

# China / Hong Kong Company Update

# Postal Savings Bank of China

Bloomberg: 1658 HK Equity | 601658 CH Equity | Reuters: 1658.HK | 601658.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Apr 2022

**H: BUY** (Reinstating coverage)

Last Traded Price (H) (21 Apr 2022): HK\$6.36(HSI : 20,682)

Price Target 12-mth (H): HK\$8.10 (27.4% upside)

**A: BUY** (Reinstating coverage)

Last Traded Price (A) (21 Apr 2022): RMB5.46 (CSI300 Index : 3,996)

Price Target 12-mth (A): RMB7.40 (35.5% upside)

### Analyst

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### What's New

- Expect a 13% earnings CAGR in FY21-24F, with improving LDR and fee income growth
- Stronger leading position in retail banking with direct bank license gained
- Benign asset quality in FY21 with NPL ratio of 0.82% and coverage ratio of 412%
- Reinstatement BUY with TP of HK\$ 8.10

## Growth potential from improving LDR

### Investment Thesis

LDR ramp-up, higher fee income are key growth drivers. We expect PSBC's earnings to grow at 13% CAGR in FY21-24F, aided by strong loan growth on the back of a low LDR along with robust fee income momentum.

Monetisation opportunities for retail banking with enlarging wallet share. PSBC had a large retail client base of 637m by the end of 2021. It also gained the direct bank license by the end of 2021 to serve more long-tail customers.

High coverage ratio underpins risk resilience. PSBC reports one of the highest coverage ratios among peers – at 412% in FY21 – implying less provisioning pressure in FY22F.

### Valuation:

We reinstate coverage on PSBC as BUY, with TP at HK\$ 8.10. Our valuation is based on DDM methodology, assuming 13.5% COE, 12% ROE, and 5% terminal growth. Our TP implies 0.9x FY22F P/B or 2.5D above its three-year average. We expect re-rating opportunities as we expect 1) its ROE to improve to 13% in FY24F from 11.9% in FY21 and 2) robust 13% earnings CAGR in FY21-24F, up from 10% earning CAGR in FY17-21.

### Where we differ:

Our FY22/23F earnings are 2-3% higher than consensus, as we expect PSBC to enjoy a 13% CAGR in FY21-24F, driven by strong loan growth momentum, robust fee income from settlement, WMP and agency fees, and benign asset quality. As PSBC has the lowest LDR of 56.8% among our China bank coverages, we expect it to have room to grow its loans at 13% CAGR in FY21-24F.

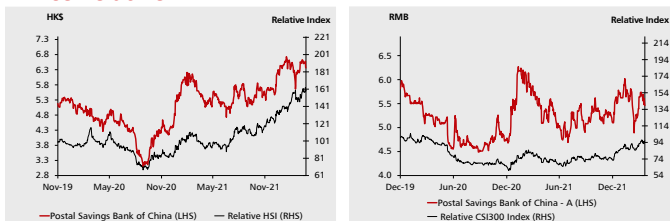
### Key Risks to Our View:

Slowing economic growth affecting loan demand, and deterioration of asset quality.

### At A Glance

Issued Capital - H shares (m shs)	19,856
- Non H shrs (m shs)	72,528
H shs as a % of Total	21
Total Mkt Cap (HK\$/US\$m)	617,756 / 78,773
Major Shareholders (%)	
China Post Group Co., Ltd.	85.7
Major H Shareholders (As % of H shares)	
CSIC Investment One Ltd.	19.0
Shanghai International Port (Group) Co., Ltd.	14.8
China National Tobacco Corp	6.5
Li (Lu)	6.4
H Shares-Free Float (%)	53.2
3m Avg. Daily Val. (US\$m)	45.01
GICS Industry: Financials / Banks	

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMB m)	2021A	2022F	2023F	2024F
Pre-prov. Profit	128,112	140,667	157,044	174,537
Pre-prov. Profit Gth (%)	8	10	12	11
Pretax Profit	81,454	93,887	104,140	114,817
Net Profit	70,894	82,520	92,108	102,092
EPS (RMB)	0.78	0.89	1.00	1.11
EPS (HK\$)	0.88	1.07	1.20	1.33
EPS Gth (%)	10	15	12	11
PE (X)	7.2	5.9	5.3	4.8
DPS (HK\$)	0.28	0.34	0.38	0.42
Div Yield (%)	4.4	5.4	6.0	6.6
BV Per Share (HK\$)	7.78	8.88	9.74	10.68
P/Book Value (x)	0.8	0.7	0.7	0.6
ROAE (%)	12.0	12.5	12.9	13.0
ROAE (ex-exceptional) (%)	12.0	12.5	12.9	13.0
ROA (%)	0.59	0.62	0.63	0.63
Earnings Rev (%):		New	New	New
Consensus EPS (RMB)		0.89	1.02	1.17
Other Broker Recs:		B:34	S:0	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters



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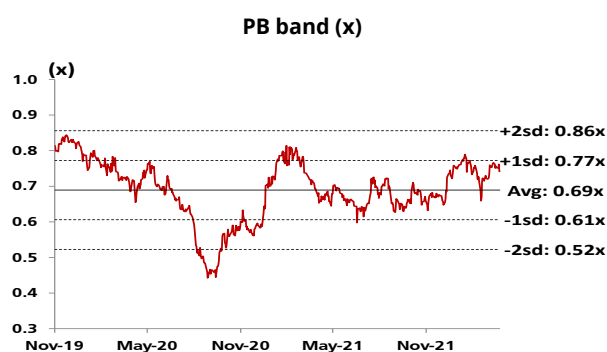
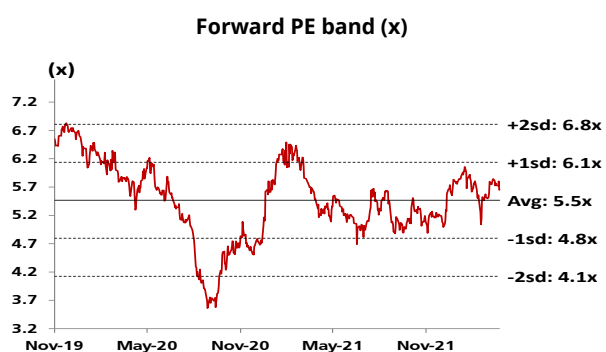


## Postal Savings Bank of China

### Company Background

Postal Savings Bank of China, also known as PSBC, is a commercial retail bank founded in 2007 and headquartered in Beijing. It provides basic financial services, especially to small and medium enterprises and rural and low-income customers. As of FY21, PSBC had 8,140 direct-owned outlets and almost 40K other branches that leverage China Post's network (covering all regions of China). Its total assets stood at Rmb12.6tr, of which total loans amounted to Rmb6.2tr. Total deposits also reached Rmb11.3tr. PSBC was listed on the HKEX in Sep 2016.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Postal Savings Bank of China

### Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
NIM (%)	2.42	2.36	2.30	2.32	2.34
Loan growth (%)	15	13	13	13	13
Fee growth (%)	(3)	33	24	14	13
Cost-to-income (%)	58.6	59.9	59.8	59.7	59.8
Credit cost (%)	1.09	0.66	0.68	0.68	0.68
Customer Deposits Growth (%)	11	10	9	10	10
Yld. On Earnings Assets (%)	3.98	3.95	3.94	3.98	4.03
Avg Cost Of Funds (%)	1.61	1.64	1.67	1.66	1.66

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Interest Income	253,378	269,382	286,270	317,350	351,199
Non-Interest Income	33,159	49,725	63,377	72,496	82,696
<b>Operating Income</b>	<b>286,537</b>	<b>319,107</b>	<b>349,647</b>	<b>389,846</b>	<b>433,895</b>
Operating Expenses	(167,984)	(190,995)	(208,980)	(232,802)	(259,358)
<b>Pre-provision Profit</b>	<b>118,553</b>	<b>128,112</b>	<b>140,667</b>	<b>157,044</b>	<b>174,537</b>
Provisions	(50,417)	(46,658)	(46,780)	(52,904)	(59,721)
Associates	0	0	0	0	0
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>68,136</b>	<b>81,454</b>	<b>93,887</b>	<b>104,140</b>	<b>114,817</b>
Taxation	(3,818)	(4,922)	(5,673)	(6,293)	(6,938)
Minority Interests	(119)	(362)	(417)	(463)	(510)
Preference Dividend	(2,584)	(5,276)	(5,276)	(5,276)	(5,276)
<b>Net Profit</b>	<b>61,615</b>	<b>70,894</b>	<b>82,520</b>	<b>92,108</b>	<b>102,092</b>
Net Profit bef Except	61,615	70,894	82,520	92,108	102,092

### Growth (%)

Net Interest Income Gth	5.48	6.32	6.27	10.86	10.67
Net Profit Gth	5.45	15.06	16.40	11.62	10.84

### Margins, Costs & Efficiency (%)

Spread	2.37	2.31	2.28	2.32	2.37
Net Interest Margin	2.42	2.36	2.30	2.33	2.35
Cost-to-Income Ratio	58.6	59.9	59.8	59.7	59.8

### Business Mix (%)

Net Int. Inc / Opg Inc.	88.4	84.4	81.9	81.4	80.9
Non-Int. Inc / Opg inc.	11.6	15.6	18.1	18.6	19.1
Fee Inc / Opg Income	5.8	6.9	7.8	8.0	8.1
Oth Non-Int Inc/Opg Inc	5.8	8.7	10.3	10.6	11.0

### Profitability (%)

ROAE Pre Ex.	11.8	12.0	12.5	12.9	13.0
ROAE	11.8	12.0	12.5	12.9	13.0
ROA Pre Ex.	0.6	0.6	0.7	0.7	0.7
ROA	0.6	0.6	0.6	0.6	0.6

Source: Company, DBS HK

## Postal Savings Bank of China

### Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Cash/Bank Balance	1,219,862	1,189,458	1,296,509	1,426,160	1,568,776
Government Securities	0	0	0	0	0
Inter Bank Assets	552,034	636,104	712,436	783,680	862,048
Total Net Loans & Adv.	5,512,361	6,237,199	7,069,191	7,995,599	9,019,953
Investment	3,495,369	3,598,023	3,703,692	3,812,464	3,924,431
Associates	0	0	0	0	0
Fixed Assets	48,706	54,669	61,362	68,875	77,307
Goodwill	0	0	0	0	0
Other Assets	524,931	872,420	1,040,272	1,311,399	1,686,329
<b>Total Assets</b>	<b>11,353,263</b>	<b>12,587,873</b>	<b>13,883,462</b>	<b>15,398,177</b>	<b>17,138,844</b>
Customer Deposits	10,358,029	11,354,073	12,375,940	13,613,534	14,974,887
Inter Bank Deposits	167,077	249,333	372,086	555,272	828,646
Debts/Borrowings	57,974	81,426	89,569	98,525	108,378
Others	97,253	107,492	122,257	141,008	163,714
Minorities	1,131	1,458	1,910	2,373	2,883
Shareholders' Funds	671,799	794,091	921,701	987,465	1,060,336
<b>Total Liab&amp; S/H's Funds</b>	<b>11,353,263</b>	<b>12,587,873</b>	<b>13,883,462</b>	<b>15,398,177</b>	<b>17,138,844</b>

Source: Company, DBS HK

### Financial Stability Measures (%)

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Balance Sheet Structure</b>					
Loan-to-Deposit Ratio	55.2	56.8	59.0	60.6	62.2
Net Loans / Total Assets	48.6	49.5	50.9	51.9	52.6
Investment / Total Assets	30.8	28.6	26.7	24.8	22.9
Cust. Dep./Int. Bear. Liab.	96.4	96.7	95.8	94.6	93.2
Interbank Dep / Int. Bear.	2.6	2.7	3.4	4.7	6.1
<b>Asset Quality</b>					
NPL / Total Gross Loans	0.9	0.8	0.8	0.8	0.8
NPL / Total Assets	0.4	0.4	0.4	0.4	0.4
Loan Loss Reserve Coverage	404.8	411.7	397.6	387.0	388.8
Provision Charge-Off Rate	0.9	0.7	0.6	0.6	0.6
<b>Capital Strength</b>					
Total CAR	13.9	14.8	16.4	16.0	15.5
Tier-1 CAR	9.6	9.9	9.9	9.9	9.9

Source: Company, DBS HK

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

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**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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