

Analyst: Paul Sham
ICBC (ASIA) LIMITED (工銀亞洲)

Sector	: Banking	Chairman	: Dr. Jiang Jianqing
HKSE Code	: 0349	Managing Director & CEO	: Mr. Zhu Qi
Market Price	: HK\$18.18 (14/08/2008)		
Shares Issued	: 1,232.1m		
Mkt. Cap.	: HK\$22,399.6m		
52 weeks Hi/ Lo	: HK\$23.65 / HK\$14.26		
HSI	: 21,392.71 (14/08/2008)		
Main Business	: Banking and related financial services		

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2008
Interim Results Highlights

	HK\$ million	Vs 1H2007 (%)	Vs 31/12/2007 (%)
• Net interest income	1,527.0	+54.0%	
• Non-interest income	342.0	-14.5%	
• Total operating income	1,869.0	+34.3%	
• Operating expenses	(647.6)	+29.6%	
• Operating profit before impairment losses	1,221.4	+36.9%	
• Impairment losses on loans and advances	(87.6)	+49.8%	
• Impairment losses on SIVs	(22.3)	NA	
• Profit before taxation	1,077.8	+26.2%	
• Taxation	(161.8)	+20.1%	
• Attributable profit to shareholders	916.0	+27.4%	
• Total loans	113,023.8	+8.3%	+13.9%
• Total deposits	140,222.1	+4.9%	-0.7%
• Total assets	202,915.3	-9.8%	+5.5%
• Basic EPS (HK\$)	0.74	+15.6%	
• Interim EPS (HK\$)	0.28	+21.7%	
Selected Ratios	1H2008	1H2007	FY2007
• Net interest margin	1.64%	1.38%	1.47%
• Cost-income ratio	34.6%	35.9%	35.7%
• Return on average assets	1.00%	1.00%	0.97%
• Return on average equity	13.0%	13.3%	13.6%
• Impaired loan ratio	0.57%	0.73%	0.53%
• Impaired advances coverage	63.2%	60.7%	51.9%
• Loan-deposit ratio	80.6%	78.0%	70.3%
• Capital adequacy ratio	14.2%	13.0%	13.0%
• Average liquidity ratio	35.9%	43.7%	43.9%

- **Satisfactory 1H08 performance** Net 1H08 profits was HK\$916m, growing 27.4% y-o-y, mainly attributable to the wider prime-HIBOR spread and healthy loan growth. The strong top-line growth was dragged by the impairment of SIV investment and weaker-than-expected net fee-income growth. EPS was up only 15.6% y-o-y to \$0.74 as there was 9.7 y-o-y increase in the weighted average number of shares. An interim DPS of 0.28 was declared, up 21.7% y-o-y. Dividend payout was 37.8%, similar to the ratio in 1H07.

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- **Net interest income surged on widened NIM and China loan growth** Growth in net interest income was strong at 54.0% y-o-y. This was driven by a 26bps y-o-y NIM expansion and strong loan growth, especially in China, as a large part of this increase was driven by loans to parent ICBC. Together with loans at Chinese Mercantile Bank (CMB) surging 31% YTD, ICBC (Asia)'s loans used outside HK recorded a significant growth of 38.7% h-o-h and 85.1% y-o-y.
- **Unexciting growth in non-interest income** Non-interest income, however, dropped 14.5% y-o-y to \$342m. Strong growth in loan fees (up 39.4% y-o-y), trade finance fees (up 23.9% y-o-y) and credit card income (99.0% y-o-y) helped offset a slowdown in securities brokerage fees (up by 4.0% y-o-y). There was also a marked-to-market loss of HK\$122m for its financial assets and liabilities for 1H08, dragging down the overall non-interest income.
- **Further SIVs provision should be insignificant** In 1H08, ICBC (Asia) made HK\$22.3m provisions for structured investment products (SIVs). With the SIV exposure being cut to HK\$55m, the remaining amount is relatively small, compared to the bank's full year profit of about HK\$2bn. Any future write-off will be insignificant as the bank does not hold any CDOs.
- **Increasing costs matched growing income** Operating expenses increased substantially by 29.6% y-o-y for 1H08. This was driven mainly by strong growth in staff costs of 20.3% y-o-y and a rise in rental expenses of 80.7% y-o-y. Given the expenses growing slower than the operating income, the cost-to-income ratio reduced to 34.6% in 1H08 from 35.9% a year earlier.
- **Improvement in asset quality** Overall asset quality remains healthy. NPL amount was HK\$639m, versus HK\$647 in 2H07 and HK\$760m in 1H07. NPL ratio also fell from 0.73% as at 30/6/2007, to 0.57% as at 30/6/2008.
- **Profitability maintained with higher CAR** Despite strong top-line growth of 27.4%, ROE slightly lowered to 13.0% due to enlarged shareholders' equity in 2H07. The bank's CAR increased to 14.2% as of 30/06/2008, showing better financial position.

Outlook & Prospects

- **Rising profit contribution from China Mercantile Bank (CMB)** The bank's China subsidiary CMB continued to show strong growth. CMB's earnings grew by 165% y-o-y, and it now contributes 11.6% of ICBC (Asia)'s earnings (1H07: 5.6%). CMB's loan book also grew 31.1% h-o-h while deposits from customers jumped 156.9% h-o-h. Amid the strong earning momentum, we expect this business to remain very strong and be a key driver for ICBC (Asia)'s earnings growth.
- **Interest income helped by parent ICBC** The loan growth has been exceptionally strong in the past five years, underpinned by rapid expansion in China. ICBC (Asia) is in the favourable position of having a strong wholesale banking operation that benefits from the referral pipeline from its parent, ICBC, whose loan growth is capped by the PRC regulators. We believe ICBC (Asia) will continue to co-operate with ICBC on this lending business over the next few years. Coupled with the contribution from CMB, we forecast considerable loan growth of 15% per year could be seen for ICBC (Asia) in the coming years.
- **Privatization is unlikely** The chairman of ICBC, Dr. Jiang Jianqing, stated at ICBC's recent annual general meeting, held on 5 June 2008, that ICBC has no plans to privatize ICBC (Asia), given that the ICBC (Asia) has provided a solid platform in Hong Kong that could generate significant cross-border banking business for both banks. With such clear standpoint by the management, we believe that it is quite unlikely for ICBC (Asia) to be privatized by its parent, at least in the near term.
- **Attractive valuations** We like ICBC (Asia)'s strong capital support and business referrals from parent ICBC. Its prospects remain good, premised on loan injection from ICBC and co-operation with ICBC in RMB loan syndication activities in China. With no SIV overhang, ICBC (Asia)'s valuations of 1.39x FY08E P/B and 11.8x FY08E P/E look undemanding. In addition, a decent 4.97% dividend yield should provide good downside support and we accordingly recommend a "Buy" rating for the counter.

Recommendation: Buy

I. Impairment allowances, overdue and rescheduled advances of ICBC (Asia)

As % of total customer advances	Individual allowance	Portfolio allowance	Non-performing loans	Overdue and rescheduled advances
As of 30/6/2008	0.15%	0.20%	0.57%	0.25%
As of 31/12/2007	0.10%	0.17%	0.53%	0.17%
As of 30/6/2007	0.18%	0.27%	0.73%	0.20%

II. Comparison of ICBC (Asia)'s loan book: 30/06/2008 vs 31/12/2007

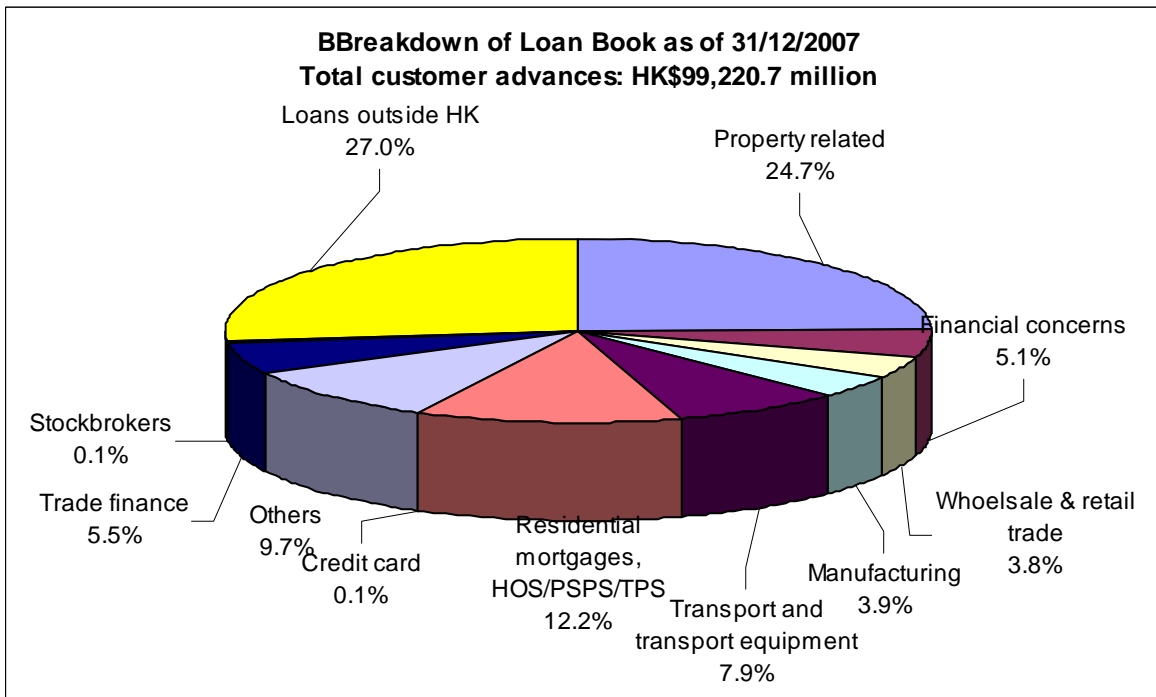
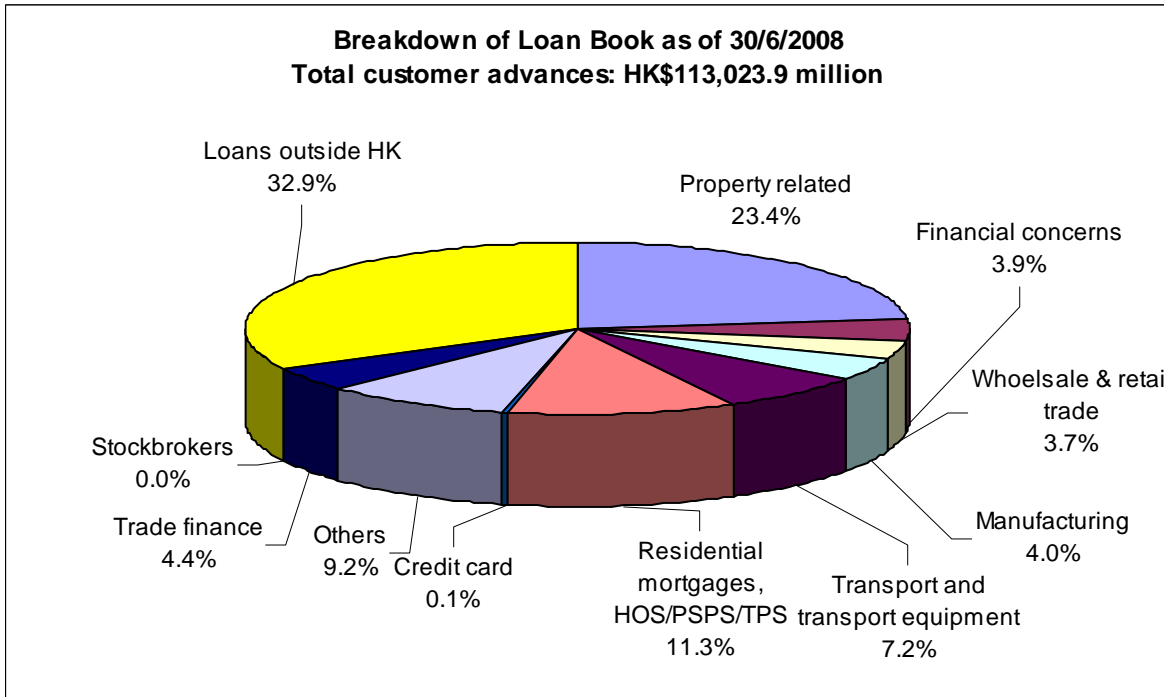
Loans-by industry	30 th June, 2008	Up/(down)	31 st Dec, 2007
	HK\$ million		HK\$ million
Property related	26,471.1	+8.1%	24,477.0
Financial concerns	4,356.0	-13.6%	5,044.1
Wholesale & retail trade	4,138.7	+11.0%	3,730.0
Manufacturing	4,522.3	+17.3%	3,854.2
Transport & transport equipment	8,120.3	+3.2%	7,865.4
Residential mortgages, HOS/PSPS	12,752.3	+5.4%	12,099.5
Credit card	80.9	-19.7%	100.8
Others	10,398.3	+7.7%	9,657.0
Trade finance	5,007.3	-8.6%	5,481.3
Stockbrokers	20.2	-82.6%	116.0
Loans outside HK	37,156.3	+38.7%	26,795.3
	<u>113,023.9</u>	<u>+13.9%</u>	<u>99,220.7</u>

III. Comparison of ICBC (Asia)'s loan book: 30/06/2008 vs 30/06/2007

Loans-by industry	30 th June, 2008	Up/(down)	30 th June, 2007
	HK\$ million		HK\$ million
Property related	26,471.1	+27.0%	20,841.8
Financial concerns	4,356.0	+14.5%	3,803.0
Wholesale & retail trade	4,138.7	+44.7%	2,860.7
Manufacturing	4,522.3	+41.0%	3,207.3
Transport & transport equipment	8,120.3	+2.2%	7,944.6
Residential mortgages, HOS/PSPS	12,752.3	+11.0%	11,493.5
Credit card	80.9	-7.2%	87.2
Others	10,398.3	-22.8%	13,476.2
Trade finance	5,007.3	-14.1%	5,832.5
Stockbrokers	20.2	-99.9%	14,744.3
Loans outside HK	37,156.3	+85.1%	20,077.9
	<u>113,023.9</u>	<u>+8.3%</u>	<u>104,369.0</u>



Breakdown of loan book of ICBC (Asia)





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