

Agricultural Bank of China (1288 HK)

FUNDAMENTAL VIEW ¹

As of 09 Nov 2022

- Our credit view on AGRBK (credit ratings: A1/A/A) is based on the 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 financial metrics are a tad weaker than those of peer-group leaders ICBCAS and CCB and in line with BCHINA; however they have been on an improving trend. 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 09 Nov 2022

- China's sovereign ratings (A1/A+/A+) are a key factor behind AGRBK's credit standing.
- Post the initial onset of the pandemic, asset quality has been well-managed. However, transparency is limited and credit risks in China are hard to assess as they often depend on the extent of the government's willingness to socialise losses. The big 4 banks are under pressure to provide support to the property sector which may lead to further deterioration in their asset quality.
- 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 27 Feb 2023

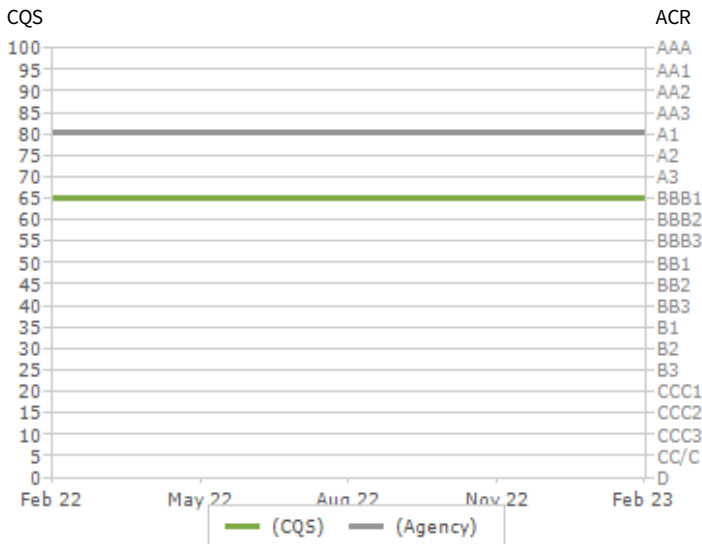
CURRENT CQS

65

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

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



KEY METRICS

As of 09 Nov 2022

RMB BN	9M22	9M21	FY21	FY20	FY19
PPP ROA	1.60%	1.77%	1.64%	1.65%	1.71%
Reported ROA	0.84%	0.89%	0.86%	0.83%	0.90%
Reported ROE	11.8%	12.2%	11.6%	11.4%	12.4%
Total Equity/Total Assets	7.8%	8.0%	8.3%	8.1%	7.8%
CET1 Ratio	11.1%	11.2%	11.4%	11.0%	11.2%
NPL Ratio	1.39%	1.48%	1.43%	1.56%	1.40%
Credit Costs	1.05%	1.18%	1.03%	1.16%	1.10%
Loan-Deposit Ratio	78%	77%	78%	74%	71%

Credit costs are calculated using provisions divided by average loans

BUSINESS DESCRIPTION

As of 09 Nov 2022

- AGRBK is the third-largest bank in China and is classified as a G-SIB with a capital surcharge of 1.0%.
- 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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