

Postal Savings Bank of China (1658 HK)

Decent asset quality backs earnings turnaround

PSBC's 3Q20 net profit surprised on the upside, rising 13.5% YoY (vs -28.1% YoY in 2Q20) as credit cost pulled back. YTD earnings contraction narrowed down to -2.7% YoY in 9M20 from -10.0% in 1H20. The Bank has demonstrated strong asset quality resilience during COVID-19's shock. As the only retail-oriented SOE banks, PSBC should enjoy faster-than-peers earnings expansion when policy intervention abates, and this will reduce the probability of cut in dividend payout ratio. Thanks to limited overseas exposure, recent exacerbation in global pandemic would impose little threat to PSBC's business. We await further details from results briefing at 10am today.

- **Results positives:** 1) **Solid loan growth of 3.1% QoQ**, mainly on extension in retail loans, which accounted for 56.5% of total loans as of 3Q20. Asset mix continued to improve, with credit allocation shifting to loans from lower-yield interbank assets and bond investments. 2) **Asset quality remained healthy**. NPL formation was subdued at 0.14% (-32bp QoQ) in 3Q20, and NPL ratio fell 1bp QoQ to 0.88%, the lowest among nationwide China banks. Provision coverage climbed 3.1ppt to 403.2%, only trailing CMB. 3) **Net fee income growth accelerated to 27.1% YoY in 3Q20**, likely on strong bank card and agency service fees. 4) **CET1 CAR was boosted by 34bp QoQ** to 9.51%.
- **Results negatives:** 1) **Deposit growth was sluggish at 1.4% QoQ**, likely due to proactive cleanup of high-interest deposit products and increase in interbank borrowing amid liquidity loosening. 2) **NIM slid 2bp in 3Q20**, but the pace of decline was notably slower vs 2Q20 (-8bp QoQ). 3) **3Q20 cost-to-income ratio rose 3.9ppt YoY** to 59.8%, likely due to rising technology investments.
- **Maintain BUY and HK\$4.80 TP**. We keep earnings forecast unchanged. Our TP of HK\$4.80 is derived from 0.71x target P/B and FY20E BVPS of RMB6.1.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	261,245	277,116	300,576	322,860	354,119
Net profit (RMB mn)	52,311	60,933	54,664	59,733	68,941
EPS (RMB)	0.62	0.72	0.60	0.66	0.76
EPS CHG (%)	4.7	16.9	(16.3)	9.2	16.1
Consensus EPS (RMB)	NA	NA	0.65	0.72	0.81
P/E (x)	5.5	4.7	5.6	5.1	4.4
P/B (x)	0.64	0.58	0.55	0.51	0.47
Dividend yield (%)	5.8	6.3	5.6	6.1	7.1
ROE (%)	12.3	12.7	10.2	10.4	11.2
NPL ratio (%)	0.86	0.86	0.94	0.98	0.96
Provision coverage (%)	347	389	410	422	447

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 4.80
(Previous TP	HK\$ 4.80)
Up/Downside	+28.0%
Current Price	HK\$ 3.75

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	425,134
Avg 3 mths t/o (HK\$ mn)	194
52w High/Low (HK\$)	5.44/3.02
Total Issued Shares (mn)	19,856 (H)
	67,122 (A)

Source: Bloomberg

Shareholding Structure

China Post Group	65.2%
China Life	3.8%
China Telecom	1.3%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	17.5%	11.7%
3-mth	-14.0%	-13.7%
6-mth	-17.8%	-18.3%
12-mth	-23.9%	-17.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

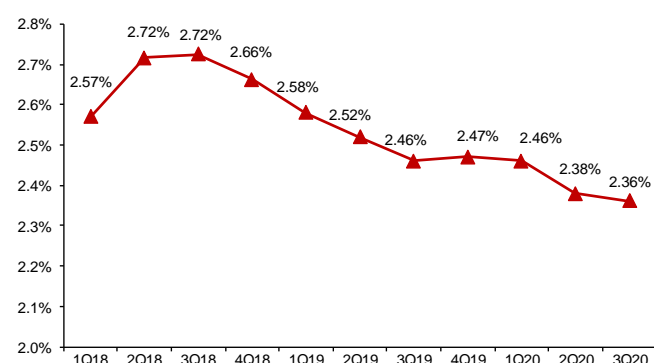
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Figure 1: 3Q20 results summary

(RMB mn)							
P&L	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
Net interest income	60,098	61,044	61,721	61,233	63,449	3.6%	5.6%
Non-interest income	8,756	5,514	10,529	13,002	6,593	-49.3%	-24.7%
Operating income	68,854	66,558	72,250	74,235	70,042	-5.6%	1.7%
Operating expense	(38,528)	(46,226)	(38,156)	(38,508)	(41,920)	8.9%	8.8%
PPoP	30,326	20,332	34,094	35,727	28,122	-21.3%	-7.3%
Impairment losses	(12,166)	(15,533)	(11,432)	(22,162)	(6,979)	-68.5%	-42.6%
Pre-tax profit	18,160	4,799	22,662	13,565	21,143	55.9%	16.4%
Income tax	(1,238)	1,893	(2,557)	3	(1,921)	NA	55.2%
Net profit	16,907	6,645	20,094	13,564	19,186	41.4%	13.5%
B/S	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
Total loans	4,846,845	4,974,186	5,242,248	5,481,104	5,652,101	3.1%	16.6%
Total deposits	9,165,526	9,314,066	9,762,687	9,866,583	10,006,331	1.4%	9.2%
Total assets	10,110,524	10,216,706	10,798,624	10,966,186	11,133,942	1.5%	10.1%
NPLs	40,063	42,844	45,118	48,531	49,762	2.5%	24.2%
Loan loss reserves	156,057	166,124	174,042	193,610	199,877	3.2%	28.1%
Key ratio	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
NIM	2.46%	2.47%	2.46%	2.38%	2.36%	-2bp	-10bp
CIR	56.0%	69.5%	52.8%	51.9%	59.8%	8.0ppt	3.9ppt
ROA	0.75%	0.67%	0.26%	0.76%	0.50%	-0.3ppt	-0.2ppt
ROE	14.9%	5.5%	15.8%	10.5%	14.7%	4.2ppt	-0.2ppt
NPL ratio	0.83%	0.86%	0.86%	0.89%	0.88%	-1bp	5bp
Provision coverage	391.1%	389.5%	387.3%	400.1%	403.2%	3.1ppt	12.1ppt
Allowance ratio	3.22%	3.34%	3.32%	3.53%	3.54%	0bp	32bp
LDR	52.9%	53.4%	53.7%	55.6%	56.5%	0.9ppt	3.6ppt
CET1 CAR	9.6%	9.9%	9.6%	9.2%	9.5%	34bp	-4bp
Tier1 CAR	10.6%	10.9%	12.0%	11.5%	11.8%	34bp	126bp
Total CAR	13.3%	13.5%	14.6%	14.0%	13.9%	-11bp	59bp

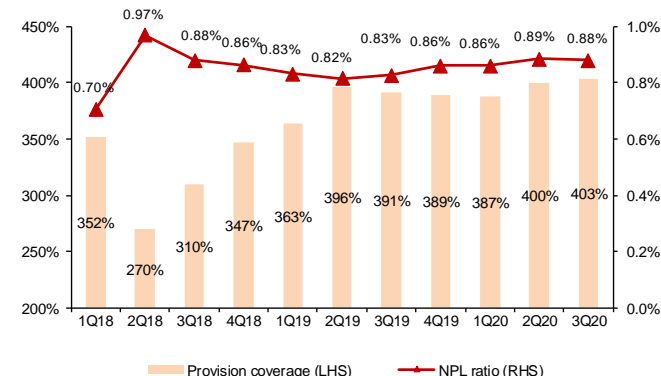
Source: Company data, CMBIS

Figure 2: Quarterly NIM of PSBC



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of PSBC



Source: Company data, CMBIS

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	360,166	388,238	422,444	460,082	504,022
Interest expenses	(126,044)	(148,014)	(161,442)	(179,320)	(195,092)
Net interest income	234,122	240,224	261,001	280,762	308,930
Net fee income	14,434	17,085	17,939	19,733	21,706
Others	12,689	19,807	21,635	22,365	23,483
Operating income	261,245	277,116	300,576	322,860	354,119
Operating expenses	(152,324)	(157,976)	(165,710)	(179,339)	(194,835)
PPoP	108,921	119,140	134,866	143,521	159,284
Provision	(55,434)	(55,395)	(77,668)	(81,029)	(87,176)
Operating profit	53,487	63,745	57,197	62,492	72,108
Non-operating income	-	-	-	-	-
Pre-tax profit	53,487	63,745	57,197	62,492	72,108
Income tax expenses	(1,103)	(2,709)	(2,431)	(2,656)	(3,064)
Minority interests	(73)	(103)	(103)	(103)	(103)
Net profit	52,311	60,933	54,664	59,733	68,941

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix					
Net interest income	90%	87%	87%	87%	87%
Net fee income	6%	6%	6%	6%	6%
Others	5%	7%	7%	7%	7%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	24.5%	2.6%	8.6%	7.6%	10.0%
Net fee income	13.3%	18.4%	5.0%	10.0%	10.0%
Operating income	16.2%	6.1%	8.5%	7.4%	9.7%
PPoP	39.9%	9.4%	13.2%	6.4%	11.0%
Net profit	9.7%	16.5%	-10.3%	9.3%	15.4%
Gross loans	17.8%	16.3%	15.0%	15.0%	13.0%
Customer deposits	7.0%	8.0%	9.0%	8.5%	8.5%
Efficiency					
Cost-to-income ratio	57.6%	56.3%	54.2%	54.5%	54.0%

Balance Sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Due from central banks	1,155,444	1,110,921	1,210,443	1,312,896	1,424,057
Interbank assets	665,660	445,364	454,271	463,357	472,624
Investments	3,729,149	3,984,138	4,109,544	4,174,755	4,274,528
Gross loans	4,276,865	4,974,186	5,720,314	6,578,361	7,433,548
Less: provision	127,327	166,124	219,596	272,481	320,121
Other assets	(183,580)	(131,779)	(71,590)	(96,790)	(79,276)
Total assets	9,516,211	10,216,706	11,203,385	12,160,098	13,205,359
Due to central banks	-	-	-	-	-
Interbank liabilities	248,929	171,706	197,462	227,081	261,143
Customer deposits	8,627,440	9,314,066	10,152,332	11,015,280	11,951,579
Debt securities issued	76,154	96,979	111,526	128,255	147,493
Other liabilities	88,375	89,076	82,542	89,128	96,273
Total liabilities	9,040,898	9,671,827	10,543,862	11,459,744	12,456,488
Shareholders' equity	474,404	543,867	658,512	699,342	747,859
Incl. Perpetual bonds	-	-	79,989	79,989	79,989
Incl. Preferred stocks	47,869	47,869	47,869	47,869	47,869
Minority interest	909	1,012	1,012	1,012	1,012
Total equity	475,313	544,879	659,524	700,354	748,871

Asset quality					
NPL ratio	0.86%	0.86%	0.94%	0.98%	0.96%
Provision coverage	347%	389%	410%	422%	447%
Provision/ total loans	2.98%	3.34%	3.84%	4.14%	4.31%
Credit costs	1.09%	1.03%	1.30%	1.18%	1.08%
Capital adequacy					
CET-1 CAR	9.8%	9.9%	9.6%	9.5%	9.4%
Tier-1 CAR	10.9%	10.9%	11.9%	11.6%	11.3%
Total CAR	13.8%	13.5%	14.6%	14.2%	13.9%
Profitability					
NIM	2.67%	2.50%	2.44%	2.40%	2.42%
ROE	12.3%	12.7%	10.2%	10.4%	11.2%
ROA	0.54%	0.59%	0.49%	0.49%	0.52%
RoRWA	1.14%	1.26%	1.00%	0.99%	1.05%
Per share					
EPS (RMB)	0.62	0.72	0.60	0.66	0.76
DPS (RMB)	0.19	0.21	0.19	0.21	0.24
BVPS (RMB)	5.26	5.75	6.10	6.57	7.13

Source: Company data, CMBIS estimates

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