

## Postal Savings Bank of China

### Agency outlet arrangement stable but expensive

- PSBC's agency arrangement with China Post Group has an indefinite term; a termination requires approval from China's State Council
- High deposit agency fee paid to China Post Group leads to high operating expenses
- If we consider deposit agency fees as a deposit funding cost, its loan margin would be lower than that of other state-owned banks

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**Background:** Postal Savings Bank of China (PSBC) passed the Hong Kong Stock Exchange (HKEx) hearing for its IPO on 25 August and kicked off a global roadshow on 13 September. The company will price its IPO on 21 September and debut on the HKEx on 28 September (ticker: 1658 HK) (see also [Deep-rooted deposit franchise](#) published on 5 July 2016).

**Highlights:** Its unique agency outlet operating model has an indefinite term. PSBC uses the postal offices of China Post Group as its agency outlets. As at end-1Q16, PSBC had 8,301 own branches, and used 31,756 agency outlets of China Post Group under the agency arrangement. Personal deposits attracted from its agency outlets made up 57.6% of PSBC's total deposits for 1Q16.

The agency arrangement has an indefinite term. Under the China State Council's policies, neither PSBC nor China Post Group, the controlling shareholder of PSBC, is entitled to terminate the agency arrangement, unless the State Council approves the termination.

**Deposit agency fee to China Post Group.** The exact agency fee payable from PSBC to China Post Group is calculated based on the duration of deposits (shown in the table to the right). The overall composite rate is capped at 1.50% annually. The actual composite rate of the deposit agency fee was 1.44%, 1.43% and 1.42% of the balance of agency deposits, in 2013, 2014 and 2015, respectively. The deposit agency fee amounted to CNY46bn, CNY50bn and CNY54bn, representing 45.4%, 44.1% and 47.2% of its operating expenses in 2013, 2014 and 2015, respectively.

The average loan yield and NIM of PSBC were 6.24% and 2.78% in 2015, respectively, which are both higher than those of other state-owned banks. Currently, PSBC's deposit agency fee is counted as an operating expense. If we adjust PSBC's deposit agency fee so that it becomes a deposit funding cost, PSBC's loan margin would be lower than those of other state-owned banks (shown in the chart at the right).

**Valuation: Size and pricing.** PSBC seeks to raise USD7.3-8.1bn in its IPO, according to Bloomberg, with a price range of HKD4.68-5.18 per share, implying a 2015 PBR of 1.02-1.13x.

PSBC plans to sell 12.1bn shares, accounting for 15% of its total pre-IPO share capital, with 95% to be offered as international placing shares and 5% as public placements. H-share listed China banks are currently trading at an average 2016E PBR of 0.76x, based on our forecasts.

### PSBC: the deposit agency fee

	Composite rate of deposit agency fee	Deposit agency fee (CNYbn)
2013	1.44%	46.1
2014	1.43%	50.4
2015	1.42%	54.4
1Q16*	1.43%	14.7

Source: Company, Daiwa

Note: the deposit agency fee and composite ratio are for the first quarter of 2016

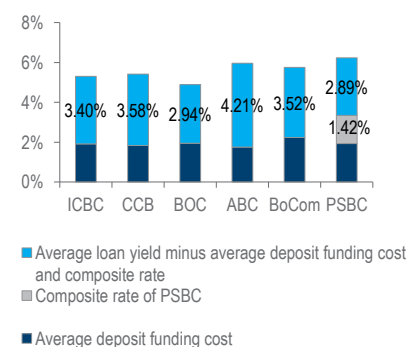
### PSBC: the scaled fee rates based on deposit type

	Scaled fee rate*
Demand	2.30%
Demand or time	1.50%
Call deposit	1.70%
3-month time deposit	1.25%
Half-year time deposit	1.15%
1-year time deposit	1.08%
2-year time deposit	0.50%
3-year time deposit	0.30%
5-year time deposit	0.20%

Source: Companies, Daiwa

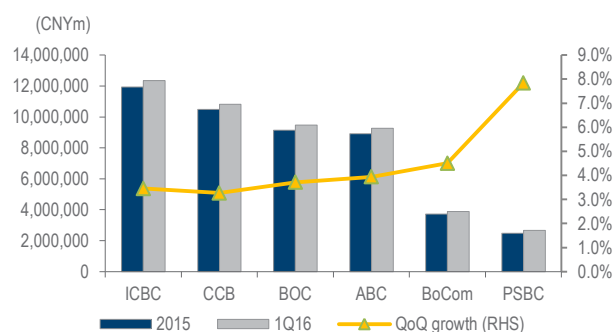
Note: the scaled fee rates in 2013, 2014, 2015 and 1Q16 are same

### Major China Banks: deposit cost and loan yields (2015)



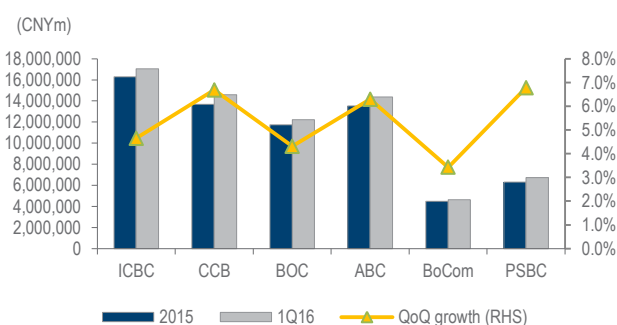
Source: Companies, Daiwa

## Major China banks: gross loan balance and growth



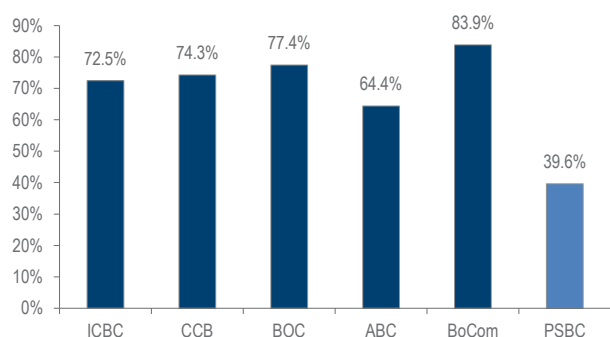
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## Major China banks: deposit balance and growth

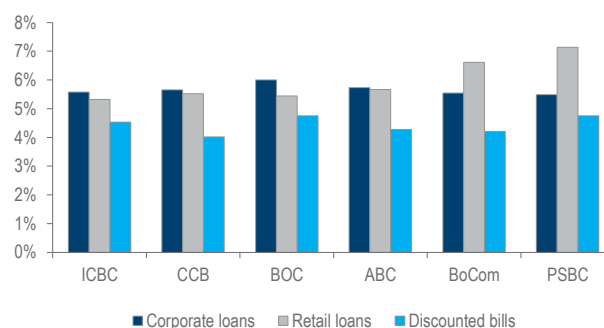


Source: Company, Daiwa

## Major China banks: loan-to-deposit ratio

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

## Major China banks: average yield of corporate loan, retail loan and discounted bills

Source: Company, Daiwa  
Note: the average yields are in 2015, as PSBC didn't disclose the 1H16 average yields

## China banks sector: valuation table

Company	Ticker	Rating	Current	Mkt cap	P/B	P/E			P/PPOP		Div Yield		ROE		EPS growth	
			price	(US\$ mn)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
ICBC	1398 HK	O	4.81	232,626	0.77	0.70	5.30	5.26	3.17	3.06	5.7%	5.7%	15.4%	14.0%	0.3%	0.9%
CCB	939 HK	H	5.77	186,245	0.79	0.72	5.43	5.40	3.05	2.90	5.5%	5.6%	15.3%	13.9%	0.2%	0.6%
BOC	3988 HK	H	3.52	144,596	0.67	0.62	5.18	5.13	2.69	2.84	5.8%	5.9%	13.6%	12.5%	0.7%	0.8%
ABC	1288 HK	S	3.27	151,629	0.73	0.66	5.07	5.06	2.81	2.77	5.9%	5.9%	15.1%	13.7%	0.0%	0.2%
BOCOM	3328 HK	B	5.89	59,372	0.66	0.61	5.59	5.24	3.07	2.87	5.4%	5.7%	12.4%	12.1%	1.2%	6.7%
CMB	3968 HK	B	19.06	66,593	1.03	0.93	6.92	6.55	2.71	2.41	4.4%	4.6%	15.7%	14.9%	3.6%	5.7%
CITIC	998 HK	H	5.19	40,290	0.63	0.57	5.21	4.92	2.00	1.80	4.8%	5.1%	12.6%	12.1%	-0.3%	5.9%
Minsheng	1988 HK	U	8.41	48,706	0.78	0.70	5.69	5.38	2.63	2.43	3.3%	3.5%	14.7%	13.7%	2.1%	5.8%
CEB	6818 HK	U	3.63	25,743	0.71	0.65	5.35	5.32	2.53	2.55	5.6%	5.6%	13.8%	12.7%	-7.6%	0.4%
<b>Sector</b>				<b>955,800</b>	<b>0.76</b>	<b>0.69</b>	<b>5.42</b>	<b>5.32</b>	<b>2.89</b>	<b>2.79</b>	<b>5.4%</b>	<b>5.5%</b>	<b>14.7%</b>	<b>13.5%</b>	<b>0.4%</b>	<b>1.9%</b>

Source: Companies, Daiwa

Note: prices as of 13 Sep 2016; B=Buy, O=Outperform; H=Hold; U=Underperform; S=Sell

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