

China postal bank's \$10 billion IPO stirs foreign interest, but valuation a worry

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People walk past a sign outside a branch of Postal Savings Bank of China (PSBC) in downtown Beijing, China, November 12, 2015.

Reuters/Kim Kyung-Hoon/File Photo

Postal Savings Bank of China's up to \$10 billion forthcoming IPO is drawing marquee foreign investors' attention due to its clean balance sheet, sources said, though unattractive valuations may mean it will still need local cornerstone investors to succeed.

Slots to meet with PSBC's management were all snapped up this week when it held a series of meetings with investors in London, New York, Boston and in the U.S. west coast, bankers and investors directly involved in the Hong Kong IPO, expected to be the world's biggest in 2016, told Reuters.

The investors were eager to learn more about the last remaining big state-backed lender in the world's second-largest economy to go public, they said.

The strong foreign interest means that unlike most mainland listings in Hong Kong this year, PSBC's IPO will be less reliant on purchases of the stock by Chinese state-owned cornerstone investors for the deal to succeed.

It comes against a backdrop of a slowing Chinese economy and mounting worries about the health of its financial sector, with banks' loan defaults at their highest since the global financial crisis in 2009.

"We haven't had any issue to get the highest profile, best possible investors in front of them (management) in late July," one person familiar with the overseas road shows said. July is a typically slow month of the year when many advisers take vacations.

"The roadshow was filled like this," added the person, snapping the fingers.

A PSBC spokeswoman declined to comment. The sources declined to be named as the discussions were confidential.

The bank has attracted interest from potential cornerstone and anchor investors, increasing hopes the listing will get done well before the U.S. presidential election in November, the sources said.

Cornerstone investors buy big chunks of IPOs on a preferential basis in exchange for pledging not to sell the shares for at least six months. Their participation is viewed as a sign of confidence in an IPO.

NO BARGAIN?

Some fund managers, though, said they will steer clear of the deal and wait to see how PSBC shares perform post-listing. Valuations are a key consideration - PSBC is offering its shares near 1 time its book value, while Chinese banks trade on average at 0.7 times their book value on the stock market.

"They won't sell it at a discount to book, while I can buy any of the other Chinese banks well below book value. So it won't be a bargain at all," said Roshan Padamadan, an equities fund manager with Singapore-based Luminance Global Fund, which holds Chinese shares in its portfolio.

PSBC's IPO advisers countered arguments that it was pricey, saying the lender's 40,000-plus branch network, low level of non-performing loans (NPLs) and growth potential warrant a premium valuation to its peers.

PSBC's NPL ratio of 0.81 percent is less than half the 1.81 percent for Chinese commercial banks, including Industrial and Commercial Bank of China Ltd ([1398.HK](#)) ([601398.SS](#)) and Agricultural Bank of China Ltd ([1288.HK](#)) ([601288.SS](#)). ICBC's NPLs stood at 1.66 percent at the end of March, while AgBank's was at 2.39 percent.

A comforting factor for prospective investors in the IPO would be that a group of pre-IPO investors, including UBS Group ([UBSG.S](#)), JPMorgan ([JPM.N](#)) and Canada Pension Plan Investment Board paid 1 times book when they invested \$7 billion in PSBC last year.

"People want to get comfortable with the investment, but they're doing their homework, asking lots of questions," said another person directly involved in the listing. "Because of the sheer size of the deal and the bank, people are giving it the benefit of the doubt, they're engaging."

(Reporting by Elzio Barreto; Additional reporting by Tris Pan in Hong Kong; Editing by Muralikumar Anantharaman)