

Postal Savings Bank of China (1658 HK)

Excess provisions buffering NIM contraction

PSBC reported 9M19 net profit of RMB 54.3bn, up 16.2% YoY and accounting for 93.5% of consensus full-year estimate. 3Q19 PPOp growth moderated to 5.4% YoY, as net interest income fell 3.3% YoY on narrowing NIM and CIR rose 0.9ppts YoY on rising opex. However, stronger-than-peers provision coverage enabled the Bank to set aside less impairment charges (-3.2% YoY). This, along with lower tax cost, led to a sequential pick-up in earnings growth to 19.2% YoY (vs 12.2% YoY in 1Q19 and 17.8% YoY 2Q19). We stay upbeat on PSBC given its robust earnings momentum and upcoming A-share offering.

- **Results positives:** 1) **Strong growth in non-interest income**, of which net fee income rose 13.3% YoY, likely driven by settlement & clearing, bank card, and agency service businesses; 2) **Credit cost declined** 21bps YoY and 40bps QoQ to 1.02%, helping to offset a weakening topline growth. 3) **AIEA structure continued to optimize**, as higher-yield loans grew 3.1% QoQ, while investments and interbank assets shrank 2.2% QoQ and 1.0% QoQ, respectively. 4) **Capital position improved**. CET1/tier-1/total CAR climbed 30bps/29bps/29bps QoQ to 9.55%/10.55%/13.27%.
- **Results negatives:** 1) **3Q19 NIM contracted** 6bps QoQ to 2.46%, by our estimate. This was largely within expectation, as monetary easing tends to squeeze the margin of PSBC as interbank net lender. 2) **Deposit growth remained subdued** at 0.7% QoQ, and LDR went up 1.2ppts to 52.9%, still well below peers though. 3) **NPL ratio edged up 1bp QoQ** to 0.83%, as NPL formation rebounded to 76bps from 21bps in 1H19. Provision coverage retreated 5ppts QoQ to 391%. We believe this was largely due to MoF's "Draft Financial Rule", which requires banks to release excess provision as profit. PSBC has likely further strengthened its NPL recognition by classifying all (97% as of 2Q19) above 30-day overdue loans into NPLs.
- **Potential valuation boost from A-share offering.** PSBC received CSRC's approval for A-share IPO on 25 Oct and is likely to complete issuance in 4Q19. The Bank's H-share currently trades at 0.78x FY19E P/B, 8% above sector average of 0.73x. Pricing A-share at RMB 5.50 (common equity per share was RMB 5.4947 as of 2Q19) would imply 28% A/H premium, higher than average 22.4% for the Big-5 banks. With number of new shares amounting to 5.172bn or 5.948bn with full exercise of over-allotment option, total capital raised is estimated at RMB 28.45bn/RMB 32.72bn, which could lift CET1 CAR by 59bps/68bps with moderate 6%/6.84% EPS dilution.

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)	8.1	7.7	7.3
P/B (x)	1.06	0.95	0.86
Dividend yield (%)	1.6	3.3	4.3
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\$5.03

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	407,584
Avg 3 mths t/o (HK\$ mn)	115
52w High/Low (HK\$)	5.08/4.11
Total Issued Shares (mn)	81,031

Source: Bloomberg

Shareholding Structure

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

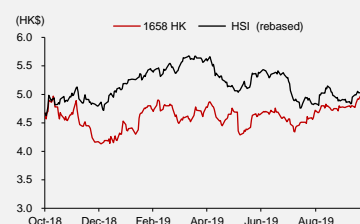
Source: Company data

Share Performance

	Absolute	Relative
1-mth	5.2%	1.6%
3-mth	9.1%	15.2%
6-mth	7.3%	18.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: 3Q19 results summary

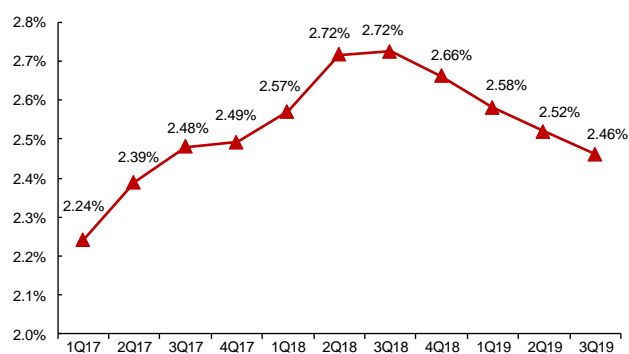
(RMB mn)						
P&L	9M18	9M19	YoY	3Q18	3Q19	YoY
Net interest income	173,817	179,180	3.1%	62,155	60,098	-3.3%
Net fee and commission income	11,310	13,448	18.9%	3,628	4,109	13.3%
Operating income	196,523	210,558	7.1%	64,115	68,854	7.4%
Operating expense	(110,100)	(111,750)	1.5%	(35,330)	(38,528)	9.1%
PPoP	86,423	98,808	14.3%	28,785	30,326	5.4%
Impairment losses	(35,944)	(39,862)	10.9%	(12,573)	(12,169)	-3.2%
Pre-tax profit	50,479	58,946	16.8%	16,212	18,157	12.0%
Income tax	(3,762)	(4,602)	22.3%	(2,042)	(1,238)	-39.4%
Net profit	46,710	54,288	16.2%	14,187	16,904	19.2%

B/S	3Q18	3Q19	YoY	2Q19	3Q19	QoQ
Gross loans	4,158,092	4,846,845	16.6%	4,701,673	4,846,845	3.1%
Customers' deposits	8,349,929	9,165,526	9.8%	9,101,191	9,165,526	0.7%
Total assets	9,350,857	10,110,524	8.1%	10,067,175	10,110,524	0.4%
NPLs	36,569	40,063	9.6%	38,372	40,063	4.4%

Key ratios	9M18	9M19	YoY	2Q19	3Q19	QoQ
NIM	2.67%	2.52%	-15bp	2.52%	2.46%	-6bp
ROE	14.6%	15.7%	1.1ppt	17.0%	14.9%	-2.1ppt
NPL ratio	0.88%	0.83%	-5bp	0.82%	0.83%	1bp
Provision coverage	309.9%	391.1%	81.2ppt	396.1%	391.1%	-5.0ppt
LDR	49.8%	0.0%	-49.8ppt	51.7%	0.0%	-51.7ppt
CET-1 CAR	9.7%	9.6%	-15bp	9.3%	9.6%	30bp

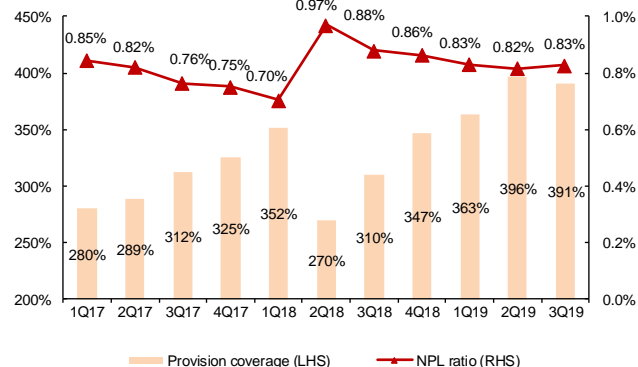
Source: Company data, CMBIS

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)	FY16A	FY17A	FY18A
Interest income	278,198	305,285	360,166
Interest expenses	(120,612)	(117,170)	(126,044)
Net interest income	157,586	188,115	234,122
Net fee income	11,498	12,737	14,434
Others	20,518	24,012	12,689
Operating income	189,602	224,864	261,245
Operating expenses	(129,772)	(147,016)	(152,324)
PPoP	59,830	77,848	108,921
Provision	(16,902)	(26,737)	(55,434)
Operating profit	42,928	51,111	53,487
Non-operating income	-	-	-
Pre-tax profit	42,928	51,111	53,487
Income tax expenses	(3,152)	(3,402)	(1,103)
Minority interests	(25)	(26)	(73)
Net profit	39,801	47,683	52,311

Balance Sheet

YE 31 Dec (RMB mn)	FY16A	FY17A	FY18A
Due from central banks	1,259,035	1,364,392	1,155,444
Interbank assets	442,194	754,731	665,660
Investments	3,463,841	3,167,033	3,387,487
Gross loans	3,010,648	3,630,135	4,276,865
Less: provision	71,431	88,564	127,327
Other assets	161,335	184,824	158,082
Total assets	8,265,622	9,012,551	9,516,211
Due to central banks	-	-	-
Interbank liabilities	425,634	237,214	248,929
Customer deposits	7,286,311	8,062,659	8,627,440
Debt securities issued	54,943	74,932	76,154
Other liabilities	151,846	206,389	88,375
Total liabilities	7,918,734	8,581,194	9,040,898
Shareholders' equity	346,530	430,973	474,404
Incl. Perpetual bonds	-	-	-
Incl. Preferred stocks	-	47,846	47,869
Minority interest	358	384	909
Total equity	346,888	431,357	475,313

Source: Company data, CMBIS estimates

Key Ratio

YE 31 Dec (RMB mn)	FY16A	FY17A	FY18A
Op. income mix			
Net interest income	83%	84%	90%
Net fee income	6%	6%	6%
Others	11%	11%	5%
Total	100%	100%	100%
Growth, YoY			
Net interest income	-	19.4%	24.5%
Net fee income	-	10.8%	13.3%
Operating income	-	18.6%	16.2%
PPoP	-	30.1%	39.9%
Net profit	-	19.8%	9.7%
Gross loans	-	20.6%	17.8%
Customer deposits	-	10.7%	7.0%
Efficiency			
Cost-to-income ratio	66.4%	64.6%	57.6%
Asset quality			
NPL ratio	0.87%	0.75%	0.86%
Provision coverage	271.7%	325%	347%
Provision/ total loans	2.37%	2.44%	2.98%
Credit costs	0.74%	0.64%	1.09%
Capital adequacy			
CET-1 CAR	8.6%	8.6%	9.8%
Tier-1 CAR	8.6%	9.7%	10.9%
Total CAR	11.1%	12.5%	13.8%
Profitability			
NIM	2.2%	2.40%	2.67%
ROE	12.9%	13.1%	12.3%
ROA	0.5%	0.55%	0.54%
RoRWA	1.1%	1.13%	1.14%
Per share			
EPS (RMB)	0.55	0.59	0.62
DPS (RMB)	0.07	0.15	0.19
BVPS (RMB)	4.28	4.73	5.26

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