

PSBC (1658 HK)

1Q22 review: strong growth beats our expectation

PSBC's 1Q22 results beats our expectation and market consensus. Revenue increased 10.14% YoY to RMB 85.2 bn (NII +4.09% YoY, Fee&commission income +39.59% YoY). Net profit grew 17.34% YoY to RMB 25 bn. NPL ratio stabilized at 0.82% and NIM compressed 4 bps to 2.32%. Maintain BUY on PSBC (1658 HK) with unchanged target price of HK\$8.40. PSBC is our top pick in banking sector.

- Total asset grew 5.45% QoQ to RMB 13.27 tn, driven by 5.5% QoQ of loan growth. Deposit grew 4.98% QoQ and total liability increased 5.41% QoQ to RMB 12.43 tn. Strong growth on net profit lifts annualized ROA and ROE to 0.78% and 14.82%, up 4 bps YoY and 2 bps YoY respectively.
- SME loan and agricultural-related loan are still the drivers of loan growth in 2022. After pandemic, we expect the bank will also increase loan on infrastructure and clean energy to support the real economy.
- Optimizing asset and liability structure to maintain a high profitability during loan rate decline. 98.56% of new issued loan goes to real economy and LDR and loan to asset increased 28 bps and 2 bps QoQ. Meanwhile, the bank cut high cost deposit (3-yrs high yield deposit) and focused on acquiring value deposit (short-term deposit with low yield). Improved balance sheet structure reduced the pressure on NIM compression.
- Strong non-interest income is sustainable. Fee&commission income is expected to grow 20% YoY in 2022 although peers' guided a weak fee & commission income this year. Distribution on insurance products and WMP, IBD business income, custody income are the drivers on fee&commission income growth.
- **Stock catalyst:** Targeted 20% growth on fee & commission income will outperform peers and PSBC will lift LDR to offset part of negative impacts on declining lending rate. Solid asset quality can be maintained in 2H22.
- **Maintain OVERWEIGHT on banking sector and BUY on PSBC (1658 HK) as our top pick.** Our TP of HK\$8.40 implies 0.91x 2022E and 0.85x 2023E P/B. The stock is trading at 0.67x/0.62x FY22/23E P/B, equivalent to +1SD of 3-yr historical mean.

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\$8.40)
Up/Downside	+40%
Current Price	HK\$6.00

China Banking Sector

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Stock Data

Mkt Cap (HK\$ mn)	585,036
Avg 3 mths t/o (HK\$ mn)	346.11
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	-3.5%	0.3%
3-mth	-6.1%	4.9%
6-mth	6.0%	27.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Recent Reports

1. China Banking – Looking for the safe harbour ([link](#))
2. China Banking – 4Q21 Quarterly Review ([link](#))
3. China Banking Sector – High provision banks will outperform ([link](#))

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%

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

Efficiency

CIR	FY20A	FY21A	FY22E	FY23E	FY24E
CIR	57.88%	59.01%	57.64%	57.94%	57.50%

Asset quality

	FY20A	FY21A	FY22E	FY23E	FY24E
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

	FY20A	FY21A	FY22E	FY23E	FY24E
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

	FY20A	FY21A	FY22E	FY23E	FY24E
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

	FY20A	FY21A	FY22E	FY23E	FY24E
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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