

# 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

4 Jul 2023

## H: BUY

Last Traded Price (H) (3 Jul 2023): HK\$4.87 (HSI : 19,307)  
Price Target 12-mth (H): HK\$5.60 (15.0% upside) (Prev HK\$6.30)

## A: BUY

Last Traded Price (A) (3 Jul 2023): RMB4.98 (CSI300 Index : 3,893)  
Price Target 12-mth (A): RMB5.90 (18.5% upside) (Prev RMB5.40)

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### What's New

- During the reverse roadshow, PSBC demonstrated its strategy in rural areas as one of five differentiation strategies for growth
- Competitive advantages in rural area finance include data collection and profile, high reputation, client bonding, etc.
- Expect 10.9% earnings CAGR for FY22-25F, factoring in the further LPR cut, and maintain confidence in its future growth
- Reiterate BUY with TP revised down to HK\$5.6

## Reverse roadshow takeaway: Growth opportunities in Sannong field

### Investment Thesis

“Sannong” strategy as one of its key growth drivers. As an SOE bank with focus on the retail side and one that's also relying on the strong network of China Posts, PSBC has a strong presence and high reputation in rural areas. It has made “Sannong Business” (agriculture, countryside, and farmers) one of its five key growth strategies to differentiate itself from competitors. Compared with other industries, the Sannong area has higher growth potential and relatively stable credit demand, as it has a weak correlation with the business cycle.

**Expect 11% earnings CAGR in FY22-25F**, aided by 1) strong loan growth backed by the bank's differentiation strategy for growth and 2) robust fee income momentum of over 20% y-o-y in FY23/24F, as PSBC focuses more on its wealth management (WM) business. We see its strategies in 1) SME and rural exposure, 2) interbank exposure, and 3) wealth management to partly offset the negative revenue impact brought about by downward pressure on NIM.

**China retail consumption recovery is the key share price driver.** As a retail bank, PSBC's share price is more related to retail side recovery, including consumption and mortgages. Our empirical study shows that PSBC tends to outperform its peers during economic booms while the Big Four banks are more “defensive” players. With the expectation of a slow and gradual recovery in retail consumption in 2H23, we expect more signals of improving retail loan demand to drive up the share price re-rating.

**Reiterate BUY with TP revised down to HK\$5.6.** We revised down our earnings assumptions by 8%/14% for FY23/24F following the weaker-than-expected earnings performance for FY22 and 1Q23 and the further LPR cut in June. Our valuation is based on DDM methodology, assuming 15.8% COE, 10% ROE, and 1% terminal growth, to reflect the slower growth in the China economy in the long term. Our TP implies a 0.7x FY23F P/BV, in line with its five-year average. We also have a BUY rating on the A-share with TP of Rmb5.9, assuming an A-H discount of 20%.

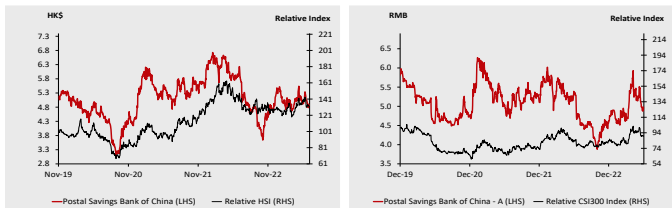
### Key Risks

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

### At A Glance

Issued Capital - H shares (m shs)	19,856
- Non H shrs (m shs)	79,305
H shs as a % of Total	20
Total Mkt Cap (HK\$/US\$m)	523,997 / 66,887
Major Shareholders (%)	
China Post Group Co., Ltd.	78.4
Major H Shareholders (As % of H shares)	
CSIC Investment One Ltd.	19.0
Shanghai International Port Co., Ltd.	17.9
China National Tobacco Corp	6.5
Himalaya Capital Management LLC	6.4
Capital Research Global Investors	5.7
H Shares-Free Float (%)	44.4
3m Avg. Daily Val. (US\$m)	29.7
GICS Industry: Financials / Banks	

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMB m)	2022A	2023F	2024F	2025F
Pre-prov. Profit	126,711	129,817	151,705	175,060
Pre-prov. Profit Gth (%)	(1)	2	17	15
Pretax Profit	91,364	99,208	108,658	122,036
Net Profit	78,516	85,833	94,648	107,127
EPS (RMB)	0.85	0.93	1.02	1.16
EPS (HK\$)	0.96	1.05	1.16	1.31
EPS Gth (%)	9	9	10	13
PE (X)	5.1	4.6	4.2	3.7
DPS (HK\$)	0.31	0.34	0.37	0.42
Div Yield (%)	6.4	7.0	7.6	8.6
BV Per Share (HK\$)	8.37	9.05	9.86	10.80
P/Book Value (x)	0.6	0.5	0.5	0.5
ROAE (%)	11.9	12.1	12.2	12.7
ROAE (ex-exceptional) (%)	11.9	12.1	12.2	12.7
ROA (%)	0.59	0.58	0.57	0.59
Earnings Rev (%)		(8)	(14)	New
Consensus EPS (RMB)		0.93	1.04	1.16
Other Broker Recs:		B:26	S:1	H:4

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

**Postal Savings Bank of China**

**WHAT'S NEW**

**Leadership in “Sannong” business**

**“Sannong business” as one of PSBC’s strategic focus points**

We attended PSBC’s reverse roadshow during 17-19 Jun, where the bank mainly showcased its strategy in the “Sannong” (“三农, or agriculture, countryside, and farmers) area. PSBC is the leader in this market and has made the “Sannong Business” one of its five key growth strategies to differentiate itself from competitors (the other four are SME, wealth management, interbank, and proactive credit). Compared with other industries, the Sannong area has higher growth potential and relatively stable credit demand, as it has a weak correlation with the business cycle.

**Competitive advantages in this area**

- Data and client profile  
 PSBC uses data 1) from external vendors, 2) through self-collection, and 3) from the group level of China Post to build up a profile and its knowledge on both the village and individual farmers’ families. Key data includes the land rights in the village, top five crops, details of agriculture-related subsidies, logistics info, etc. After cross checking the data in detail, PSBC gains a credit profile for the village and individual families there. At the current stage, PSBC’s credit profile has covered 457,000 villages (89.5% of the total number in China) and 160m farming families.

**Gathering mapping data on land’s economic value**



Source: Company, DBS HK

- High reputation and strong bond with clients  
 PSBC has more than 600m retail clients, which is a valuable resource. PSBC’s parent company China Posts has a large part of its network in rural areas, enabling PSBC to have natural advantages in accessing this business. PSBC not only provides featured financing services to rural clients, but also services such

as 1) co-operating with China Post to help with local logistics, 2) providing more fintech services, 3) exploring the supply chain, and 4) co-operating with other parties (e.g., guarantee institutions) to share the risk and provide credit lines to more rural entities.

- High operation capacity  
 Compared with its major competitors such as local rural commercial banks, PSBC, as an SOE bank, obviously has a stronger operation. On the front line, PSBC has a large team of local client managers and village credit risk officers to go to the villages and maintain relationships and gain in-depth information. In the back office, the headquarters adopts the digital operation model for post-loan supervision. The bank has built up a visible management platform for villages which allows the bank’s staff to have a clear picture of the village data, profile, the process of market exploration, and next steps.

**Application examples**

- “Credit village” and proactive credit  
 Based on the credit profile of the village and farmers, PSBC grants credit to the whole village, and proactive gives credit to individual farmers through mobile banking, messages, or automatic calls. By the end of May, the conversion ratio of whitelist customers to draw down credit was 4.8%. 265,600 people applied for the credit drawdown and the total loan outstanding balance was Rmb63.4bn with an overall interest rate of over 6% and delinquency ratio of 0.05%.

We went for a site visit to Shitou Village, Lujiang County in the Anhui province. PSBC is working closely with the village officials and has set up detailed rules of credit ratings. To encourage local farmers to accumulate higher credit scores, there is also a supermarket where villagers can exchange their credit scores for groceries.

**Credit score supermarket**



Source: Company, DBS HK

We paid a visit to PSBC's corporate client Huilong Company (002556 CH), an agricultural service provider. Its services cover the whole procedure of agriculture production from selling seeds to acquiring crops from farmers. PSBC provides corporate financing services to the company, as well as retail financing services to its staff and customers.

**Business and products of Huilong Company**



Source: Company, DBS HK

**Criteria for getting credit scores**

考核评分标准		分值
加分项	1. 积极参与村内公益事业	200
	2. 积极参与村内环境整治	5
	3. 积极参与村内治安巡逻	20
	4. 积极参与村内文体活动	20
	5. 积极参与村内志愿服务	20
	6. 积极参与村内技能培训	20
	7. 积极参与村内创业创新	20
	8. 积极参与村内社会治理	20
	9. 积极参与村内文化建设	20
	10. 积极参与村内生态保护	20
日常积分	1. 按时缴纳村规民约	20
	2. 按时缴纳村卫生费	20
	3. 按时缴纳村教育费	20
	4. 按时缴纳村保险费	20
	5. 按时缴纳村水电费	20
	6. 按时缴纳村物业费	20
	7. 按时缴纳村垃圾费	20
	8. 按时缴纳村停车费	20
	9. 按时缴纳村其他费用	20
	10. 按时缴纳村其他费用	20
减分项	1. 违反村规民约	100
	2. 违反村卫生规定	100
	3. 违反村治安规定	100
	4. 违反村文体规定	20
	5. 违反村志愿服务规定	20
	6. 违反村技能培训规定	20
	7. 违反村创业创新规定	20
	8. 违反村社会治理规定	20
	9. 违反村文化建设规定	20
	10. 违反村生态保护规定	20
一票否决	1. 触犯国家法律法规	一票否决
	2. 触犯村规民约	一票否决
	3. 触犯村卫生规定	一票否决
	4. 触犯村治安规定	一票否决
	5. 触犯村文体规定	一票否决
	6. 触犯村志愿服务规定	一票否决
	7. 触犯村技能培训规定	一票否决
	8. 触犯村创业创新规定	一票否决
	9. 触犯村社会治理规定	一票否决
	10. 触犯村文化建设规定	一票否决

Source: Company, DBS HK

**Corporate loans in rural areas**

PSBC targets to issue Rmb200bn of agriculture-related wholesale loans in 2023, or y-o-y growth of 31.5%, of which Rmb60bn is for new agricultural businesses. Meanwhile, PSBC strongly supports the construction of rural infrastructure, high-standard field projects, and featured local products.

**Product examples offered by PSBC**



Source: Company, DBS HK

**Earnings revision and valuation**

We revised down our earnings assumptions by 8%/14% for FY23/24F following the weaker-than-expected earnings performance for FY22 and 1Q23 and the further LPR cut in June. Nonetheless, we expect PSBC to deliver an c.11% earnings CAGR

## Postal Savings Bank of China

for FY22-25F, the highest among all the SOE banks, driven by its strong retail base and differentiated growth strategies. We expect less NIM pressures ahead compared with what we saw in 1Q23, and high asset quality and double-digit growth in fee income will continue to be the highlight. Its strong presence and capability in the Sannong field will drive its long-term steady growth. We reiterate BUY with TP revised down to HK\$5.6 after the earnings revision. We also have a BUY rating on the A-share with TP of Rmb5.9, assuming an A-H discount of 20%.

### 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 FY22, PSBC had 7,777 direct-owned outlets and almost 40k branches altogether, leveraging China Post's network (covering all regions of China). Its total assets stood at Rmb14.1tn, of which total loans amounted to Rmb7tn. Total deposits also reached Rmb12.7tn. 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	2021A	2022A	2023F	2024F	2025F
NIM (%)	2.36	2.20	2.06	2.08	2.10
Loan growth (%)	13	12	12	13	11
Fee growth (%)	33	29	21	22	18
Cost-to-income (%)	59.9	62.2	63.9	62.7	61.4
Credit cost (%)	0.66	0.32	0.40	0.50	0.55
Customer Deposits Growth (%)	10	12	11	11	10
Yld. On Earnings Assets (%)	3.95	3.77	3.70	3.71	3.72
Avg Cost Of Funds (%)	1.65	1.63	1.67	1.64	1.64

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Interest Income	269,382	273,593	286,663	322,300	360,199
Non-Interest Income	49,725	61,798	72,702	84,070	93,872
<b>Operating Income</b>	<b>319,107</b>	<b>335,391</b>	<b>359,365</b>	<b>406,370</b>	<b>454,070</b>
Operating Expenses	(190,995)	(208,680)	(229,548)	(254,664)	(279,010)
<b>Pre-provision Profit</b>	<b>128,112</b>	<b>126,711</b>	<b>129,817</b>	<b>151,705</b>	<b>175,060</b>
Provisions	(46,658)	(35,347)	(30,609)	(43,048)	(53,024)
Associates	0	0	0	0	0
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>81,454</b>	<b>91,364</b>	<b>99,208</b>	<b>108,658</b>	<b>122,036</b>
Taxation	(4,922)	(6,009)	(6,525)	(7,146)	(8,026)
Minority Interests	(362)	(131)	(142)	(156)	(175)
Preference Dividend	(5,276)	(6,708)	(6,708)	(6,708)	(6,708)
<b>Net Profit</b>	<b>70,894</b>	<b>78,516</b>	<b>85,833</b>	<b>94,648</b>	<b>107,127</b>
Net Profit bef Except	70,894	78,516	85,833	94,648	107,127

### Growth (%)

Net Interest Income Gth	6.32	1.56	4.78	12.43	11.76
Net Profit Gth	15.06	10.75	9.32	10.27	13.19

### Margins, Costs & Efficiency (%)

Spread	2.30	2.14	2.03	2.06	2.08
Net Interest Margin	2.36	2.18	2.05	2.08	2.10
Cost-to-Income Ratio	59.9	62.2	63.9	62.7	61.4

### Business Mix (%)

Net Int. Inc / Opg Inc.	84.4	81.6	79.8	79.3	79.3
Non-Int. Inc / Opg inc.	15.6	18.4	20.2	20.7	20.7
Fee Inc / Opg Income	6.9	8.5	9.6	10.3	10.9
Oth Non-Int Inc/Opg Inc	8.7	9.9	10.7	10.4	9.8

### Profitability (%)

ROAE Pre Ex.	12.0	11.9	12.1	12.2	12.7
ROAE	12.0	11.9	12.1	12.2	12.7
ROA Pre Ex.	0.6	0.6	0.6	0.6	0.6
ROA	0.6	0.6	0.6	0.6	0.6

Source: Company, DBS HK

## Postal Savings Bank of China

### Quarterly Income Statement (RMB m)

FY Dec	1Q2022	2Q2022	3Q2022	4Q2022	1Q2023
Net Interest Income	68,716	68,401	68,324	68,152	69,398
Non-Interest Income	16,540	19,804	15,234	10,220	18,844
<b>Operating Income</b>	<b>85,256</b>	<b>88,205</b>	<b>83,558</b>	<b>78,372</b>	<b>88,242</b>
Operating Expenses	(44,863)	(48,831)	(49,308)	(65,678)	(50,157)
<b>Pre-Provision Profit</b>	<b>40,393</b>	<b>39,374</b>	<b>34,250</b>	<b>12,694</b>	<b>38,085</b>
Provisions	(11,600)	(15,547)	(4,365)	(3,835)	(8,621)
Associates	0	73	0	(73)	0
Exceptionals	0	0	0	0	0
<b>Pretax Profit</b>	<b>28,793</b>	<b>23,900</b>	<b>29,885</b>	<b>8,786</b>	<b>29,464</b>
Taxation	(3,767)	(1,756)	(3,120)	2,634	(3,179)
Minority Interests	(49)	(7)	(30)	(45)	(5)
<b>Net Profit</b>	<b>24,977</b>	<b>22,137</b>	<b>26,735</b>	<b>4,667</b>	<b>26,280</b>

### Growth (%)

Net Interest Income Gth	4.1	3.5	(0.7)	(0.5)	1.0
Net Profit Gth	17.8	11.7	13.8	(26.9)	5.2

Source: Company, DBS HK

### Interim Income Statement (RMB m)

FY Dec	2H2020	1H2021	2H2021	1H2022	2H2022
Net Interest Income	130,424	132,096	137,286	137,117	136,476
Non-Interest Income	9,628	25,682	24,043	36,344	25,454
<b>Operating Income</b>	<b>140,052</b>	<b>157,778</b>	<b>161,329</b>	<b>173,461</b>	<b>161,930</b>
Operating Expenses	(91,320)	(82,565)	(108,430)	(93,694)	(114,986)
<b>Pre-Provision Profit</b>	<b>48,732</b>	<b>75,213</b>	<b>52,899</b>	<b>79,767</b>	<b>46,944</b>
Provisions	(16,823)	(29,462)	(17,196)	(27,147)	(8,200)
Associates	0	0	0	73	(73)
Exceptionals	0	0	0	0	0
<b>Pretax Profit</b>	<b>31,909</b>	<b>45,751</b>	<b>35,703</b>	<b>52,693</b>	<b>38,671</b>
Taxation	(1,264)	(4,507)	(415)	(5,523)	(486)
Minority Interests	(104)	(234)	(128)	(56)	(75)
<b>Net Profit</b>	<b>27,957</b>	<b>41,010</b>	<b>29,884</b>	<b>47,114</b>	<b>31,402</b>

### Growth (%)

Net Interest Income Gth	7.7	7.4	5.3	3.8	(0.6)
Net Profit Gth	32.8	21.8	6.9	14.9	5.1

Source: Company, DBS HK

## Postal Savings Bank of China

### Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Cash/Bank Balance	1,189,458	1,263,951	1,411,308	1,559,495	1,715,445
Government Securities	0	0	0	0	0
Inter Bank Assets	636,104	694,602	833,522	916,875	1,008,562
Total Net Loans & Adv.	6,237,199	6,977,710	7,837,497	8,833,235	9,820,071
Investment	3,598,023	4,095,116	4,377,679	4,719,138	5,167,456
Associates	0	0	0	0	0
Fixed Assets	54,669	53,272	55,936	58,732	61,669
Goodwill	0	0	0	0	0
Other Assets	872,420	982,631	1,122,258	1,251,966	1,401,695
<b>Total Assets</b>	<b>12,587,873</b>	<b>14,067,282</b>	<b>15,638,200</b>	<b>17,339,441</b>	<b>19,174,898</b>
Customer Deposits	11,354,073	12,714,485	14,113,078	15,594,952	17,154,447
Inter Bank Deposits	249,333	329,930	436,580	577,705	764,448
Debts/Borrowings	81,426	101,910	112,101	123,311	135,642
Others	107,492	95,143	95,143	95,143	95,143
Minorities	1,458	1,589	1,731	1,887	2,062
Shareholders' Funds	794,091	824,225	879,566	946,444	1,023,156
<b>Total Liab&amp; S/H's Funds</b>	<b>12,587,873</b>	<b>14,067,282</b>	<b>15,638,200</b>	<b>17,339,441</b>	<b>19,174,898</b>

Source: Company, DBS HK

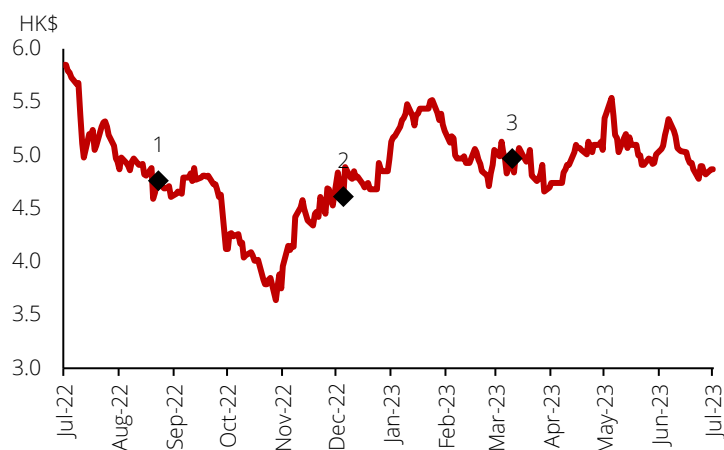
### Financial Stability Measures (%)

FY Dec	2021A	2022A	2023F	2024F	2025F
<b>Balance Sheet Structure</b>					
Loan-to-Deposit Ratio	56.8	56.7	57.4	58.5	59.2
Net Loans / Total Assets	49.5	49.6	50.1	50.9	51.2
Investment / Total Assets	28.6	29.1	28.0	27.2	26.9
Cust. Dep./Int. Bear. Liab.	97.2	97.2	96.2	95.8	95.3
Interbank Dep / Int. Bear.	2.2	2.0	3.0	3.4	3.9
<b>Asset Quality</b>					
NPL / Total Gross Loans	0.8	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	411.7	383.2	388.2	393.0	401.4
Provision Charge-Off Rate	0.7	0.5	0.4	0.5	0.5
<b>Capital Strength</b>					
Total CAR	14.8	13.8	14.2	13.9	13.7
Tier-1 CAR	9.9	9.4	9.3	9.3	9.3

Source: Company, DBS HK

**Postal Savings Bank of China**

**H Share - Target Price & Ratings 12-mth History**

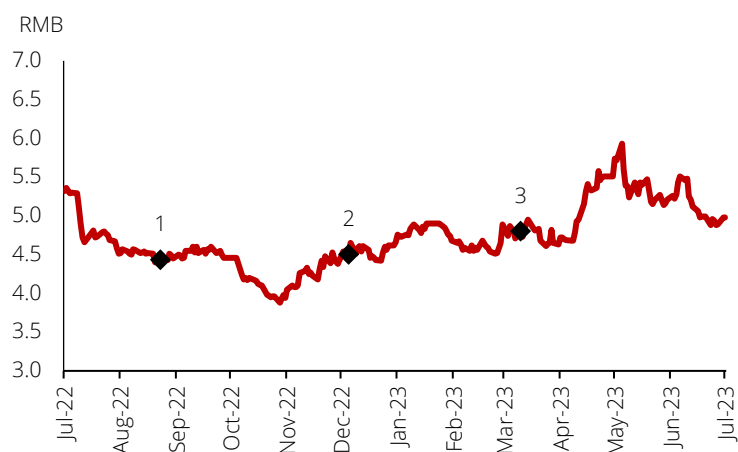


S.No.	Date	Closing Price	Target Price	Rating
1	26-Aug-22	HK\$4.75	HK\$7.40	BUY
2	8-Dec-22	HK\$4.58	HK\$6.30	BUY
3	13-Mar-23	HK\$4.83	HK\$6.30	BUY

Source: DBS HK

Analyst: Manyi Lu  
Ken Shih  
Iris GAO

**A Share - Target Price & Ratings 12-mth History**



S.No.	Date	Closing Price	Target Price	Rating
1	26-Aug-22	RMB4.44	RMB6.80	BUY
2	8-Dec-22	RMB4.46	RMB5.40	BUY
3	13-Mar-23	RMB4.71	RMB5.40	BUY

Source: DBS HK

Analyst: Manyi Lu  
Ken Shih  
Iris GAO



## Postal Savings Bank of China

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**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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Sources for all charts and tables are DBS HK unless otherwise specified.

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