

Postal Savings Bank of China (1658 HK)

Robust earnings growth despite moderate NPL uptick

PSBC's FY19 net profit rose 16.5% YoY to RMB 60.9bn, 1.3%/1.8% above CMBIS/consensus estimates. As a result, ROE picked up 0.3ppt YoY to 12.7%. Management targets to maintain stable dividend payout of 30%. PSBC is our preferred defensive play against potential macro downturn, given its: 1) low-risk credit profile, 2) above-peers provision buffer, 3) solid funding base, and 4) management's incentive to reduce share price volatility after A-share listing.

- Results positives: 1) Healthy loan growth of 2.6% QoQ/16.3% YoY**, mainly driven by 18.6% YoY increase in retail loans, reaching 55.3% of total loan book. Among which, credit card overdraft saw fastest growth of 24.0% YoY, but still merely accounted for 2.5% of loan mix as of FY19, vs sector average of 6.4%; **2) Continued expansion in retail client base and AUM**, which were up 4.6% YoY to 605mn and 8.7% YoY to RMB10tn. In particular, wealth clients (with AUM > RMB50,000) rose 20.7% YoY to 2.47mn (0.41% of total retail clients). **3) 4Q19 net fee income growth stayed robust at 16.4% YoY**, largely on rising fees from bank card and settlement & clearing businesses. Revenue structure improved with 2.9ppt lift in non-interest income proportion (13.2%); **4) Capital position strengthened**. CET1/total CAR edged up 35bp/25bp QoQ to 9.90%/13.52% after A-share IPO in Dec 2019. The bank issued RMB80bn perpetual bonds in Mar 2020, which could further boost tier-1 CAR by 160bp.
- Results negatives: 1) 4Q19 NIM narrowed 2bp QoQ to 2.44%** by our estimate, and full-year NIM fell 17bp YoY to 2.50%. This was mainly due to higher liability cost amid intensified deposit competition. We expect the Bank's funding cost pressure to ease in FY20, given regulatory tightening on structured deposit and potential benchmark deposit rate cut; **2) NPL ratio climbed 3bp QoQ to 0.86%**, still well below sector average of 1.86%. Provision coverage slid 1.7ppt to 389%, only lower than CMB's (3968 HK, NR) 427% among nationwide banks. **3) 4Q19 CIR rose 4.2ppt YoY to 69.5%**, likely due to increase in IT-related personnel. Full-year staff cost was up 11.4% YoY.
- Maintain BUY**. PSBC's 16.5% YoY FY19 net profit growth is likely to top major listed peers. It is expected to be the only SOE bank to achieve double-digit earnings growth and improving ROE in FY20-22E. Our HK\$6.70 TP is based on GGM-derived target P/B of 0.95x and FY20E BPS of RMB6.31.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	261,245	277,116	299,400	326,474	360,359
Net profit (RMB mn)	52,311	60,933	68,383	77,880	90,365
EPS (RMB)	0.62	0.72	0.76	0.87	1.01
EPS CHG (%)	4.7	16.9	5.7	13.9	16.6
Consensus EPS (RMB)	NA	0.70	0.77	0.86	0.91
P/E (x)	7.2	6.2	5.9	5.2	4.4
P/B (x)	0.84	0.78	0.72	0.65	0.59
Dividend yield (%)	4.4	4.7	5.3	6.0	7.0
ROE (%)	12.3	12.7	12.7	13.2	13.9
NPL ratio (%)	0.86	0.86	0.90	0.92	0.94
Provision coverage (%)	347	389	390	391	401

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$ 6.70**
 (Previous TP **HK\$ 6.70**)
 Up/Downside **+34.3%**
 Current Price **HK\$ 4.99**

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	479,410
Avg 3 mths t/o (HK\$ mn)	93.12
52w High/Low (HK\$)	5.39/4.24
Total Issued Shares (mn)	19,856 (H) 67,122 (A)

Source: Bloomberg

Shareholding Structure

China Post Group	64.73%
China Life	3.84%
China Telecom	1.28%

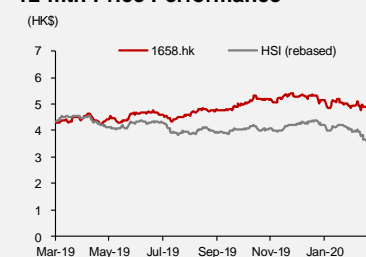
Source: Company data

Share Performance

	Absolute	Relative
1-mth	1.2%	-12.5%
3-mth	-5.3%	-15.6%
6-mth	5.9%	-9.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: 4Q19 results summary

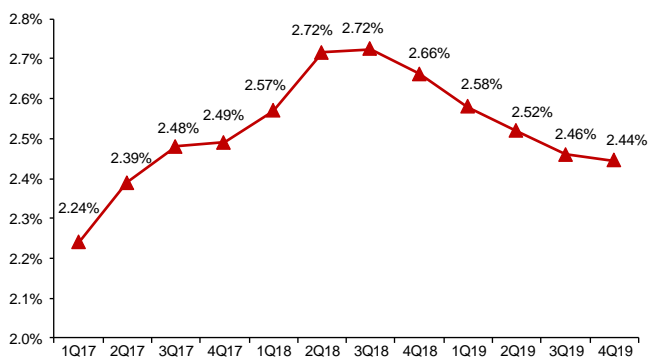
(RMB mn)						
P&L	FY18	FY19	YoY	4Q18	4Q19	YoY
Net interest income	234,122	240,224	2.6%	60,305	61,044	1.2%
Net fee and commission income	14,434	17,085	18.4%	3,124	3,637	16.4%
Operating income	261,245	277,116	6.1%	64,722	66,558	2.8%
Operating expense	(152,324)	(157,976)	3.7%	(42,224)	(46,226)	9.5%
PPoP	108,921	119,140	9.4%	22,498	20,332	-9.6%
Impairment losses	(55,434)	(55,395)	-0.1%	(19,490)	(15,533)	-20.3%
Pre-tax profit	53,487	63,745	19.2%	3,008	4,799	59.5%
Income tax	(1,103)	(2,709)	145.6%	2,659	1,893	-28.8%
Net profit	52,311	60,933	16.5%	5,601	6,645	18.6%

B/S	FY18	FY19	YoY	3Q19	4Q19	QoQ
Gross loans	4,276,865	4,974,186	16.3%	4,846,845	4,974,186	2.6%
Customers' deposits	8,627,440	9,314,066	8.0%	9,165,526	9,314,066	1.6%
Total assets	9,516,211	10,216,706	7.4%	10,110,524	10,216,706	1.1%
NPLs	36,888	42,844	16.1%	40,063	42,844	6.9%

Key ratio	FY18	FY19	YoY	3Q19	4Q19	QoQ
NIM	2.67%	2.50%	-17bp	2.46%	2.44%	-2bp
ROE	12.3%	12.7%	0.3ppt	14.9%	5.5%	-9.3ppt
NPL ratio	0.86%	0.86%	0bp	0.83%	0.86%	3bp
Provision coverage	346.8%	389.5%	42.7ppt	391.1%	389.5%	-1.7ppt
LDR	49.6%	53.4%	3.8ppt	52.9%	53.4%	0.5ppt
CET-1 CAR	9.8%	9.9%	13bp	9.6%	9.9%	35bp

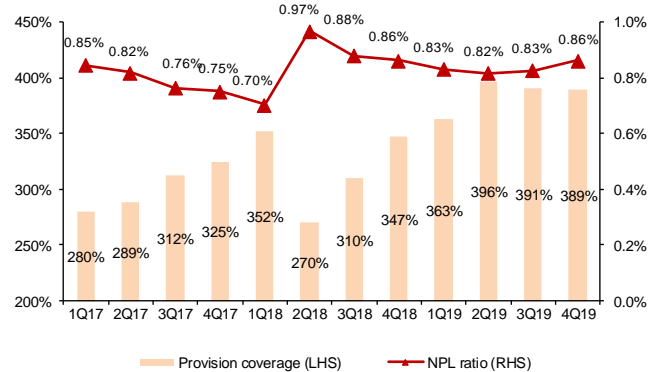
Source: Company data, CMBIS

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	417,404	456,404	499,225
Interest expenses	(126,044)	(148,014)	(162,100)	(180,077)	(195,962)
Net interest income	234,122	240,224	255,304	276,328	303,263
Net fee income	14,434	17,085	20,502	24,192	28,547
Others	12,689	19,807	23,594	25,954	28,549
Operating income	261,245	277,116	299,400	326,474	360,359
Operating expenses	(152,324)	(157,976)	(167,317)	(178,144)	(190,525)
PPoP	108,921	119,140	132,083	148,330	169,834
Provision	(55,434)	(55,395)	(60,557)	(66,885)	(75,351)
Operating profit	53,487	63,745	71,526	81,445	94,483
Non-operating income	-	-	-	-	-
Pre-tax profit	53,487	63,745	71,526	81,445	94,483
Income tax expenses	(1,103)	(2,709)	(3,040)	(3,461)	(4,015)
Minority interests	(73)	(103)	(103)	(103)	(103)
Net profit	52,311	60,933	68,383	77,880	90,365

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Op. income mix					
Net interest income	90%	87%	85%	85%	84%
Net fee income	6%	6%	7%	7%	8%
Others	5%	7%	8%	8%	8%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	24.5%	2.6%	6.3%	8.2%	9.7%
Net fee income	13.3%	18.4%	20.0%	18.0%	18.0%
Operating income	16.2%	6.1%	8.0%	9.0%	10.4%
PPoP	39.9%	9.4%	10.9%	12.3%	14.5%
Net profit	9.7%	16.5%	12.2%	13.9%	16.0%
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%	54.9%	53.5%	51.8%

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	3,387,487	3,673,977	3,799,383	3,864,594	3,997,624
Gross loans	4,276,865	4,974,186	5,720,314	6,578,361	7,433,548
Less: provision	127,327	166,124	200,346	237,242	279,278
Other assets	158,082	178,382	233,051	205,894	200,524
Total assets	9,516,211	10,216,706	11,217,116	12,187,859	13,249,099
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	672,242	727,103	791,599
Incl. Perpetual bonds	-	-	80,000	80,000	80,000
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	673,254	728,115	792,611

Asset quality					
NPL ratio	0.86%	0.86%	0.90%	0.92%	0.94%
Provision coverage	347%	389%	390%	391%	401%
Provision/ total loans	2.98%	3.34%	3.50%	3.61%	3.76%
Credit costs	1.09%	1.03%	0.98%	0.95%	0.95%
Capital adequacy					
CET-1 CAR	9.8%	9.9%	9.9%	9.9%	10.0%
Tier-1 CAR	10.9%	10.9%	12.2%	12.0%	11.9%
Total CAR	13.8%	13.5%	14.8%	14.6%	14.5%
Profitability					
NIM	2.67%	2.50%	2.46%	2.43%	2.43%
ROE	12.3%	12.7%	12.7%	13.2%	13.9%
ROA	0.54%	0.59%	0.61%	0.64%	0.69%
RoRWA	1.14%	1.26%	1.26%	1.30%	1.38%
Per share					
EPS (RMB)	0.62	0.72	0.76	0.87	1.01
DPS (RMB)	0.19	0.21	0.24	0.27	0.31
BPS (RMB)	5.26	5.75	6.26	6.89	7.63

Source: Company data, CMBIS estimates

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