Ping An Bank (000001 CH)

Bottom line disappoints but core earnings resilient

PAB's 1H20 net profit declined 11.2% YoY to RMB13.7bn, implying 35.5% YoY shrink in 2Q20 earnings. The bottom line weakness mainly came from surging provisions (+57.6% YoY) in 2Q20, as the Bank followed regulatory initiative to build up loss reserves and hold back earnings expansion. However, its revenue/PPoP growth continued to outrun sector peers at 14.3%/18.4% YoY. With notable pick-up in provision coverage and stringent NPL recognition, PAB should see greater room to lower credit cost and unleash earnings potential when policy guidance effect wanes.

- **Results positives: 1) Credit extension was solid at 2.4% QoQ.** Retail loan growth recovered to 3.6% in 2Q20 from 1Q20 stagnation, driven by mortgage (+6.0% QoQ), auto finance (+11.0% QoQ), and personal business loans (+15.1% QoQ). **2) Non-interest income rose 19.1% YoY in 2Q20,** as net fee income gained 13.6% YoY, and trading and investment return grew 34.2% YoY. As a result, revenue structure improved with 36.8% (+2.1ppt QoQ) non-interest income contribution; **3) Cost-income ratio fell** 2.5ppt YoY to 27.7%, indicating better operating efficiency; **4) Asset quality remained healthy.** NPL ratio was flat at 1.65%, and provision coverage climbed 15ppt QoQ to 215%, higher than joint-stock banks' average of 204%. Credit card NPL ratio edged up 3bp QoQ, while corporate NPL ratio further slid 5bp QoQ. **5) Steady growth in retail client base.** Number of retail/wealth/PB client rose 3.1%/7.7%/8.5% QoQ, and retail AUM increased 8.6% QoQ to RMB2.32tn.
- **Results negatives: 1) Deposits shrank 3.1% QoQ,** pushing LDR to 100%. Proportion of structured deposits stayed elevated at 22.4%. **2) 2Q20 NIM narrowed 1bp QoQ to 2.59%,** as asset yield contraction outweighed funding cost retreat. **3) Capital adequacy ratio dropped,** with 27bp/31bp QoQ decline in CET-1/total CAR, due to sluggish earnings and cash dividend payout in 2Q20.
- **Maintain BUY and trim TP to RMB18.9.** We cut FY20/21 earnings forecast by 12-14%, as we lifted credit cost assumption by 20-24bp to reflect PAB's prudent provisioning against potential asset quality deterioration. Our revised TP of RMB18.9 is based on 1.24x (from 1.28x) target P/B and FY20E BVPS of RMB15.3.

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	27,319	32,193	38,546
EPS (RMB)	1.39	1.54	1.36	1.61	1.94
EPS CHG (%)	7.3	10.3	(11.4)	18.4	20.3
Consensus EPS (RMB)	NA	NA	1.62	1.85	2.13
P/E (x)	10.4	9.4	10.6	9.0	7.4
P/B (x)	1.13	1.03	0.95	0.87	0.78
Dividend yield (%)	1.0	1.5	1.5	1.7	2.1
ROE (%)	11.3	11.1	9.3	10.1	11.0
NPL ratio (%)	1.75	1.65	1.68	1.61	1.54
Provision coverage (%)	155	183	215	249	280

Source: Company data, Bloomberg, CMBIS estimates

招銀国际 CMB INTERNATIONAL
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BUY (Maintain)

Target Price	**RMB 18.90**
(Previous TP	RMB 19.80)
Up/Downside	**+30.7%**
Current Price	**RMB 14.46**

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	280,610
Avg 3 mths t/o (RMB mn)	2,063
52w High/Low (RMB)	17.6/11.91
Total Issued Shares (mn)	19,406

Source: Bloomberg

Shareholding Structure

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

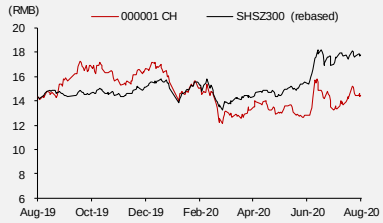
Source: Company data

Share Performance

	Absolute	Relative
1-mth	6.4%	1.9%
3-mth	10.2%	-9.3%
6-mth	-4.1%	-17.0%
12-mth	0.8%	-19.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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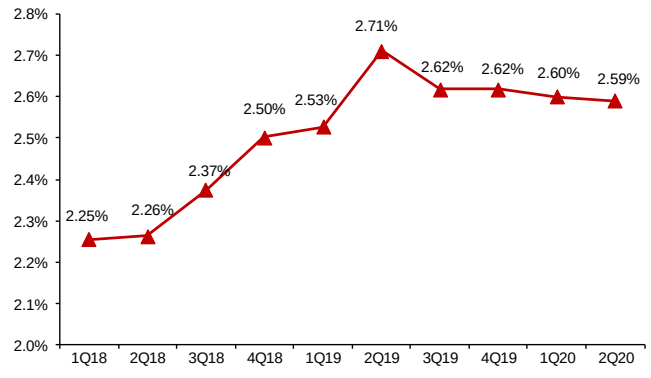
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Figure 1: 2Q20 results summary

(RMB mn)							
P&L	**2Q19**	**3Q19**	**4Q19**	**1Q20**	**2Q20**	**QoQ**	**YoY**
Net interest income	22,865	22,630	23,692	24,770	25,535	3.1%	11.7%
Non-interest income	12,488	12,499	11,308	13,156	14,867	13.0%	19.1%
Operating income	35,353	35,129	35,000	37,926	40,402	6.5%	14.3%
Operating expense	(10,664)	(10,661)	(10,893)	(11,000)	(11,178)	1.6%	4.8%
PPoP	24,689	24,468	24,107	26,926	29,224	8.5%	18.4%
Impairment losses	(14,319)	(13,792)	(18,531)	(15,928)	(22,563)	41.7%	57.6%
Pre-tax profit	10,370	10,676	5,576	10,998	6,661	-39.4%	-35.8%
Income tax	(2,375)	(2,455)	(990)	(2,410)	(1,499)	-37.8%	-36.9%
Net profit	7,957	8,218	4,574	8,548	5,130	-40.0%	-35.5%
B/S	**2Q19**	**3Q19**	**4Q19**	**1Q20**	**2Q20**	**QoQ**	**YoY**
Gross loans	2,081,896	2,151,167	2,323,205	2,444,176	2,508,408	2.6%	20.5%
Total deposits	2,367,562	2,313,764	2,459,768	2,590,095	2,509,330	-3.1%	6.0%
Total assets	3,590,766	3,707,683	3,939,070	4,132,298	4,178,622	1.1%	16.4%
NPLs	34,925	36,127	38,233	40,341	41,313	2.4%	18.3%
Key ratio	**2Q19**	**3Q19**	**4Q19**	**1Q20**	**2Q20**	**QoQ**	**YoY**
NIM	2.71%	2.62%	2.62%	2.60%	2.59%	-1bp	-12bp
ROE	13.8%	13.1%	6.8%	12.3%	7.3%	-5.0ppt	-6.6ppt
NPL ratio	1.68%	1.68%	1.65%	1.65%	1.65%	0bp	-3bp
Provision coverage	182.5%	186.2%	183.1%	200.3%	214.9%	14.6ppt	32.4ppt
LDR	87.9%	93.0%	94.4%	94.4%	100.0%	5.6ppt	12.0ppt
CET-1 CAR	8.9%	9.8%	9.1%	9.2%	8.9%	-27bp	4bp

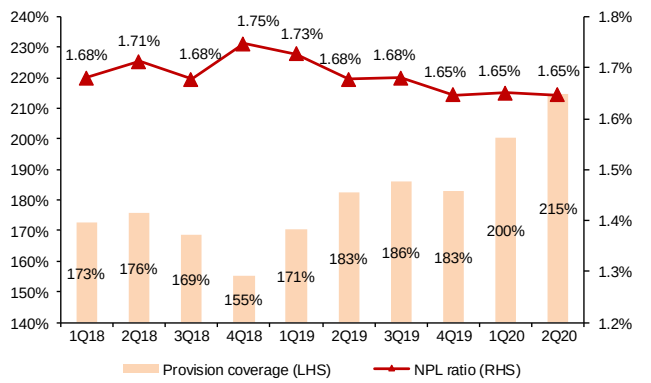
Source: Company data, CMBIS

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

	Credit cost			Net profit (RMB mn)			EPS (RMB)			EPS (RMB)		
	Old	**New**	**Change**	**Old**	**New**	**Change**	**Old**	**New**	**Change**	**Old**	**New**	**Change**
FY20E	2.56%	2.80%	+24bp	31,918	27,319	-14.4%	1.62	1.36	-15.9%	1.08	1.04	-4.3%
FY21E	2.45%	2.65%	+20bp	36,485	32,193	-11.8%	1.87	1.61	-13.7%	1.22	1.15	-5.7%

Source: CMBIS estimates

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)	(70,556)	(74,808)	(79,049)
Operating profit	32,305	36,289	35,164	41,428	49,594
Non-operating income	(74)	(49)	(49)	(49)	(49)
Pre-tax profit	32,231	36,240	35,115	41,379	49,545
Income tax expenses	(7,413)	(8,045)	(7,795)	(9,186)	(10,999)
Minority interests	-	-	-	-	-
Net profit	24,818	28,195	27,319	32,193	38,546

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	94,047	116,899	141,020
Other assets	156,403	164,758	169,028	195,336	224,815
Total assets	3,418,592	3,939,070	4,325,718	4,742,162	5,205,043
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	366,077	394,172	427,889
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	366,077	394,172	427,889

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue 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%	-3.1%	17.8%	19.7%
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%
Asset quality					
NPL ratio	1.75%	1.65%	1.68%	1.61%	1.54%
Provision coverage	155%	183%	215%	249%	280%
Provision/ total loans	2.71%	3.01%	3.61%	4.01%	4.32%
Credit costs	2.58%	2.71%	2.80%	2.65%	2.50%
Capital adequacy					
CET-1 CAR	8.5%	9.1%	10.0%	9.9%	9.8%
Tier-1 CAR	9.4%	10.5%	10.7%	10.5%	10.4%
Total CAR	11.5%	13.2%	12.4%	12.1%	11.8%
Profitability					
NIM	2.35%	2.62%	2.56%	2.53%	2.53%
ROE	11.3%	11.1%	9.3%	10.1%	11.0%
ROA	0.74%	0.77%	0.66%	0.71%	0.78%
RoRWA	1.05%	1.07%	0.94%	1.04%	1.13%
Per share					
EPS (RMB)	1.39	1.54	1.36	1.61	1.94
DPS (RMB)	0.15	0.22	0.21	0.25	0.30
BVPS (RMB)	12.8	14.1	15.3	16.7	18.4

Source: Company data, CMBIS estimates

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