



Rating
Buy

Asia
China

Banking / Finance
Banks

Company
**Agri. Bank of China
Alert**

Reuters 1288.HK	Bloomberg 1288 HK	Exchange HKG	Ticker 1288
ADR Ticker ACGBY	ISIN US00850M1027		

Date
24 March 2015

Results

Price at 24 Mar 2015 (HKD)	3.80
Price target - 12mth (HKD)	4.49
52-week range (HKD)	4.03 - 3.20
HANG SENG INDEX	24,495

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Stock data

Market cap (HKDm)	1,234,218
Market cap (USDm)	159,143
Shares outstanding (m)	324,794.1
Avg daily value traded (USDm)	65.3

Source: Deutsche Bank

2014 Results - a slight miss, with a small cut in payout ratio

FY14 results review – a slight miss on asset quality

ABC reported FY14 net profit of Rmb179.5bn, up by 7.9% yoy, which was largely in line with our forecasts, but 3% below consensus estimates. The result was driven by PPOP growth of 12.4% yoy and higher credit costs of 85bps (2013: 76bps). The NPL balance rose notably by 20.8% qoq to 1.54% of total loans, implying accelerated NPL formation rate of 113bps in 2H14 (1H14: 57bps) after incorporating the estimated write-off of Rmb17.5bn in the second half of the year. ABC declared a cash DPS of Rmb0.182 for 2014 (up 2.8% yoy), implying a small cut in dividend payout ratio to 32.94% from 35% in 2013. We maintain a Buy rating on ABC's H-shares and a Hold rating on its A-share. We expect the other big three banks to lower the payout ratio to 33%.

4Q14 results - running the numbers

In 4Q14, ABC's NPAT fell by 4.6% yoy as PPOP growth of 1.3% yoy was offset by high credit costs of 109bps. Net interest income grew decently by 3.5% qoq (up 11.5% yoy) on the back of NIM rebound of 10bps qoq to 2.97% and AIEA expansion of 9.8% yoy. Non-interest income grew by 32% yoy as contribution from insurance premium, gains on FX trading and positive investment income of Rmb1.91bn (2013:-Rmb989m) drove other operating income up by 106% yoy to offset the 10.7% yoy decline in net fee income. Operating expense increased significantly by 26.5% yoy, which we believe the bank had made Rmb8.9bn of provision charged for guarantee and commitment in relation to its off B/S exposure, resulting in elevated CIR of 54.9% in 4Q14. (4Q13: 49.3%). Excluding this factor, the operating expenses should have increased by 10.5% yoy only. For 2014, ABC reported a ROAA of 1.18% and ROAE of 19.2%.

Rising pressure in asset quality, with falling coverage ratio

We attribute the rise in NPL formation rate to deteriorating asset quality for the wholesale and retail and manufacturing loans which reported NPL ratio of 5.93% and 3.69% in 2014, compared with 2.36% and 2.86% in 2013. These two industries accounted for 80.4% of ABC's NPL stock. ABC's overdue loan more than 91 days rose by 27% hoh to 1.15% of loans, which was equivalent to 75% of the NPLs, indicating conservative standards for NPL classification. With credit cost of 109bps in 4Q14, gross loan coverage ratio rose slightly to 4.42%, but NPL coverage ratio fell 48.5% to 286.5%.

Capital positions strengthened by the issuance of Rmb80bn of preferred shares

While ABC reported core tier 1 ratio up by 19bps qoq to 9.09% as of 4Q14, its tier 1 ratio and total CAR were boosted by 56bps and 44bps qoq to 9.46% and 12.82% respectively after the issuance of Rmb40bn preferred share in November 2014. With the sale of another Rmb40bn preferred shares this March, we believe ABC is sufficiently capitalized for further development.

Deutsche Bank AG/Hong Kong

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