Mkt. Cap.	: HK\$490,386m (H share)		
52 weeks Hi/ Lo	: HK\$5.90 / HK\$4.56		
HSI / HSCEI	: 24,855.12 / 12,306.56 (30/03/2015)		
Main Business	: Banking and related financial services		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2014
Final Results Highlights

	RMB million	Vs FY2013 (%)	
• Net interest income	493,522	+11.3%	
• Non-interest income	141,336	+4.3%	
• Total operating income	634,858	+9.7%	
• Operating expenses	(218,674)	+7.1%	
• Operating profit before impairment losses	416,184	+11.1%	
• Impairment losses	(56,729)	+48.0%	
• Profit before taxation and non-core items	359,455	+6.8%	
• Non-core items	2,157	+2.9%	
• Profit before taxation	361,612	+6.8%	
• Taxation	(85,326)	+12.9%	
• Attributable profit to shareholders	275,811	+5.0%	
• Total DPS (RMB)	0.255	-2.4%	
• Basic EPS (RMB)	0.780	+4.0%	

Selected Balance Sheet Items	31/12/2014	Vs 31/12/2013	Vs 30/06/2014
• Total loans	11,026,331	+11.1%	+3.6%
• Total deposits	15,556,601	+6.4%	-1.1%
• Total assets	20,609,953	+8.9%	+1.5%

Selected Ratios	FY2014	FY2013	1H2014
• Net interest margin	2.66%	2.57%	2.62%
• Cost-income ratio	34.4%	35.3%	31.4%
• Return on average assets	1.40%	1.44%	1.51%
• Return on average equity	20.0%	21.9%	21.7%
• Dividend payout ratio	32.7%	34.9%	

	31/12/2014	31/12/2013	30/6/2014
• NPL ratio	1.13%	0.94%	0.99%
• NPL coverage ratio	206.9%	257.2%	238.0%
• Loan-deposit ratio	70.9%	67.9%	67.7%
• Common equity tier 1 CAR	11.9%	10.6%	11.4%
• Tier 1 CAR	12.2%	10.6%	11.4%
• Total CAR	14.5%	13.1%	13.7%

- **Prudent operating trends as usual** Industrial & Commercial Bank of China (ICBC) reported full-year net profit of RMB275,811m, up 5.0% y-o-y, in-line with the market estimates of RMB273,341m. The

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earnings increase of ICBC lagged behind ABC's 7.9% and BOC's 8.1%, mainly due to its relatively slower increment in net interest income. ICBC declared a final dividend of RMB0.255, down 2.4% y-o-y. Dividend payout fell accordingly to 32.7% from 34.9% a year ago.

- **Net interest income** rose 11.3% y-o-y to RMB493,522m in FY14, driven by 10.7% y-o-y increase in the average balances of interest-earning assets. ICBC's NIM expanded by 9bps y-o-y to 2.66%, which was better than BOC's +1bps but worse than ABC's +13bps in NIM during 2014.
- **Non-interest income** went up 4.3% y-o-y. Net fee income grew steadily by 8.3% on the back of 23.1% y-o-y growth in bank card fees as well as 10-fold increment in net trading income. Nevertheless, the overall non-interest income was dragged by a net loss of RMB10,024m on financial assets and liabilities designated at fair value, due to structural deposit paid to customers. .
- **Operating expenses** amounted to RMB218,674m, representing an increase of 7.1% in 2014. The total cost increment was slightly faster than CCB's 4.1% and BOC's 3.2%. Nevertheless, its cost-to-income ratio further improved to 34.4% in FY14 from 35.3% a year ago, and its cost efficiency was the highest among peers.
- **Impairment losses** increased by 48.0% y-o-y, vs CCB's 43.3% and BOC's 105.8%. ICBC's asset quality remained benign as its NPL ratio still stayed at a comfortable level of 1.13% at end-2014, the lowest among the big four banks. ICBC's asset quality trend was slightly better than ABC and BOC as ICBC's impaired loans ratio deteriorated 19bps y-o-y to 1.13% at end-2014, vs ABC's 32bps and BOC's 22bps deterioration.
- **Capital position** of ICBC continued to be one of the highest among H-share banks and only trailed CCB. As a result of convertible bond conversion and sale of RMB35bn overseas preferred share, ICBC's CET1 CAR and total CAR improved to 11.9% and 14.5% respectively at end-2014, up from 10.6% and 13.1% a year ago.

Outlook & Prospects

- **Management guidance on loan volume and margins** Management guided that loan growth for ICBC will decelerate slightly from 11% in FY14 to 10% in FY15E. Therefore, domestic RMB loan growth is expected to fall accordingly from RMB900bn in FY14 to RMB850bn in FY15E. In terms of loan margins, Management expect 12bp NIM squeeze from the past 2 rounds of rate cuts and guided that every 50bp RRR cut should boost bottom line by ~3bn (or 1.1% of net profit in FY14).
- **No capital raising pressure for ICBC** Both of ICBC's CET1 and total CAR of 11.9% and 14.5% as at end-2014 have been well above the ultimate CARs requirements of 9.5% and 11.5% respectively for systematically important financial institutions, including ICBC, by end-2018. With another RMB45bn worth of domestic preferred shares approved by CBRC and to be issued in 2015, we believe fund raising pressure for ICBC should be minimal in the medium term. The strong solvency position continued to be the key defensive characteristics of ICBC's stock in an environment of rising reported NPLs.
- **Accelerated NPL formation, but still below peer average** ICBC's NPL ratio went up 7bps q-o-q, to 1.13%, better than the industry trend of 9bps q-o-q and big-4 average of 12bps (ABC +25bps, CCB +7bps and BOC +11bps). ICBC's overdue loans and special-mentioned loans went up 18% and 28% h-o-h, respectively, in line with industry data. In terms of the sources of NPLs, the new corporate NPLs were concentrated in the manufacturing sector, wholesale and the retail sector while the new personal NPLs were concentrated in personal business loans, accordingly to Management.
- **Valuations** ICBC's steady numbers reinforces the bank's strong fundamentals. We continue to view ICBC as a stable play on the China banking sector given its size, market leadership in various categories and prudent risk profile. Trading at only 0.94x FY15E P/B and dividend yield of 6.2%, valuations of ICBC are still very attractive. We recommend a "Buy" rating for the counter.

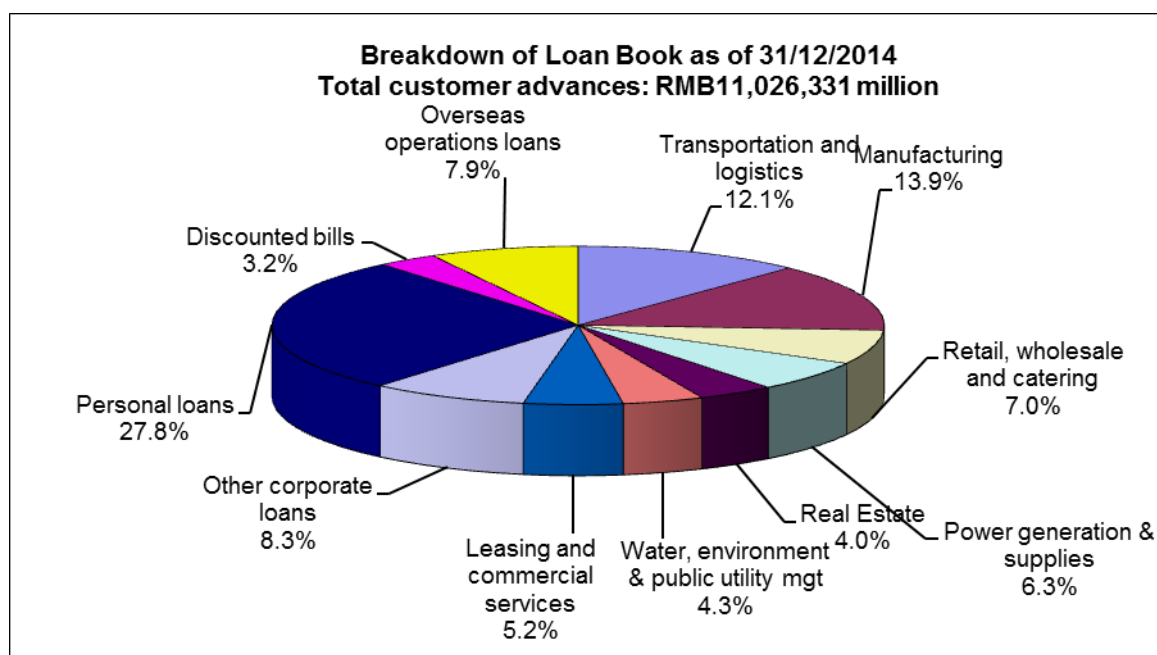
Recommendation: Buy

I. Comparison of ICBC's loan book: 31/12/2014 vs 31/12/2013

Loans-by industry	31 st Dec, 2014	Up/(down)	31 st Dec, 2013
	RMB million		RMB million
Corporate loans			
<i>Transportation and logistics</i>	1,335,127	+9.5%	1,219,345
<i>Manufacturing</i>	1,532,947	+3.0%	1,488,594
<i>Retail, wholesale and catering</i>	772,536	-1.7%	786,202
<i>Power generation & supplies</i>	699,649	+13.2%	618,246
<i>Real Estate</i>	443,471	-4.3%	463,585
<i>Water, environment & public utility mgt</i>	470,014	+1.1%	465,037
<i>Leasing and commercial services</i>	575,469	+26.1%	456,519
<i>Other corporate loans</i>	914,686	+8.7%	841,192
Personal loans	3,063,465	+12.3%	2,727,601
Discounted bills	350,274	+136.3%	148,258
Overseas operations loans	868,693	+22.7%	707,795
	<u>11,026,331</u>	<u>+11.1%</u>	<u>9,922,374</u>

II. ICBC's pre-tax profit breakdown by businesses

Pre-tax profit by businesses (RMB million)				Breakdown	
	FY2014	FY2013	y-o-y (%)	FY2014	FY2013
Corporate banking	165,248	161,589	+2.3%	45.7%	47.7%
Personal banking	128,365	103,581	+23.9%	35.5%	30.6%
Treasury operations	65,401	71,492	-8.5%	18.1%	21.1%
Others	2,598	1,875	+38.6%	0.7%	0.6%
Total pre-tax profit	<u>361,612</u>	<u>338,537</u>	<u>+6.8%</u>	<u>100.00%</u>	<u>100.00%</u>

Breakdown of loan book of ICBC




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