

中國工商銀行

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED

Sector	: Banking	Chairman	: Mr. Jiang Jianqing
HKSE Code	: 1398	Vice Chairman & President	: Mr. Yang Kaisheng
Market Price	: HK\$5.20 (25/03/2008)		
Shares Issued	: 83,056.5m (H share)		
Mkt. Cap.	: HK\$431,893.8m (H share)		
52 weeks Hi/ Lo	: HK\$7.49 / HK\$4.00		
HSI / HSCEI	: 22,464.52 / 11727.00 (25/03/2008)		
Main Business	: Banking and related financial services		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	RMB million	Vs FY2006 (%)	Vs 30/06/2007 (%)
• Net interest income	224,465	+37.3%	
• Non-interest income	31,564	+74.4%	
• Total operating income	256,029	+41.0%	
• Operating expenses	(103,261)	+33.4%	
• Operating profit before impairment losses	152,768	+46.6%	
• Impairment losses on loans and advances	(33,061)	+10.2%	
• Profit before taxation	115,378	+60.1%	
• Taxation	(33,124)	+49.3%	
• Attributable profit to equity holders	81,520	+65.5%	
• Total loans	4,073,229	+12.2%	+4.0%
• Total deposits	6,898,975	+9.0%	+3.0%
• Total assets	8,683,712	+15.6%	-6.6%
• Basic EPS (RMB)	0.24	+33.3%	
• Final DPS (RMB) (^)	0.133	+731.3%	

Selected Ratios	FY2007	FY2006	1H2007
• Net interest margin	2.80%	2.41%	2.65%
• Cost-income ratio	40.3%	42.6%	36.8%
• Return on average assets	1.02%	0.71%	1.05%
• Return on average equity	16.2%	15.4%	16.9%
• NPL ratio	2.74%	3.79%	3.29%
• NPL coverage ratio	103.5%	70.6%	81.3%
• Loan-deposit ratio	59.0%	57.4%	58.5%
• Capital adequacy ratio	13.1%	14.1%	13.7%

^ The final DPS in FY06 was for the period from its listing date (27th October 2006) to the end of 2006

- **FY2007 results in line with market expectations** ICBC reported a net profit of RMB81,520 million for FY07, up 65.5%. The results were in line with the consensus forecasts of RMB80,201m. The strong bottom line was driven by widened net interest margin (NIM), strong fee income growth but was partially offset by the higher-than-expected operating expenses.
- **A strong 37.3% growth in net interest income** Net interest income increased by 37.3% on higher NIM and solid loan growth. The higher NIM was attributed to the 6 times interest rate hikes during 2007 and improved loan mix. ICBC has further trimmed down its low yield discounted bill business mix to 6.2% at end-2007 from 11.3% at end-2006, and reallocated the capital to the higher yielding SME and personal loans. NIM rose by 39 bps y-o-y and 15 bps h-o-h to 2.80% in FY07.

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- **Healthy loan growth** Total loans grew 12.2% y-o-y to RMB4,073 billion while total deposits grew 9.0%, lifting the loan-to-deposit ratio up 1.6% points to 59.0%. Management continued to guide a steady loan growth of around 10% and indicated a continual expansion in NIM into the first two months in 2008.
- **Strong growth in net fee income** Non-interest income surged 74.4% in FY07, which was attributed to fast-growing net fee income (up 110% y-o-y). The surge is mainly backed by wealth management services (up 381% y-o-y), trust and fiduciary business fees (up 203%) as well as e-banking business (up 85%). Overall surge in fee income is resulted from the upturn of Chinese stock market.
- **High operating costs due to one-off** Operating expenses increased by 33.4% y-o-y. Compared with y-o-y rises of 21.1% for BoCom and 23.7% for BOC, ICBC showed higher increment in its operating expenses. The rise was due mainly to higher staff costs (up 57%) as there is a one-off charge of RMB12.5 billion as the future costs of a retirement benefit scheme. Despite this, with operating income rising faster than operating expenses, the cost-to-income ratio improved to 40.3% for 2007, from 42.6% for 2006.
- **Loan quality improved** Impaired loan balance decreased by 18.9% in 2007, while at the same time, impaired loan ratio was down from 3.79% at end-2006 to 2.74% at end-2007. NPL coverage grew remarkably from 70.6% as of 31/12/2006 to 103.5% as of 31/12/2007, reflecting substantial improvement in credit quality.
- **Improving profitability and solid financial position** The bank's profitability was solid, with ROA and ROE of 1.02% and 40.3% respectively, up from 0.71% and 15.4% a year earlier. CAR of ICBC also stood at a comfortable level of 13.1% as of 31/12/2007.

Outlook & Prospects

- **Expecting loan growth to remain moderate** Although ICBC has reported a loan growth of 12.2% y-o-y in 2007, we expect slowing loan growth in 2008, following the government's encouragement to cool down the domestic economy. Looking ahead, as the biggest bank in China, ICBC should receive a tighter loan growth guideline from the CBRC. We expect the bank to maintain a moderate loan growth of some 10% per year during 2007-2009. Increasing exposure to high-yield lending such as retail loans will be the key to improve ICBC's net interest income. We see positive outlook on ICBC's NIM expansion in 2008 as ICBC re-prices mortgage loans after the series of rate hikes in 2007 and realises improved pricing power with constraints in loan growth imposed by PBOC.
- **Fee growth momentum sustainable** ICBC has the 2nd largest distribution network among all commercial banks on the Mainland with some 18,000 outlets, just behind Agricultural Bank of China. It has the largest competitive advantage in developing fee-income business. New fee income initiatives, such as bank card, remittance & settlement, fund custodian and investment banking are also the growth drivers for ICBC. Given its vast customer base and distribution as well as niche in e-banking and transactional banking, ICBC should have better cross-selling potential than its banking peers.
- **Insignificant sub-prime exposure** Total US subprime ABS exposure of ICBC is now around US\$1,226m (1.6% of group equity) and US\$400 million provisions have been made in FY2007. ICBC also has US\$55 million investments in SIVs. Overall speaking, compared with BOC, ICBC has minimal exposure on subprime related investments.
- **Fairly priced** With a defensive balance sheet and strong earnings capacity from retail and fee-based businesses, ICBC should be an appropriate long-term core holding in the fast-growing China banking sector. The implied 55% payout ratio and FY08 estimated dividend yield of 3.5% also make the stock look attractive. Trading at around 3x FY08 P/B and 14x FY08e P/E, valuations of ICBC is not expensive. We recommend a BUY rating for the counter.

Recommendation: BUY

I. Comparison of ICBC's loan book: 31/12/2007 vs 31/12/2006

Loans-by industry	31 st Dec, 2007	Up/(down)	31 st Dec, 2006
	RMB million		RMB million
Manufacturing	738,121	+9.7%	672,589
Other corporate loans	2,176,872	+17.2%	1,858,143
Personal loans	752,113	+30.6%	576,109
Discounted bills	252,103	-38.9%	412,313
Loans for overseas operations	154,020	+37.5%	112,017
	<u>4,073,229</u>	+12.2%	<u>3,631,171</u>

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

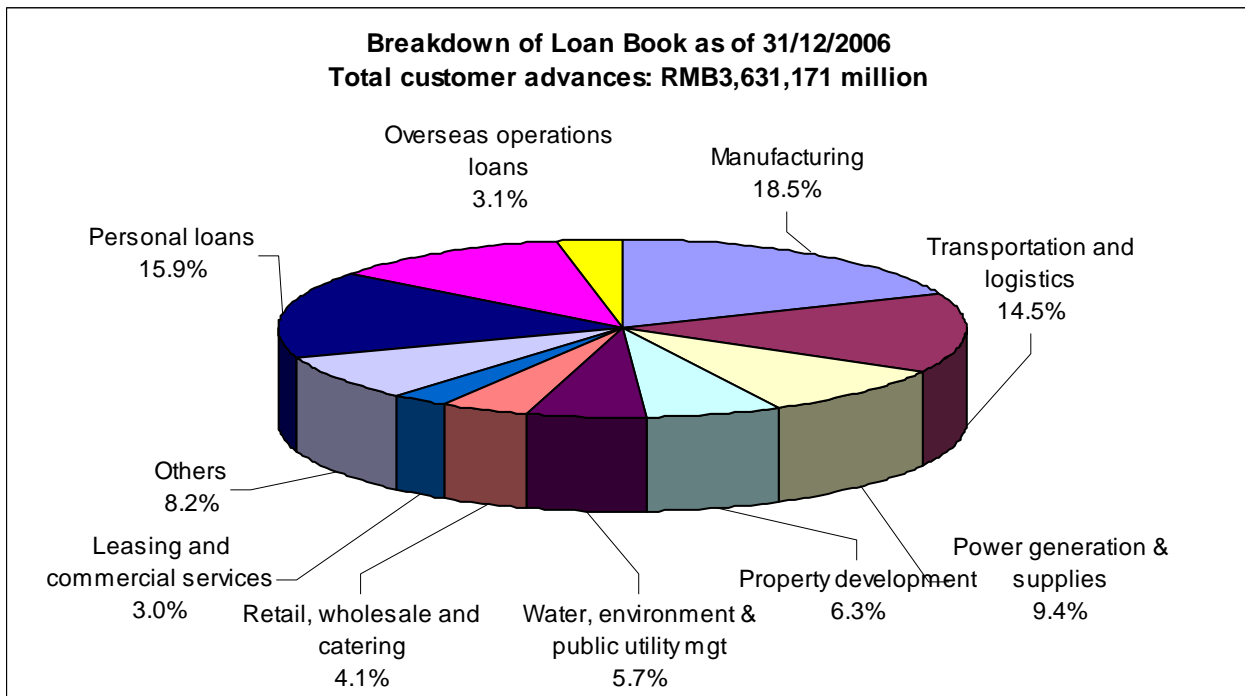
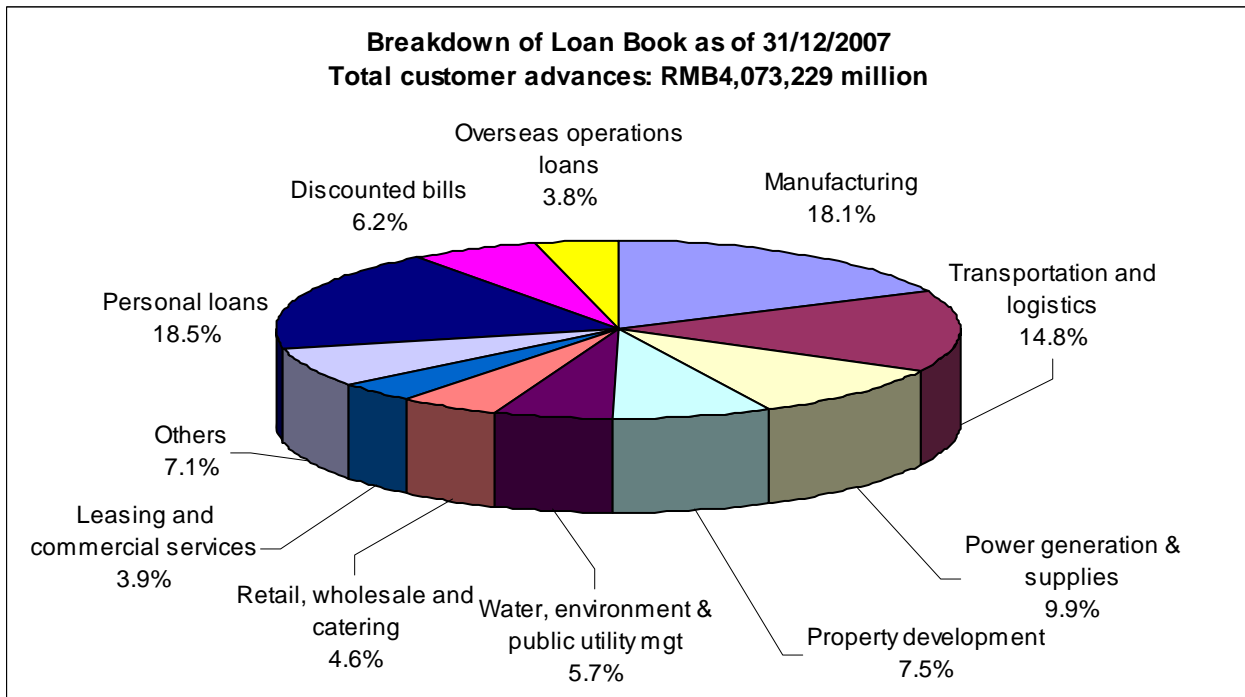
Loans-by industry	31 st Dec, 2007	Up/(down)	30 th Jun, 2007
	RMB million		RMB million
Manufacturing	738,121	+2.5%	720,062
Other corporate loans	2,176,872	+5.5%	2,062,957
Personal loans	752,113	+13.9%	660,391
Discounted bills	252,103	-26.3%	342,010
Loans for overseas operations	154,020	+18.3%	130,186
	<u>4,073,229</u>	+4.0%	<u>3,915,606</u>

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

Pre-tax profit by businesses (RMB million)				Breakdown	
	FY2007	FY2006	y-o-y (%)	FY2007	FY2006
Corporate banking	47,618	30,475	+56.3%	41.3%	42.3%
Personal banking	44,629	27,052	+65.0%	38.7%	37.5%
Treasury operations	25,636	17,510	+46.4%	22.2%	24.3%
Others	(2,505)	(2,972)	-15.7%	(2.2%)	(4.1%)
Total pre-tax profit	<u>115,378</u>	<u>72,065</u>	+60.1%	100.00%	100.00%



Breakdown of loan book of ICBC





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