

## Postal Savings Bank of China

### Deep-rooted deposit franchise

- Provides low funding cost given its most extensive branch network and deepest penetration into the county areas of China
- High provision coverage ratio could mitigate sector-wide earnings pressure from rising credit costs
- Robust RWA growth (+42% YoY) in 2015; requires capital to support its business growth

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**Background:** Postal Savings Bank of China (PSBC) officially began its HK-IPO process by submitting an Application Proof to HKEx on 4 July.

**Highlights: Industry position.** PSBC was established by converting the finance business of the Chinese postal savings institutions in 2007. At end-1Q16, PSBC ranked seventh among China banks in terms of total loans and fifth in terms of total deposits. PSBC has the largest and the most extensive distribution network among the China banks. As at end-1Q16, it has 40,057 outlets (including 31,756 agency outlets), and covers 98.9% of the county areas in China (both are the highest among China banks).

**Business mix.** The retail banking arm of PSBC delivered the highest contribution in terms of deposits, gross loans and profits in the sector, as at end-2015. Its retail banking represented 85.4% of its total deposits and 49.4% of its total loans. PSBC has a unique operational model of using post offices as its agency outlets, which helps PSBC to get long-term, stable and low-cost funding along with cost efficiency benefits. Its low deposit funding cost is a unique advantage for PSOB. In 2015, the average funding cost of its interest-bearing liabilities was 1.94% compared with 2.00% of Big-5 banks (except ABC and ICBC, also at 1.94%).

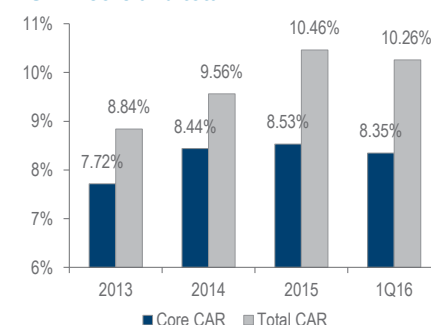
**Asset quality.** As at end-1Q16, PSBC's NPL ratio was 0.81%, lower than the sector average of 1.75%. Its provision coverage ratio stood at 286.71%, higher than 175.03% for the sector.

**Capital.** PSBC's core CAR and total CAR at end-1Q16 stood at 8.35% and 10.26%, respectively, lower than the Big-5 banks' average of 12.02% and 14.32%. Given PSBC's rapid expansion of risk-weighted assets (+42% YoY in 2015), it needs capital to support its business growth.

**Valuation: Size and pricing.** PSBC seeks to raise around USD8bn through its IPO in Hong Kong, according to Bloomberg. The bank plans to sell 13.96bn shares in Hong Kong to strengthen its capital base to support its ongoing growth. H-share listed China banks are currently trading at an average 2015 PBR of 0.75x or 2016E PBR of 0.68x.

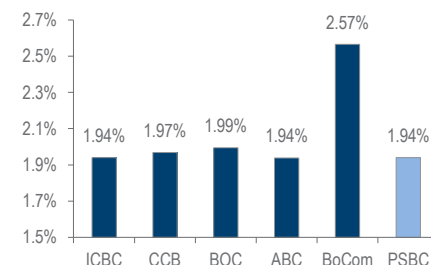
**Cornerstone investors** including UBS, China life, China Telecom, CPPIB, Ant Financial, JPMorgan, FMPL (a subsidiary of Temasek), IFC, DBS Bank and Tencent have committed to subscribe 11.6bn shares of PSBC at an aggregate amount of CNY45bn (priced at CNY3.89; 2015 PBR of 1.0x). UBS and China Life are the largest two cornerstone investors, accounting for 4.99% and 4.87% of the total shares before IPO, respectively.

### PSBC: core and total CAR



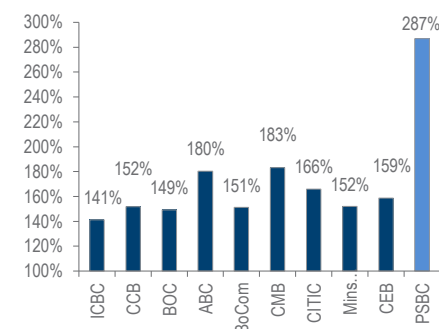
Source: Company, Daiwa

### Major China banks: funding cost of interest-bearing liabilities



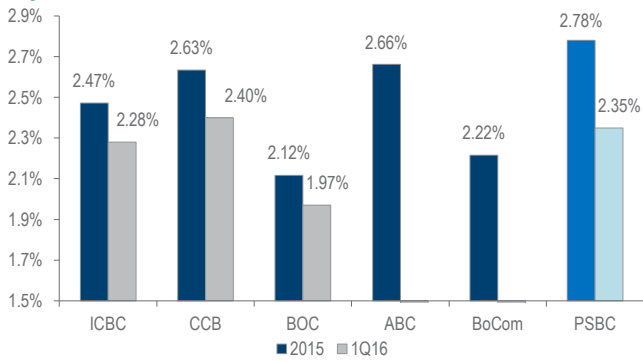
Source: Companies, Daiwa  
 Note: at end-2015

### Major China banks : provision coverage ratios



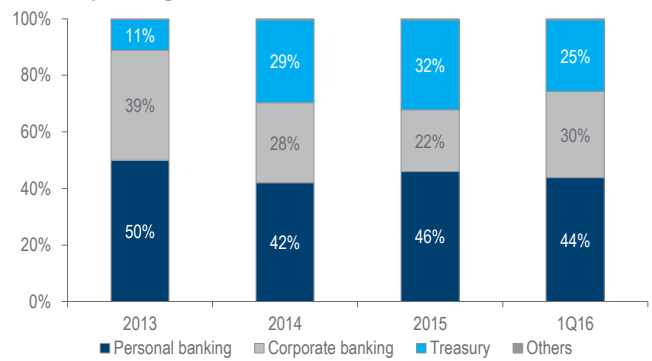
Source: Companies, Daiwa  
 Note: at end-1Q16

**Major China banks: NIM**



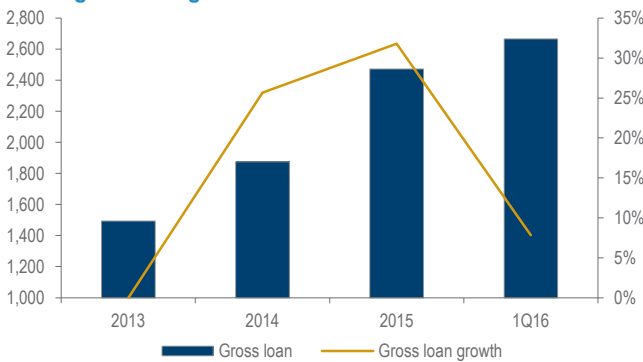
Source: Companies, Daiwa  
Note: ABC and BoCom didn't disclose 1Q16 NIM

**PSBC: operating income mix**



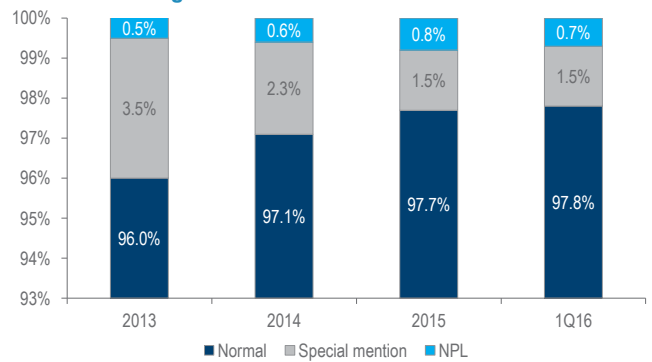
Source: Company, Daiwa

**PSBC: gross loan growth**



Source: Company, Daiwa

**PSBC: loan categories**



Source: Company, Daiwa

**China banks sector: valuation table**

Company	Ticker	Rating	Current price	Mkt cap (US\$ mn)	P/B		P/E		P/POP		Div Yield		ROE		EPS growth	
					FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
ICBC	1398 HK	O	4.28	231,528	0.69	0.63	4.9	4.8	2.8	2.8	6.2%	6.2%	14.9%	13.7%	-2.9%	1.2%
CCB	939 HK	H	5.15	166,491	0.70	0.64	5.0	4.8	2.7	2.6	6.1%	6.2%	15.0%	13.9%	-2.1%	2.9%
BOC	3988 HK	H	3.14	136,615	0.60	0.55	4.8	4.6	2.4	2.5	6.3%	6.5%	13.2%	12.4%	-2.4%	2.8%
ABC	1288 HK	S	2.87	155,638	0.64	0.58	4.6	4.6	2.6	2.5	6.5%	6.5%	14.6%	13.3%	-4.0%	0.6%
BOCOM	3328 HK	B	4.96	56,126	0.56	0.51	4.7	4.4	2.7	2.5	6.4%	6.8%	12.4%	12.1%	1.2%	6.7%
CMB	3968 HK	B	17.56	65,235	0.95	0.85	6.4	5.9	2.5	2.2	4.7%	5.1%	15.7%	15.2%	3.6%	7.9%
CITIC	998 HK	H	4.75	36,540	0.59	0.53	4.6	4.4	1.8	1.6	4.3%	4.6%	13.4%	12.8%	0.9%	5.4%
Minsheng	1988 HK	U	7.48	46,677	0.71	0.64	5.3	5.2	2.4	2.4	3.6%	3.7%	14.1%	13.1%	-3.5%	3.7%
CEB	6818 HK	U	3.55	25,959	0.69	0.63	5.4	5.3	2.5	2.5	5.6%	5.7%	13.5%	12.6%	-10.0%	1.9%
<b>Sector</b>				<b>920,810</b>	<b>0.68</b>	<b>0.62</b>	<b>4.9</b>	<b>4.8</b>	<b>2.6</b>	<b>2.5</b>	<b>5.9%</b>	<b>6.1%</b>	<b>14.4%</b>	<b>13.4%</b>	<b>-2.2%</b>	<b>2.8%</b>

Source: Companies, Daiwa  
Note: prices as of 4 Jul 2016; B=Buy, O=Outperform; H=Hold; U=Underperform

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