

PSBC (1658 HK)

FY21 review: results in line, remains low exposure on property development industry

PSBC reported in-line 2021 results. Operating income increased 11.3% YoY to RMB 319bn (NII +6.3% YoY, Fee&commission income +33.4% YoY). Net profit grew 18.6% YoY to RMB 76.1bn primarily due to less provision taken than 2020. NPL ratio improved 6bps YoY to 0.82% and NIM compressed 6 bps YoY to 2.36%. Maintain BUY on PSBC and lift target price from HK\$7.70 to HK\$8.40 because we roll over valuation basis to 2022.

- Results positives.** 1) Improving asset quality and less exposure on property than peers. Although risk on property exposure increased, only 2% of its loan is lend to property developers, which is much lower than peers. Meanwhile, NPL ratio on property sector is only 0.02%. With good risk management and loan strategy, PSBC achieved 6 bps decline on NPL ratio, from 0.88% in 2020 to 0.82% in 2021. At the same time, 7 bps YoY improvement on SML ratio (0.47% in 2021) indicates a stable NPL ratio in 2022. 2) Well prepared for headwind. The increasing provision balance and declining NPL balance lift provision coverage increased 10 pcts YoY to 418%.
- Results negatives.** 1) NIM compression continues. In 2021, because of LPR drop PSBC's loan rate dropped 7 bps YoY. Meanwhile, because of fierce competition on deposit market, deposit cost increased 4 bps YoY. The increasing deposit cost and declining loan rate lead to 6 bps compression on NIM. 2) Non-interest income grew fast, but it contributes less income than other nationwide operated banks. In 2021, net fee & commission income is RMB 22bn, +33.4% YoY. Although it grew fast, it only contributes about 7% of operating income, less than peers' average of 10%+.
- Stock catalyst:** less risk exposure on property is the key. Less risk exposure on property sector and NPL ratio of property loan is quite low. With uncertainty on property market, PSBC will outperform on asset quality. In addition, since its low valuation and 30% dividend payout, the downside is limited. In addition, because of its fast loan growth and sufficient CET-1 capital, it can maintain two-digit year-on-year growth on earnings.
- Maintain OVERWEIGHT on banking sector and BUY on PSBC (1658 HK) as our top pick.** We roll over valuation basis to YE22 and lift target price to HK\$8.40 accordingly. Our TP implies 0.91x 2022E and 0.85x 2023E P/B. The stock is trading at 0.72x/0.66x FY22/23E P/B, almost equivalent to -1SD of 3-yrs historical mean (0.82x P/B).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	286,202	318,762	346,050	381,008	425,213
Net profit (RMB mn)	64,199	76,170	86,537	94,256	102,466
EPS (RMB)	0.71	0.78	0.94	1.02	1.11
Consensus EPS (RMB)	0.71	0.78	0.89	1.01	1.15
P/B (x)	0.56	0.65	0.72	0.66	0.61
Dividend yield	6.0%	5.6%	5.2%	5.7%	6.2%
ROE	11.8%	11.9%	10.5%	10.7%	10.9%
NPL ratio	0.88%	0.82%	0.81%	0.80%	0.78%
Provision coverage	408%	419%	439%	446%	456%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$8.40
(Previous TP)	HK\$7.70)
Up/Downside	+28%
Current Price	HK\$6.56

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	599,537
Avg 3 mths t/o (HK\$ mn)	360.33
52w High/Low (HK\$)	6.82/4.71
Total Issued Shares (mn)	19,856(H) 72,528(A)

Source: Bloomberg

Shareholding Structure

China Post	67.37%
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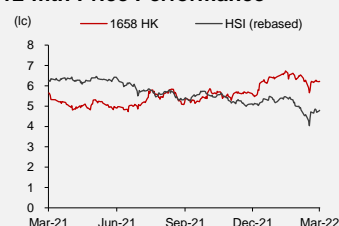
Source: Company report

Share Performance

	Absolute	Relative
1-mth	-3.2%	1.3%
3-mth	10.3%	18.4%
6-mth	19.9%	35.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Recent Reports

- China Banking – Looking for the safe harbour ([link](#))
- China Banking – 4Q21 Quarterly Review ([link](#))
- China Financials Weekly – Manageable impacts from Russia-Ukraine Crisis ([link](#))

Figure 1: PSBC's 2021 results summary

GROWTH (RMB mn)	2020	2021	YoY
Revenue	286,202	318,762	11.4%
Interest income	253,378	269,383	6.3%
Fee income	16,495	22,007	33.4%
Operating profits	67,757	81,405	20.1%
Net profits	64,199	76,170	18.6%
Gross Loan	5,718,000	6,454,099	12.9%
Deposit	10,358,000	11,354,073	9.6%
ASSET QUALITY	2020	2021	YoY
NPL ratio	0.88%	0.82%	-6 bps
Allowance to total loan	3.59%	3.42%	-17 bps
Provision coverage	408%	419%	11 ppt
CAPITAL ADEQUACY	2020	2021	YoY
CET-1 CAR	9.6%	9.9%	32 bps
Tier-1 CAR	11.9%	12.4%	49 bps
Overall CAR	13.9%	14.8%	88 bps
Payout ratio	30.0%	30.0%	unchanged
PROFITABILITY	2020	2021	YoY
NIM	2.42%	2.36%	-6 bps
CIR	57.9%	59.01%	1.11 pct
ROE	11.84%	11.86%	2 bps
ROA	0.60%	0.64%	4 bps

Source: Company data, CMBIGM

Figure 2: Forecast revisions

RMB mn	New			Old		Diff	
	FY21E	FY22E	FY23E	FY21E	FY22E	FY21E	FY22E
Revenue	346,050	381,008	425,213	346,441	378,589	-0.11%	0.64%
Net profit	86,537	94,256	102,466	87,387	99,596	-0.97%	-5.36%
Gross loan balance	7,325,402	8,277,705	9,353,806	7,294,000	8,180,000	0.43%	1.19%
Dividend payout	25,961	28,277	30,740	26,216	29,879	-0.97%	-5.36%
NPL ratio	0.81%	0.80%	0.78%	0.81%	0.80%	-1 bps	-2 bps
Provision coverage	439%	446%	456%	504%	528%	-65 ppt	-82 ppt
NIM	2.28%	2.24%	2.23%	2.35%	2.32%	-7 bps	-8 bps

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net interest income	253,378	269,383	295,461	327,447	367,181
Net fee&commission income	16,495	22,007	22,661	25,130	27,971
Others	16,329	27,372	27,927	28,431	30,061
Operating income	286,202	318,762	346,050	381,008	425,213
Operating expense	-218,445	-237,357	-253,616	-280,324	-315,751
PPOP	118,553	128,112	143,810	157,199	177,272
Provision taken	-50,398	-46,638	-51,302	-56,432	-67,718
Operating profit	67,757	81,405	92,433	100,684	109,462
Non-operating income	379	49	51	54	57
Pre-tax profit	68,136	81,454	92,485	100,738	109,519
Income tax expense	-3,818	-4,922	-5,549	-6,044	-6,571
Minority interests	119	362	398	438	482
Net profit	64,199	76,170	86,537	94,256	102,466

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income mix					
Net interest income	89%	85%	85%	86%	86%
Net fee income	6%	7%	7%	7%	7%
Others	6%	9%	8%	7%	7%
Total	100%	100%	100%	100%	100%
Growth YOY					
Net interest income	4.41%	6.32%	9.68%	10.83%	12.13%
Net fee&commission	12.80%	33.42%	2.97%	10.90%	11.30%
Operating income	3.39%	11.38%	8.56%	10.10%	11.60%
PPOP	-0.49%	8.06%	12.25%	9.31%	12.77%
Net profit	5.36%	18.65%	13.61%	8.92%	8.71%
Gross loans	14.92%	12.91%	13.50%	13.00%	13.00%
Customer deposits	11.21%	9.62%	5.52%	10.20%	10.27%

Efficiency

CIR	57.88%	59.01%	57.64%	57.94%	57.50%
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Balance Sheet

YE 31 Dec (RMB bn)	FY20A	FY21A	FY22E	FY23E	FY24E
Due from central banks	1,170	1,141	1,140	1,259	1,391
Interbank assets	292	371	408	449	494
Investments	4,186	4,620	5,262	5,971	6,722
Gross loan	5,716	6,454	7,325	8,278	9,354
Provision balance	206	221	260	296	332
Net loan	5,512	6,237	7,069	7,988	9,026
Other assets	193	219	246	278	314
Total assets	11,353	12,588	14,126	15,944	17,947
Due to central banks	25	17	21	25	30
Interbank liabilities	117	197	215	234	256
Customer deposits	10,358	11,354	11,981	13,203	14,559
Debt securities issued	58	81	90	99	108
Other liabilities	122	142	957	1,458	1,999
Total liabilities	10,680	11,792	13,276	15,035	16,972
Shareholders' equity	672	794	848	907	973
Minority interest	1	1	2	2	2
Total equity	673	796	850	909	974

Asset quality

NPL ratio	0.88%	0.82%	0.81%	0.80%	0.78%
Provision coverage	408%	419%	439%	446%	456%
Allowance to total loan	3.60%	3.42%	3.55%	3.57%	3.55%

Capital adequacy

CET-1 CAR	9.60%	9.92%	9.24%	8.67%	8.18%
Tier-1 CAR	11.86%	12.39%	11.52%	10.82%	10.20%
Total CAR	13.88%	14.78%	13.85%	13.01%	12.27%

Profitability

NIM	2.42%	2.36%	2.28%	2.24%	2.23%
ROE	11.84%	11.86%	10.54%	10.74%	10.90%
ROA	0.60%	0.64%	0.65%	0.63%	0.60%
RORWA	1.21%	1.26%	1.26%	1.20%	1.15%

Per share

EPS (RMB)	0.71	0.78	0.94	1.02	1.11
DPS (RMB)	0.21	0.25	0.28	0.31	0.33
BVPS (RMB)	6.25	6.89	7.47	8.11	8.82

Source: Company data, CMBIGM estimates

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