

Postal Savings Bank of China (1658 HK)

Earnings growth tops large bank peers

SUMMARY. On 20 Aug, PSBC reported 1H19 net profit of RMB 37.4bn, up 14.9% YoY and accounting for 67.2% of consensus full-year estimate. 2Q19 PPOp rose 23.0% YoY, as robust net fee income, strong trading gains, and improving operating efficiency more than offset the slowdown in net interest income growth due to narrowing NIM. Bottom-line earning growth picked up to 17.8% YoY in 2Q19 (from 12.2% YoY in 1Q19), well above other big banks. As a result, 1H19 annualized ROE recovered 0.6ppt YoY to 17.2%.

- **Results positive:** 1) **1H19 net fee income was up 21.6% YoY**, mainly driven by stronger settlement & clearing and bank card fees. The Bank's non-interest income as of total revenue increased to 16% from 10.4% in FY18; 2) **Opex declined 2.1% YoY and CIR retreated 4.8ppt YoY** on better cost control. PSBC has been consolidating its physical branches and enhancing the revenue-generating ability of agency outlets. 3) **Optimizing AIEA mix** with rising proportion of loans (+3.7% QoQ) and security investments (+2.9% QoQ), and smaller proportion of lower-yield interbank asset (-41.3% QoQ). 4) **Healthy asset quality** as NPL ratio slid 1bp QoQ to 0.82%, and provision coverage climbed 33ppt to 396%, highest among nationwide banks.
- **Results negative:** 1) **2Q19 NIM contracted 6bp QoQ** to 2.52%. Asset yield declined 3bp on falling loan yields, and liability cost edged up 9bp due to deposit cost hike in 1H19. Given limited interbank borrowing, PSBC benefits less from monetary policy easing. 2) **Deposits dropped 0.5% QoQ**, mainly on shrinking demand deposits amid heightened deposit competition. LDR was up 2.1ppt to 51.7%, still far behind peers. 3) **CET-1 and total CAR fell 36bp/46bp QoQ** to 9.25%/12.98%. The bank has proposed to issue RMB 80bn perpetual bonds, and its A-share IPO was reportedly under review by CSRC. These together could lift CAR by 225bp, by our estimate.
- **Valuation still undemanding.** PSBC currently trades at 0.7x FY19E P/B, 10% above sector average of 0.64x but 6% below its historical mean of 0.74x. Potential share price catalysts include further enhancement in operating efficiency, continued boost in asset allocation to loans, and faster-than-expected progress of A-share IPO. PSBC will hold 2Q19 results briefing at 9am today.

Earnings Summary

(YE 31 Dec)	FY16A	FY17A	FY18A
Operating income (RMB mn)	189,602	224,864	261,245
Net profit (RMB mn)	39,801	47,683	52,311
EPS (RMB)	0.55	0.59	0.62
EPS CHG (%)	-	6.2	4.7
P/E (x)	7.3	6.8	6.5
P/B (x)	0.94	0.85	0.77
Dividend yield (%)	1.8	3.7	4.8
ROE (%)	12.9	13.1	12.3
NPL ratio (%)	0.87	0.75	0.86
Provision coverage (%)	272	325	347

Source: Company data, CMBIS estimates

NOT RATED

Current Price

HK\$4.49

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	363,827
Avg 3 mths t/o (RMB mn)	105.51
52w High/Low (RMB)	5.03/ 4.11
Total Issued Shares (mn)	81,031

Source: Bloomberg

Shareholding Structure

China Post Group	68.92%
UBS AG	4.22%
China Life Insurance	4.12%

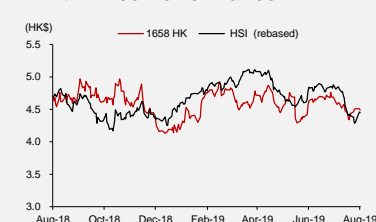
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-3.8%	5.2%
3-mth	1.3%	7.7%
6-mth	-5.1%	1.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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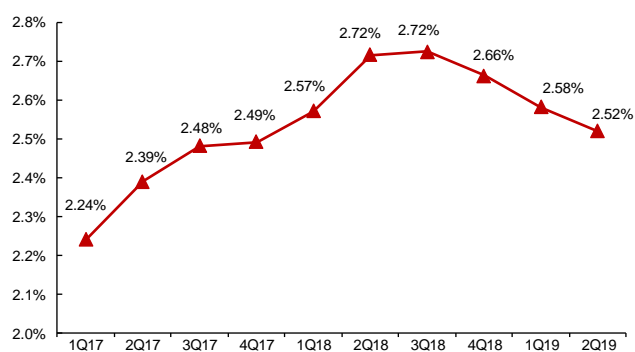
Figure 1: 1H19 results summary

(RMB mn)						
P&L	1H18	1H19	YoY	2Q18	2Q19	YoY
Net interest income	111,662	119,082	6.6%	58,424	59,953	2.6%
Net fee and commission income	7,682	9,339	21.6%	3,020	4,431	46.7%
Operating income	132,408	141,704	7.0%	69,169	73,230	5.9%
Operating expense	(74,770)	(73,222)	-2.1%	(39,465)	(36,703)	-7.0%
PPoP	57,638	68,482	18.8%	29,704	36,527	23.0%
Impairment losses	(23,371)	(27,693)	18.5%	(14,332)	(16,442)	14.7%
Pre-tax profit	34,267	40,789	19.0%	15,372	20,085	30.7%
Income tax	(1,720)	(3,364)	95.6%	655	(1,209)	-284.6%
Net profit	32,523	37,384	14.9%	16,018	18,864	17.8%

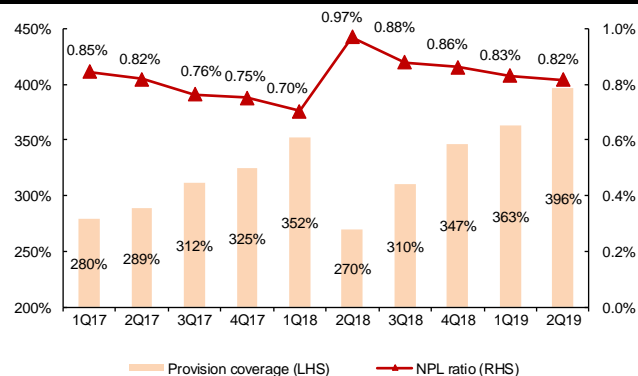
B/S	4Q18	2Q19	HoH	1Q19	2Q19	QoQ
Gross loans	4,276,865	4,701,673	9.9%	4,533,734	4,701,673	3.7%
Customers' deposits	8,627,440	9,101,191	5.5%	9,142,684	9,101,191	-0.5%
Total assets	9,516,211	10,067,175	5.8%	10,143,800	10,067,175	-0.8%
NPLs	36,888	38,372	4.0%	37,658	38,372	1.9%

Key ratios	1H18	1H19	YoY	1Q19	2Q19	QoQ
NIM	2.64%	2.55%	-9bp	2.58%	2.52%	-6bp
ROE	16.5%	17.2%	0.6ppt	17.0%	17.0%	-
NPL ratio	0.97%	0.82%	-15bp	0.83%	0.82%	-1bp
Provision coverage	269.8%	396.1%	126.3ppt	363.2%	396.1%	32.9ppt
LDR	48.2%	51.7%	3.5ppt	49.6%	51.7%	2.1ppt
CET-1 CAR	9.0%	9.3%	25bp	9.6%	9.3%	-36bp

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

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