

Analyst: Kelvin Li

## **Main Board H-share Listing – Research**

中國工商銀行股份有限公司

Industrial and Commercial Bank of China Limited [Stock Code: 1398]

<b>Joint Global Coordinators</b>	: CICC	ICEA Capital	Merrill Lynch
<b>Joint Book-runners</b>	: CICC ICEA Asia	Credit Suisse Merrill Lynch	Deutsche Bank
<b>Joint Sponsors</b>	: CICC	ICEA Asia	Merrill Lynch

**Sector** : Banks

**Business** : Provision of commercial banking services in China

**Total H share offer:** 35,391,000,000 H shares  
(10.80% of the enlarged share capital)

**Public Offer:** 1,796,550,000 H shares (5%)

**Placing:** 33,621,450,000 H shares (95%)

**Greenshoe:** 5,308,650,000 H shares

**Price:** HK\$2.56 – HK\$3.07 per H share

**H-share Market Cap:**

HK\$197.75 billion – HK\$237.15 billion

**Pro-forma FY2006E P/E:** 16.0x – 19.2x

**Pro-forma FY2006E P/B:** 1.96x – 2.23x

**Adjusted NTA per share:** HK\$1.23 – HK\$1.28

**Staffing:** 355,312 (as of 30<sup>th</sup> June 2006)

**HK Public Offer period:**

16<sup>th</sup> October 2006 – 19<sup>th</sup> October 2006 noon

**Receiving banks:** HSBC, BOCHK, BoCom HK,  
The Bank of East Asia,  
Hang Seng Bank, ICBC Asia,  
Standard Chartered Bank (HK)

**Share registrar:** Computershare Hong Kong  
Investor Services Limited

**Listing date:** 27<sup>th</sup> October 2006

### **Business of ICBC**

ICBC is the largest commercial bank in China in terms of total assets, loans and deposits. The Bank mainly engages in the provision of an extensive range of commercial banking products and services.

As of 31<sup>st</sup> December 2005, ICBC was the largest corporate bank in China in terms of outstanding corporate loans, discounted bills and corporate deposits, with more than 2.5 million corporate clients. Besides, the Bank was the top personal bank, serving more than 150 million personal customers on the Mainland. Leveraging on its broad client base, ICBC was also the leading player in credit card, quasi-credit card, and debit card businesses on the Mainland, in terms of the aggregate transaction in 2005.

Headquartered in Beijing, ICBC is operating an extensive branch network. As of 30<sup>th</sup> June 2006, the Bank had 18,038 branches, outlets and other establishments on the Mainland and 98 overseas branches, subsidiaries, representative offices and outlets.

HK-listed ICBC (Asia), the sixth largest commercial bank in the city, was 59.7% owned by ICBC.

**Major Shareholders after Listing** (Assuming the over-allotment option is not exercised)

Ministry of Finance	36.24%
Central SAFE Investments	36.24%
National Council for Social Security Fund of the PRC	5.39%
Goldman Sachs	5.03%
Allianz	1.96%
American Express	0.39%
Other public H shareholders	10.80%
Other public A shareholders	3.97%
	<b>100.00%</b>

**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$77.4 billion (Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.815 each, being the midpoint of the indicative price range)

ICBC plans to use net proceeds from the share offering to strengthen its capital base to support ongoing business growth.

**Financial Highlights**

	<b>FY2003</b>	<b>FY2004</b>	<b>FY2005</b>	<b>1H2006</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Net interest income	122,708	134,728	153,603	76,508
Non-interest income	10,076	12,231	18,017	9,242
Total operating income	132,784	147,959	171,620	85,750
Impairment charge	(36,293)	(30,859)	(27,014)	(12,218)
Operating profit after impairment charges	33,916	54,461	63,021	38,836
Attributable profit	<b>22,472</b>	<b>30,863</b>	<b>37,555</b>	<b>25,399</b>

**Breakdown of Revenue by Business Segments**

	<b>FY2003</b>		<b>FY2004</b>		<b>FY2005</b>		<b>1H2006</b>	
	<b>RMB</b>	<b>%</b>	<b>RMB</b>	<b>%</b>	<b>RMB</b>	<b>%</b>	<b>RMB</b>	<b>%</b>
	<b>(million)</b>		<b>(million)</b>		<b>(million)</b>		<b>(million)</b>	
Corporate banking	76,893	58	81,019	55	87,482	51	43,617	51
Retail banking	32,655	25	40,269	27	53,681	31	29,679	35
Treasury operations	20,566	15	24,313	16	28,296	17	11,905	14
Others	2,670	2	2,358	2	2,161	1	549	>1
Total revenue	<b>132,784</b>	<b>100</b>	<b>147,959</b>	<b>100</b>	<b>171,620</b>	<b>100</b>	<b>85,750</b>	<b>100</b>

**Selected Financial Ratios**

	<b>FY2003</b>	<b>FY2004</b>	<b>FY2005</b>	<b>1H2006</b>
Net interest margin	2.59%	2.55%	2.61%	<b>2.35%</b>
Cost-income ratio	47.1%	42.3%	47.5%	<b>40.5%</b>
Return on average total assets	N/A	0.65%	0.66%	<b>0.76%</b>
Return on equity	N/A	N/A	14.68%	<b>15.61%</b>
	<b>31/12/2003</b>	<b>31/12/2004</b>	<b>31/12/2005</b>	<b>30/06/2006</b>
Loan-to-deposit ratio	72.2%	71.6%	57.3%	<b>56.5%</b>
Capital adequacy ratio	N/A	N/A	9.89%	<b>10.74%</b>
Non-performing loan ratio	24.24%	21.16%	4.69%	<b>4.10%</b>
Allowance to NPL ratio	77.15%	76.28%	54.20%	<b>60.37%</b>

**Strengths/Opportunities**

- ✓ ICBC possesses the largest branch network with more than 18,000 outlets locating throughout the Mainland China. Leveraging on this business platform, ICBC has built up a strong franchise and an extensive reach of its clients, which should enable it to carry out sales promotion of its new banking products in an effective manner going forward.
- ✓ With a loan balance of RMB3,289.6 billion as of 31/12/2005, ICBC was the largest among the Big Four commercial banks in the Mainland and grasped a market share of 15.4%. Investment in the counter should give investors a proxy to ride on the fast economic growth on the Mainland.
- ✓ ICBC's deposit base grew a solid 6.7% h-o-h during the first half, bringing the loan-deposit ratio down to 56.5% as of 30<sup>th</sup> June 2006, which helped build up room for the Bank to expand its loan business.
- ✓ For the first half of 2006, non-interest income only accounted for 10.8% of the Bank's total operating income. ICBC's management revealed that the Bank would push forward expansion of its non-interest business in the coming years in order to optimize its revenue mix. For instance, the Bank would strengthen its clearing & settlement, cash management and asset custody businesses with its corporate clients. On the other hand, it would also promote wealth management and bank card products to its personal clients in order to foster its fee- and commission-based revenues.
- ✓ To be priced at 1.96x-2.23x FY2006E price-book value multiple, ICBC's valuation is not demanding when compared with sector peers with P/B ratios ranging from 2.3x-3.3x. In fact, thanks to this undemanding pricing, the share offering has received good investor response, with its institutional tranche 17x oversubscribed as of 15<sup>th</sup> October – the day before the opening of the HK retail tranche.

**Weaknesses/Threats**

- × Staff costs accounted for 34.3% and 42.3% to the Bank's total operating expenses in FY2005 and 1H2006, respectively. With more 355,000 employees, a surge in wages in the Mainland may lead to staff cost pressure for ICBC. To enhance operational efficiency, the Bank said it would fully utilise its electronic banking platform via upgrade of its telephone and online banking systems and installation of more ATMs.
- × As of 30<sup>th</sup> June 2006, corporate loans accounted for a high 69.4% of ICBC's loan book, despite having fallen from 75.8% as of 31<sup>st</sup> December 2004 and 81.2% as of 31<sup>st</sup> December 2003. Loan concentration may lead to credit risk and other operational risks, if the Mainland economy slows down unexpectedly. In order to overcome this weakness, ICBC said it would strengthen its credit control via client segmentation and periodic review of its lending policy, and diversify its revenue mix via non-interest business expansion.

**Recommendation:     Subscribe**

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