

# Postal Savings Bank of China (1658 HK)

## Healthy 1Q20 earnings; Retail strategy remains intact

PSBC's 1Q20 net profit rose 8.5% YoY to RMB20.1bn, accounting for 29.4%/30.6% of CMBIS/consensus full-year estimates. Stable NIM, decent asset quality, and improving operating efficiency highlighted the solid set of results. Albeit moderate pace in FY20, the Bank's earnings growth should continue to top SOE peers. Management indicated during results briefing that PSBC would adhere to its retail-focused business strategy, despite temporary slowdown due to COVID-19. This would rely upon the Bank's extensive branch network and client resources, and underpin sustained asset quality and margin advantage.

■ **Results positives: 1) NIM remained largely stable with modest 1bp QoQ contraction** to 2.46%, outperforming large bank peers, thanks to solid growth and better structure in deposits. Meanwhile, new loans with lower yield accounted for limited proportion of total loan portfolio. Management targets to back up NIM trend by further lifting LDR and proportion of retail loans. **2) Asset quality stayed healthy.** NPL ratio was flat QoQ at 0.86%, and provision coverage slid 2.1ppt QoQ to 387.3%, still the highest among banks under our coverage. SML and overdue loan ratio fell 10bp and 13bp QoQ to 0.56% and 0.90%, suggesting benign NPL formation pressure. However, retail loans' credit quality suffered a temporary hit in 1Q20. NPL ratio for mortgage and credit card rose 5bp and 33bp QoQ to 0.43% and 2.07%, respectively. **3) Loan expansion was robust at 5.4% QoQ**, with 6.7%/4.3% QoQ growth in corporate/retail loans. **4) 1Q20 CIR fell 0.5ppt YoY to 52.8%.**

■ **Results negatives: 1) Net fee income growth slowed to 1.5% YoY** from 16.4% YoY in 4Q19, likely due to sluggish bank card fees (45.9% of total fee income in FY19). **2) CET1 CAR declined 26bp YoY to 9.64%**, due to fast RWA expansion of 7.8% QoQ. That said, total CAR picked up 105bp QoQ to 14.57%, after the Bank issued RMB80bn perpetual bonds in Mar 2020.

■ **Maintain BUY with lower TP of HK\$6.30.** We trim our FY20-21E earnings forecasts by 2.6-5.1%, as we lower assumptions on NIM and fee income growth to reflect COVID-19's impact. Our new TP of HK\$6.30 is based on GGM-derived target P/B of 0.91x and FY20E BPS of RMB6.2.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	261,245	277,116	295,792	321,281	353,714
Net profit (RMB mn)	52,311	60,933	66,622	73,874	84,571
EPS (RMB)	0.62	0.72	0.74	0.82	0.94
EPS CHG (%)	4.7	16.9	2.8	10.8	15.0
Consensus EPS (RMB)	NA	NA	0.76	0.83	0.94
P/E (x)	6.8	5.8	5.6	5.1	4.4
P/B (x)	0.79	0.72	0.67	0.61	0.55
Dividend yield (%)	4.6	5.1	5.5	6.1	7.0
ROE (%)	12.3	12.7	12.3	12.6	13.2
NPL ratio (%)	0.86	0.86	0.90	0.92	0.94
Provision coverage (%)	347	389	388	390	400

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$ 6.30
(Previous TP	HK\$ 6.70)
Up/Downside	+35.5%
Current Price	HK\$ 4.65

### China Banking Sector

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### Stock Data

Mkt Cap (HK\$ mn)	460,931
Avg 3 mths t/o (HK\$ mn)	157
52w High/Low (HK\$)	5.44/4.25
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%

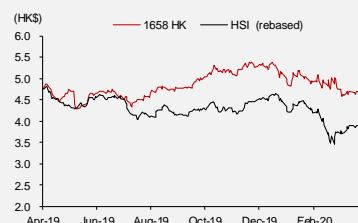
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-3.4%	-6.5%
3-mth	-10.5%	3.0%
6-mth	-7.8%	1.2%
12-mth	-1.9%	19.6%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PwC**

### Related Reports

- Conference call takeaway – plenty room to defend near-term hit – 14 Apr 2020
- Robust earnings growth despite moderate NPL uptick – 26 Mar 2020
- A defensive play with visible growth outlook – 6 Mar 2020
- Excess provisions buffering NIM contraction – 30 Oct 2019
- Earnings growth tops large bank peers – 21 Aug 2019

Figure 1: 1Q20 results summary

(RMB mn)						
P&L	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
Net interest income	61,044	61,721	1.1%	59,129	61,721	4.4%
Net fee and commission income	3,637	4,983	37.0%	4,908	4,983	1.5%
Operating income	66,558	72,250	8.6%	68,474	72,250	5.5%
Operating expense	(46,226)	(38,156)	-17.5%	(36,519)	(38,156)	4.5%
PPoP	20,332	34,094	67.7%	31,955	34,094	6.7%
Impairment losses	(15,533)	(11,432)	-26.4%	(11,251)	(11,432)	1.6%
Pre-tax profit	4,799	22,662	372.2%	20,704	22,662	9.5%
Income tax	1,893	(2,557)	-235.1%	(2,155)	(2,557)	18.7%
Net profit	6,645	20,094	202.4%	18,520	20,094	8.5%

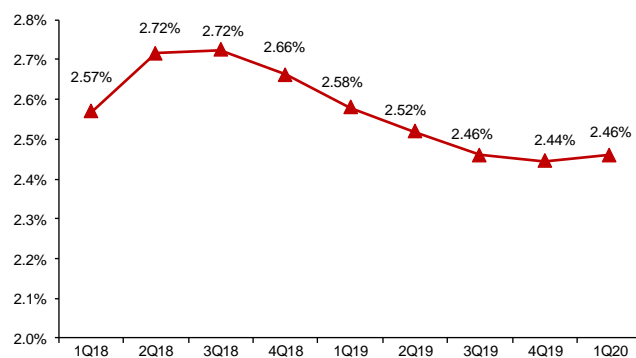
B/S	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
Gross loans	4,974,186	5,242,248	5.4%	4,533,734	5,242,248	15.6%
Customers' deposits	9,314,066	9,762,687	4.8%	9,142,684	9,762,687	6.8%
Total assets	10,216,706	10,798,624	5.7%	10,143,800	10,798,624	6.5%
NPLs	42,844	45,118	5.3%	37,658	45,118	19.8%

Key ratio	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
NIM	2.44%	2.46%	2bp	2.58%	2.46%	-12bp
ROE	5.5%	15.8%	10.2ppt	17.0%	15.8%	-1.2ppt
NPL ratio	0.86%	0.86%	0bp	0.83%	0.86%	3bp
Provision coverage	389.5%	387.3%	-2.1ppt	363.2%	387.3%	24.1ppt
LDR	53.4%	53.7%	0.3ppt	49.6%	53.7%	4.1ppt
CET-1 CAR	9.9%	9.6%	-26bp	9.6%	9.6%	3bp

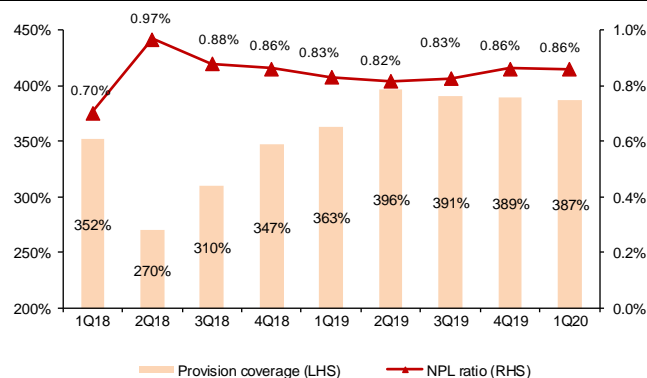
Source: Company data, CMBIS

Figure 2: Quarterly NIM of PSBC



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of PSBC



Source: Company data, CMBIS

Figure 4: Adjustments in earnings forecasts

	Net profit (RMB mn)			EPS (RMB)			NIM			Fee income YoY		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
FY20E	68,383	66,622	-2.6%	0.76	0.74	-2.7%	2.46%	2.44%	-2bp	20.0%	12.0%	-8ppt
FY21E	77,880	73,874	-5.1%	0.87	0.82	-5.3%	2.43%	2.40%	-3bp	20.0%	15.0%	-5ppt

Source: Company, CMBIS estimates

## Financial Summary

### Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	360,166	388,238	415,163	453,398	495,821
Interest expenses	(126,044)	(148,014)	(162,100)	(180,077)	(195,962)
Net interest income	234,122	240,224	253,063	273,321	299,859
Net fee income	14,434	17,085	19,135	22,005	25,306
Others	12,689	19,807	23,594	25,954	28,549
Operating income	261,245	277,116	295,792	321,281	353,714
Operating expenses	(152,324)	(157,976)	(166,618)	(177,135)	(189,230)
PPoP	108,921	119,140	129,174	144,146	164,484
Provision	(55,434)	(55,395)	(59,488)	(66,885)	(76,052)
Operating profit	53,487	63,745	69,687	77,260	88,432
Non-operating income	-	-	-	-	-
Pre-tax profit	53,487	63,745	69,687	77,260	88,432
Income tax expenses	(1,103)	(2,709)	(2,962)	(3,283)	(3,758)
Minority interests	(73)	(103)	(103)	(103)	(103)
Net profit	52,311	60,933	66,622	73,874	84,571

### Key Ratio

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Op. income mix</b>					
Net interest income	90%	87%	86%	85%	85%
Net fee income	6%	6%	6%	7%	7%
Others	5%	7%	8%	8%	8%
Total	100%	100%	100%	100%	100%
<b>Growth, YoY</b>					
Net interest income	24.5%	2.6%	5.3%	8.0%	9.7%
Net fee income	13.3%	18.4%	12.0%	15.0%	15.0%
Operating income	16.2%	6.1%	6.7%	8.6%	10.1%
PPoP	39.9%	9.4%	8.4%	11.6%	14.1%
Net profit	9.7%	16.5%	9.3%	10.9%	14.5%
Gross loans	17.8%	16.3%	15.0%	15.0%	13.0%
Customer deposits	7.0%	8.0%	9.0%	8.5%	8.5%
<b>Efficiency</b>					
Cost-to-income ratio	57.6%	56.3%	55.4%	54.1%	52.4%

### 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	199,277	236,173	278,909
Other assets	158,082	178,382	230,221	199,585	190,325
Total assets	9,516,211	10,216,706	11,215,355	12,182,620	13,239,268
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	670,481	721,864	781,768
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	671,493	722,876	782,780

<b>Asset quality</b>					
NPL ratio	0.86%	0.86%	0.90%	0.92%	0.94%
Provision coverage	347%	389%	388%	390%	400%
Provision/ total loans	2.98%	3.34%	3.48%	3.59%	3.75%
Credit costs	1.09%	1.03%	0.96%	0.95%	0.96%
<b>Capital adequacy</b>					
CET-1 CAR	9.8%	9.9%	9.8%	9.8%	9.8%
Tier-1 CAR	10.9%	10.9%	12.2%	11.9%	11.8%
Total CAR	13.8%	13.5%	14.8%	14.6%	14.4%
<b>Profitability</b>					
NIM	2.67%	2.50%	2.44%	2.40%	2.41%
ROE	12.3%	12.7%	12.3%	12.6%	13.2%
ROA	0.54%	0.59%	0.60%	0.61%	0.65%
RoRWA	1.14%	1.26%	1.22%	1.23%	1.29%
<b>Per share</b>					
EPS (RMB)	0.62	0.72	0.74	0.82	0.94
DPS (RMB)	0.19	0.21	0.23	0.25	0.29
BPS (RMB)	5.26	5.75	6.24	6.83	7.52

Source: Company data, CMBIS estimates

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