

# Ping An Bank (000001 CH)

## Stable NIM and rising dividend payout highlight 4Q19 results

PAB reported FY19 net profit of RMB 28.2bn, up 13.6% YoY and in line with its preliminary earnings announcement. Key results positives are stable NIM, lower CIR, stricter NPL recognition, and higher dividend payout. We remain upbeat on PAB's growth prospects and see major catalysts from: 1) continued better-than-peers NIM and asset quality trend, thanks to greater retail exposure; 2) successful transformation in corporate banking, with support from Ping An Group; and 3) management's boost for wealth management business, in order to make up the long-standing weakness in funding cost.

■ **Results positives:** 1) **Loan growth accelerated to 8.0% in 4Q19**, as capital was replenished after the conversion of RMB 26bn CB in 3Q19. Corporate loan growth picked up to 10% QoQ, driving a strong deposit growth of 6.3% QoQ. 2) **NIM remained stable QoQ at 2.62%**, as 10bp decline in loan yield was offset by 8bp/3bp retreat in deposit/interbank funding costs; 3) **4Q19 cost-income ratio fell 2.5ppt YoY to 31.1%**, indicating better operating efficiency; 4) **Asset quality improved with stricter loss recognition**. NPL ratio edged down 3bp QoQ to 1.65%, mainly from 22bp contraction in corporate NPL ratio. Moreover, NPLs has covered 122%/104% of 90/60-day overdue loans, implying less formation pressure going forward; 5) **Retail client base continued to expand**. No. of retail client rose 3.6% QoQ to 97.1mn, and retail AUM increased 5.9% QoQ to RMB 1.98tn. 6) **Management proposed a higher dividend payout of 15%**, up 5ppts from FY18.

■ **Results negatives:** 1) **Capital ratio declined in 4Q19**. CET-1/total CAR slid 64bp/14bp QoQ to 9.1%/13.2% on faster RWA expansion. 2) **Retail NPL ratio rose 10bp HoH to 1.19%**, due to 29bp and 12bp HoH increase in NPL ratio for credit card (1.66%) and auto finance loans (0.74%). As a precautionary measure, PAB slowed down the growth of credit card overdraft to 5.8%, vs 11.6% total loan growth in 2H19.

■ **Maintain BUY and lower TP to RMB 19.80**. We trim our FY20-21 earnings estimates by 4.2-7.5%, as we lower NIM forecast by 3-5bp and raise credit cost assumption by 8-10bp to reflect COVID-19's impact. That said, we believe recent share price correction offers a good opportunity to accumulate the stock. Our revised RMB 19.8 TP is based on 1.28x target P/B and FY20E BVPS of RMB 15.5.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	116,716	137,958	155,097	170,602	188,655
Net profit (RMB mn)	24,818	28,195	32,355	37,214	42,993
EPS (RMB)	1.39	1.54	1.62	1.87	2.17
EPS CHG (%)	7.3	10.3	5.5	15.4	15.9
P/E (x)	12.1	9.5	9.0	7.8	6.7
P/B (x)	1.32	1.04	0.94	0.85	0.77
Dividend yield (%)	0.9	1.5	1.7	2.0	2.3
ROE (%)	11.3	11.1	11.0	11.5	12.0
NPL ratio (%)	1.75	1.65	1.58	1.46	1.36
Provision coverage (%)	155	183	200	218	229

Source: Company data, CMBIS estimates

## BUY (Maintain)

Target Price	RMB 19.80
(Previous TP	RMB 21.20)
Up/Downside	+35.2%
Current Price	RMB 14.65

### China Banking Sector

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### Stock Data

Mkt Cap (RMB mn)	284,297
Avg 3 mths t/o (RMB mn)	1,349
52w High/Low (RMB)	17.6/10.9
Total Issued Shares (mn)	19,406
Source: Bloomberg	

### Shareholding Structure

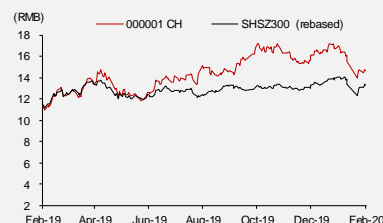
Ping An Group	57.9%
China Securities Finance	2.2%
Huijin	1.1%
Source: Company data	

### Share Performance

	Absolute	Relative
1-mth	-11.5%	-7.5%
3-mth	-9.6%	-11.4%
6-mth	-2.3%	-9.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

- Long-term prospect stays intact despite some NIM pressure – 22 Oct 2019
- All-round improvement; NIM & NPL are bright spots – 8 Aug 2019
- Best proxy to capture the retail banking boom – 28 Jun 2019
- Takeaways from retail banking corporate day – 12 Mar 2019

Figure 1: 4Q19 results summary

(RMB mn)						
P&L	FY18	FY19	YoY	4Q18	4Q19	YoY
Net interest income	74,745	89,961	20.4%	20,216	23,692	17.2%
Net fee and commission income	31,297	36,743	17.4%	7,592	8,912	17.4%
Operating income	116,716	137,958	18.2%	30,052	35,000	16.5%
Operating expense	(36,540)	(42,142)	15.3%	(10,112)	(10,893)	7.7%
PPoP	80,176	95,816	19.5%	19,940	24,107	20.9%
Impairment losses	(47,871)	(59,527)	24.3%	(14,249)	(18,531)	30.1%
Pre-tax profit	32,305	36,289	12.3%	5,691	5,576	-2.0%
Income tax	(7,413)	(8,045)	8.5%	(1,303)	(990)	-24.0%
Net profit	24,818	28,195	13.6%	4,362	4,574	4.9%

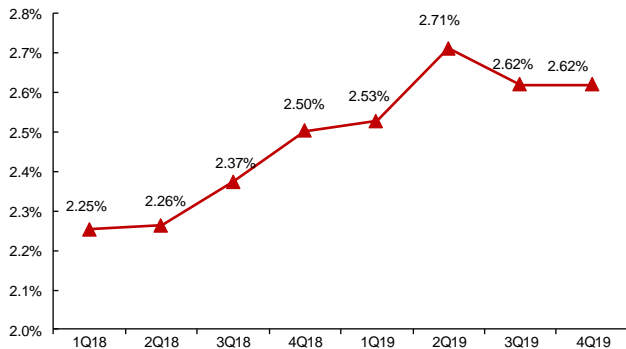
B/S	FY18	FY19	YoY	4Q18	4Q19	QoQ
Gross loans	1,997,529	2,323,205	16.3%	2,151,167	2,323,205	8.0%
Customers' deposits	2,149,142	2,459,768	14.5%	2,313,764	2,459,768	6.3%
Total assets	3,418,592	3,939,070	15.2%	3,707,683	3,939,070	6.2%
NPLs	34,905	38,233	9.5%	36,127	38,233	5.8%

Key ratio	FY18	FY19	YoY	4Q18	4Q19	QoQ
NIM	2.35%	2.62%	27bp	2.62%	2.62%	0bp
ROE	11.3%	11.1%	-0.2ppt	13.1%	6.8%	-6.4ppt
NPL ratio	1.75%	1.65%	-10bp	1.68%	1.65%	-3bp
Provision coverage	155.2%	183.1%	27.9ppt	186.2%	183.1%	-3.1ppt
LDR	92.9%	94.4%	1.5ppt	93.0%	94.4%	1.5ppt
CET-1 CAR	8.5%	9.1%	57bp	9.8%	9.1%	-64bp

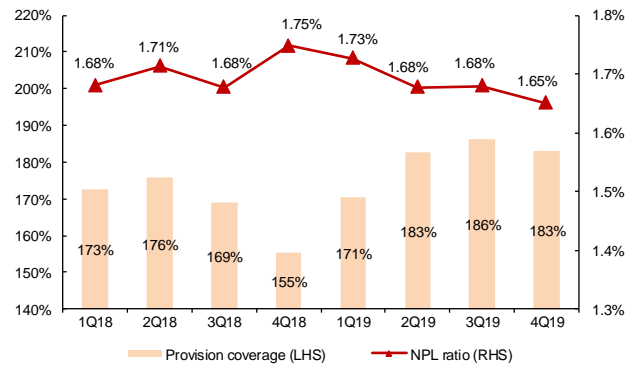
Source: Company data, CMBIS

Figure 2: Quarterly NIM of PAB



Source: Company data, CMBIS

Figure 3: NPL ratio and provision coverage of PAB



Source: Company data, CMBIS

Figure 4: Adjustments of earnings forecasts

	Net profit (RMB mn)			EPS (RMB)			NIM			Credit cost		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
FY20E	33,761	32,355	-4.2%	1.69	1.62	-4.0%	2.58%	2.55%	-3bp	2.44%	2.52%	+8bp
FY21E	40,217	37,214	-7.5%	2.03	1.87	-7.8%	2.57%	2.52%	-5bp	2.30%	2.40%	+10bp

Source: Company, CMBIS estimates

## Financial Summary

### Income Statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest income	162,888	177,549	203,637	222,839	244,048
Interest expenses	(88,143)	(87,588)	(102,054)	(112,091)	(122,539)
Net interest income	74,745	89,961	101,583	110,748	121,509
Net fee income	31,297	36,743	42,254	48,593	55,882
Others	10,674	11,254	11,259	11,262	11,264
<b>Operating income</b>	<b>116,716</b>	<b>137,958</b>	<b>155,097</b>	<b>170,602</b>	<b>188,655</b>
Operating expenses	(36,540)	(42,142)	(49,800)	(54,809)	(60,475)
<b>PPoP</b>	<b>80,176</b>	<b>95,816</b>	<b>105,297</b>	<b>115,793</b>	<b>128,180</b>
Provision	(47,871)	(59,527)	(63,661)	(67,912)	(72,871)
Operating profit	32,305	36,289	41,636	47,881	55,309
Non-operating income	(74)	(49)	(49)	(49)	(49)
Pre-tax profit	32,231	36,240	41,587	47,832	55,260
Income tax expenses	(7,413)	(8,045)	(9,232)	(10,618)	(12,267)
Minority interests	-	-	-	-	-
<b>Net profit</b>	<b>24,818</b>	<b>28,195</b>	<b>32,355</b>	<b>37,214</b>	<b>42,993</b>

### Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Op. income mix</b>					
Net interest income	64%	65%	65%	65%	64%
Net fee income	27%	27%	27%	28%	30%
Others	9%	8%	7%	7%	6%
Total	100%	100%	100%	100%	100%
<b>Growth, YoY</b>					
Net interest income	1.0%	20.4%	12.9%	9.0%	9.7%
Net fee income	2.0%	17.4%	15.0%	15.0%	15.0%
Operating income	10.3%	18.2%	12.4%	10.0%	10.6%
PPoP	9.6%	19.5%	9.9%	10.0%	10.7%
Net profit	7.0%	13.6%	14.8%	15.0%	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
<b>Gross loans</b>	<b>1,997,529</b>	<b>2,323,205</b>	<b>2,601,990</b>	<b>2,914,228</b>	<b>3,263,936</b>
Less: provision	54,187	70,013	82,227	92,667	101,342
Other assets	156,403	164,758	162,243	180,405	198,131
<b>Total assets</b>	<b>3,418,592</b>	<b>3,939,070</b>	<b>4,330,754</b>	<b>4,751,462</b>	<b>5,218,036</b>
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
<b>Customer deposits</b>	<b>2,149,142</b>	<b>2,459,768</b>	<b>2,730,342</b>	<b>3,030,680</b>	<b>3,364,055</b>
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
<b>Total liabilities</b>	<b>3,178,550</b>	<b>3,626,087</b>	<b>3,959,641</b>	<b>4,347,990</b>	<b>4,777,154</b>
<b>Shareholders' equity</b>	<b>240,042</b>	<b>312,983</b>	<b>371,113</b>	<b>403,472</b>	<b>440,882</b>
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	-	-	-	-	-
<b>Total equity</b>	<b>240,042</b>	<b>312,983</b>	<b>371,113</b>	<b>403,472</b>	<b>440,882</b>

### Asset quality

NPL ratio	1.75%	1.65%	1.58%	1.46%	1.36%
Provision coverage	155%	183%	200%	218%	229%
Provision/ total loans	2.71%	3.01%	3.16%	3.18%	3.10%
Credit costs	2.58%	2.71%	2.52%	2.40%	2.30%

### Capital adequacy

CET-1 CAR	8.5%	9.1%	9.6%	9.7%	9.7%
Tier-1 CAR	9.4%	10.5%	10.3%	10.3%	10.3%
Total CAR	11.5%	13.2%	11.9%	11.8%	11.6%

### Profitability

NIM	2.35%	2.62%	2.55%	2.52%	2.52%
ROE	11.3%	11.1%	11.0%	11.5%	12.0%
ROA	0.74%	0.77%	0.78%	0.82%	0.86%
RoRWA	1.05%	1.07%	1.09%	1.15%	1.20%

### Per share

EPS (RMB)	1.39	1.54	1.62	1.87	2.17
DPS (RMB)	0.15	0.22	0.25	0.29	0.33
BVPS (RMB)	12.8	14.1	15.5	17.2	19.1

Source: Company data, CMBIS estimates

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