

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

PSBC (1658 HK)

Resilient 1H22 performance

■ Overall 1H22 performance was steady, despite some increased pressure on asset quality

■ Net fee and commission incomes grew fast

■ Maintain BUY; Cut TP to HKD6.11

Resilient performance in 1H22

PSBC posted steady profitability in 1H22. 1) Ordinary shareholders' net profit rose by 13.1% yoy in 1H22, partly due to fast growth in net fee and commission income, smaller cost to income ratio, and smaller credit impairment losses. 2) NIM was 2.27% in 1H22, compared with 2.32% in 1Q22 (or 2.37% in 1H21), in line with the recent LPR cuts and the policy of reducing real financing cost for market entities. Lending rates and NIMs across the sector face further downward pressure after the 1Y and 5Y LPR cuts on Aug. 22, but PSBC has room to maintain a reasonable NIM by optimizing its loan-to-deposit ratio. 3) Overall asset quality remained. As of end-1H22, the aggregate NPL ratio was 0.83%, similar to the 0.82% at end-1Q22, and the allowance to NPL ratio was kept at around ~409%, vs. ~414% at end-1Q22 (Fig. 1). However, there was increased pressure, as balance of NPL and special mention loan increased by 3.8%/9.2% qoq (or 9.9%/16.2% hoh) at end-1H22. The NPL formation ratio increased from the 0.60% at end-2021 to 0.77% at end-1H22. Both the NPL ratio of real estate corporate loans and that of residential mortgage loans increased hoh at end-1H22. For example, the NPL ratio of real estate corporate loans rose to 1.01% at end-1H22 from 0.02% as of end-2021. The asset quality of personal loans deteriorated in 1H22, in line with the increased unemployment rate in 1H22. 4) The net fee and commission income maintained fast growth, up by 56.4% yoy in 1H22, partly driven by strong performance of wealth management business. 5) The Company's overall business performance in 1H22 was resilient, although real estate corporate loan and mortgage loan quality is an uncertainty of the banking industry.

Maintain BUY; Cut TP to HKD6.11

PSBC is trading at ~4.8x 22E P/E and ~0.58x 22E P/B. Maintain BUY for PSBC on its resilient 1H22 performance, retail-focused business structure, and fast growth in net fee and commission incomes. Also, PSBC has room to maintain reasonable NIM because it might benefit from its rising loan-to-deposit ratio. Cut TP to HKD6.11, equal to ~0.72x 22E P/B (its historical average). **Key catalysts:** better-than-expected asset quality, NIM expansion; **key downside risks:** worse-than-expected asset quality, NIM pressure.

Financials

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Operating income	286,537	319,107	347,353	377,835	411,532
Net profit attributable to equity holders	64,199	76,170	85,936	95,601	106,112
EPS (RMB)	0.71	0.78	0.86	0.96	1.06
BVPS (RMB)	6.25	6.89	7.18	7.53	7.96
P/E (x)	5.9	5.3	4.8	4.3	3.9
P/B (x)	0.66	0.60	0.58	0.55	0.52
ROE (%)	11.84	11.86	12.27	13.02	13.70
Dividend yield (%)	5.0	6.0	6.7	7.5	8.3

Sources: Company data, CMS (HK) estimates; Note: share price is as of Aug. 22, 2022

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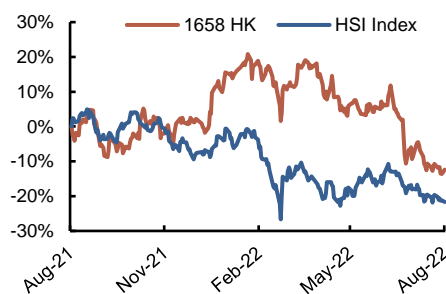
WHAT'S NEW

1H22 results review; cut TP

BUY

Previous	BUY
Price (Aug. 22, 2022)	HKD4.88
12-month Target Price (Potential up/downside)	HKD6.11 (+25%)
Previous	HKD7.91

Price Performance



Source: Wind %

	1m	6m	12m
1658 HK	(4.1)	(25.3)	(12.4)
HSI	(4.6)	(16.9)	(21.7)

Sector: Bank

Hang Seng Index (Aug. 22, 2022)	19,657
HSCEI (Aug. 22, 2022)	6,695

Key Data

52-week range (HKD)	4.78-6.82
Market cap (HKD mn)	411,670
Avg. daily volume (mn)	52.9

Shareholding Structure

China Post Group	67.38%
HKSCC Nominees Limited	21.48%
China Life	2.36%
China Telecom	1.43%
No. of shares outstanding (mn)	92,384
Free float	7.35%

Sources: Bloomberg, Wind, Company data

Related Research

1. PSBC (1658 HK) - Steady profitability in 1Q22 (BUY) (May 3, 2022)
2. PSBC (1658 HK) - Steady growth and sound asset quality (BUY) (Mar. 31, 2022)
3. PSBC (1658 HK) - Stable performance expected; Maintain BUY (BUY) (Mar. 4, 2022)

Focus charts

Figure 1: PSBC key 1H22 results review

Profitability (%)	1H22	1H21	yoy
Growth of net profit attributable to equity holders	14.88	21.84	
Return on average total assets (annualized)	0.73	0.71	
Shareholders' return on weighted average equity (annualized)	13.35	13.30	
Net interest spread	2.24	2.31	
Net interest margin	2.27	2.37	
Cost to income ratio	53.24	51.53	
Asset quality (%)	1H22	End-2021	hoh
Balance of NPL (RMB million)	57,888	52,685	9.9%
Aggregate NPL ratio	0.83	0.82	
NPL formation ratio	0.77	0.60	
Allowance to NPL	409.25	418.61	
Balance of special mention loan	35,351	30,410	16.2%
Special mention loan ratio	0.51	0.47	
Operating performance (RMB mn)	1H22	End-2021	hoh
Net interest income	137,117	132,096 (1H21)	3.8% (yoy)
Net fee and commission income	17,880	11,429 (1H21)	56.4% (yoy)
Average interest-generating assets	12,204,851	11,438,647	6.7%
corporate loans	2,412,331	2,147,034	12.4%
personal loans	3,846,269	3,529,827	9.0%
investments	3,684,981	3,548,414	3.8%
Average customer deposits	11,678,768	10,723,890	8.9%

Sources: Company data, CMS (HK)

Figure 2: Forecast revisions

(RMB mn)	New			Old		Change	
	2021A	2022E	2023E	2022E	2023E	2022E New/Old	2023E New/Old
Equity holders' net profit	76,170	85,936	95,601	85,363	93,480	0.7%	2.3%
Net interest income	269,382	278,337	293,281	285,441	310,992	-2.5%	-5.7%
Average interest-generating assets	11,438,647	12,408,383	13,525,896	12,416,979	13,608,252	-0.1%	-0.6%
Average interest-generating liabilities	11,036,816	12,311,999	13,415,737	11,976,443	13,014,123	2.8%	3.1%
Net interest spread (%)	2.30	2.23	2.16	2.24	2.22		
Net interest margin (%)	2.36	2.24	2.17	2.30	2.29		

Sources: Company data, CMS (HK) estimates

Figure 3: Distribution of loans and NPLs of PSBC (1H22)

RMB mn	Loan	NPL	NPL ratio	Sector Loans/ Total Loans	Sector NPLs/ Total NPLs
Domestic Corporate	2,518,981	14,134	0.56%	36.0%	24.4%
<i>Transportation, storage and postal services</i>	755,276	2,373	0.32%	10.8%	4.1%
<i>Manufacturing</i>	385,832	3,581	0.93%	5.5%	6.2%
<i>Financial services</i>	252,203	0	0.00%	3.6%	0.0%
<i>Production and supply of electricity, heat, gas and water</i>	246,186	206	0.08%	3.5%	0.4%
<i>Wholesale & retail</i>	162,285	3,089	1.91%	2.3%	5.3%
<i>Construction</i>	151,746	678	0.45%	2.2%	1.2%
<i>Mining</i>	69,936	9	0.01%	1.0%	0.0%
<i>Real estate</i>	177,817	1,793	1.01%	3%	3.1%
<i>Water, environment and public utility management</i>	116,370	178	0.15%	1.7%	0.3%
<i>Leasing & commercial services</i>	134,747	902	0.67%	1.9%	1.6%
<i>Other corporate loans</i>	66,583	1,325	1.99%	1.0%	2.3%
Personal	3,952,229	43,754	1.11%	56.5%	75.6%
<i>Residential mortgages</i>	2,229,393	11,640	0.52%	31.9%	20.1%
<i>Personal consumption loans</i>	469,782	10,606	2.27%	6.7%	18.3%
<i>Personal business loans</i>	1,078,499	18,336	1.71%	15.4%	31.7%
<i>Credit card overdraft</i>	174,555	3,172	1.82%	2.5%	5.5%
Discounted bills	519,854	0	0.00%	7.4%	0.0%
Total	6,991,064	57,888	0.83%		

Sources: Company data, CMS (HK)

Figure 4: Inclusive small and micro enterprise (SME) loans

PSBC	2020	2021	1H22	1H22 YTD
Balance of inclusive SME loans (RMB mn)	801,247	960,602	1,092,905	13.8%
Inclusive SME loans / Total loans (%)	14.0	14.9	15.6	
NPL ratio of Inclusive SME loans (%)	n.a.	n.a.	n.a.	
Average rate of Inclusive SME loans (%)	5.51	5.19	4.92	

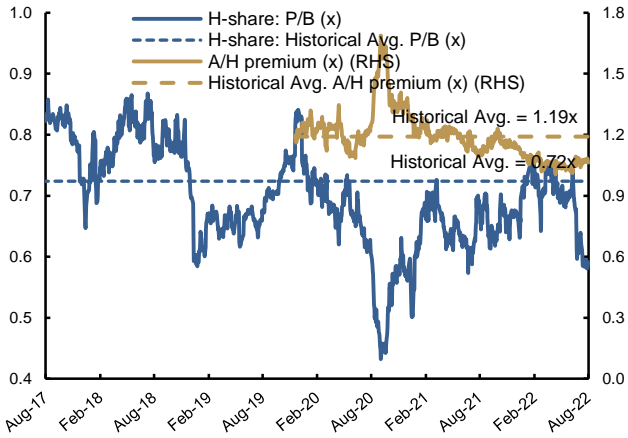
Sources: Company data, CMS (HK)

Figure 5: Credit card business – scale and asset quality

PSBC	2020	2021	1H22	1H22 YTD
Balance of credit card overdraft (RMB mn)	144,641	174,869	174,555	-0.2%
Credit card business NPL ratio (%)	1.83	1.66	1.82	
Credit card NPL / Total NPL (%)	5.26	5.50	5.48	
Credit card loans / Total loans (%)	2.5	2.7	2.5	

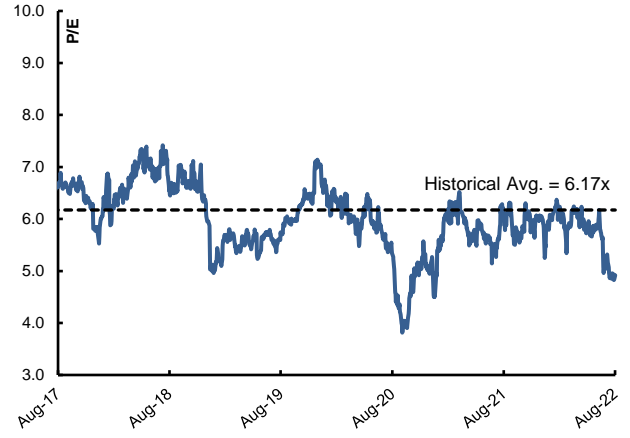
Sources: Company data, CMS (HK)

Figure 6: P/B valuation and A/H premium of PSBC



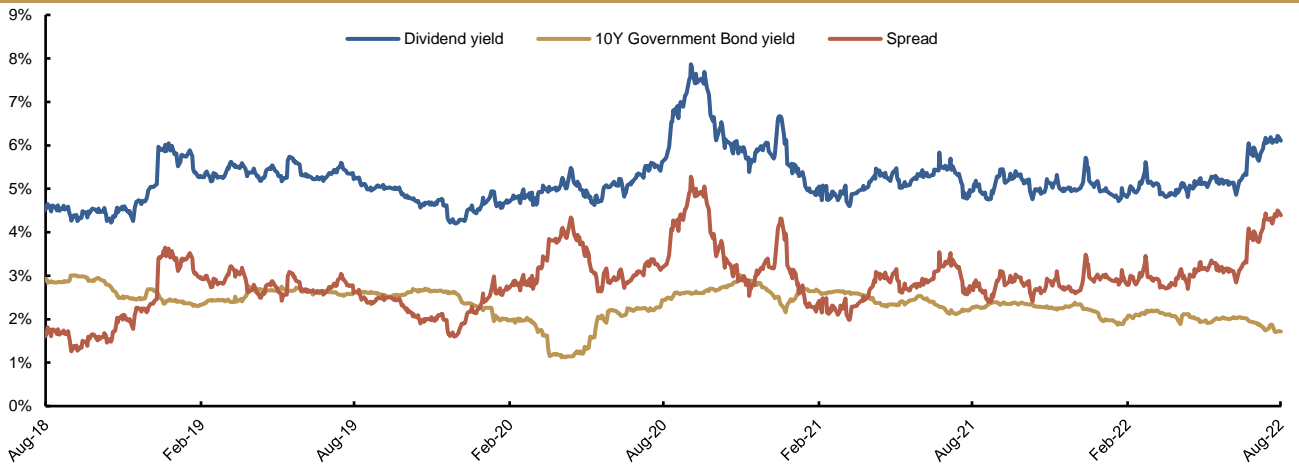
Sources: Wind, Company data, CMS (HK) estimates

Figure 7: P/E valuation of PSBC



Sources: Wind, Company data, CMS (HK) estimates

Figure 8: Dividend yield valuation of PSBC



Sources: Wind, Company data, CMS (HK) estimates

Valuation comparison

Company	Ticker	Rating	Price Local ccy	TP (HKD)	Mkt Cap (USD mn)	P/E(x)		P/B(x)		ROE (%)		Dividend Yield (%)	
						2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
HK Listed Peers													
Postal Savings Bank of China	1658 HK	BUY	4.88	6.11	58,213	4.8	4.3	0.58	0.55	12.3	13.0	6.7	7.5
Industrial and Commercial Bank of China	1398 HK	BUY	4.04	5.74	214,131	3.4	3.2	0.39	0.36	11.8	11.5	9.0	9.6
Bank of Communications	3328 HK	BUY	4.60	5.88	46,364	3.3	3.1	0.36	0.34	10.9	11.2	9.6	10.2
Agricultural Bank of China	1288 HK	Under review	2.55	Under review	141,767	3.1	3.0	0.34	0.32	11.3	11.0	10.2	10.8
China Construction Bank *	939 HK	NR	4.9	n.a.	155,908	3.4	3.1	0.39	0.36	12.0	11.8	9.0	9.6
Bank of China *	3988 HK	NR	2.7	n.a.	122,242	3.3	3.1	0.34	0.31	10.6	10.5	9.6	10.1
China CITIC Bank *	998 HK	NR	3.3	n.a.	27,678	2.6	2.4	0.26	0.24	10.3	10.4	10.9	11.8
China Minsheng Bank *	1988 HK	NR	2.5	n.a.	21,355	3.1	3.0	0.19	0.18	6.2	6.0	9.3	9.5
China Everbright Bank *	6818 HK	NR	2.4	n.a.	20,883	2.8	2.6	0.27	0.25	10.1	10.1	10.6	11.4
Arithmetic Average						3.3	3.1	0.34	0.32	10.6	10.6	9.4	10.1
Weighted Average						3.4	3.2	0.37	0.35	11.3	11.2	9.3	9.9
China A-share Listed Peers *													
Industrial and Commercial Bank of China	601398 CH	NR	4.3	n.a.	214,126	4.3	4.0	0.49	0.45	11.7	11.6	7.2	7.7
Agricultural Bank of China	601288 CH	NR	2.8	n.a.	141,764	4.1	3.8	0.44	0.41	11.2	11.2	7.7	8.3
Bank of Communications	601328 CH	NR	4.6	n.a.	46,363	3.9	3.6	0.40	0.36	10.1	10.5	8.1	8.8
Postal Savings Bank of China	601658 CH	NR	4.5	n.a.	58,211	4.8	4.2	0.58	0.53	12.1	12.7	6.4	7.4
China Construction Bank	601939 CH	NR	5.5	n.a.	155,905	4.3	4.0	0.50	0.46	12.1	11.9	7.1	7.6
Bank of China	601988 CH	NR	3.0	n.a.	122,240	4.2	4.0	0.43	0.40	10.7	10.7	7.6	8.0
China CITIC Bank	601998 CH	NR	4.4	n.a.	27,677	3.8	3.6	0.39	0.37	10.6	10.7	7.1	7.8
China Minsheng Bank	600016 CH	NR	3.6	n.a.	21,355	5.0	4.8	0.31	0.30	6.2	6.1	5.8	6.0
Industrial Bank	601166 CH	NR	17.8	n.a.	53,389	4.0	3.5	0.55	0.49	14.1	14.6	6.6	7.7
China Everbright Bank	601818 CH	NR	2.9	n.a.	20,883	3.7	3.4	0.38	0.35	10.6	10.4	7.6	8.5
Shanghai Pudong Development Bank	600000 CH	NR	7.2	n.a.	30,782	4.2	4.0	0.35	0.33	8.3	8.1	5.6	5.9
Ping An Bank	000001 CH	NR	12.5	n.a.	34,871	5.7	4.8	0.66	0.59	11.9	12.6	2.3	2.6
Huaxia Bank	600015 CH	NR	5.1	n.a.	11,446	3.4	3.2	0.30	0.28	8.5	8.4	7.2	7.3
Bank of Beijing	601169 CH	NR	4.1	n.a.	12,705	3.7	3.5	0.37	0.34	9.5	9.6	7.9	8.3
Bank of Shanghai	601229 CH	NR	5.9	n.a.	12,060	3.6	3.3	0.40	0.36	12.0	12.1	7.4	8.0
Bank of Ningbo	002142 CH	NR	28.6	n.a.	26,747	8.0	6.6	1.18	1.02	15.6	16.6	2.2	2.7
Arithmetic Average						4.4	4.0	0.48	0.44	11.0	11.1	6.5	7.0
Weighted Average						4.4	4.0	0.49	0.45	11.4	11.5	6.9	7.5

Company	Ticker	Rating	Price Local ccy	TP (HKD)	Mkt Cap (USD mn)	P/E(x)		P/B(x)		ROE (%)		Dividend Yield (%)	
						2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Global Peers *													
HSBC	HSBA LN	NR	538.2	n.a.	126,232	8.2	6.7	0.71	0.69	7.7	10.2	4.6	6.8
Standard Chartered	STAN LN	NR	591.2	n.a.	20,476	7.2	5.7	0.46	0.42	6.3	7.6	2.6	3.3
Barclays	BARC LN	NR	163.1	n.a.	30,917	5.2	5.4	0.45	0.42	8.2	7.7	4.4	5.3
Hang Seng Bank	11 HK	NR	125.1	n.a.	30,140	18.0	11.8	1.32	1.27	7.5	10.6	3.8	5.4
Bank of East Asia	23 HK	NR	9.8	n.a.	3,296	7.7	5.7	0.27	0.25	3.5	4.8	6.8	8.2
BOC Hong Kong	2388 HK	NR	27.1	n.a.	36,313	10.5	8.2	0.91	0.85	8.8	10.7	4.9	6.2
Bank of America	BAC US	NR	34.7	n.a.	278,983	10.8	9.1	1.12	1.04	10.5	11.6	2.5	2.7
J.P. Morgan Chase & Co.	JPM US	NR	116.7	n.a.	342,143	10.4	9.2	1.29	1.19	12.8	13.4	3.5	3.6
Wells Fargo	WFC US	NR	44.4	n.a.	168,449	11.2	8.7	1.01	0.94	9.2	10.9	2.4	3.1
Deutsche Bank	DBK GR	NR	8.5	n.a.	17,204	5.4	4.8	0.29	0.27	5.6	6.1	3.7	5.1
BNP Paribas	BNP FP	NR	46.5	n.a.	56,913	5.4	6.4	0.50	0.47	9.4	7.5	8.8	8.2
Average						9.1	7.4	0.76	0.71	8.1	9.2	4.3	5.3

Sources: Company data, Bloomberg, CMS (HK) estimates; Note: Share prices are as of Aug. 22, 2022; * forecast is based on Bloomberg consensus

Financial Summary

Balance Sheet

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Cash and deposits with the central bank	1,219,862	1,189,458	1,197,518	1,260,003	1,327,091
Deposits with banks and other financial institutions	43,682	90,782	116,107	139,328	167,194
Placements with banks and other financial institutions	248,396	280,093	336,112	403,334	484,001
Derivative financial assets	11,140	6,053	6,658	7,324	8,057
Financial assets held under resale agreements	259,956	265,229	291,752	320,927	353,020
Loans and advances to customers	5,512,361	6,237,199	6,999,431	7,815,522	8,740,188
Investment instruments	3,914,650	4,348,620	4,696,510	5,072,230	5,478,009
Property and equipment	48,706	54,669	57,402	60,273	63,286
Deferred tax assets	53,217	56,319	61,951	68,146	74,961
Other assets	41,293	59,451	62,424	65,545	68,822
Total assets	11,353,263	12,587,873	13,825,865	15,212,632	16,764,628
Borrowings from central bank	25,288	17,316	18,182	19,091	20,045
Deposits from banks and other financial institutions	85,912	154,809	232,214	278,656	334,387
Placements from banks and other financial institutions	30,743	42,565	51,078	61,294	73,552
Derivative financial liabilities	9,632	5,176	6,624	7,144	6,315
Financial assets sold under repurchase agreements	25,134	34,643	39,839	45,815	52,688
Customer deposits	10,358,029	11,354,073	12,405,652	13,637,394	15,013,047
Debt securities issued	57,974	81,426	101,783	111,961	123,157
Other liabilities	87,621	102,316	117,663	135,313	155,610
Total liabilities	10,680,333	11,792,324	12,973,035	14,296,668	15,778,801
Share capital	86,979	92,384	92,384	92,384	92,384
Other equity instruments including preference shares	127,858	157,855	187,852	217,852	247,852
Reserves and retained earnings	456,962	543,852	570,727	603,406	642,765
Shareholders' equity	671,799	794,091	850,964	913,643	983,001
Non-controlling interests	1,131	1,458	1,866	2,321	2,825
Total equity	672,930	795,549	852,830	915,963	985,826

Cashflow Statement

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Net cash from operating activities	161,772	109,557	272,493	315,976	351,209
Net cash from investing activities	(122,075)	(182,917)	(235,618)	(260,819)	(286,550)
Net cash from financing activities	16,747	52,263	(8,631)	(22,242)	(24,752)
Net (decrease)/increase in cash and cash equivalents	56,444	(21,097)	28,244	32,915	39,907
Effect of foreign exchange rate changes	(1,266)	(665)	0	0	0
Cash and cash equivalents at end of the year	335,526	313,764	342,008	374,923	414,830

Sources: Company data, CMS (HK) estimates

Profit & Loss Statement

Year ended 31 Dec (RMB mn)	2020A	2021A	2022E	2023E	2024E
Interest income	416,252	451,567	477,340	506,316	538,727
Interest expense	(162,874)	(182,185)	(199,004)	(213,035)	(227,554)
Net interest income	253,378	269,382	278,337	293,281	311,173
Fee and commission income	32,746	42,383	52,166	64,317	75,281
Fee and commission expense	(16,251)	(20,376)	(19,562)	(21,225)	(22,584)
Net gain on financial investments	19,180	26,367	31,412	36,461	42,663
Other operating income, net	(2,516)	1,351	5,000	5,000	5,000
Operating income	286,537	319,107	347,353	377,835	411,532
Operating expenses	(167,984)	(190,995)	(207,841)	(223,790)	(240,977)
Impairment losses	(50,417)	(46,658)	(47,655)	(51,859)	(57,134)
Profit before tax	68,136	81,454	91,856	102,186	113,421
Income tax expenses	(3,818)	(4,922)	(5,511)	(6,131)	(6,805)
Net profit	64,318	76,532	86,345	96,055	106,616
Attributable to:					
Equity holders	64,199	76,170	85,936	95,601	106,112
Of which:					
Ordinary shareholders	61,615	70,894	79,728	88,460	98,039

Financial Ratios

	2020A	2021A	2022E	2023E	2024E
EPS for ordinary shares (RMB)	0.71	0.78	0.86	0.96	1.06
BVPS for ordinary shares (RMB)	6.25	6.89	7.18	7.53	7.96
Return on avg. total assets (%)	0.60	0.64	0.65	0.66	0.67
Return on weighted average equity for ord. shareholders (%)	11.84	11.86	12.27	13.02	13.70
Net interest spread (%)	2.36	2.30	2.23	2.16	2.09
Net interest margin (%)	2.42	2.36	2.24	2.17	2.11
Non-performing loans ratio (%)	0.88	0.82	0.86	0.86	0.86
Allowance to NPL (%)	408.06	418.61	407.55	407.57	407.02
Allowance to total loans ratio (%)	3.60	3.43	3.50	3.50	3.50
Core tier 1 capital adequacy ratio (%)	9.60	9.92	9.21	8.79	8.43
Capital adequacy ratio (%)	13.88	14.78	14.13	13.76	13.42

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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