

Ping An Bank (000001 CH)

Solid earnings momentum; Asset quality trend is key to watch

PAB reported decent 1Q20 PPOp/net profit growth of 19.4%/14.8% YoY. Healthy credit expansion, stable NPL ratio, and better operating efficiency were key positives. 1Q20 NIM narrowed 2bp QoQ, but should outperform peers on resilient loan pricing and higher proportion of market-based funding. Down 21% YTD (vs -11.6%/-5.9% for A-share banks/CSI 300 Index), the Bank appeared to be over-penalized for above-peers exposure to consumption related loans. Despite temporary fluctuation in retail NPLs, PAB is likely among the first to walk out of this credit down-cycle as we expect corporate loan quality to be well managed.

■ **Results positives:** 1) **Loan growth was robust at 5.2% QoQ** vs 4.6% QoQ for system loans. Corporate loan growth accelerated to 11.4% QoQ on policy stimulus, while retail loans were muted (+0.8% QoQ) on subdued consumption activities amid COVID-19's outbreak. 2) **Investment gain picked up 47.9% YoY**, as PAB increased bond portfolio during monetary loosening. 3) **1Q20 cost-income ratio fell 1.6ppt YoY to 29.0%**, indicating better operating efficiency. 4) **Asset quality continued to improve**. NPL ratio was stable at 1.65%, and provision coverage climbed 17.2ppt QoQ to 200.3%. Loss recognition was stricter, as NPLs covered 109.3%/128.7% (+5.3ppt/6.9ppt) of >60/90day overdue loans. 5) **Expanding retail client base with faster growth in HNW**. No. of retail client rose 1.6% QoQ to 98.6mn, and wealth/private banking clients saw faster growth of 5.2%/7.7% QoQ, suggesting improving service capability and stronger customer stickiness. 6) **Capital position was strengthened**. CET1/total CAR edged up 9bp/105bp QoQ to 9.20%/14.27%, as the Bank issued RMB30bn perpetual bond in Feb.

■ **Results negatives:** 1) **1Q20 NIM narrowed 2bp QoQ to 2.60%**. Asset yield retreated 3bp QoQ, mainly on lower rates of return from debt investments and interbank assets. Liability cost slid 1bp QoQ, driven by falling interbank funding cost, despite higher deposit rates. 2) **Net fee income growth slowed to 1.7% YoY**, likely due to weakening bank card and agency service fees amid the pandemic. 3) **Retail NPL ratio surged 33bp QoQ to 1.52%**, with NPL ratio of credit card and auto finance up the most by 66bp and 33bp QoQ, respectively. That said, corporate NPL ratio fell 48bp QoQ to 1.81%.

■ **Maintain BUY and RMB19.80 TP**. We keep our FY20-22E earnings forecasts and TP unchanged and await further details from PAB's results briefing at 9:30am on 21 Apr 2020.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	116,716	137,958	155,587	171,115	189,191
Net profit (RMB mn)	24,818	28,195	31,918	36,485	42,151
EPS (RMB)	1.39	1.54	1.60	1.84	2.13
EPS CHG (%)	7.3	10.3	4.0	14.7	15.9
Consensus EPS (RMB)	NA	NA	1.63	1.88	2.11
P/E (x)	9.3	8.4	8.1	7.1	6.1
P/B (x)	1.01	0.92	0.84	0.76	0.68
Dividend yield (%)	1.1	1.7	1.9	2.2	2.5
ROE (%)	11.3	11.1	10.8	11.2	11.8
NPL ratio (%)	1.75	1.65	1.68	1.53	1.37
Provision coverage (%)	155	183	190	212	235

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **RMB 19.80**
 (Previous TP **RMB 19.80**)
 Up/Downside **+52.4%**
 Current Price **RMB 12.99**

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	252,083
Avg 3 mths t/o (RMB mn)	1,547
52w High/Low (RMB)	17.6/11.6
Total Issued Shares (mn)	19,406

Source: Bloomberg

Shareholding Structure

Ping An Group	57.9%
China Securities Finance	2.2%
Huijin	1.1%

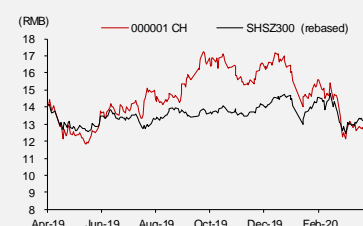
Source: Company data

Share Performance

	Absolute	Relative
1-mth	5.4%	-1.5%
3-mth	-21.4%	-14.9%
6-mth	-21.9%	-21.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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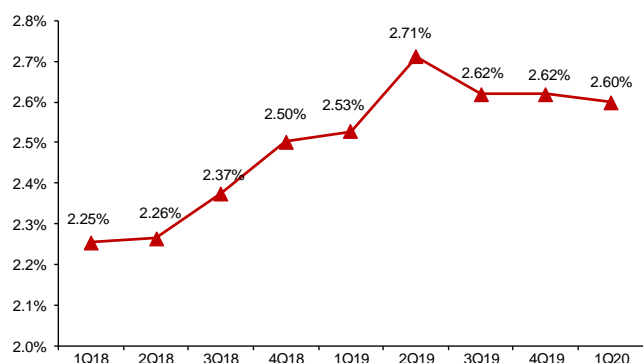
Figure 1: 1Q20 results summary

(RMB mn)						
P&L	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
Net interest income	23,692	24,770	4.6%	20,774	24,770	19.2%
Net fee and commission income	8,912	9,688	8.7%	9,560	9,688	1.3%
Operating income	35,000	37,926	8.4%	32,476	37,926	16.8%
Operating expense	(10,893)	(11,000)	1.0%	(9,924)	(11,000)	10.8%
PPoP	24,107	26,926	11.7%	22,552	26,926	19.4%
Impairment losses	(18,531)	(15,928)	-14.0%	(12,885)	(15,928)	23.6%
Pre-tax profit	5,576	10,998	97.2%	9,667	10,998	13.8%
Income tax	(990)	(2,410)	143.4%	(2,225)	(2,410)	8.3%
Net profit	4,574	8,548	86.9%	7,446	8,548	14.8%

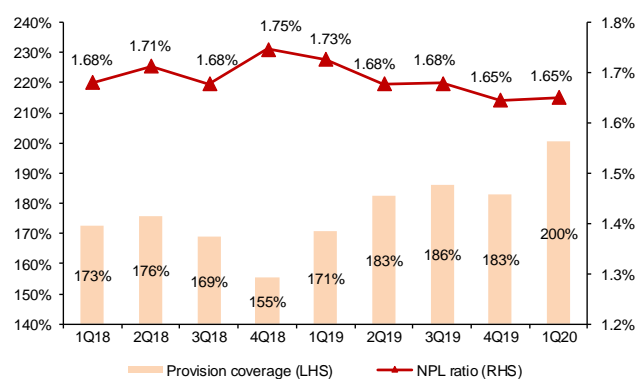
B/S	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
Gross loans	2,323,205	2,444,176	5.2%	2,051,445	2,444,176	19.1%
Customers' deposits	2,459,768	2,590,095	5.3%	2,308,782	2,590,095	12.2%
Total assets	3,939,070	4,132,298	4.9%	3,530,180	4,132,298	17.1%
NPLs	38,233	40,341	5.5%	35,412	40,341	13.9%

Key ratio	4Q19	1Q20	QoQ	1Q19	1Q20	YoY
NIM	2.62%	2.60%	-2bp	2.53%	2.60%	7bp
ROE	6.8%	12.3%	5.5ppt	13.3%	12.3%	-1.0ppt
NPL ratio	1.65%	1.65%	0bp	1.73%	1.65%	-8bp
Provision coverage	183.1%	200.3%	17.2ppt	170.6%	200.3%	29.8ppt
LDR	94.4%	94.4%	-0.1ppt	88.9%	94.4%	5.5ppt
CET1 CAR	9.1%	9.2%	9bp	8.8%	9.2%	45bp

Source: Company data, CMBIS

Figure 2: Quarterly NIM of PAB

Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of PAB

Source: Company data, CMBIS

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	162,888	177,549	203,713	222,861	244,004
Interest expenses	(88,143)	(87,588)	(101,640)	(111,601)	(121,959)
Net interest income	74,745	89,961	102,074	111,260	122,045
Net fee income	31,297	36,743	42,254	48,593	55,882
Others	10,674	11,254	11,259	11,262	11,264
Operating income	116,716	137,958	155,587	171,115	189,191
Operating expenses	(36,540)	(42,142)	(49,867)	(54,879)	(60,548)
PPoP	80,176	95,816	105,720	116,236	128,643
Provision	(47,871)	(59,527)	(64,646)	(69,292)	(74,416)
Operating profit	32,305	36,289	41,074	46,944	54,228
Non-operating income	(74)	(49)	(49)	(49)	(49)
Pre-tax profit	32,231	36,240	41,025	46,895	54,179
Income tax expenses	(7,413)	(8,045)	(9,107)	(10,410)	(12,027)
Minority interests	-	-	-	-	-
Net profit	24,818	28,195	31,918	36,485	42,151

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Op. income mix					
Net interest income	64%	65%	66%	65%	65%
Net fee income	27%	27%	27%	28%	30%
Others	9%	8%	7%	7%	6%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	1.0%	20.4%	13.5%	9.0%	9.7%
Net fee income	2.0%	17.4%	15.0%	15.0%	15.0%
Operating income	10.3%	18.2%	12.8%	10.0%	10.6%
PPoP	9.6%	19.5%	10.3%	9.9%	10.7%
Net profit	7.0%	13.6%	13.2%	14.3%	15.5%
Gross loans	17.2%	16.3%	12.0%	12.0%	12.0%
Customer deposits	7.4%	14.5%	11.0%	11.0%	11.0%

Efficiency

Cost-to-income ratio	30.3%	29.6%	31.1%	31.1%	31.0%
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Balance Sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Due from central banks	273,513	246,771	310,681	344,526	382,094
Interbank assets	195,017	227,269	238,632	250,564	263,092
Investments	850,317	1,047,080	1,099,434	1,154,406	1,212,126
Gross loans	1,997,529	2,323,205	2,601,990	2,914,228	3,263,936
Less: provision	54,187	70,013	83,212	95,031	105,251
Other assets	156,403	164,758	162,790	181,669	200,207
Total assets	3,418,592	3,939,070	4,330,316	4,750,362	5,216,204
Due to central banks	149,756	113,331	130,331	149,880	172,362
Interbank liabilities	725,461	853,283	913,680	970,540	1,031,296
Customer deposits	2,149,142	2,459,768	2,730,342	3,030,680	3,364,055
Debt securities issued	81,755	95,340	104,874	110,118	115,624
Other liabilities	72,436	104,365	80,413	86,772	93,817
Total liabilities	3,178,550	3,626,087	3,959,641	4,347,990	4,777,154
Shareholders' equity	240,042	312,983	370,676	402,372	439,050
Incl. Perpetual bonds	-	19,995	50,000	50,000	50,000
Incl. Preferred stocks	19,953	19,953	19,953	19,953	19,953
Minority interest	-	-	-	-	-
Total equity	240,042	312,983	370,676	402,372	439,050

Asset quality

NPL ratio	1.75%	1.65%	1.68%	1.53%	1.37%
Provision coverage	155%	183%	190%	212%	235%
Provision/ total loans	2.71%	3.01%	3.20%	3.26%	3.22%
Credit costs	2.58%	2.71%	2.56%	2.45%	2.35%

Capital adequacy

CET-1 CAR	8.5%	9.1%	10.1%	10.1%	10.2%
Tier-1 CAR	9.4%	10.5%	10.8%	10.8%	10.7%
Total CAR	11.5%	13.2%	12.6%	12.3%	12.1%

Profitability

NIM	2.35%	2.62%	2.56%	2.53%	2.53%
ROE	11.3%	11.1%	10.8%	11.2%	11.8%
ROA	0.74%	0.77%	0.77%	0.80%	0.85%
RoRWA	1.05%	1.07%	1.10%	1.19%	1.24%

Per share

EPS (RMB)	1.39	1.54	1.60	1.84	2.13
DPS (RMB)	0.15	0.22	0.25	0.28	0.33
BVPS (RMB)	12.8	14.1	15.5	17.1	19.0

Source: Company data, CMBIS estimates

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