



Rating
Hold

Asia
China

Banking / Finance
Banks

Company
Ping An Bank

Reuters 000001.SZ Bloomberg 000001.CH Exchange SHZ Ticker 000001

Date
11 August 2017

Results

Price at 10 Aug 2017 (CNY)	10.62
Price target - 12mth (CNY)	9.48
52-week range (CNY)	11.17 - 8.57
HANG SENG INDEX	27,757

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Fundamental recovery takes time; Hold

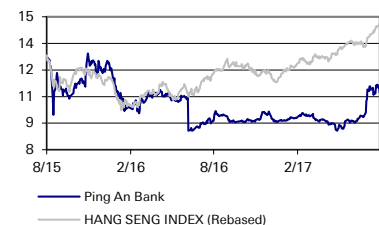
Funding cost pressure read-across to other JSBs

PAB reported 2Q17 net profit of Rmb6.3bn, up 2% yoy; 1H17 earnings were up 2% yoy, accounting for 51% of our 2017 forecast. The uninspiring 2Q17 results were mainly characterized by higher funding cost, which we believe represents a read-across to other wholesale-funded joint-stock banks (JSBs). NIM fell another 15bps qoq. Asset quality has yet to see major improvement, while capital remains a concern that is not solved by convertible bond issuance. The only sweet spot is the retail strategy, which started to bear fruit in 1H17 with a 40%/64% contribution to revenue/ profit (vs. 29% in 1H16). Net net, we believe it will take more time before we see a fundamental recovery. Hold.

Key trends of 2Q17 results

- **NIM** in 2Q17 was 2.38%, down 15bps qoq or 33bps yoy; we believe it was impacted by a market rate hike and financial deleveraging. Deposit cost was up 11bps qoq to 1.92% and interbank borrowing cost up 28bps qoq to 3.4%. Meanwhile, loan yield continued to decline (5.94% vs. 6.06% in 1Q17). In addition, PAB saw difficulties in growing deposits (up 0.7% yoy).
- **Asset quality** continued to deteriorate: the NPL ratio nudged up 2bps qoq to 1.76% with the coverage ratio at 161% (163% in 1Q17). The SML ratio stood at 4.14%, up 3bps hoh; meanwhile, >90-day overdue loan/NPL balance remained high at 154% (vs. 158% in 2016). We estimate 2Q17 NPL formation was 284bps, higher than 254bps in 1Q17 but lower than 326bps on average in 2016.
- **Weak capital ratio**: The CET1 ratio stood at only 8.13% in 2Q17, down 15bps qoq, with RWA density up 35bps qoq to 70.3%. PAB recently announced a Rmb26bn A-share convertible bond plan but we don't think this can solve the capital issue in the short term. In our view, it may need to further raise capital through a placement and reduce its payout ratio (2016: 12%, vs big 4 banks' c.30%).
- **CIR** fell 5.8ppt yoy to 25.9%, driven by a 21% drop in operating expenses. It is worth highlighting that its total employees fell 14% YTD, leading to a 23% yoy decline in labor cost.
- **Retail** contributed 40% of group revenue and 64% of group profit in 1H17 (29% and 29% in 1H16), which was a positive development in our view. We think this was a result of its strategic focus on retail banking and cross-selling from Ping An Group. We will seek more details during the post-results conference call to be held on 11 August.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	10.7	22.5	16.2
HANG SENG INDEX	8.9	11.0	23.4

Source: Deutsche Bank

Valuation and risks

We value Ping An Bank using a three-stage Gordon Growth Model ($PV = (ROE-g)/(COE-g)$), with our target price based on 0.8x FY2017E book value. Key downside risks: weaker-than-expected asset quality deterioration; faster-than-expected capital consumption; and weaker-than-expected synergy with Ping An Group. Key upside risks: faster development of wealth management businesses; strengthened retail franchise to lower deposit cost; better intra-group cross-selling. More Details on page 4.



PAB 1H17 and 2Q17 results summary

1H17 and 2Q17 results

Figure 1: Summary of PAB's 1H17 and 2Q17 results

P&L (RMB m)	2Q16	3Q16	4Q16	1Q17	2Q17	2Q17 QoQ	2Q17 YoY	1H16	2H16	1H17	1H17HoH	1H17YoY	1H17 % of FY17E
Interest Income	32,007	32,007	34,028	35,045	36,603	4.4%	14.4%	65,084	66,035	71,648	8.5%	10.1%	47.9%
Interest Expense	(13,491)	(13,640)	(13,579)	(16,176)	(18,111)	-2.0%	-0.1%	(27,489)	(27,219)	(34,287)	26.0%	24.7%	46.5%
Net Interest Income	18,516	18,367	20,449	18,869	18,492			37,595	38,816	37,361	-3.7%	-0.6%	49.3%
Dealing gain/loss-FX	131	285	314	45	7	-84.4%	-94.7%	283	599	52	-91.3%	-81.6%	5.6%
Dealing gain/loss-others	958	808	(159)	586	170	-71.0%	-82.3%	1,768	649	756	16.5%	-57.2%	29.8%
Net fee and commission income	7,629	7,726	5,084	8,150	7,598	-6.8%	-0.4%	15,049	12,810	15,748	22.9%	4.6%	50.9%
Others	3	13	59	62	94	51.6%	3033.3%	74	72	156	116.7%	110.8%	101.8%
Non Interest Income	8,721	8,832	5,298	8,843	7,869	-11.0%	-9.8%	17,174	14,130	16,712	18.3%	-2.7%	48.4%
Operating Income	27,237	27,199	25,747	27,712	26,361	-4.9%	-3.2%	54,769	52,946	54,073	2.1%	-1.3%	49.0%
Operating Expenses	(8,645)	(7,195)	(5,610)	(7,050)	(6,839)	-3.0%	-20.9%	(18,613)	(12,805)	(13,889)	8.5%	-25.4%	45.0%
PPOP	18,592	20,004	20,137	20,662	19,522	-5.5%	5.0%	36,156	40,141	40,184	0.1%	11.1%	50.5%
Provisions	(10,450)	(11,615)	(14,903)	(12,434)	(11,282)	-9.3%	8.0%	(20,000)	(26,518)	(23,716)	-10.6%	18.6%	50.5%
Non current items	(17)	17	141	2	(38)	-2000.0%	123.5%	(2)	158	(36)	-122.8%	1700.0%	#DIV/0!
Pre-tax Profits	8,125	8,406	5,375	8,230	8,202	-0.3%	0.9%	16,154	13,781	16,432	19.2%	1.7%	50.4%
Taxes	(1,919)	(1,979)	(1,495)	(2,016)	(1,862)	-7.6%	-3.0%	(3,862)	(3,474)	(3,878)	11.6%	0.4%	49.6%
Net Profit	6,206	6,427	3,880	6,214	6,340	2.0%	2.2%	12,292	10,307	12,554	21.8%	2.1%	50.7%
	4.2%	4.4%	-5.9%	2.1%									
Balance Sheet Items (RMB m)	2Q16	3Q16	4Q16	1Q17	2Q17	2Q17 QoQ	2Q17 YoY	1H16	2H16	1H17	1H17HoH	1H17YoY	1H17 % of FY17E
Gross loans	1,358,021	1,430,514	1,475,801	1,548,162	1,594,281	3.0%	17.4%	1,358,021	1,475,801	1,594,281	8.0%	17.4%	96.2%
Loan loss provisions	34,086	36,660	39,932	43,978	45,229	2.8%	32.7%	34,086	39,932	45,229	13.3%	32.7%	93.1%
NPLs	21,195	22,300	25,702	26,927	28,037	4.1%	32.3%	21,195	25,702	28,037	9.1%	32.3%	89.4%
Total assets	2,800,983	2,791,238	2,953,434	3,006,195	3,092,142	2.9%	10.4%	2,800,983	2,953,434	3,092,142	4.7%	10.4%	97.5%
Total deposits	1,898,348	1,912,878	1,921,835	1,912,082	1,912,333	0.0%	0.7%	1,898,348	1,921,835	1,912,333	-0.5%	0.7%	92.1%
Shareholder's equity (common)	171,747	178,275	182,218	187,786	191,501	2.0%	11.5%	171,747	182,218	191,501	5.1%	11.5%	94.3%
Average interest earning assets	2,640,980	2,876,197	2,871,281	3,029,722	3,107,899	2.6%	17.7%	2,607,874	2,941,280	3,049,878	3.7%	16.9%	102.5%
Per share data (RMB)													
Issued shares (mn)	17,170	17,170	17,170	17,170	17,170	0.00%	0.00%	17,170	17,170	17,170	0.0%	0.0%	100.0%
BVPS	10.00	10.38	10.61	10.94	11.15	1.98%	11.50%	10.00	10.61	11.15	5.1%	11.5%	94.3%
EPS	0.36	0.37	0.23	0.36	0.37	2.03%	2.16%	0.72	0.60	0.73	21.8%	2.1%	50.7%
PPOPP/sh	1.08	1.17	1.17	1.20	1.14	-5.52%	5.00%	2.11	2.34	2.34	0.1%	11.1%	50.5%
Ratios (%)	2Q16	3Q16	4Q16	1Q17	2Q17	2Q17 QoQ	2Q17 YoY	1H16	2H16	1H17	1H17HoH	1H17YoY	1H17 % of FY17E
CIR	31.7%	26.5%	21.8%	25.4%	25.9%	0.50%	-5.80%	34.0%	24.2%	25.7%	1.5%	-8.3%	na
Effective tax rate	23.6%	23.5%	27.8%	24.5%	22.7%	-1.79%	-0.92%	23.9%	25.2%	23.6%	-1.6%	-0.3%	na
ROA	0.91%	0.92%	0.54%	0.83%	0.83%	0.00%	-0.07%	0.93%	0.72%	0.83%	0.1%	-0.1%	na
ROE	14.6%	14.7%	8.6%	13.4%	13.4%	-0.06%	-1.26%	14.8%	11.6%	13.4%	1.8%	-1.3%	na
Customer LDR	71.5%	74.8%	76.8%	81.0%	83.4%	2.40%	11.83%	71.5%	76.8%	83.4%	6.6%	11.8%	na
NPL ratio	1.56%	1.56%	1.74%	1.74%	1.76%	0.02%	0.20%	1.56%	1.74%	1.76%	0.0%	0.2%	na
Loan loss coverage	160.8%	164.4%	155.4%	163.3%	161.3%	-2.00%	0.50%	160.82%	155.37%	161.32%	6.0%	0.5%	na
NIM	2.71%	2.66%	2.72%	2.53%	2.38%	-0.15%	-0.33%	2.83%	2.64%	2.45%	-0.19%	-0.38%	na
Credit costs	3.19%	3.33%	4.10%	3.29%	2.87%	-0.42%	-0.32%	3.11%	3.74%	3.09%	-0.7%	0.0%	na
Non interest income as % total income	32.0%	32.5%	20.6%	31.9%	29.9%	-2.06%	-2.17%	31.4%	26.7%	30.9%	4.2%	-0.5%	na
Fee income as % total income	28.0%	28.4%	19.7%	29.4%	28.8%	-0.59%	0.81%	27.5%	24.2%	29.1%	4.9%	1.6%	na
Core Tier 1 CAR / Core CAR	8.49%	8.64%	8.36%	8.28%	8.13%	-0.15%	-0.36%	8.49%	8.36%	8.13%	-0.2%	-0.4%	na
Tier 1 CAR	9.55%	9.67%	9.34%	9.23%	9.05%	-0.18%	-0.50%	9.55%	9.34%	9.05%	-0.3%	-0.5%	na
CAR	11.82%	11.97%	11.53%	11.48%	11.23%	-0.25%	-0.59%	11.82%	11.53%	11.23%	-0.3%	-0.6%	na
Sequential growth - loans	7.5%	5.3%	3.2%	4.9%	3.0%	-1.92%	-4.56%	11.7%	8.7%	8.0%	-0.6%	-3.6%	na
Sequential growth - deposits	2.4%	0.8%	0.5%	-0.5%	0.0%	0.52%	-2.36%	9.5%	1.2%	-0.5%	-1.7%	-10.0%	na
Sequential growth - interbank assets	-8.2%	-24.0%	29.5%	-11.1%	-1.9%	9.23%	6.33%	-8.5%	-1.5%	-12.8%	-11.3%	-4.3%	na
Sequential growth - interbank liabilities	-14.1%	-3.4%	78.6%	1.8%	-2.2%	-4.05%	11.87%	-19.6%	72.6%	-0.4%	-73.0%	19.2%	na
Interbank assets as % of total IEA	17.0%	12.8%	15.6%	13.6%	13.0%	-0.56%	-3.95%	17.0%	15.6%	13.0%	-2.6%	-4.0%	na
Provision to loan ratio	2.51%	2.56%	2.71%	2.84%	2.84%	0.00%	0.33%	2.51%	2.71%	2.84%	0.1%	0.3%	na
SML loan	58,893	59,700	60,703	63,759	66,009	3.53%	12.08%	58,893	60,703	66,009	5306	7116	na
SML ratio	4.34%	4.17%	4.11%	4.12%	4.14%	0.02%	-0.20%	4.34%	4.11%	4.14%	0.0%	-0.2%	na

Source: Deutsche Bank estimates, Company data



Figure 2: Asset quality summary - PAB

Rmb m	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2Q17
Overdue loan												
<3M	6,575	7,672	9,513	9,798	14,092	16,697	18,157	23,402	23,063	20,093	25,842	
3M-1Y	4,845	7,345	10,554	11,208	13,645	18,605	28,586	21,322	25,957	25,617	30,055	
1Y-3Y	687	2,048	4,475	5,443	9,282	10,556	13,319	11,685	10,601	11,972	12,456	
>3Y	657	329	155	61	40	137	550	1,018	3,018	2,943	690	
Total overdue loan	12,765	17,394	24,697	26,510	37,059	45,995	60,612	57,427	62,639	60,625	69,043	
Overdue loan ratio (total)	1.87%	2.41%	3.14%	3.13%	3.95%	4.49%	5.10%	4.72%	4.61%	4.11%	4.33%	
Overdue loan (<90 days)	6,575	7,672	9,513	9,798	14,092	16,697	18,157	23,402	23,063	20,093	25,842	
Overdue loan ratio (<90 days)	0.96%	1.06%	1.21%	1.16%	1.50%	1.63%	1.53%	1.92%	1.70%	1.36%	1.62%	
Overdue loan (>90 days)	6,190	9,721	15,184	16,712	22,967	29,298	42,455	34,025	39,576	40,532	43,201	
Overdue loan ratio (>90 days)	0.91%	1.35%	1.93%	1.97%	2.45%	2.86%	3.57%	2.80%	2.91%	2.75%	2.71%	
Overdue loan (>90 days)/NPL	125%	142%	199%	222%	265%	279%	270%	193%	187%	158%	154%	
Five categories of loans												
Pass	673,011	706,738	764,511	821,721	904,227	977,284	1,119,173	1,148,011	1,277,933	1,389,396	1,500,235	1,500,235
SML	4,924	7,177	14,336	18,027	25,332	36,949	52,932	50,482	58,893	60,703	66,009	66,009
Substandard	3,388	5,030	4,970	4,375	3,916	4,374	6,444	7,945	11,010	13,833	13,760	13,760
Doubtful	824	962	1,433	1,575	2,272	2,146	3,789	2,141	4,027	4,494	4,977	4,977
Loss	759	874	1,234	1,591	2,480	3,981	5,496	7,559	6,158	7,375	9,300	9,300
Total loan	682,906	720,781	786,484	847,289	938,227	1,024,734	1,187,834	1,216,138	1,358,021	1,475,801	1,594,281	1,594,281
		0.32%	0.95%	0.45%	0.82%	1.18%	1.44%	-0.20%	0.65%	0.13%	0.35%	
SML	4,924	7,177	14,336	18,027	25,332	36,949	52,932	50,482	58,893	60,703	66,009	66,009
SML ratio	0.72%	1.00%	1.82%	2.13%	2.70%	3.61%	4.46%	4.15%	4.34%	4.11%	4.14%	4.14%
NPL	4,971	6,866	7,637	7,541	8,668	10,501	15,729	17,645	21,195	25,702	28,037	28,037
NPL ratio	0.73%	0.95%	0.97%	0.89%	0.92%	1.02%	1.32%	1.45%	1.56%	1.74%	1.76%	1.76%
Overdue loan / NPL	256.79%	253.33%	323.39%	351.54%	427.54%	438.01%	385.35%	325.46%	295.54%	235.88%	246.26%	246.26%
NPL write-off & transfer-out	387	857	995	3,007	3,569	5,525	6,614	16,969	15,341	20,456	18,890	10,031
Formation (%)												
		0.72%		0.60%		1.29%						
Net NPL formation	0.63%	0.78%	0.47%	0.71%	1.05%	1.50%	2.14%	3.14%	2.94%	3.52%	2.77%	2.84%
Net overdue loan formation	1.44%	1.56%	2.20%	1.18%	3.16%	2.95%	3.84%	2.29%	3.19%	2.60%	3.56%	
Provision coverage												
Total loan loss provision	0	0	14,017	15,162	17,179	21,097	28,789	29,266	34,086	39,932	45,229	45,229
Provision to NPL ratio	0.00%	0.01%	183.54%	201.06%	198.2%	200.90%	183.03%	165.86%	160.82%	155.37%	161.32%	161.32%
Provision to loan ratio	352.36%	314.53%	1.78%	1.79%	1.83%	2.06%	2.42%	2.41%	2.51%	2.71%	2.84%	2.84%

Source: Deutsche Bank estimates, Company data



Valuation and risks

Valuation

We value Ping An Bank using a three-stage Gordon Growth Model ($PV = (ROE - g) / (COE - g)$), with our target price based on 0.8x FY2017E book value. GGM inputs include terminal growth of 4.4% [$ROE * (1 - \text{dividend payout ratio})$] and COE of 13.0%.

Risk

Key downside risks: weaker-than-expected asset quality deterioration; faster-than-expected capital consumption; and weaker-than-expected synergy with Ping An Group. Key upside risks: faster development of wealth management businesses; strengthened retail franchise to lower deposit cost; better intra-group cross-selling.



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Ping An Bank	000001.SZ	10.62 (CNY) 10 Aug 17	14

Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>. Aside from within this report, important conflict disclosures can also be found at <https://gm.db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

14. Deutsche Bank and/or its affiliate(s) has received non-investment banking related compensation from this company within the past year.

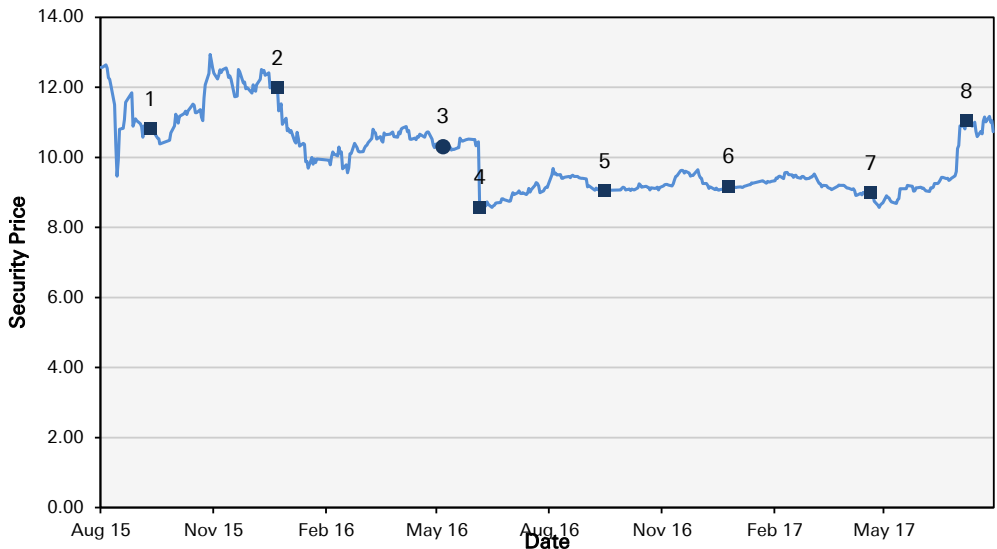
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Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Hans Fan



Historical recommendations and target price: Ping An Bank (000001.SZ)
 (as of 8/10/2017)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

**Analyst is no longer at Deutsche Bank

1.	22/09/2015:	Buy, Target Price Change CNY16.68 Hans Fan, CFA	5.	27/09/2016:	Hold, Target Price Change CNY8.62 Hans Fan, CFA
2.	04/01/2016:	Buy, Target Price Change CNY14.43 Hans Fan, CFA	6.	06/01/2017:	Hold, Target Price Change CNY9.44 Hans Fan, CFA
3.	18/05/2016:	Downgrade to Hold, Target Price Change CNY10.35 Hans Fan, CFA	7.	02/05/2017:	Hold, Target Price Change CNY8.77 Hans Fan, CFA
4.	17/06/2016:	Hold, Target Price Change CNY8.63 Vivian XU	8.	19/07/2017:	Hold, Target Price Change CNY9.48 Hans Fan, CFA

Equity rating key

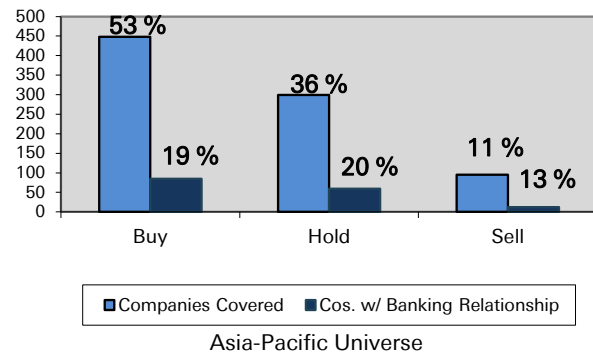
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



Asia-Pacific Universe



Additional Information

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