

Agricultural Bank of China (1288 HK)

FUNDAMENTAL VIEW ¹

As of 22 Dec 2023

- Our credit view on AGRBK (credit ratings: A1/A/A) is based on a strong likelihood of state support, given its large size, systemic importance and majority state ownership. This is enhanced by AGRBK's extensive presence in rural areas.
- AGRBK's capital standing is weaker than those of peer-group leaders ICBCAS and CCB and in line with BCHINA; however it has peer-leading reserve coverage ratio. The Big 4 have been managed more prudently in recent years than the smaller and more aggressive joint stock banks.
- We view it as a strong credit taking into account its structural profitability, robust balance sheet metrics, large size, and systemic importance that assure it of state support if needed.

RISKS & CATALYSTS

As of 22 Dec 2023

- China's sovereign ratings (A1/A+/A+) are a key factor behind AGRBK's credit standing.
- AGRBK's loan growth has been the strongest among the Big 5 banks since FY22, but the impact on net interest income growth was largely offset by a significant contraction in NIM. Rapid loan growth has led to a widened capital ratio differential between AGRBK and other Big 4 banks. It has the largest TLAC shortfall among the Chinese G-SIBs (we estimate RMB 816 bn by Jan-25 and RMB 1,636 bn by Jan-28), but we have not seen TLAC senior non-preferred issuance commence as yet.
- AGRBK is managed on commercial terms but the government may call on it to perform "national service" that overrides profitability considerations. However, we do not see it as a clear credit negative as these actions reflect close state links that underpin ABC's credit standing.

CREDIT QUALITY SCORE (CQS)²

As of 22 Apr 2024

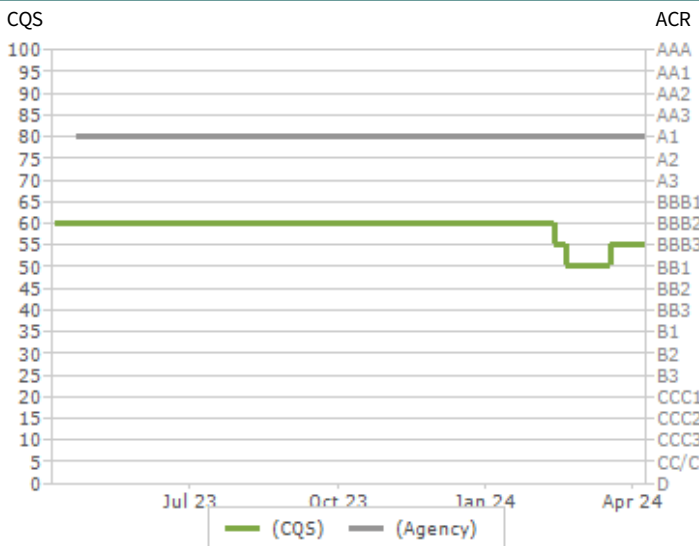
CURRENT CQS

55

CQS OUTLOOK³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 22 Dec 2023

RMB BN	FY19	FY20	FY21	FY22	9M23
PPP ROA	1.71%	1.65%	1.64%	1.43%	1.35%
Reported ROA	0.90%	0.83%	0.86%	0.82%	0.76%
Reported ROE	12.4%	11.4%	11.6%	11.3%	11.4%
Total Equity/Total Assets	7.8%	8.1%	8.3%	7.9%	7.3%
CET1 Ratio	11.2%	11.0%	11.4%	11.2%	10.4%
NPL Ratio	1.40%	1.56%	1.43%	1.37%	1.34%
Credit Costs	1.10%	1.16%	1.03%	0.79%	0.82%
Loan-Deposit Ratio	71%	74%	78%	79%	77%

Credit costs are calculated using provisions divided by average loans

BUSINESS DESCRIPTION

As of 22 Dec 2023

- AGRBK has surpassed CCB to become the second-largest bank in China in terms of total assets and has been moved from bucket 1 to bucket 2 in the G-SIB list with a capital surcharge of 1.5%.
- It was founded in 1951 as the Agricultural Cooperative Bank, merged with the central bank and spun out as AGRBK in 1979, charged with financing the rural and agricultural sectors. It was recapitalised in 1999 and again in 2007 by special MOF bonds. It also received \$19 bn in equity capital from Huijin, funded by China's FX reserves.
- Due to its poorer asset quality and weaker profitability, AGRBK was the last of the Big 4 banks to be listed in 2010.
- The Chinese government is a majority shareholder of AGRBK via Central Huijin (40%), MOF (35%) and the Social Security Fund (7%).
- AGRBK has the second largest branch network in China after Postal Bank, with a particularly good presence in rural areas.

GLOSSARY

- ¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.
 - ² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.
 - ³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.
 - ⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.
- Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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