

**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\$16.60 (13/03/2008)		
Shares Issued	: 1,139.2m		
Mkt. Cap.	: HK\$18,911.1m		
52 weeks Hi/ Lo	: HK\$22.65 / HK\$14.26		
HSI	: 22,301.6 (13/03/2008)		
Main Business	: Banking and related financial services		

**SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2007**
**Final Results Highlights**

	HK\$ million	Vs FY2006 (%)	Vs 30/06/2007 (%)
• Net interest income	2,388.0	+28.9%	
• Non-interest income	790.7	+6.2%	
• Total operating income	3,178.7	+22.4%	
• Operating expenses	(1,134.9)	+20.0%	
• Operating profit before impairment losses	2,043.8	+23.7%	
• Impairment losses on loans and advances	114.9	-186.9%	
• <b>Impairment losses on AFS investments</b>	<b>(251.9)</b>	<b>NA</b>	
• Profit before taxation	1,951.6	+21.7%	
• Taxation	(342.8)	-4.1%	
• <b>Attributable profit to shareholders</b>	<b>1,608.8</b>	<b>+29.2%</b>	
• Total loans	99,220.7	+33.2%	-4.9%
• Total deposits	141,235.6	+28.5%	+5.6%
• Total assets	192,304.1	+31.4%	-14.5%
• Basic EPS (HK\$)	1.41	+27.0%	
• Final DPS (HK\$)	0.63	+37.0%	
• Total DPS (HK\$)	0.86	+30.3%	
<b>Selected Ratios</b>	<b>FY2007</b>	<b>FY2006</b>	<b>1H2007</b>
• Net interest margin	1.47%	1.45%	1.38%
• Cost-income ratio	35.7%	36.4%	35.9%
• Return on average assets	0.97%	0.95%	1.00%
• Return on average equity	13.6%	12.3%	13.3%
• Impaired loan ratio	0.53%	1.19%	0.73%
• Impaired advances coverage	51.9%	48.2%	60.7%
• Loan-deposit ratio	70.3%	67.8%	78.0%
• Capital adequacy ratio	13.0%	16.0%	13.0%
• Average liquidity ratio	43.9%	44.1%	43.7%

- **FY2007 results beat market estimates despite provision** ICBC (Asia) reported a 29.2% jump in net profit to HK\$1,608.8m for FY2007, higher than market expectations of HK\$1,400m to HK\$1,574m, driven by higher than expected net interest income, net write-back in loan provisions and increased profit contribution from China Mercantile Bank (CMB). By maintaining its payout ratio of 60%, the bank's full-year dividend increased by 30.3% y-o-y to \$0.86 per share, sending ICBC (Asia)'s dividend yield to 5.2%, highest ratio among its local peers.

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- **Jump in net interest income** Net interest income jumped 28.9%, mainly attributable to a 33.2% growth in total loans (or +61.3% if trade bills included). The NIM rose slight to 1.47% in 2007 due to the compression in Prime-HIBOR seen in 2H07. The strong loan growth was primarily driven by loans outside of HK, thanks to the business referrals from its parent ICBC.
- **Disappointing non-interest income amid buoyant stock market** Despite 150% y-o-y growth in broking revenues, fee income grew by only 20.2%, which is slower than its peers, as ICBCA has only a small-scale brokerage operation. Majority of its fee income came from the loans, overdrafts and guarantees services but fell 3.3% y-o-y. In addition, a 14% decline in net trading income also dragged overall non-interest income growth.
- **Stable cost-to-income ratio** Costs increased by 20.0% y-o-y, but a large part of this jump was due to the increase in rental expense for the new branches. Despite this, cost income ratio remained stable at about 36%.
- **SIV provision offset by write-back of loan impairment** The bank wrote off HK\$234m or 75% of the US\$40m worth of notes issued by the structured investment vehicle Cullinan Finance but the SIV impairment was offset by a write-back of HK\$118m for impairment losses on loans, advances and held-to-maturity securities, leading to 3% y-o-y decline in the consolidated impairment loss. The bank also disclosed that it has no CDOs or sub-prime exposure.
- **Improved profitability and still-healthy financial position** ROE and ROA improved slightly to 13.6% and 0.97% respectively in FY2007 from 12.30% and 0.95% in FY2006. Owing to the strong loan growth during 2007, the CAR of ICBCA dropped significantly from 16.0% to 13.0% but is still considered as a healthy level.

#### Outlook & Prospects

- **Focusing on loan expansion instead of fee income** Being distinctive to other local banks recording significant expansions in fee income, ICBCA registered a meagre 6.2% y-o-y increase in non-interest income amid the booming stock market in 2007. According to management guidance, ICBCA would mainly focus on loan expansion in 2008, such as syndicated loans in the PRC and high-yield lending for M&A financing, but without a detail development plan on its fee income. Such strategy could boost ICBCA's interest income in short-run but its overall earnings would become relatively volatile due to the unstable net interest margin.
- **Increasing profit contribution from CMB** Subsidiary China Mercantile Bank recorded a 217% y-o-y growth in net profit in 2007, representing 4.5% of ICBC (Asia)'s net profit during this period. Total loan and deposit also registered an amazing growth of 579% and 3565% in 2007. Based on its expanding momentum, we expect CMB would continue to grow at a robust pace and contribute a larger portion of ICBCA's total earnings.
- **Less interest income from IPO receiving bank business** Having benefited from IPO related banking volumes in 2007, the interest income earned from being an IPO receiving bank this year is likely to be less robust due to the unattractive fund-raising environment. Nevertheless, we believe the impact should be immaterial as the IPO-related interest income accounted for only several percentage of ICBCA's interest income.
- **Attractive valuations** Trading at 1.26x FY2007 P/B and 11.8x FY2007 P/E, valuations of ICBCA is among the cheapest bank in Hong Kong. In addition, we believe ICBCA's loan growth would be sustainable by leveraging its business-tie with its parent, ICBC. Given its decent dividend yield of 5.2% and cheap valuations, further significant downside risk seems to be limited 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
<b>As of 31/12/2007</b>	0.10%	0.17%	0.53%	0.17%
<b>As of 30/06/2007</b>	0.18%	0.27%	0.73%	0.20%
<b>As of 31/12/2006</b>	0.27%	0.31%	1.19%	0.32%

**II. Comparison of ICBC (Asia)'s loan book: 31/12/2007 vs 31/12/2006**

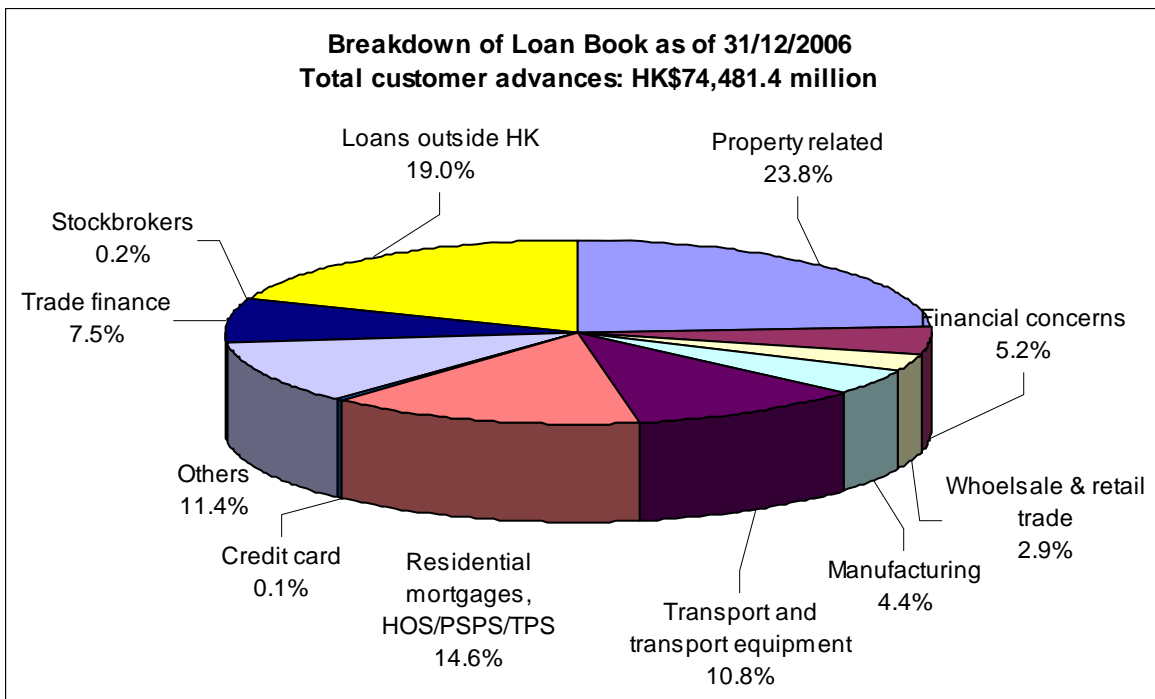
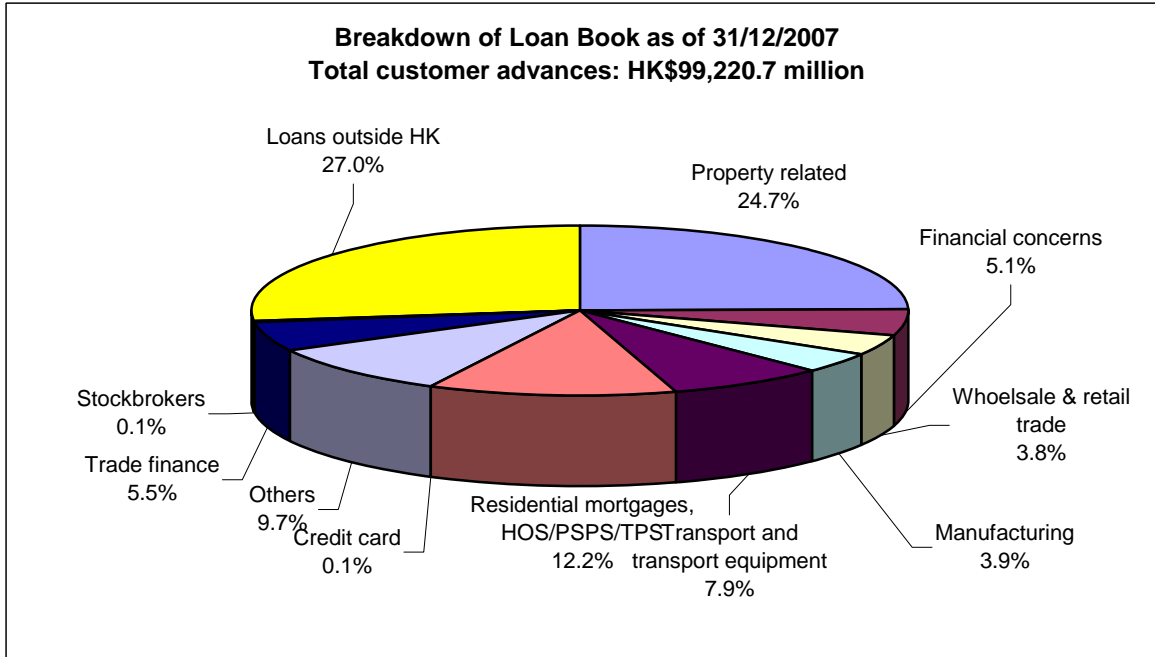
Loans-by industry	31 <sup>st</sup> Dec, 2007	Up/(down)	31 <sup>st</sup> Dec, 2006
	HK\$ million		HK\$ million
Property related	24,477.0	+38.1%	17,726.5
Financial concerns	5,044.1	+30.7%	3,860.2
Wholesale & retail trade	3,730.0	+70.0%	2,194.4
Manufacturing	3,854.2	+18.4%	3,255.6
Transport & transport equipment	7,865.4	-2.1%	8,036.0
Residential mortgages, HOS/PSPS	12,099.5	+11.1%	10,892.1
Credit card	100.8	-3.8%	104.8
Others	9,657.0	+13.5%	8,510.1
Trade finance	5,481.3	-1.7%	5,574.6
Stockbrokers	116.0	-21.1%	147.0
Loans outside HK	26,795.3	+89.0%	14,179.9
	<u>99,220.7</u>	+33.2%	<u>74,481.4</u>

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

Loans-by industry	31 <sup>st</sup> Dec, 2007	Up/(down)	30 <sup>th</sup> June, 2007
	HK\$ million		HK\$ million
Property related	24,477.0	+17.4%	20,841.8
Financial concerns	5,044.1	+32.6%	3,803.0
Wholesale & retail trade	3,730.0	+30.4%	2,860.7
Manufacturing	3,854.2	+20.2%	3,207.3
Transport & transport equipment	7,865.4	-1.0%	7,944.6
Residential mortgages, HOS/PSPS	12,099.5	+5.3%	11,493.5
Credit card	100.8	+15.6%	87.2
Others	9,657.0	-28.3%	13,476.2
Trade finance	5,481.3	-6.0%	5,832.5
Stockbrokers	116.0	-99.2%	14,744.3
Loans outside HK	26,795.3	+33.5%	20,077.9
	<u>99,220.7</u>	-4.9%	<u>104,369.0</u>



**Breakdown of loan book of ICBC (Asia)**





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