



HONG KONG

1398 HK Outperform

Price (at 07:59, 18 Mar 2015 GMT) HK\$5.65

Valuation HK\$ 6.18-7.47

- Gordon Growth

12-month target HK\$ 6.43

Upside/Downside % +13.8

12-month TSR % +20.2

Volatility Index Low

GICS sector Banks

Market cap HK\$bn 1,978

Market cap US\$m 254,944

Free float % 24

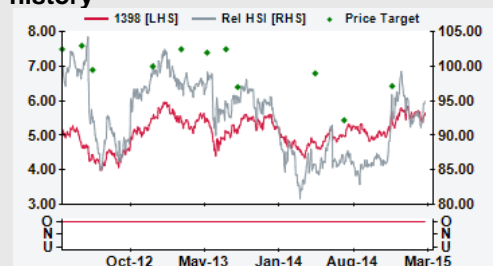
30-day avg turnover US\$m 152.7

Number shares on issue m 350,068

Investment fundamentals

Year end 31 Dec		2013A	2014E	2015E	2016E
Net interest Inc	bn	443.3	488.8	505.0	526.3
Non interest Inc	bn	135.6	138.6	166.6	186.0
Underlying profit	bn	374.8	407.5	434.9	455.7
PBT	bn	338.5	364.1	376.4	390.3
PBT growth	%	9.7	7.5	3.4	3.7
Reported profit	bn	262.6	279.9	287.4	298.1
Adjusted profit	bn	262.6	279.9	287.4	298.1
EPS rep	Rmb	0.75	0.80	0.82	0.85
EPS rep growth	%	9.9	6.6	2.7	3.7
PER rep	x	6.0	5.7	5.5	5.3
Total DPS	Rmb	0.26	0.28	0.29	0.30
Total div yield	%	5.8	6.2	6.3	6.6
ROA	%	1.4	1.4	1.3	1.3
ROE	%	21.9	20.3	18.0	16.4
P/BV	x	1.2	1.1	0.9	0.8

1398 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

(all figures in Rmb unless noted, TP in HKD)

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19 March 2015

Macquarie Capital Securities Limited

ICBC

MacVisit: Standard Bank of So. Africa

Event

- **We recently met with Standard Bank (SBK SJ, not covered), ICBC's 20%-owned associate**, in Johannesburg, South Africa. While SBK is not a major part of ICBC's overall business, the meeting provided us with greater insight into Standard Bank and ICBC's / China's strategy for Africa and the rest of the world. We also did five days of client meetings in Johannesburg and Cape Town, and we include feedback from those meetings in this note.

Impact

- **To get lost is to learn the way.** SBK appears to be retrenching from a period of over-expansion in geographies and business areas that were outside of its core focus in Africa. SBK has been divesting non-African subsidiaries, including the controlling 60% stake in the UK-based investment bank that it sold to ICBC for roughly US\$690m in February. This means a greater focus on its legacy business in South Africa and the 14 other African countries where it has a meaningful presence and where longer-term growth prospects are likely to be greater. Rest of Africa posted 37% earnings CAGR in 2010-14.
- **Work the clay while it is still damp.** The London business has been a millstone for Standard Bank, a view that we picked up not only from management itself but also a week of meetings with the SA client base. Post acquisition, our sense is that ICBC is likely to tack toward a more commodities-focussed strategy and is likely to retrench non-core businesses with an eye on cutting risk and operating costs. ICBC has a call option on another 20% of the business, and if this is exercised Standard Bank would have a put option on the final 20% of the business.
- **A single bracelet does not jingle.** ICBC paid c. US\$5bn or 2.6x P/BV for its 20% stake in SBK in 2008, prompting some hope among SBK shareholders that it might come back, generously, for more. ICBC is not immune from flag-planting, but we think it has no interest in taking over SBK. ICBC's business model of transferring cheap funds from Chinese households to Chinese SOEs is not particularly replicable in Africa or anywhere else. Attempting to control one of Africa's largest and most geographically diverse banks would be a mistake, and we think that decision-makers in China would very much agree.

Earnings and target price revision

- No change. ICBC will report 4Q14 results on March 26.

Price catalyst

- 12-month price target: HK\$6.43 based on a PBV methodology.
- Catalyst: Solid capital, liquidity, and management make ICBC a bellwether.

Action and recommendation

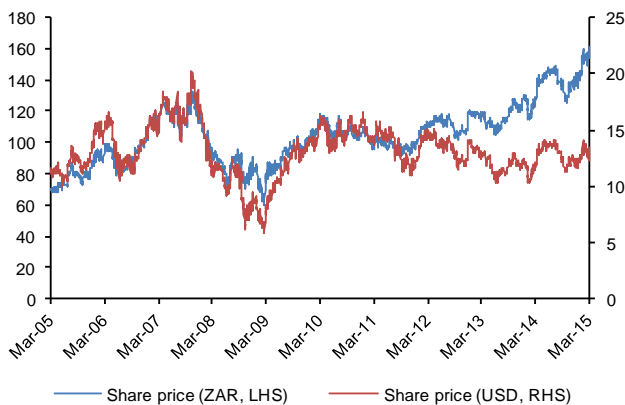
- **A patient man will eat ripe fruit.** Our sense is that the market's high hopes for this partnership in 2008 have not been achieved, and that ICBC has been a relatively passive shareholder. The purchase of SBK's investment bank is all about having a seat at the commodities pricing table, in our view. Cost and risk reduction should be the main focus. We are cautious on the fundamental outlook for the China banks but share price momentum appears to be returning. ICBC's H Share remains a Marquee stock idea and our top pick.

An outside-the-box visit to Standard Bank of South Africa

We met with management of Standard Bank (SBK SJ, not covered) in Johannesburg, South Africa, in early February. Our purpose was to get a sense of ICBC's strategy for Africa and the world, as well as its specific approach toward the 20%-owned subsidiary. The timing of the meeting was opportune given that ICBC's c. US\$690m acquisition of 60% of SBK's London-based investment bank had been finalized on the previous day to our meeting.

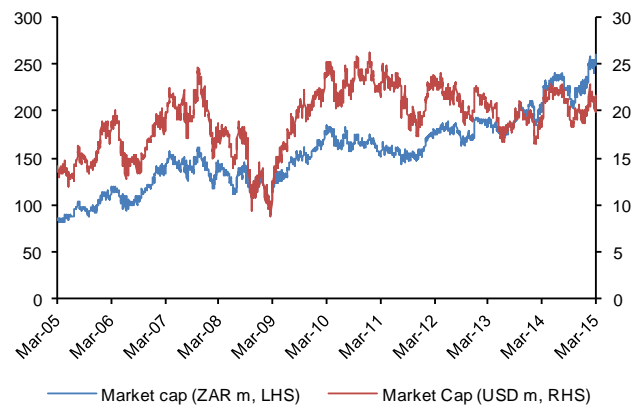
Subsequently, Standard Bank reported its 4Q14 results. We also met with clients in Johannesburg and Cape Town over a five-day period. This included four days of one-on-one meetings and also a presentation of our views on the China banks for an auditorium filled with investors attending Macquarie South Africa's China Day Conference on February.

Fig 1 SBK's stock is up in LCY terms, but flat in USD



Source: Bloomberg, Macquarie Research, March 2015

Fig 2 ICBC's 20% stake is currently worth c. US\$4.3bn

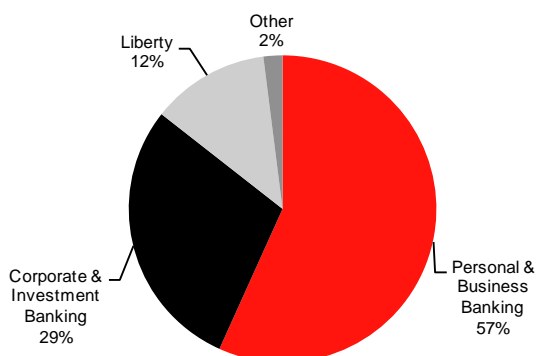


Source: Bloomberg, Macquarie Research, March 2015:

We retain Outperform on ICBC. The African subsidiary faces challenges but the contribution to ICBC's bottom line is quite small. It will be an interesting test of ICBC's management acumen to see if it is able to turn around the newly-named ICBC-Standard Bank Plc, in which it has acquired a 60% stake. We think it may be a challenge for anyone to turn this laggard business into a profit driver but stemming the losses would be a very good start. Our view is that ICBC has no interest in or intention to take over full control of SBK the listed entity, and that any SBK shareholders who are waiting for this will be disappointed.

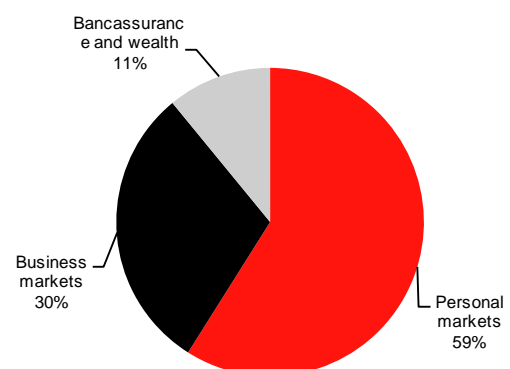
Below we summarize our February meeting with SBK, feedback from meetings on the China banks with Macquarie's South African client base, and lastly a summary of SBK's 2014 results which were released in early March, subsequent to our visit.

Fig 3 SBK: Earnings contribution by business unit (FY14)



Source: Company filings, Macquarie Research, March 2015

Fig 4 SBK: Income by market segment (FY14)

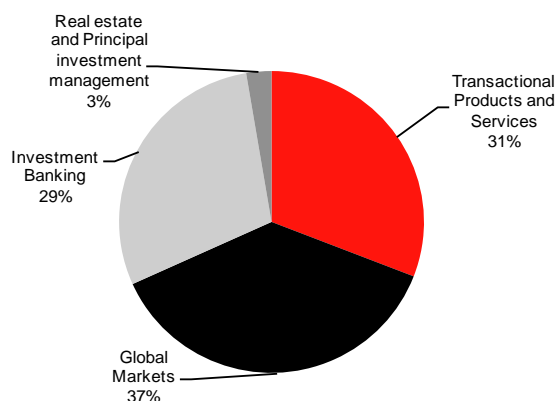


Source: Company filings, Macquarie Research, March 2015

Key highlights of our meeting with Standard Bank

- ⇒ The sale of a 60% stake in Standard Bank Plc, the UK-based investment bank (since renamed ICBC-Standard Bank Plc), was consummated just days prior to our meeting. Naturally, this deal was a major focus of the meeting.
- ⇒ The sale had been in play for three years prior but it had been difficult to get it done largely due to difficulties over pricing, as operational difficulties from fraud in China to trading losses drove further downside for the valuation.
- ⇒ ICBC will have paid around US\$690m for the acquired investment bank with the exact price dependent on the results of the audited NAV of the acquired asset on the deal's closing date. The deal was priced at 0.6x NAV minus a discount of US\$80m.
- ⇒ SBK will still own 40% of ICBC Standard Bank Plc, the London-headquartered investment bank. ICBC wanted SBK to retain a significant stake in the investment bank. SBK says it is pleased to have this stake although it will have little control over management after ICBC's acquisition.
- ⇒ SBK management was quite positive on the deal given that the investment bank has been "an Achilles' heel" for SBK, and their 40% stake means that they should also benefit from any upside that ICBC's management and global footprint are able to provide.
- ⇒ ICBC management have been involved in the acquired investment bank since the beginning of 2015. This is likely to have made some impact on the way this business is managed already.
- ⇒ The main focus of ICBC's interest in taking a controlling stake of the London investment bank appears to be commodities and trading RMB-related foreign exchange. This also makes them the first Chinese bank to own a full UK banking licence.
- ⇒ SBK explained that ICBC has a two-year call option on another 20% of the business. If ICBC exercises that call, SBK has a put option that gives them the right – but not the obligation – to sell the remaining 20% of the ICBC-SBK Plc business to ICBC Group.
- ⇒ Subsequent to our meeting, at the 2014 results conference in March, management stated that it is "very confident that we won't see the same kind of losses like what we've seen (from its reduced, 40% stake in the UK investment bank), but it's going to be a very long road for that business".
- ⇒ For Standard Bank's core business in Africa, ICBC has played a relatively quiet role after investing in March 2008, with board representation but little operational or management interaction.
- ⇒ Standard Bank claims to be the only listed long-term South African stock to have never cut its dividend, which is impressive given its 47-year history as a listed entity.
- ⇒ Overall, and outside of the subsidiary purchases (notably the UK but also Argentina), the African side of Standard Bank appears to be a relatively hands-off investment for ICBC.
- ⇒ At the time of ICBC's 20% stake investment in SBK in 2008, the market had high expectations both of significant deal delivery to SBK by ICBC and value accretion for ICBC in the form of high ROIC on this investment.
- ⇒ Our sense is that these expectations have probably not been met. But we believe that a more focussed SBK should be able to deliver greater value, as reflected in the market price of ICBC's 20% stake (c. US\$4.3bn). Moreover, SBK's strong solvency ratios – which will only improve following the Plc divestment – imply limited likelihood for a capital call.

Fig 5 SBK: Corporate & Investment Banking earnings (continuing operations) by business unit (FY14)



Source: Company filings, Macquarie Research, March 2015

Fig 6 SBK: Personal & Business Banking earnings by geography (FY14)



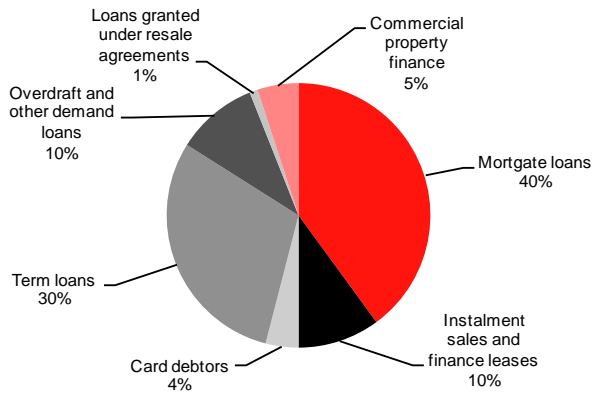
Source: Company filings, Macquarie Research, March 2015

Feedback on China and ICBC from the South African client base

We spent five days marketing in South Africa, including a day at Macquarie's annual China Day in Cape Town.

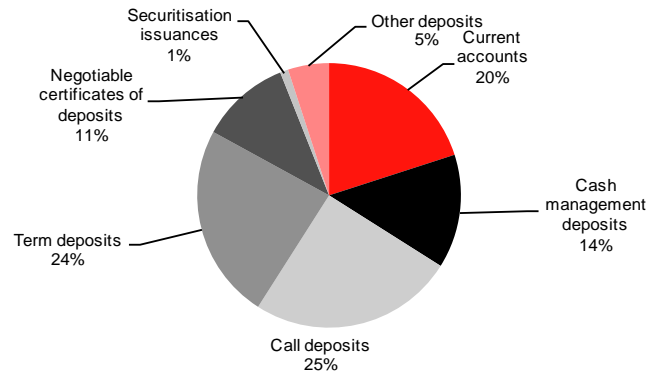
- ⇒ We found that there is a very wide range of knowledge about the China banks among the South African client base. Not all of the clients with whom we met are able to invest in Chinese banks, so a common thread was a greater focus on the banks in light of the overall macro environment in China, given the impact on resources pricing.
- ⇒ We found little diametric opposition to our cautious views on the fundamentals of the Chinese financial system – actually, none whatsoever. If anything, we often found ourselves working to defend our base case that there will not be a crisis in 2015-16 given the significant levers for increasing liquidity that remain awaiting policymaker action. In short, we did not come away with the sense that SA clients are particularly optimistic.
- ⇒ Again, the timing of our marketing was ideal given the takeover of Standard Bank Plc by ICBC, which was finalized in early February. Most SA investors saw it as a gift, a view that might explain SBK's 5% DoD jump on Feb 3, the day after the announcement of the deal's consummation. Another common thread of many meetings was the theme of ICBC doing an outright acquisition of Standard Bank.
- ⇒ In general, investors are not impressed by ICBC's overseas deal-making, with one going as far as to say "they seem to be incredibly bad allocators of capital" and seem to appear whenever and wherever Standard Bank finds itself in trouble (e.g., ICBC's 2008 investment in the 20% stake priced at \$5bn or 2.6x P/BV, its c.US\$600m purchase of an 80% stake in Standard Bank Argentina in 2012, and the c. US\$690m purchase of 60% of Standard Bank Plc in February of this year.).
- ⇒ Our view is that an outright acquisition of Standard Bank by ICBC would be an extremely large mistake that is not at all likely to occur in the post-GFC environment. ICBC is not immune to uneconomic flag-planting exercises (see its purchase of SBK's Argentina subsidiary in Nov 2012 or, closer to home, the three-year pending acquisition of a 20% stake in the hapless Bank SinoPac of Taiwan).
- ⇒ But taking on control of one of the largest pan-African banks may be another story, in our view. ICBC's core business model of funnelling cheap deposits from Chinese households to state-owned enterprises at a fat, and as-yet government-mandated spread is not likely to be easily replicated in Africa – never mind the political risks of getting a deal approved in 15 separate countries.
- ⇒ We think that decision-makers in Beijing fully understand this and thus think that investors who are hoping for a general offer may find themselves waiting for a very long time. One pointed out that if this view is correct, then ICBC's hulking presence as a 20% shareholder could be construed as a negative given that other possible suitors might be dissuaded from making a bid.

Fig 7 SBK: Composition of gross loans and advances to customers



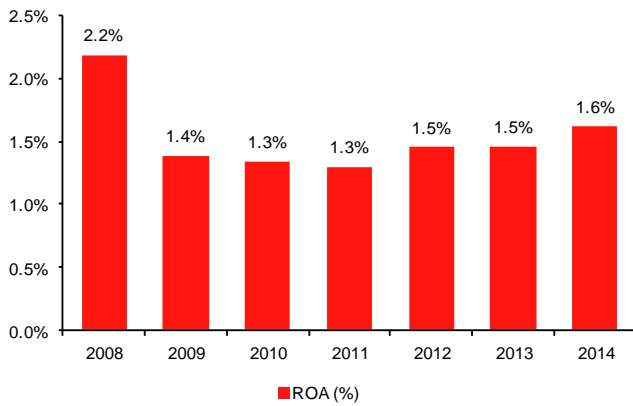
Source: Company filings, Macquarie Research, March 2015

Fig 8 SBK: Composition of deposit and current accounts from customers



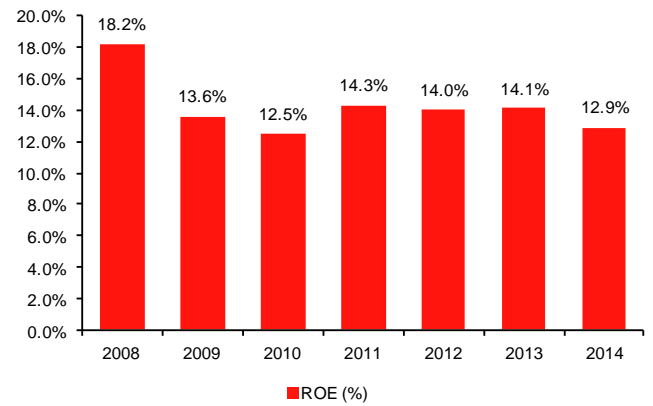
Source: Company filings, Macquarie Research, March 2015

Fig 9 SBK: ROA



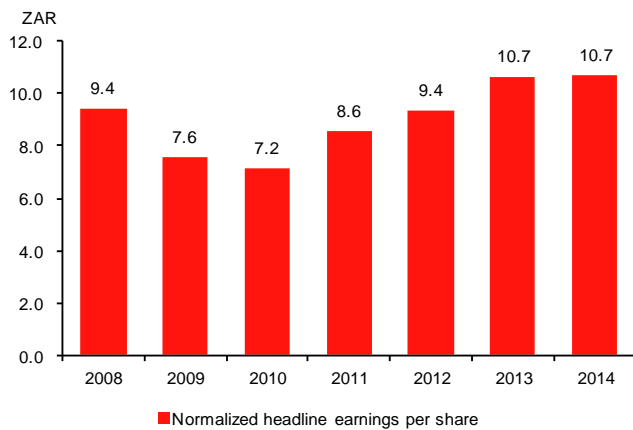
Source: Bloomberg, Company filings, Macquarie Research, March 2015

Fig 10 SBK: Reported ROE



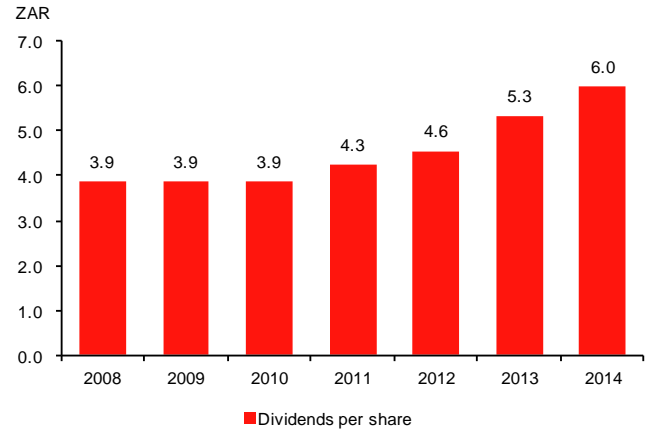
Source: Company filings, Macquarie Research, March 2015

Fig 11 SBK: Normalized headline earnings per share



Source: Company filings, Macquarie Research, March 2015

Fig 12 SBK: Dividends per share



Source: Company filings, Macquarie Research, March 2015

SBK's 2014 results in brief – SBK reported its 2014 earnings on March 5

- ⇒ 2014 earnings of ZAR17bn and EPS of ZAR10.7 were both up 1% YoY.
- ⇒ ICBC's 20% stake in these earnings represents about 0.6% of our full-year earnings estimate for ICBC (1 ZAR is equivalent to about 0.51 RMB).
- ⇒ Despite the weak earnings number, SBK announced a dividend of Rmb6, up 12% YoY, with the payout ratio at 56%.
- ⇒ Earnings were dented by a tough year for the corporate & investment banking business outside of Africa. Much of the discussion centred on the issues related to the divested investment bank, which was hit hard in 2014 by commodities financing fraud in China as well as weak trading activity.
- ⇒ SBK provisioned US\$147m for "the aluminium situation in China" and also injected US\$300m in capital to shore up the investment bank subsidiary's balance sheet ahead of the 60% stake sale to ICBC. They characterized the issue as the result of "a sophisticated fraud" and that they are pursuing the matter in the Chinese courts. Our understanding is that any recoveries from litigation and/or insurance would accrue to SBK, not to ICBC-Standard Bank Plc.
- ⇒ Of the 40% stake that SBK retains in the ICBC-Standard Bank Plc, management is "very confident that we won't see the same kind of losses like what we've seen, but it's going to be a very long road for that business."
- ⇒ Weak trading income was ascribed to lack of client onboarding given the pending sale to ICBC, market action especially in 4Q14, and the overall slowdown in China.
- ⇒ According to SBK's full financial statements, net earnings in 2014 were negatively impacted by a ZAR4,048m extraordinary loss. This loss was fully attributable to the firm's Global Markets business outside Africa, i.e., the London-based Standard Bank Plc, of which ICBC has bought a 60% stake in 1Q15.
- ⇒ The loss includes a ZAR1,624m write-down due to the fraud in China aluminium financing cited above. Additionally, SB Plc also suffered operational losses totalling ZAR1,674m, which it blamed on the high volatility experienced in various commodity markets towards the end of 2014. Furthermore, the company also incurred a R447m separation cost related to the impending divestment of the London business unit.
- ⇒ SBK reported 2014 CET1 ratio of 12.4%, Tier 1 of 12.9%, and total CAR of 15.5%. The sale of the London investment bank to ICBC will increase capital ratios by 30-40bps, with the exact number to be reflected in 1Q15 results.
- ⇒ For more thorough details, including discussion of ICBC's partnership, see SBK's investor relations website <http://reporting.standardbank.com/>

Fig 13 SBK: OROA analysis – NIM and provisioning



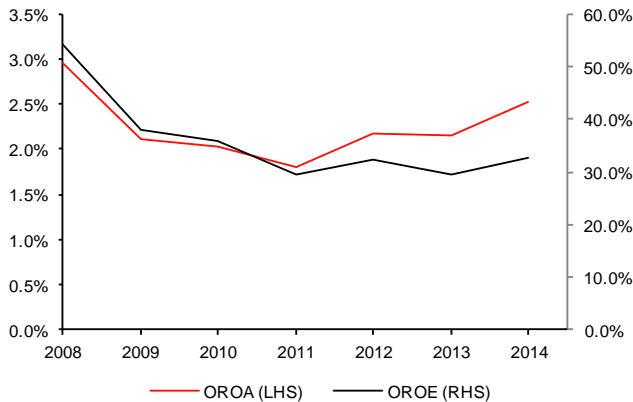
Source: Bloomberg, Company filings, Macquarie Research, March 2015

Fig 14 SBK: OROA analysis – Cost & non-interest income



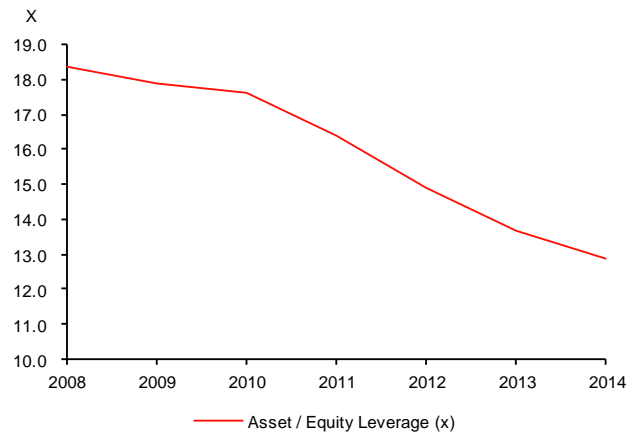
Source: Bloomberg, Company filings, Macquarie Research, March 2015

Fig 15 SBK: OROA and OROE



Source: Bloomberg, Company filings, Macquarie Research, March 2015

Fig 16 SBK: Asset / Equity Leverage



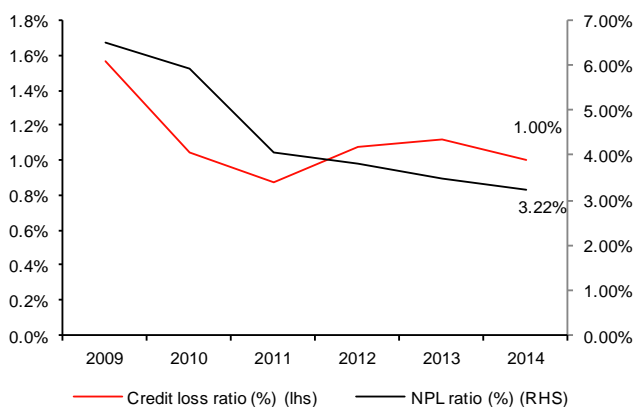
Source: Bloomberg, Company filings, Macquarie Research, March 2015

Macq view on what the 4Q results & takeover of SB Plc mean for ICBC

Acquired business will see some changes. Management spent time discussing their efforts to bolster staff morale at the investment bank, but we have our doubts about their ability to cheer up staff at a business that has been bleeding money. We suspect that the bank will quickly take on a more ICBC-like culture, with staff turnover a very likely result. This may not be such a bad thing given the investment bank's abysmal historical performance. There is a possibility of recoveries from legal action related to commodities fraud, but any such recoveries are likely to be *de minimis*.

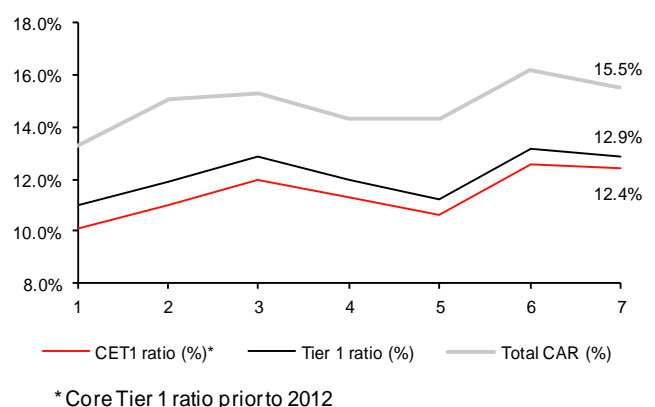
Our view is that ICBC bought the controlling stake in the investment bank not as a favour to SBK, but rather to expand its presence in wholesale/transaction banking and ensure that it (and really, China itself) has a place at the table in establishing commodities prices in London. This seems sensible enough. With prudent strategic retrenchment – including the likely replacement of underperforming employees and retreat from non-core activities – the London business may yet turnaround from losses to a level where it is earning its cost of capital.

Fig 17 SBK: NPL and credit loss ratio



Source: Company filings, Macquarie Research, March 2015

Fig 18 SBK: Capital adequacy ratios



Source: Company filings, Macquarie Research, March 2015

Capital call from SBK is unlikely. SBK's pre-divestment solvency ratios already appear to be solid with CET1 of 12.4% and total CAR of 15.5%, which is not only higher than ICBC itself but also seems to be in line with global regulatory new normals. Moreover, the IB divestment to ICBC should provide a 30-40bp increase to SBK's capital ratios, as per management guidance during the 2014 results presentation. This suggests limited requirement for further capital issuance, which should be positive for shareholders – of which ICBC is the largest.

“Sophisticated” fraud? Or failure of risk management? Our understanding of the commodity finance fraud issues is admittedly imperfect. But based on our discussions with the Macquarie commodities team here in Shanghai, it seems to us less a case of fraudster “sophistication” and more an instance of the banks – both domestic and foreign – failing to engage in prudent risk controls. We would hope that the banks would agree (albeit not publically), and we believe that that they will have increased their due diligence on collateralization.

Fig 19 Standard Bank Income Statement (IFRS)

ZAR millions	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Net Interest Income	31,918.0	31,316.0	26,843.0	28,827.0	33,966.0	39,095.0	45,152.0
Trading Account Profit	9,463.0	10,916.0	8,113.0	7,896.0	6,789.0	7,811.0	9,216.0
Commissions & Fees Earned	22,443.0	23,080.0	23,215.0	25,376.0	27,506.0	29,903.0	30,570.0
Other Operating Income	11,749.0	9,771.0	14,253.0	14,664.0	20,001.0	22,072.0	10,084.0
Net Revenue	75,573.0	75,083.0	72,424.0	76,763.0	88,262.0	98,881.0	95,022.0
Provisions for Loan Losses	11,342.0	12,097.0	7,394.0	6,436.0	8,714.0	9,158.0	9,009.0
Net Revenue After Provisions	64,231.0	62,986.0	65,030.0	70,327.0	79,548.0	89,723.0	86,013.0
Non-Interest Expense	41,552.0	44,596.0	45,273.0	48,373.0	50,791.0	59,953.0	51,195.0
Operating profit (loss)	22,679.0	18,390.0	19,757.0	21,954.0	28,757.0	29,770.0	34,818.0
Net Non-Operating Losses (Gains)	1,225.0	1,734.0	2,387.0	1,098.0	3,303.0	1,162.0	544.0
Pretax Income	21,454.0	16,656.0	17,370.0	20,856.0	25,454.0	28,608.0	34,274.0
Tax on profit (loss)	4,705.0	4,660.0	4,791.0	5,713.0	7,002.0	7,580.0	8,061.0
Income Before XO Items	16,749.0	11,996.0	12,579.0	15,143.0	18,452.0	21,028.0	26,213.0
Extraordinary Loss Net of Tax	0.0	0.0	-428.0	-641.0	-817.0	1,022.0	4,048.0
Minority Interests	2,288.0	411.0	1,846.0	2,213.0	2,871.0	3,451.0	3,904.0
Net profit (loss)	14,461.0	11,585.0	11,161.0	13,571.0	16,398.0	16,555.0	18,261.0
Total Cash Preferred Dividends	529.0	531.0	387.0	345.0	352.0	349.0	356.0
Net Attrib Income	13,932.0	11,054.0	10,774.0	13,226.0	16,046.0	16,206.0	17,905.0
ZAR	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Basic EPS	9.96	7.58	7.22	8.76	10.55	10.34	11.30
Basic Weighted Avg Shares	1,398.9	1,459.3	1,492.0	1,510.4	1,521.5	1,566.7	1,584.7
Diluted EPS	9.62	7.32	6.96	8.49	10.20	10.09	11.07
Diluted Weighted Avg Shares	1,447.9	1,511.0	1,548.0	1,557.4	1,573.2	1,606.8	1,617.0
Headline EPS	10.02	7.71	7.35	8.87	9.57	10.84	10.81

Source: Bloomberg, Company filings, Macquarie Research, March 2015

Fig 20 Standard Bank Balance Sheet (IFRS)

ZAR millions	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Cash & Near Cash Items	25,697.0	24,983.0	28,675.0	31,907.0	61,985.0	53,310.0	64,302.0
Interbanking Assets	129,890.0	111,068.0	107,090.0	130,257.0	102,610.0	94,904.0	116,220.0
Short-Term Investments	129,614.0	132,021.0	117,827.0	140,160.0	183,793.0	91,376.0	--
Net Loans	658,044.0	610,321.0	603,632.0	671,051.0	708,561.0	744,716.0	813,324.0
Long-Term Investments	208,872.0	217,458.0	246,147.0	239,608.0	301,916.0	386,228.0	537,146.0
Net Fixed Assets	9,746.0	12,250.0	14,907.0	14,920.0	15,733.0	16,882.0	16,737.0
Other Assets	341,790.0	184,405.0	214,131.0	264,926.0	185,751.0	303,513.0	355,116.0
Total Assets	1,503,653.0	1,292,506.0	1,332,409.0	1,492,829.0	1,560,349.0	1,690,929.0	1,902,845.0
Demand Deposits	332,797.0	312,715.0	327,621.0	377,750.0	413,704.0	506,742.0	415,242.0
Interest Bearing Deposits	342,448.0	321,632.0	337,872.0	346,191.0	342,149.0	311,274.0	352,102.0
Saving Deposits	24,168.0	24,169.0	26,203.0	23,893.0	24,382.0	19,369.0	20,224.0
Time Deposits	318,280.0	297,463.0	311,669.0	322,298.0	317,767.0	291,905.0	331,878.0
Other Deposits	39,515.0	28,183.0	32,278.0	25,240.0	30,554.0	35,072.0	139,330.0
Customer Deposits	714,760.0	662,530.0	697,771.0	749,181.0	786,407.0	853,088.0	906,674.0
ST Borrowings & Repos	129,055.0	106,018.0	87,830.0	129,741.0	124,275.0	68,650.0	97,606.0
Other Short-Term Liabilities	328,712.0	368,667.0	390,249.0	438,863.0	192,454.0	273,479.0	423,894.0
Long-Term Borrowings	21,531.0	26,656.0	23,138.0	24,754.0	31,548.0	24,516.0	25,521.0
Other Long-Term Liabilities	210,094.0	29,266.0	30,223.0	32,757.0	294,776.0	318,548.0	287,516.0
Total Liabilities	1,404,152.0	1,193,137.0	1,229,211.0	1,375,296.0	1,429,460.0	1,538,281.0	1,741,211.0
Total Preferred Equity	5,503.0	5,503.0	5,503.0	5,503.0	5,503.0	5,503.0	5,503.0
Minority Interest	12,045.0	9,844.0	10,622.0	12,988.0	14,301.0	18,209.0	19,146.0
Share Capital & APIC	16,997.0	17,197.0	17,522.0	17,735.0	18,092.0	18,126.0	18,067.0
Retained Earnings & Other	64,956.0	66,825.0	69,551.0	81,307.0	92,993.0	110,810.0	118,918.0
Total Equity	99,501.0	99,369.0	103,198.0	117,533.0	130,889.0	152,648.0	161,634.0
Total Liabilities & Equity	1,503,653.0	1,292,506.0	1,332,409.0	1,492,829.0	1,560,349.0	1,690,929.0	1,902,845.0

Source: Bloomberg, Company filings, Macquarie Research, March 2015

Fig 21 ICBC: P&L

Income statement (RMB m)	2011	2012	2013	2014E	2015E	2016E
Interest Income	589,580	721,439	767,111	845,949	865,552	900,719
Interest Expense	226,816	303,611	323,776	357,195	360,564	374,401
Net Interest Income	362,764	417,828	443,335	488,754	504,988	526,318
Fees & Commissions	101,550	106,064	122,326	130,889	147,250	165,656
Net trading income	444	510	154	166	180	194
FVPL unrealized gains and losses	-271	-5,114	-2,413	-7,239	3,620	3,800
Realized gains and losses	219	608	625	656	689	724
Other operating income	5,895	9,824	14,874	14,130	14,837	15,579
Total Non-Interest Income	107,837	111,892	135,566	138,603	166,575	185,953
Total revenue	470,601	529,720	578,901	627,357	671,562	712,270
Staff compensation	87,881	96,240	103,455	111,731	120,670	130,324
Net Occupancy & Equipment	21,121	23,487	26,094	29,095	32,150	35,686
Other Expenses	60,611	70,213	74,591	79,066	83,810	90,515
Total Operating Expenses	169,613	189,940	204,140	219,893	236,630	256,525
Pre-Provision OP	300,988	339,780	374,761	407,464	434,932	455,745
Loan Loss Provision Expense	31,832	32,572	38,098	45,353	60,878	67,978
Provisioning for other NPAs	-711	1,173	223	317	104	115
Total provisions	31,121	33,745	38,321	45,669	60,982	68,093
OP after Provisioning	269,867	306,035	336,440	361,795	373,950	387,653
Associate Profit / (Loss)	2,444	2,652	2,097	2,265	2,446	2,642
Exceptional Gain & Loss	0	0	0	0	0	0
Pre-tax profit	272,311	308,687	338,537	364,060	376,396	390,294
Taxation	63,866	69,996	75,572	83,734	86,571	89,768
Net Profit (Gross)	208,445	238,691	262,965	280,326	289,825	300,527
Minority Interests	180	159	316	332	348	366
Preference Share Dividends	0	0	0	120	2,086	2,086
Net profit attributable to common	208,265	238,532	262,649	279,874	287,391	298,074
PER SHARE DATA	2011	2012	2013	2014E	2015E	2016E
EPS (RMB)	0.60	0.68	0.75	0.80	0.82	0.85
EPS Growth (%)	21.8	14.5	10.2	6.5	2.7	3.7
PER (X)	7.5	6.6	6.0	5.6	5.5	5.3
BVPS (RMB)	2.7	3.2	3.6	4.2	4.9	5.5
Price to Adj Book (X)	1.64	1.39	1.23	1.06	0.92	0.81
Dividend Yield (%)	4.5	5.3	5.9	6.2	6.4	6.6
Payout Ratio (%)	34.0	35.0	35.0	35.0	35.0	35.0

Source: Company data, Macquarie Research, March 2015

Fig 22 ICBC: Financial Statements

Balance sheet (RMB m)	2011	2012	2013	2014E	2015E	2016E
Cash & Equivalent	2,762,156	3,174,943	3,294,007	3,411,128	3,718,129	4,015,580
Due from banks and other Fis	478,002	636,450	717,984	789,782	868,761	955,637
Financial assets held for trading	30,822	20,463	28,143	30,957	34,053	37,458
Financial assets FVPL	121,386	201,208	344,413	447,737	559,671	587,655
Derivative financial assets	17,460	14,756	25,020	32,526	42,284	44,398
Reverse repo	349,437	544,579	331,903	431,474	560,916	588,962
Precious metals	38,971	55,358	61,821	69,240	76,163	83,780
Total Current Assets (Liquid)	3,798,234	4,647,757	4,803,291	5,212,844	5,859,978	6,313,469
Net Loans to Customers	7,594,019	8,583,289	9,681,415	10,684,086	11,734,448	12,828,684
Receivables	498,804	364,715	324,488	330,978	337,597	344,349
HTM investments	2,424,785	2,576,562	2,624,400	2,690,010	2,743,810	2,798,686
AFS Securities	840,105	920,939	1,000,800	1,106,436	1,211,113	1,321,186
Total financial Investments	3,763,694	3,862,216	3,949,688	4,127,424	4,292,521	4,464,222
Total Earning Assets	15,155,947	17,093,262	18,434,394	20,024,354	21,886,946	23,606,375
Total Fixed Assets	119,028	135,889	164,347	180,782	198,860	218,746
Deferred tax assets	21,938	22,789	28,860	30,303	31,818	33,409
Associates and JVs	32,750	33,284	28,515	29,941	31,438	33,010
Goodwill	6,121	8,821	8,528	8,613	8,699	8,786
Other assets	141,084	248,172	253,108	303,730	318,916	334,862
Total assets	15,476,868	17,542,217	18,917,752	20,577,722	22,476,677	24,235,188
	0					
Total Customer Deposits	12,261,219	13,642,910	14,620,825	16,009,803	17,450,686	18,846,741
Due to central banks	100	1,133	724	760	821	887
Financial liabilities FVPL	171,973	319,742	553,607	581,287	627,790	678,014
Derivative liabilities	12,617	13,261	19,168	20,126	21,133	22,189
Due to banks and other FIs	1,341,290	1,486,805	1,269,255	1,205,792	1,266,082	1,329,386
Repo agreements	206,254	237,764	299,304	314,269	339,411	366,564
CDs	41,426	38,009	130,558	189,309	236,636	248,468
Debt securities	204,161	232,186	253,018	265,669	286,922	309,876
Total IBLs	14,239,040	15,971,810	17,146,459	18,587,017	20,229,481	21,802,124
Tax payables	51,535	56,922	55,674	54,453	57,176	60,035
Deferred tax liabilities	103	552	420	441	463	486
Other Liabilities	228,367	384,474	436,736	412,576	448,214	404,698
Total liabilities	14,519,045	16,413,758	17,639,289	19,054,487	20,735,334	22,267,343
	0					
Common Stock	349,084	349,620	351,390	351,390	351,390	351,390
Preferred Stock	0	0	0	34,771	34,771	34,771
Equity component of CBs	2,954	2,708	1,960	1,960	1,960	1,960
Other Reserves	291,370	400,128	408,835	436,822	465,561	495,369
Treasury Stock	0	0	0	0	0	0
Retained Earnings (after adjustments)	313,334	372,541	511,949	693,876	883,157	1,079,761
Minority Interests	1,081	3,462	4,329	4,416	4,504	4,594
Total equity	957,823	1,128,459	1,278,463	1,523,235	1,741,343	1,967,845
Equity attributable to common	956,742	1,124,997	1,274,134	1,484,049	1,702,069	1,928,480

Source: Company data, Macquarie Research, March 2015

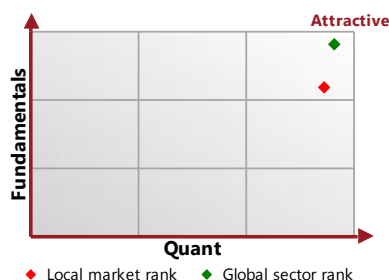
Macquarie Quant View

The quant model currently holds a strong positive view on ICBC. The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

41/661

Global rank in Banks

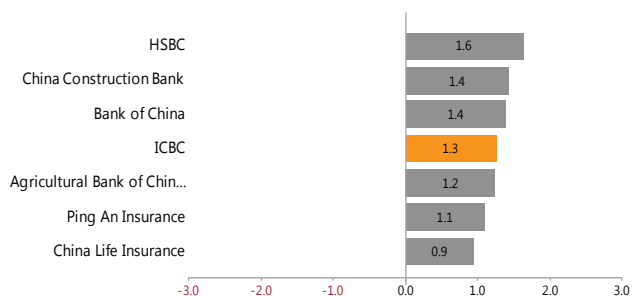
% of BUY recommendations 91% (20/22)
Number of Price Target downgrades 0
Number of Price Target upgrades 3



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.
 Two rankings: Local market (China) and Global sector (Banks)

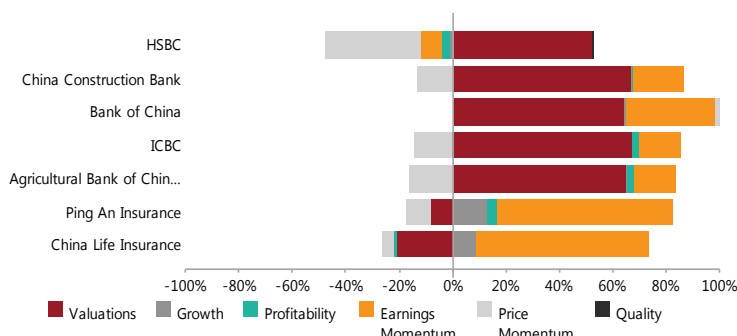
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



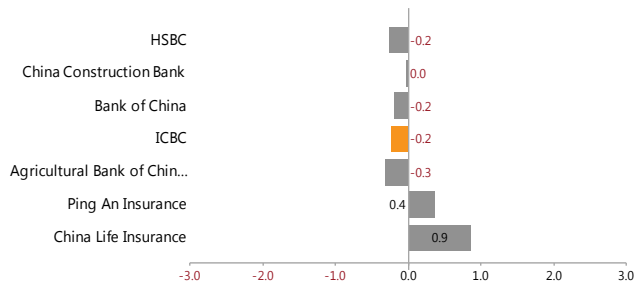
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



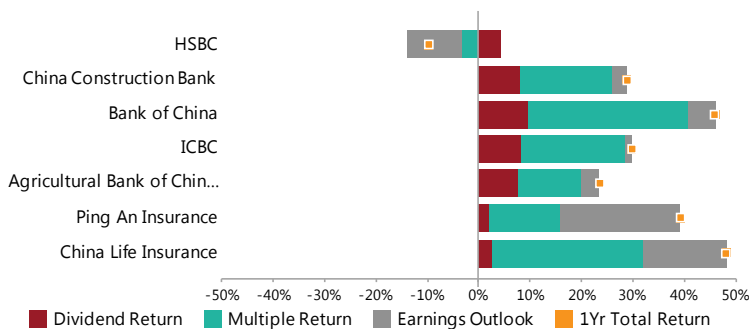
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



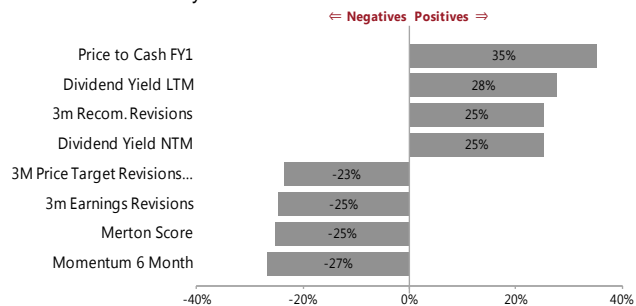
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



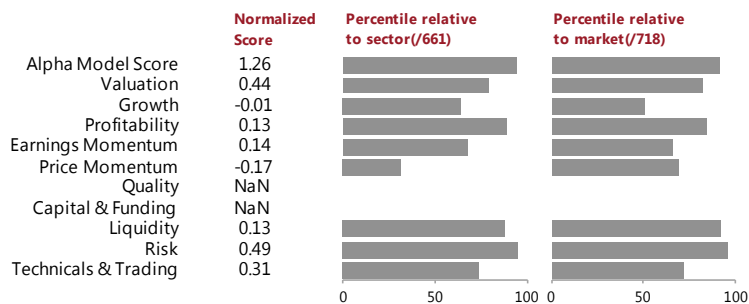
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

Important disclosures:

Recommendation definitions**Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.80%	58.06%	45.07%	44.42%	60.54%	46.81%	(for US coverage by MCUSA, 5.29% of stocks followed are investment banking clients)
Neutral	31.80%	27.37%	30.99%	50.10%	35.37%	33.51%	(for US coverage by MCUSA, 3.08% of stocks followed are investment banking clients)
Underperform	16.39%	14.57%	23.94%	5.48%	4.08%	19.68%	(for US coverage by MCUSA, 0.44% of stocks followed are investment banking clients)

1398 HK vs HSI, & rec history

(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

12-month target price methodology

1398 HK: HK\$6.43 based on a PBV methodology

Company-specific disclosures:

1398 HK: Macquarie Capital Securities Limited makes a market in the securities of Industrial and Commercial Bank of China Ltd.

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Date	Stock Code (BIB code)	Recommendation	Target Price
09-Dec-2014	1398 HK	Outperform	HK\$6.43
17-Jul-2014	1398 HK	Outperform	HK\$5.44
21-Apr-2014	1398 HK	Outperform	HK\$6.80
30-Aug-2013	1398 HK	Outperform	HK\$6.40
26-Jul-2013	1398 HK	Outperform	HK\$7.50
30-May-2013	1398 HK	Outperform	HK\$7.40
13-Mar-2013	1398 HK	Outperform	HK\$7.50
17-Dec-2012	1398 HK	Outperform	HK\$7.00
19-Jun-2012	1398 HK	Outperform	HK\$6.90
17-May-2012	1398 HK	Outperform	HK\$7.60
19-Mar-2012	1398 HK	Outperform	HK\$7.50

Target price risk disclosures:

1398 HK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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