Ping An Bank (000001 CH)

Profit expansion back on track; Asset quality a bright spot

BUY (Maintain)

Target Price	**RMB 22.80**
(Previous TP	RMB 22.80)
Up/Downside	**+27.3%**
Current Price	**RMB 17.91**

After a sharp decline in 2Q20, PAB's earnings regained positive growth of +6.1% YoY in 3Q20. As such, YTD profit contraction narrowed to -5.2% in 9M20 YoY from -11.2% YoY in 1H20. Key results highlights are fast pick-up in retail loans, improving asset quality, and robust fee income. We stay upbeat on PAB's 4Q20 outlook, given: 1) strong macro trend, thus waning policy intervention on banks' earnings; 2) continued recovery in consumption and retail credit; 3) interbank rates will likely retreat on loose liquidity, easing NIM pressure; and 4) above-peers provision coverage offers room to lower credit cost.

- **Results positives: 1) Loan growth was solid at 3.1% QoQ,** mainly driven by retail loans (+5.7% QoQ). In particular, new mortgage (+7.5% QoQ) and auto loans (+10.4% QoQ) remained strong, and credit card resumed expansion (+3.0% QoQ) from 1H20 contraction. Proportion of retail loans increased to 58% of total loans as of 3Q20. **2) Asset quality improved notably.** PAB accelerated NPL disposal in 3Q20. As a result, NPL ratio dropped 33bp QoQ to 1.32%, and provision coverage further climbed to 3.4ppt QoQ to 218%. NPLs still covered 104% of >60day overdue loans, indicating stringent loss recognition. **3) Net fee income was up 32.6% YoY,** likely on strong bank card and agency services fees. **4) Cost-income ratio fell** 1.4ppt YoY to 29% in 3Q20, suggesting better operating efficiency; **5) Stable expansion in retail client base.** Number of retail/ wealth/ private banking client rose 1.9%/4.5%/8.2% QoQ. Retail AUM increased 7.2% QoQ to RMB2.49tn.
- **Results negatives: 1) NIM declined 11bp QoQ to 2.48%.** Loan yield slid 32bp QoQ, likely on write-off in retail loans past due and the Bank's more prudent lending appetite. Lower deposit cost was partly offset by rising interbank funding cost, as market rates rebounded in 3Q20. **2) Trading and investment gain was down 72% YoY,** likely due to bond yield hike in 3Q20. **3) Deposits rose 2.5% QoQ, slower than loan growth.** LDR increased to 100.5%. **4) Capital position weakened,** with 5bp/10bp QoQ decline in Tier1/total CAR.
- **Maintain BUY and RMB22.8 TP.** We keep earnings forecast unchanged, and our TP of RMB22.8 is derived from 1.5x target P/B and FY20E BVPS of RMB15.2.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income (RMB mn)	116,716	137,958	154,235	169,487	187,247
Net profit (RMB mn)	24,818	28,195	25,859	29,532	34,443
EPS (RMB)	1.39	1.54	1.29	1.48	1.73
EPS CHG (%)	7.3	10.3	(16.3)	14.7	17.1
Consensus EPS (RMB)	NA	NA	1.37	1.55	1.79
P/E (x)	12.8	11.6	13.9	12.1	10.4
P/B (x)	1.40	1.27	1.18	1.09	0.99
Dividend yield (%)	0.8	1.2	1.1	1.3	1.5
ROE (%)	11.3	11.1	8.8	9.3	10.0
NPL ratio (%)	1.75	1.65	1.36	1.32	1.29
Provision coverage (%)	155	183	231	268	303

Source: Company data, Bloomberg, CMBIS estimates

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	347,560
Avg 3 mths t/o (RMB mn)	1,917
52w High/Low (RMB)	18.1/11.91
Total Issued Shares (mn)	19,406

Source: Bloomberg

Shareholding Structure

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

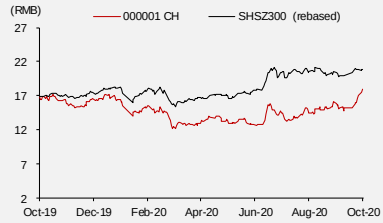
Source: Company data

Share Performance

	Absolute	Relative
1-mth	9.1%	7.9%
3-mth	19.1%	16.3%
6-mth	35.0%	8.5%
12-mth	6.2%	-14.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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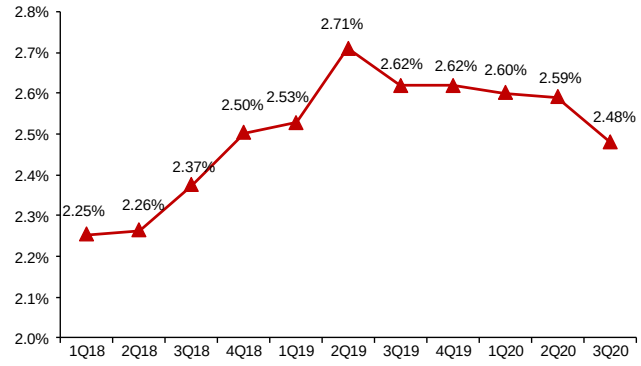
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Figure 1: 3Q20 results summary

(RMB mn)							
P&L	**3Q19**	**4Q19**	**1Q20**	**2Q20**	**3Q20**	**QoQ**	**YoY**
Net interest income	22,630	23,692	24,770	25,535	24,849	-2.7%	9.8%
Non-interest income	12,499	11,308	13,156	14,867	13,387	-10.0%	7.1%
Operating income	35,129	35,000	37,926	40,402	38,236	-5.4%	8.8%
Operating expense	(10,661)	(10,893)	(11,000)	(11,178)	(11,073)	-0.9%	3.9%
PPoP	24,468	24,107	26,926	29,224	27,163	-7.1%	11.0%
Impairment losses	(13,792)	(18,531)	(15,928)	(22,563)	(15,899)	-29.5%	15.3%
Pre-tax profit	10,676	5,576	10,998	6,661	11,264	69.1%	5.5%
Income tax	(2,455)	(990)	(2,410)	(1,499)	(2,519)	68.0%	2.6%
Net profit	8,218	4,574	8,548	5,130	8,720	70.0%	6.1%
B/S	**3Q19**	**4Q19**	**1Q20**	**2Q20**	**3Q20**	**QoQ**	**YoY**
Total loans	2,151,167	2,323,205	2,444,176	2,508,408	2,585,004	3.1%	20.2%
Total deposits	2,313,764	2,459,768	2,590,095	2,509,330	2,573,072	2.5%	11.2%
Total assets	3,707,683	3,939,070	4,132,298	4,178,622	4,346,921	4.0%	17.2%
NPLs	36,127	38,233	40,341	41,313	34,044	-17.6%	-5.8%
Loan loss reserves	67,262	70,013	80,823	88,794	74,313	-16.3%	10.5%
Key ratio	**3Q19**	**4Q19**	**1Q20**	**2Q20**	**3Q20**	**QoQ**	**YoY**
NIM	2.62%	2.62%	2.60%	2.59%	2.48%	-11bp	-14bp
CIR	30.3%	31.1%	29.0%	27.7%	29.0%	1.3ppt	-1.4ppt
ROA	0.89%	0.90%	0.48%	0.85%	0.49%	-0.4ppt	-0.4ppt
ROE	13.1%	6.8%	12.3%	7.3%	12.2%	5.0ppt	-0.9ppt
NPL ratio	1.68%	1.65%	1.65%	1.65%	1.32%	-33bp	-36bp
Provision coverage	186.2%	183.1%	200.3%	214.9%	218.3%	3.4ppt	32.1ppt
Allowance ratio	3.13%	3.01%	3.31%	3.54%	2.87%	-67bp	-25bp
LDR	93.0%	94.4%	94.4%	100.0%	100.5%	0.5ppt	7.5ppt
CET1 CAR	9.8%	9.1%	9.2%	8.9%	8.9%	1bp	-81bp
Tier1 CAR	10.5%	10.5%	11.7%	11.3%	11.3%	-5bp	76bp
Total CAR	13.4%	13.2%	14.3%	14.0%	13.9%	-10bp	50bp

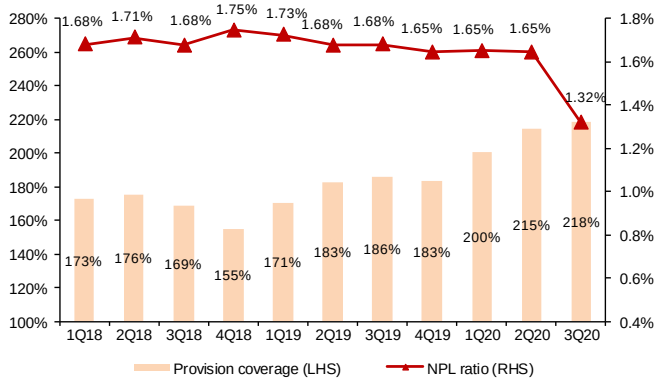
Source: Company data, CMBIS

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	40,417	46,480	53,452
Others	10,674	11,254	11,744	11,747	11,750
Operating income	116,716	137,958	154,235	169,487	187,247
Operating expenses	(36,540)	(42,142)	(49,647)	(54,615)	(60,233)
PPoP	80,176	95,816	104,588	114,872	127,013
Provision	(47,871)	(59,527)	(71,301)	(76,864)	(82,694)
Operating profit	32,305	36,289	33,287	38,008	44,320
Non-operating income	(74)	(49)	(49)	(49)	(49)
Pre-tax profit	32,231	36,240	33,238	37,959	44,271
Income tax expenses	(7,413)	(8,045)	(7,379)	(8,427)	(9,828)
Minority interests	-	-	-	-	-
Net profit	24,818	28,195	25,859	29,532	34,443

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	1,316,450	1,382,273	1,451,386
Gross loans	1,997,529	2,323,205	2,601,990	2,914,228	3,263,936
Less: provision	54,187	70,013	91,584	113,057	137,178
Other assets	156,403	164,758	(51,911)	(40,274)	(25,893)
Total assets	3,418,592	3,939,070	4,324,258	4,738,260	5,197,437
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	364,617	390,270	420,283
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	364,617	390,270	420,283

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix					
Net interest income	64%	65%	66%	66%	65%
Net fee income	27%	27%	26%	27%	29%
Others	9%	8%	8%	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%	10.0%	15.0%	15.0%
Operating income	10.3%	18.2%	11.8%	9.9%	10.5%
PPoP	9.6%	19.5%	9.2%	9.8%	10.6%
Net profit	7.0%	13.6%	-8.3%	14.2%	16.6%
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%	31.2%	31.2%	31.2%
Asset quality					
NPL ratio	1.75%	1.65%	1.36%	1.32%	1.29%
Provision coverage	155%	183%	231%	268%	303%
Provision/ total loans	2.71%	3.01%	3.14%	3.54%	3.90%
Credit costs	2.58%	2.71%	2.70%	2.60%	2.50%
Capital adequacy					
CET-1 CAR	8.5%	9.1%	9.9%	9.8%	9.6%
Tier-1 CAR	9.4%	10.5%	10.6%	10.4%	10.2%
Total CAR	11.5%	13.2%	12.4%	12.0%	11.6%
Profitability					
NIM	2.35%	2.62%	2.56%	2.53%	2.53%
ROE	11.3%	11.1%	8.8%	9.3%	10.0%
ROA	0.74%	0.77%	0.63%	0.65%	0.69%
RoRWA	1.05%	1.07%	0.89%	0.96%	1.01%
Per share					
EPS (RMB)	1.39	1.54	1.29	1.48	1.73
DPS (RMB)	0.15	0.22	0.20	0.23	0.27
BVPS (RMB)	12.8	14.1	15.2	16.5	18.1

Source: Company data, CMBIS estimates

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