

Ping An Bank (000001 CH)

Best proxy to capture the retail banking boom

SUMMARY. PAB had significant achievement in growing client base and AUM since kicking off its full-scale retail transformation in 2016. We expect the Bank to deliver all-round improvement in financial performance going forward. **Initiate coverage with BUY.**

- **Huge growth potential with client base expansion and upgrade.** Leveraging on Ping An Group's (PAG) integrated platform, comprehensive product spectrum, and extensive distribution network, Ping An Bank (PAB) was able to achieve a rapid growth of retail client base (44% CAGR in 2016-18). The Bank's strategic focus has now shifted to growing high-net-worth individuals that offer greater business potential, due to broader financial demand and higher stickiness. A key initiative is to incorporate Ping An Trust's wealth management team into the Bank's private banking (PB) division. This would further boost PAB's AUM and fee income growth.
- **Resilient margin amid interest liberalization.** China banks would continue to face margin pressure, as PBoC gradually liberalizes interest rates. Banks with higher retail loan exposure should enjoy stronger pricing power and superior NIM trend. As of 2018, PAB's proportion of retail loans was 58%, highest in the sector. In contrary to most peers whose retail loans are primarily mortgage, PAB owns a balanced retail loan portfolio (incl. mortgage, credit cards, personal business loans, and other consumption loans), offering itself more bargaining power and flexibility on pricing.
- **Benign asset quality outlook despite macro uncertainties.** With a retail-oriented loan mix, PAB is well positioned to enjoy greater risk diversification and less cyclicity to macro-economy. Apart from some fluctuation in NPL ratio of personal business loans, asset quality of other retail loans has remained solid over time, reflecting PAB's decent market penetration. As of 1Q19, PAB's NPL ratio and provision coverage stood at 1.73% (-2bps QoQ) and 170.6% (+15.4ppts QoQ). We see an early sign of asset quality turning point. With stricter loan classification, the Bank's NPL formation and credit costs could further retreat in coming quarters.
- **Initiate with BUY rating and RMB 17.0 TP.** PAB currently trades at 0.96x FY19E P/B, vs 0.86x for A-share bank average and 1.59x for CMB-A. There is foreseeable earnings and valuation upside, as the Bank gets rid of the legacy asset quality burden. Our RMB 17.0 TP is based on a GGM-derived target P/B of 1.2x and FY19E BVPS of RMB 14.2.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income (RMB mn)	105,786	116,716	133,695	146,007	159,566
Net profit (RMB mn)	23,189	24,818	27,849	31,594	36,415
EPS (RMB)	1.30	1.39	1.57	1.79	2.07
EPS CHG (%)	(1.3)	7.3	12.7	13.9	15.7
P/E (x)	10.5	9.8	8.7	7.7	6.6
P/B (x)	1.16	1.07	0.96	0.86	0.77
Dividend yield (%)	1.0	1.1	1.2	1.3	1.6
ROE (%)	11.6	11.3	11.6	11.9	12.3
NPL ratio (%)	1.70	1.75	1.68	1.64	1.60
Provision coverage (%)	151	155	181	214	240

Source: Company data, CMBIS estimates

BUY (Initiation)

Target Price	RMB 17.0
Up/Downside	+24.0%
Current Price	RMB 13.7

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	235,406
Avg 3 mths t/o (RMB mn)	1,359
52w High/Low (RMB)	14.84/8.45
Total Issued Shares (mn)	17,170

Source: Bloomberg

Shareholding Structure

Ping An Group	58.0%
China Securities Finance	2.5%
Huijin	1.3%

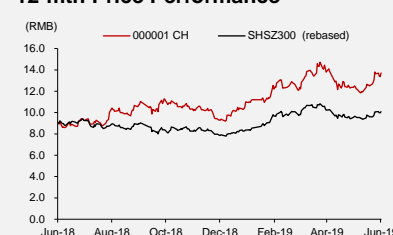
Source: Company data

Share Performance

	Absolute	Relative
1-mth	8.3%	2.5%
3-mth	10.5%	7.8%
6-mth	43.8%	13.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

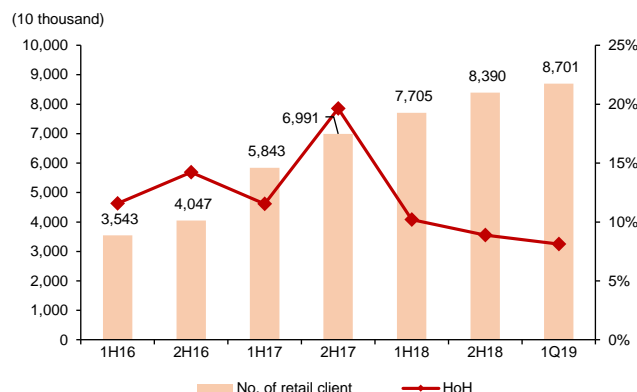
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<https://euromoney.com/brokers>

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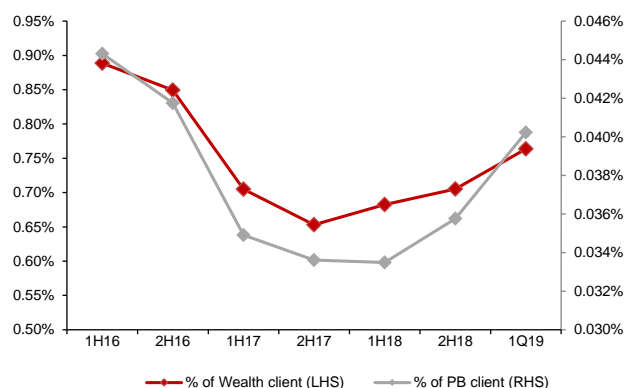
Focus Charts

Figure 1: No. of PAB's retail clients



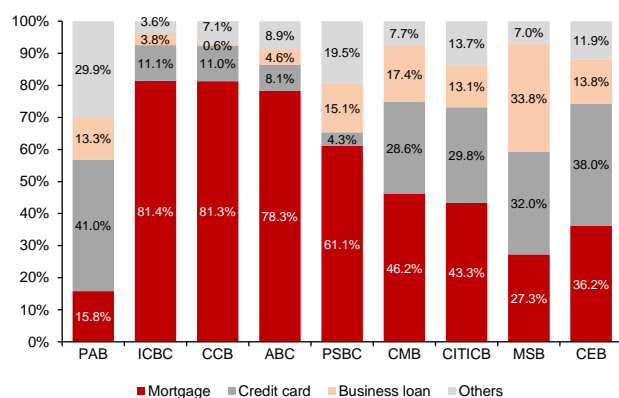
Source: Company data, CMBIS

Figure 2: Wealth and PB clients as % of retail clients



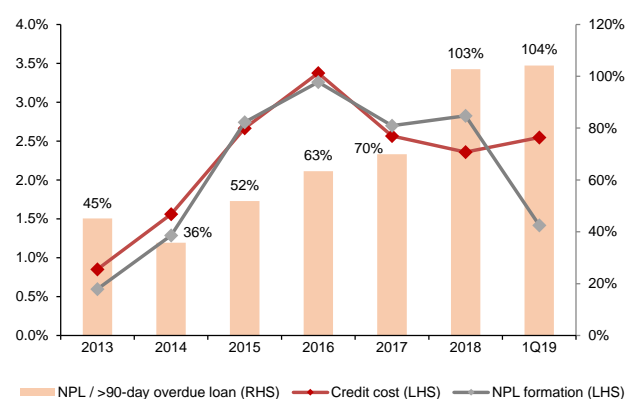
Source: Company data, CMBIS

Figure 3: China banks' retail loan mix as of 2018



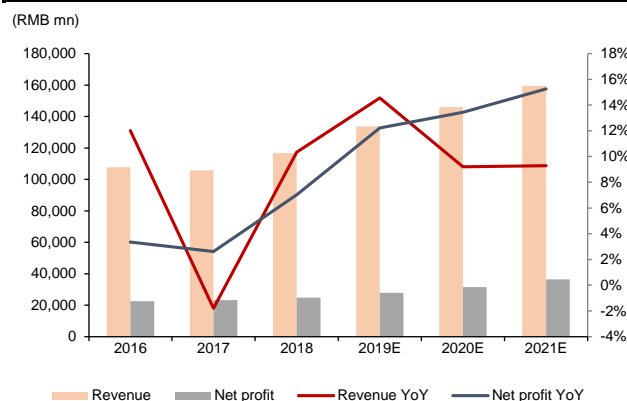
Source: Company data, CMBIS

Figure 4: Credit cost, NPL formation and recognition



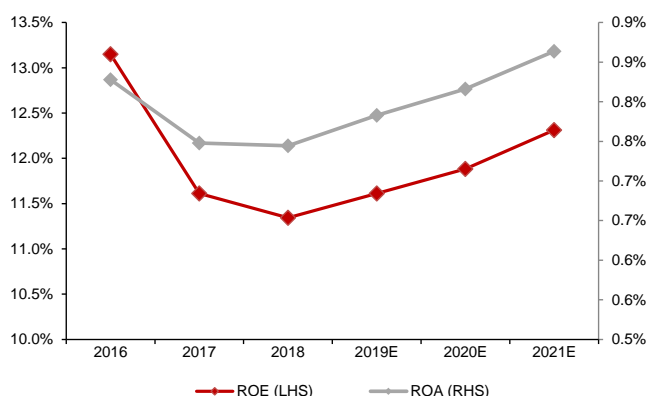
Source: Company data, CMBIS

Figure 5: PAB's revenue and net profit forecasts



Source: Company data, CMBIS

Figure 6: PAB's ROA and ROE forecasts



Source: Company data, CMBIS

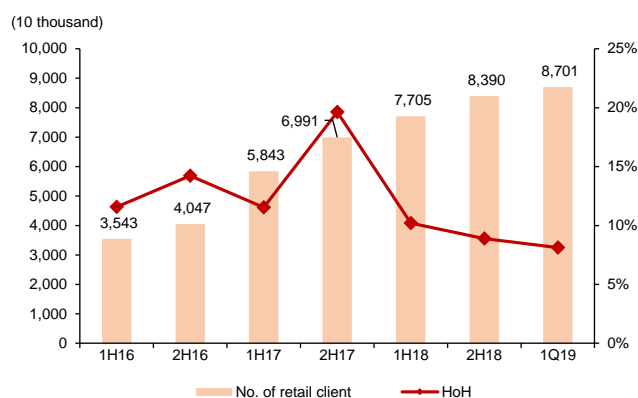
Investment Highlights

Huge growth potential with expansion and upgrade of client base

Leveraging on PAG's integrated financial platform, comprehensive product spectrum, and extensive distribution network, PAB was able to achieve a rapid growth of retail client base (44% CAGR in 2016-18). Around 40% of customer acquisition was through the migration from various channels of PAG during the period. As of 1Q19, PAB's total no. of retail clients reached 87mn, of which 0.76% and 0.04% were Wealth clients (RMB 500,000 AUM) and PB clients (RMB 6mn AUM), respectively.

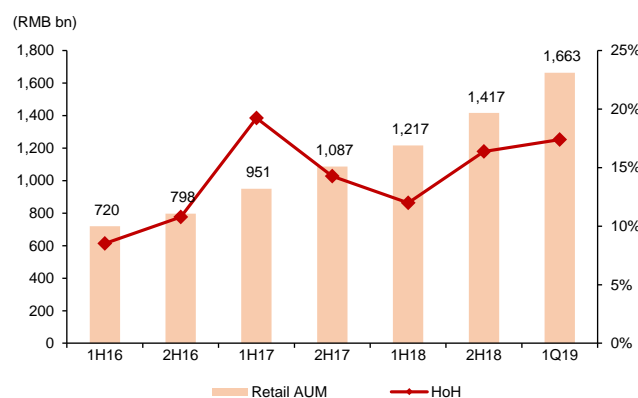
Since 4Q18, PAB's strategic focus has shifted from expanding client base to cultivating high-net-worth individuals. Such kind of clients could offer greater business potential, given their broader financial demand and higher stickiness. In Oct 2018, the Bank announced to incorporate Ping An Trust's wealth management team into its PB division. This could greatly boost PAB's AUM and fee income growth. As indicated in Figure 10, the proportion of Wealth and PB clients as of total retail clients started to pick up in 2H18.

Figure 7: No. of retail client



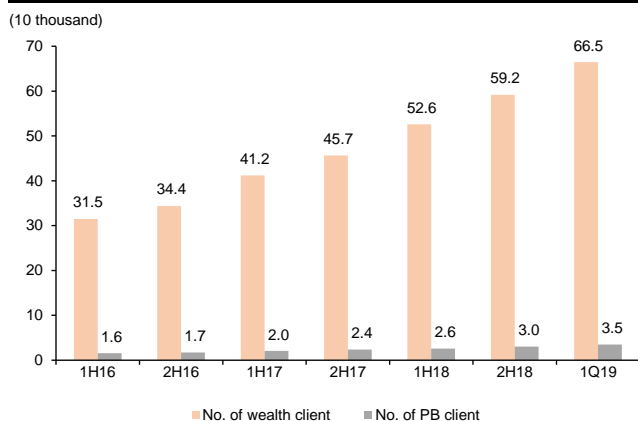
Source: Company data, CMBIS

Figure 8: Retail AUM



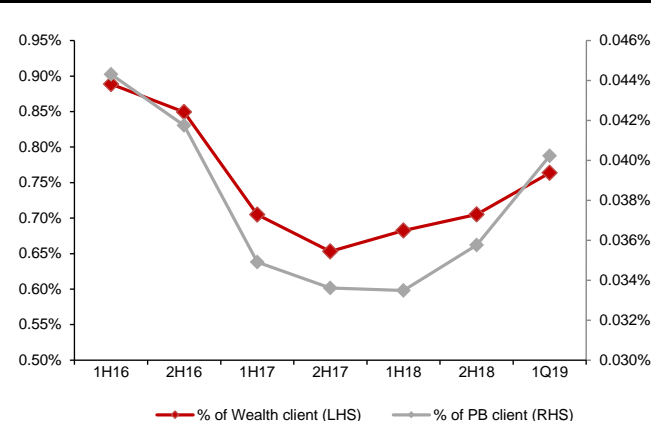
Source: Company data, CMBIS

Figure 9: No. of Wealth and PB client



Source: Company data, CMBIS

Figure 10: Wealth and PB clients as of retail clients



Source: Company data, CMBIS

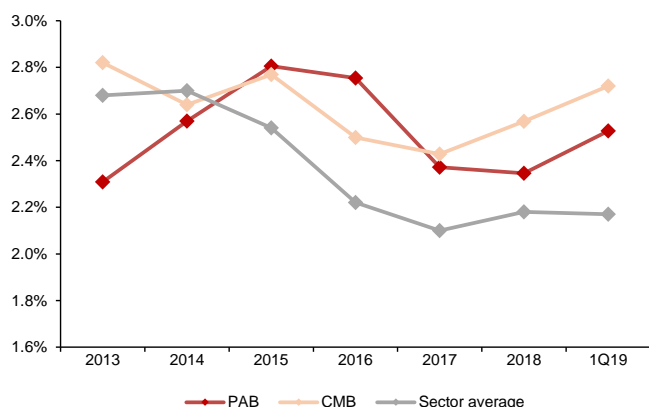
More resilient margin amid interest liberalization

As the PBoC gradually pushes for interest rate liberalization in China, banks' NIM would continue to face downward pressure, due to competition in loan and deposit. We believe banks with higher retail loan exposure would enjoy stronger pricing power, therefore outperform during the interest liberalization cycle.

China started monetary easing with a series of cuts in benchmark interest rate in late-2014, and the NIM of PAB and CMB (two most typical retail banks in China) has been outrunning sector average since 2015. As of 2018, PAB had the highest proportion of retail loans of 58%, followed by 54% for PSBC and 51% for CMB.

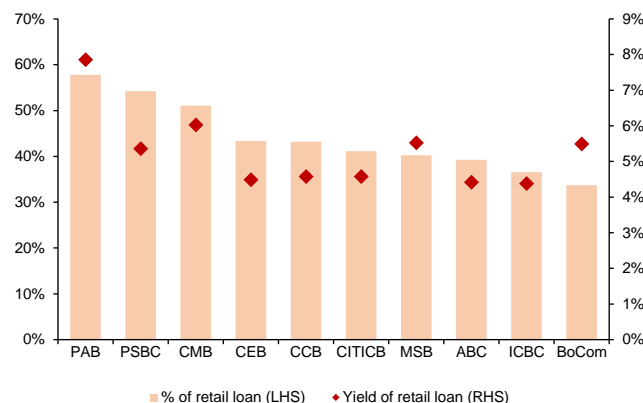
We do not see any advantage in corporate banking for PAB vs sector peers, but its retail business generates notably higher loan yields. In contrary to most large banks whose retail loans are mainly allocated to mortgage, PAB has been consistently exploring credit cards, car loans, and personal business loans, and owns a more balanced retail loan portfolio. Non-mortgage retail loans offer banks more bargaining power and flexibility on pricing, resulting in more resilient loan yields and NIM.

Figure 11: NIM – PAB, CMB, and sector average



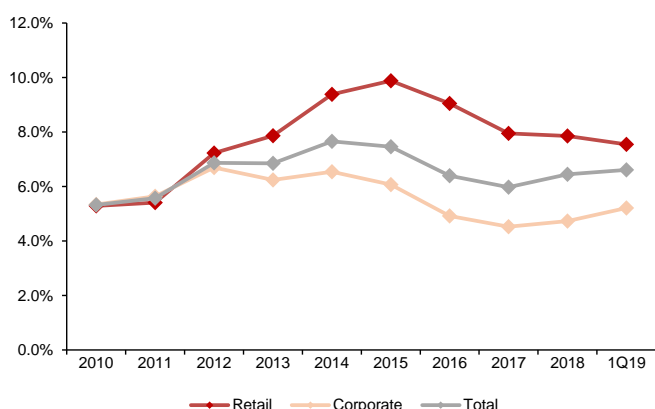
Source: Company data, CMBIS

Figure 12: Proportion & yield of retail loan as of 2018



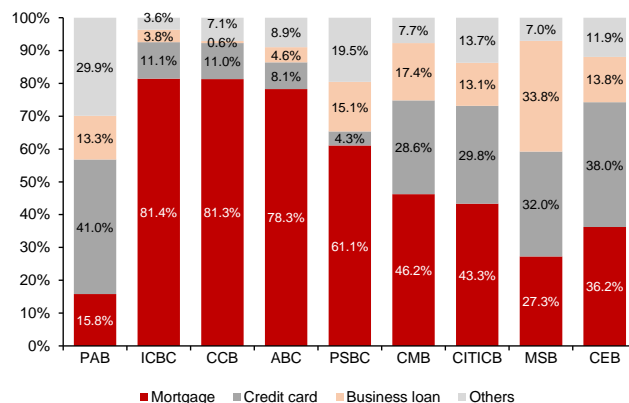
Source: Company data, CMBIS

Figure 13: PAB's retail and corporate loan yields



Source: Company data, CMBIS

Figure 14: Retail loan mix as of 2018



Source: Company data, CMBIS

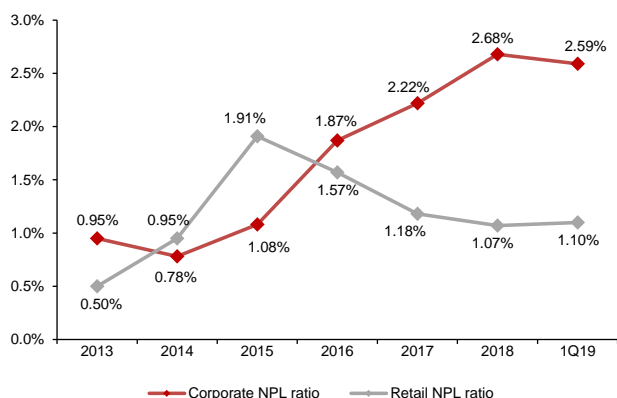
Benign asset quality trend despite rising macro uncertainties

Similar to peers, PAB's corporate NPL ratio (2.59%) is significantly higher than retail NPL ratio (1.10%) as of 1Q19, and corporate NPLs contributed to majority (63%) of the Bank's total NPLs. That said, the Bank has notably reduced the proportion of risky corporate loans (with NPL ratio > 3%), mainly to manufacturing and commercial sectors, to 11.1% in 2018 from 21.7% in 2016. More importantly, with the highest proportion of retail loans (58%), PAB is well positioned to enjoy greater risk diversification and less cyclical to macro-economy.

Looking into the breakdown of retail loans, apart from a volatile NPL ratio of personal business loans, asset quality of other retail loans has remained quite solid over time, reflecting PAB's decent penetration into retail market.

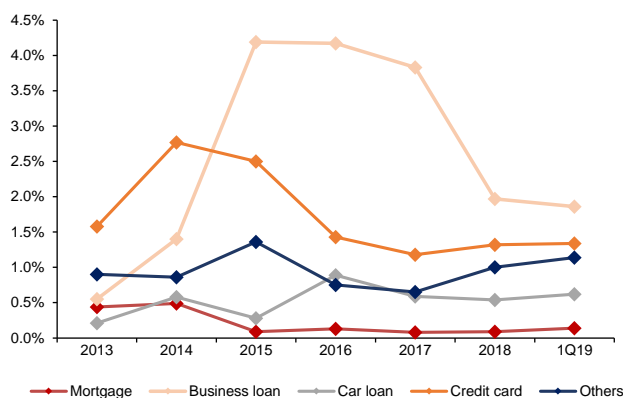
As of 1Q19, PAB's NPL ratio and provision coverage stood at 1.73% and 170.6%, down 2bps QoQ and up 15.4ppts QoQ, respectively. We see an early sign of asset quality turning point. With more stringent NPL recognition practice, the Bank's NPL formation and credit costs could further retreat in coming quarters.

Figure 15: NPL ratio of retail and corporate loans



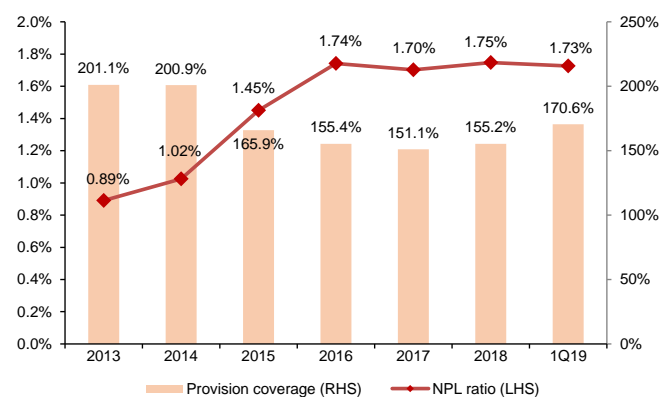
Source: Company data, CMBIS

Figure 16: NPL ratio of retail loan components



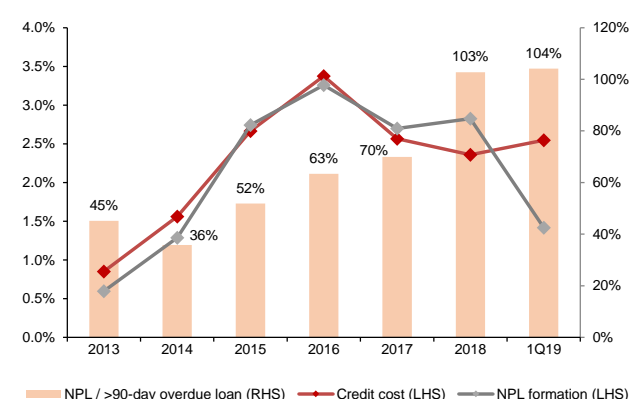
Source: Company data, CMBIS

Figure 17: NPL ratio and provision coverage



Source: Company data, CMBIS

Figure 18: Credit cost, NPL formation & recognition



Source: Company data, CMBIS

Company Background

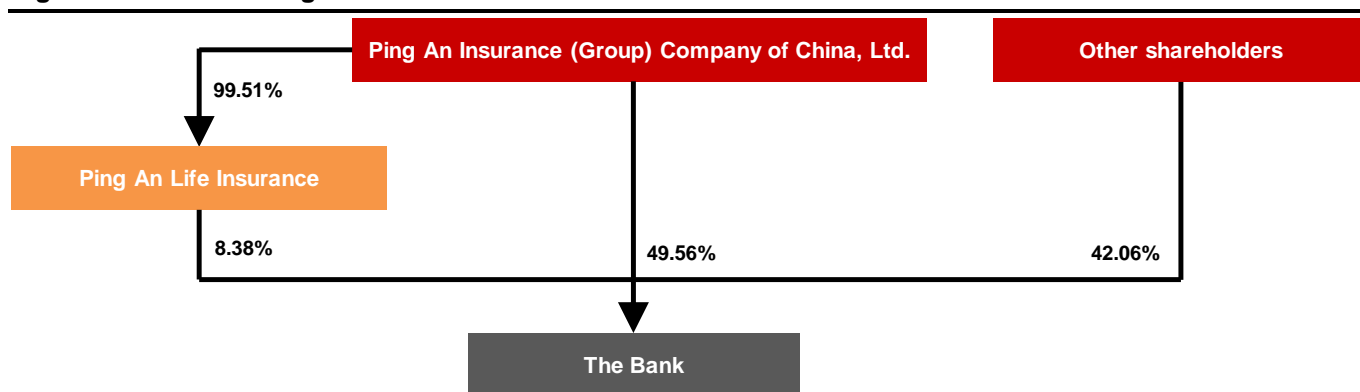
Company background

Headquartered in Shenzhen, PAB was formed in 2011 by merging Shenzhen Development Bank Co., Ltd. (SZDB) and the former Ping An Bank, a subsidiary of Ping An Insurance (Group) Company of China, Ltd. (or "Ping An Group", 2318 HK, NR). As of 31 Dec 2018, the Bank operated 1,057 outlets nationwide and had 34.6 thousand employees.

One of the Bank's predecessors, SZDB, was established and incorporated as a joint-stock bank in 1987 through consolidating six rural credit cooperatives in Shenzhen. In Apr 1988, SZDB went public on Shenzhen Stock Exchange and became the first listed bank in China. The other predecessor, the former Ping An Bank, which used to be Shenzhen Commercial Bank, was the first city commercial bank in China.

As of 31 Mar 2019, Ping An Group remained the controlling shareholder of PAB, holding 57.94% of the Bank's total equity interest. The parent company was established as the first joint-stock insurer in China in 1988, and has developed into a financial conglomerate consisting of insurance, banking, securities, trust, asset management business, etc., serving over 70mn customers.

Figure 19: Shareholding structure of PAB



Source: Company data, CMBIS

Development strategy

Figure 20: PAB's key development strategies since incorporation in 2012

Time	Strategy	Content
2013	"Three-step" development strategy (“三步走”战略)	Step 1: Corporate banking as the main business, building the foundation for retail business within the next five years Step 2: Balancing corporate and retail business between the next five to eight years Step 3: Retail banking to become the main business after eight years
2016	Retail Transformation 2.0	Boost retail business revenue contribution Undertake the migration of PAG's clients in the next 3-5 years
2017	"1+2+3+4" Model	1 Weapon: LUM drives AUM, credit card drives debt account 2 Abilities: Big data, account 3 New changes: SAT + organization, branch, product 4 Drivers: Comprehensive SAT, family office, traditional bank upgrade, B2B2C
2019	Build "AI Bank" with "3+2+1" framework	1 Internal driver: AI 2 Competencies: cost & risk management 3 Modules: basic retail, consumer finance & private banking

Source: Company data, CMBIS

Retail Business Transformation

After the shift of senior management team in 2H16, PAB kicked off its full-scale retail transformation in 2H16, with strategic goal of "Technology driven, retail breakthrough, refine corporate business" (科技引领、零售突破、对公做精). A foremost target is to grow retail client base (40.5mn in FY16) and lift retail revenue contribution (30.6% in FY16). By end-FY18, no. of client and proportion of revenue from retail segment reached 83.9mn and 53%, respectively. Since 4Q18, PAB has entered the second stage of retail transformation, with key objective of enhancing earnings ability. A major initiative is to merge wealth management team of Ping An Trust into private banking division.

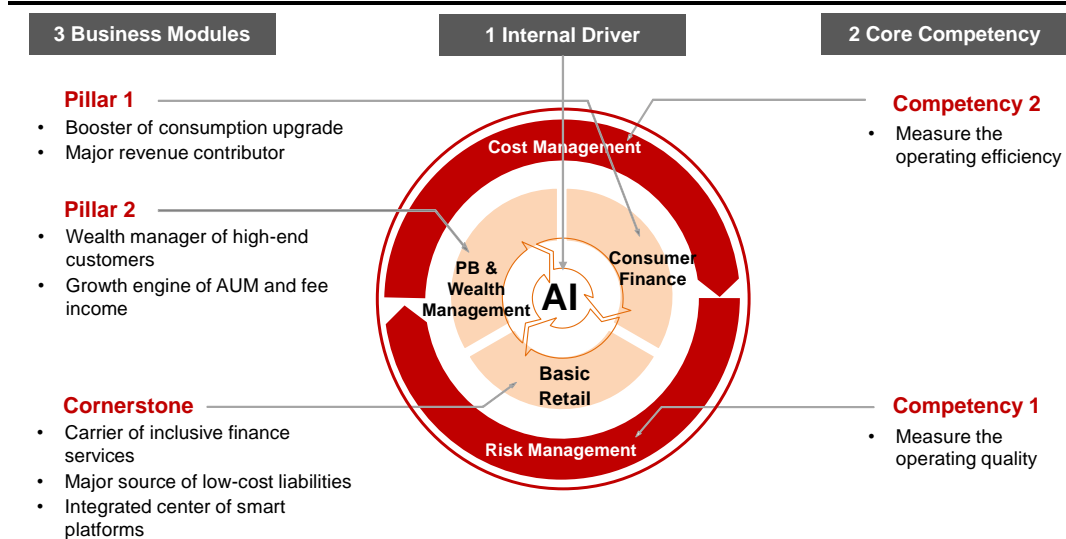
Figure 21: Progress of PAB's retail transformation

	Stage 1	Stage 2	Stage 3
Timeline	2017 - 2018	2019	2020 & beyond
Business focus	<ul style="list-style-type: none"> - Invest in technology and infrastructure - Grow client base - Improve user experience 	<ul style="list-style-type: none"> - Broaden the application of technology - Increase customer satisfaction and loyalty - Enhance value creation and boost profit 	<ul style="list-style-type: none"> - Business model innovation led by technology - Establish brand reputation and franchise - Full-scale financial performance
Key initiatives	<ul style="list-style-type: none"> - Increase credit allocation to retail (esp. credit cards, consumer and car loans); - Reduce corporate loan scale, focus on selective industries, and develop asset- & capital-light business; - Create "Online Merge Offline (OMO)" business model, through mobile APP, smart outlets & SAT services; - Leverage on group resources 	<ul style="list-style-type: none"> - Merge wealth management team of Ping An Trust into private banking division; - Use AI in customer acquisition, marketing, services, & management; - Develop smart platform for Xin Yi Dai and auto finance; - Build cost management system to monitor the cost saving effect from AI utilization 	NA

Source: Company data, CMBIS

The core “3+2+1” framework. PAB’s retail business is underpinned by a unique framework, which comprises: three modules - basic retail, consumer finance & private banking; two competencies - cost & risk management; and one internal driver - Artificial Intelligence (AI). Basic retail mainly supports customer acquisition and volume growth, while consumer finance and PB are major profit and AUM generators.

Figure 22: PAB’s retail business framework



Source: Company data, CMBIS

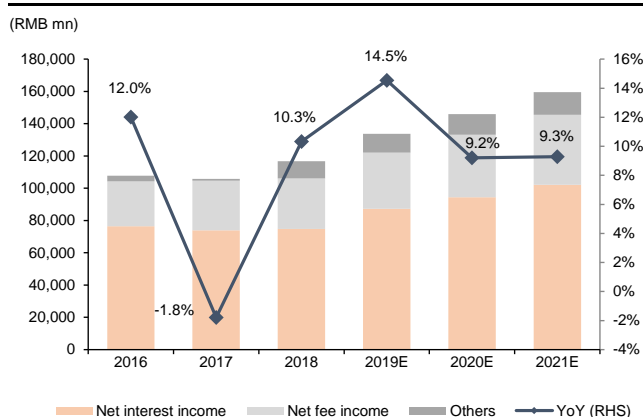
Earnings Forecasts

Expect 12-15% YoY net profit growth in FY19-21E

We forecast a 13.6% CAGR for PAB's revenue in FY19-21E, mainly driven by healthy asset expansion and largely stable NIM. Non-interest income would continue to pick up on strong bank card and agency service fees. Wealth management fee is likely to record positive growth in FY19 after a consecutive decline in FY17-18, as the Bank finished transformation of the business in accordance to the new asset management rule.

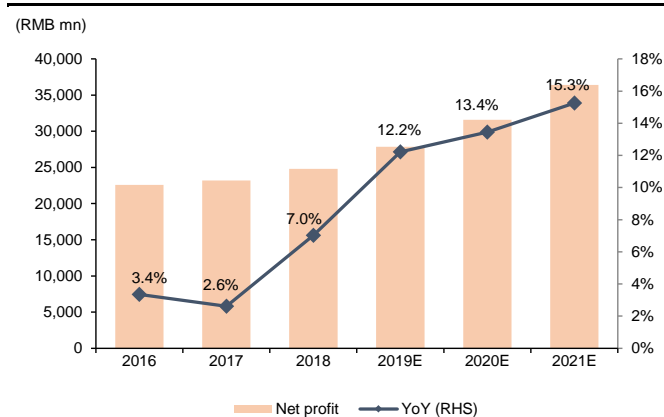
Given PAB's relatively high credit costs and strengthened provision buffer in 1Q19, we see great earnings resilience should asset quality continue to improve. We expect net profit to grow by 12.2%/13.4%/15.3% in FY19/20/21, up from 7.0% in FY18. As a result, ROE is estimated to bottom out in FY19 and stay in the uptrend in FY20-21.

Figure 23: Total revenue forecasts



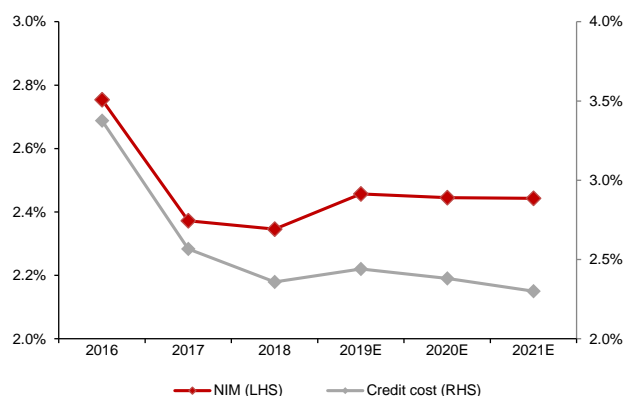
Source: Company data, CMBIS estimates

Figure 24: Net profit forecasts



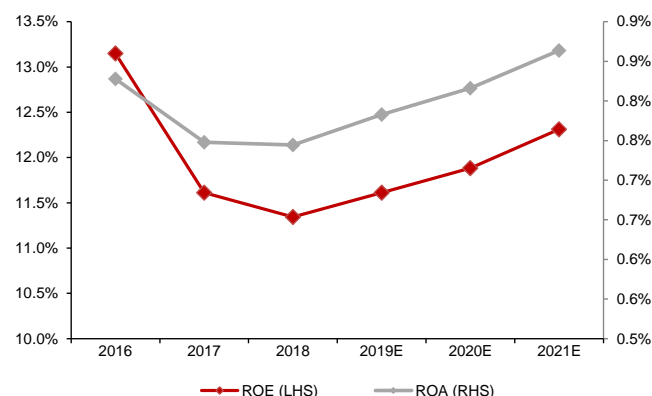
Source: Company data, CMBIS estimates

Figure 25: NIM and credit cost forecasts



Source: Company data, CMBIS estimates

Figure 26: ROE and ROA forecasts



Source: Company data, CMBIS estimates

CMBI vs consensus estimates

Our revenue and net profit forecasts are 2-4% higher than Bloomberg consensus in FY19-20, and our ROE forecasts are 0.4ppt above consensus for the same period. This is mainly due to our more bullish view on PAB's NIM and credit cost trend, as we believe the Bank's successful retail transformation will lead to notable improvement in financial performance in coming years.

Figure 27: Difference between our and consensus forecasts

Key forecasts	CMBIS	Consensus	Difference
FY19E			
Revenue (RMB mn)	133,695	129,166	3.5%
Net profit (RMB mn)	27,849	27,398	1.7%
EPS (RMB)	1.57	1.57	0.1%
BPS (RMB)	14.2	14.5	-1.7%
NIM	2.46%	2.44%	2bps
ROE	11.6%	11.2%	0.4ppt
FY20E			
Revenue (RMB mn)	146,007	142,919	2.2%
Net profit (RMB mn)	31,594	30,741	2.8%
EPS (RMB)	1.79	1.78	0.5%
BPS (RMB)	15.9	16.1	-1.4%
NIM	2.45%	2.43%	2bps
ROE	11.9%	11.5%	0.4ppt

Source: Bloomberg, CMBIS estimates

Valuation and Recommendation

Initiate with BUY rating and TP of RMB 17.0

We use Gordon Growth Model to derive the TP for PAB. Our key assumptions include: 1) Market risk premium of 8.2%; 2) Risk free rate of 3.2%, 3) Sustainable ROE of 13.5%; 4) Long-term growth rate of 3.0%. Our TP of RMB 17.0 is based on a target P/B of 1.2x and 2019E BVPS of RMB 14.2.

We believe PAB should enjoy a valuation premium vs sector peers, given its greater business growth potential, higher retail banking exposure, wider technology utilization, and faster earnings growth.

Figure 28: Valuation assumptions

Assumptions	Reference	Value
FY19E P/E of CSI 300 Index (x)	Bloomberg	11.5
FY19E dividend yield of CSI 300 Index (%)	Bloomberg	2.7
Expected market return (%)	Earning yield (1/PE) + dividend yield	8.2
Risk-free rate (%)	10-year treasury yield	3.2
Beta (x)		1.05
COE (%)	Based on CAPM	11.8
Long-term growth (%)		3.0
Sustainable ROE (%)	DuPont analysis	13.5
Fair value P/B (x)	$(ROE - g) / (COE - g)$	1.2
FY19E BPS (RMB)		14.2
Target price (RMB)		17.0

Source: Bloomberg, CMBIS estimates

Figure 29: Peers valuation for A-share China banks

Company	Ticker	Mkt. Cap	Avg 3M	Price	P/B (x)		P/E (x)		Dvd yield (%)		ROE (%)	
		(US\$ mn)	(US\$ mn)	(RMB)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Nationwide SOE & joint-stock banks												
ICBC	601398 CH	294.8	172.7	5.9	0.85	0.78	6.8	6.4	4.5	4.7	12.9	12.4
CCB	601939 CH	215.9	107.2	7.4	0.88	0.81	6.9	6.5	4.3	4.6	13.2	12.7
ABC	601288 CH	180.9	149.6	3.6	0.72	0.66	6.0	5.7	5.1	5.3	12.6	12.1
BOC	601988 CH	150.1	79.9	3.8	0.67	0.62	6.0	5.8	5.1	5.3	11.4	11.0
BoCom	601328 CH	61.8	95.1	6.1	0.64	0.60	6.0	5.7	5.0	5.3	11.0	10.7
CMB	600036 CH	132.5	251.0	36.5	1.59	1.40	10.2	9.0	2.9	3.3	16.4	16.5
CITIC	601998 CH	38.2	30.9	6.0	0.67	0.62	6.4	6.1	4.1	4.4	10.8	10.5
MSB	600016 CH	38.6	89.3	6.4	0.62	0.57	5.3	5.1	4.2	4.5	12.1	11.5
CEB	601818 CH	28.0	59.2	3.8	0.64	0.59	5.8	5.4	4.6	5.1	11.2	11.2
SPDB	600000 CH	49.7	73.1	11.6	0.70	0.63	6.0	5.6	2.9	3.3	12.1	11.5
IND	601166 CH	55.4	220.4	18.3	0.77	0.69	5.9	5.4	4.1	4.4	13.5	13.4
HXB	600015 CH	17.2	37.2	7.7	0.53	0.47	5.3	5.0	3.1	3.5	10.3	9.7
Average					0.77	0.70	6.4	6.0	4.2	4.5	12.3	11.9
Regional city & rural commercial banks												
Bank of Beijing	601169 CH	18.1	49.1	5.9	0.65	0.60	5.8	5.4	4.9	5.2	11.2	11.2
Bank of Shanghai	601229 CH	18.8	47.4	11.9	0.83	0.77	6.9	6.0	3.5	4.0	12.3	12.6
Bank of Nanjing	601009 CH	10.2	75.3	8.3	0.90	0.79	5.9	4.9	4.4	5.4	15.1	15.4
Bank of Ningbo	002142 CH	18.2	55.9	24.0	1.62	1.38	9.6	8.1	1.9	2.3	16.8	17.4
Bank of Jiangsu	600919 CH	12.2	37.6	7.3	0.69	0.63	5.9	5.2	4.1	4.5	12.2	12.3
Bank of Guiyang	601997 CH	4.1	35.6	8.8	0.84	0.72	5.0	4.5	3.4	3.8	17.8	17.0
Bank of Hangzhou	600926 CH	6.3	27.6	8.4	0.82	0.74	7.1	6.0	3.5	4.1	10.9	11.4
Bank of Chengdu	601838 CH	4.7	25.0	8.9	0.93	0.81	5.8	4.9	4.5	5.3	17.1	17.5
JSJYRCB	002807 CH	1.5	10.3	4.7	0.87	0.81	9.8	8.9	2.3	2.5	9.1	9.4
WXRCB	600908 CH	1.5	8.8	5.7	0.93	0.86	8.7	7.9	2.8	3.1	11.3	11.4
JSCSRCB	601128 CH	3.1	36.8	7.9	1.29	1.14	10.6	9.0	2.9	3.5	13.2	13.6
SZRCB	603323 CH	1.5	21.4	5.6	0.86	0.79	9.6	8.6	2.1	2.5	9.5	9.9
JSZJGRCB	002839 CH	1.5	19.9	5.7	1.04	0.96	11.3	10.1	2.1	2.3	9.5	9.9
Average					0.94	0.85	7.9	6.9	3.3	3.7	12.8	13.0

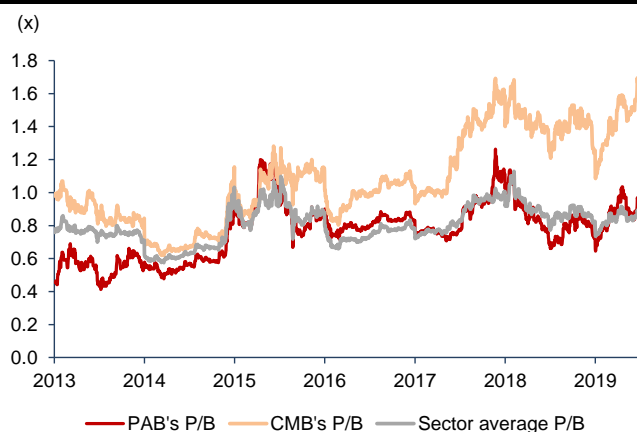
Source: Bloomberg, CMBIS. Data as of 27 Jun 2019.

Figure 30: PAB's historical P/E

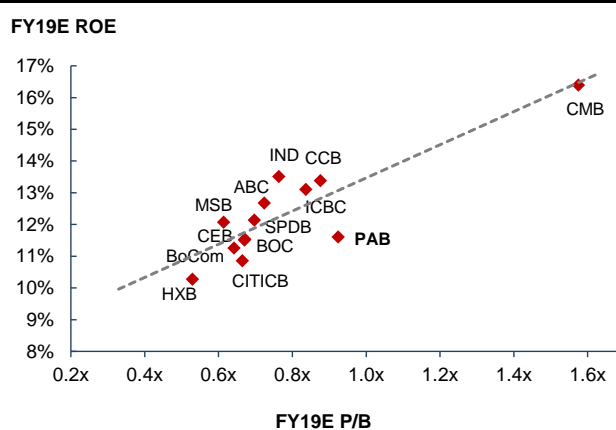
Source: Company data, CMBIS

Figure 31: PAB's historical P/B

Source: Company data, CMBIS

Figure 32: PAB's valuation vs CMB & sector avg

Source: Company data, CMBIS

Figure 33: ROE vs P/B

Source: Company data, CMBIS

Financial Summary

Income Statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Interest income	148,068	162,888	178,658	194,361	210,754
Interest expenses	(74,059)	(88,143)	(91,325)	(99,980)	(108,656)
Net interest income	74,009	74,745	87,333	94,382	102,098
Net fee income	30,674	31,297	34,710	38,808	43,369
Others	1,103	10,674	11,652	12,817	14,099
Operating income	105,786	116,716	133,695	146,007	159,566
Operating expenses	(32,638)	(36,540)	(41,428)	(45,019)	(48,935)
PPoP	73,148	80,176	92,267	100,988	110,631
Provision	(42,925)	(47,871)	(56,025)	(59,884)	(63,265)
Operating profit	30,223	32,305	36,242	41,104	47,366
Non-operating income	(66)	(74)	(74)	(74)	(74)
Pre-tax profit	30,157	32,231	36,168	41,030	47,292
Income tax expenses	(6,968)	(7,413)	(8,318)	(9,437)	(10,877)
Minority interests	-	-	-	-	-
Net profit	23,189	24,818	27,849	31,594	36,415

Key Ratio

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Op. income mix					
Net interest income	70%	64%	65%	65%	64%
Net fee income	29%	27%	26%	27%	27%
Others	1%	9%	9%	9%	9%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	-3.1%	1.0%	16.8%	8.1%	8.2%
Net fee income	10.1%	2.0%	10.9%	11.8%	11.8%
Operating income	-1.8%	10.3%	14.5%	9.2%	9.3%
PPoP	-4.1%	9.6%	15.1%	9.5%	9.5%
Net profit	2.6%	7.0%	12.2%	13.4%	15.3%
Gross loans	15.5%	17.2%	10.0%	9.0%	9.0%
Customer deposits	4.1%	7.4%	10.0%	8.5%	8.5%

Efficiency

Cost-to-income ratio	29.9%	30.3%	30.0%	29.9%	29.7%
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Balance Sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Due from central banks	305,986	273,513	300,657	334,227	362,460
Interbank assets	231,157	195,017	185,266	203,793	224,172
Investments	807,002	850,317	922,560	1,001,599	1,087,485
Gross loans	1,704,230	1,997,529	2,197,282	2,395,037	2,610,591
Less: provision	43,810	54,187	67,135	84,171	100,404
Other assets	243,909	156,403	157,639	194,724	204,005
Total assets	3,248,474	3,418,592	3,696,269	4,045,209	4,388,308
Due to central banks	130,652	149,756	172,219	198,052	227,760
Interbank liabilities	762,663	725,461	733,256	768,844	817,875
Customer deposits	2,000,420	2,149,142	2,364,056	2,565,001	2,783,026
Debt securities issued	45,116	81,755	89,931	94,427	103,870
Other liabilities	87,569	72,436	68,555	72,707	77,229
Total liabilities	3,026,420	3,178,550	3,428,017	3,699,031	4,009,759
Shareholders' equity	222,054	240,042	268,252	346,178	378,549
Incl. Perpetual bonds	-	-	-	50,000	50,000
Incl. Preferred stocks	19,953	19,953	23,678	23,678	23,678
Minority interest	-	-	-	-	-
Total equity	222,054	240,042	268,252	346,178	378,549

Asset quality

NPL ratio	1.70%	1.75%	1.68%	1.64%	1.60%
Provision coverage	151%	155%	181%	214%	240%
Provision/ total loans	2.57%	2.71%	3.06%	3.51%	3.85%
Credit costs	2.57%	2.36%	2.44%	2.38%	2.30%

Capital adequacy

CET-1 CAR	8.3%	8.5%	8.9%	9.1%	9.4%
Tier-1 CAR	9.2%	9.4%	9.8%	10.0%	10.2%
Total CAR	11.2%	11.5%	11.7%	11.7%	11.8%

Profitability

NIM	2.37%	2.35%	2.46%	2.45%	2.44%
ROE	11.6%	11.3%	11.6%	11.9%	12.3%
ROA	0.75%	0.74%	0.78%	0.82%	0.86%
RoRWA	1.05%	1.05%	1.09%	1.12%	1.19%

Per share

EPS (RMB)	1.30	1.39	1.57	1.79	2.07
DPS (RMB)	0.14	0.15	0.16	0.18	0.21
BVPS (RMB)	11.8	12.8	14.2	15.9	17.8

Source: Company data, CMBIS estimates

Key Risks

Risks related to macroeconomy

China's economic growth has been slowing down in recent years, and government is actively pushing for deleveraging and industrial upgrade. In addition, the China-US trade tension is adding pressure on the country's economic outlook. Although we believe the slowdown remains largely controllable as countermeasures are rolled out, an unexpected macro hard-landing may cause the asset quality of banks to deteriorate. The weakened business activities and employment may dampen the repayment capability of both corporate and retail customers of the Bank, consequently leading to a surge in NPLs.

Risks related to monetary policy

China banks' profitability is closely related to central bank's monetary policies. PBoC has been liberalizing its interest rates, and this has significant impact on both asset and liability sides of banks. Banks with extensive customer reach and comprehensive product offering will have stronger bargaining power on lending rates. On the other hand, banks compete for funding with higher deposit rates, which could drive up their liability costs and squeeze margins. Looking ahead, we expect China to maintain a relatively accommodative policy environment to cushion the impact from escalating trade tension. Therefore, liquidity condition should stay relatively eased. This, to some extent, would help to mitigate the margin pressure for banks heavily relying on interbank borrowings. However, should the central bank tighten the monetary policy or loosen the guidance on deposit rate cap, banks' deposit competition will further intensify and weigh on their NIM.

Risks related to credit card and consumption loans

Credit cards and consumption loans, with smaller amounts and better risk diversification, generate higher yields (vs mortgages) and lower NPL ratios (vs personal business loans). Therefore, they are preferred assets for banks to increase retail banking exposure, especially amid China's consumption upgrade. However, individual customers may also borrow from the fast-expanding consumer finance providers and online lending platforms. As the credit records in these channels may not be available for banks to obtain, customers' debt level may be underestimated, and their default risks may increase especially during economic downturn and rising unemployment rate. The soaring debt ratio of individuals and spill-over effect of defaults may result in higher NPLs of banks' retail loans.

Risks related to regulatory environment

Chinese authorities have been tightening the regulation on banks' business activities and operating indicators. For example, CBIRC is considering to implement a stricter NPL recognition standard. After banks had included >90 day overdue loans into NPLs by the end of 2018, the regulator was guiding large banks to further include >60 day overdue loans into NPLs. PAB improved its NPL / >90 day overdue loans ratio to 103% in 2018, from 52% in 2015. This partly resulted in relatively high NPL formation and credit costs during the period. If the stricter NPL recognition is imposed sector wide, PAB may face further pickup in NPL ratio and pressure on impairment charges.

Risks related to industry competition

China banks are facing multiple challenges, including economic restructuring, regulatory intervention, and the rise of internet finance companies. These would result in deteriorating profitability for corporate banking business. As such, Retail business becomes the future battleground, and banks are all deploying vast amount of resources to increase their competitiveness, such as investments in financial technology and broadening of customer reach. PAB stays in the forefront of retail business development and Fintech utilization, in our view. However, other banks may catch up with innovative products. Financial services provided by technology giants, such as Alibaba and Tencent, could also divert the Bank's customer resources.

Appendix 1 – History and milestones

Time	Event
Dec 1987	SZDB was established and incorporated as a joint-stock bank through restructuring six rural credit cooperatives in Shenzhen.
Apr 1988	SZDB was listed on Shenzhen Stock Exchange and became the first listed bank in China.
Jun 2007	Shenzhen Commercial Bank was approved by CBRC to merge with banking business of Ping An Group, which became the former Ping An Bank.
Jun 2010	PAG bought 16.76% of SZDB's equity interest from SZDB's largest shareholder, Newbridge Capital.
Sep 2010	PAG increased its shareholding in SZDB to 52.38% in SZDB's private placement. The consideration was paid by both cash and Ping An Group's 90.75% shareholding in the former Ping An Bank. SZDB became the controlling shareholder of the former Ping An Bank after the transaction.
Aug 2011	PAG further increased its shareholding in SZDB to 61.36% after SZDB's private placement.
Jan 2012	SZDB was approved by CBRC to merge with the former Ping An Bank.
Jun 2012	SZDB officially changed its name to "Ping An Bank Co., Ltd."
Mar 2013	PAB announced "Three Steps" development strategy
Aug 2016	PAB started Retail Transformation 2.0, targeted to boost retail revenue contribution and undertake the migration of PAG's clients in the next 3-5 years.

Source: Company data, CMBIS

Appendix 2 – Management profile

Name	Date of appointment	Existing position	Experience
Mr. XIE Yonglin (謝永林)	Dec 2016	Chairman	Mr. XIE has been a Co-CEO of Ping An Group since Dec 2018 and Deputy General Manager of the Group since Sep 2016. He has nearly 35 years' experience in the Bank and in affiliates of Ping An. He joined Ping An in Oct 1994 and worked for Ping An P&C and Ping An Life. He had served as Chief Operating Officer, Director of Human Resources and Vice President of the Bank (Mar 2006 – Nov 2013), and Special Assistant to the Chairman, General Manager and CEO and Chairman of Ping An Securities (Jun 2014 - Nov 2016).
Mr. HU Yuefei (胡跃飞)	Dec 2007 Dec 2016	Executive Director, President	Mr. HU has nearly 30 years' experience in SDB and PAB, and has been a director of the Bank since Dec 2007. He joined SDB in Jan 1990, and served as Director of Promotion Office of Office of the Party Committee of SDB, Vice President and President of sub-branch (Jan 1990 - Feb 1999), President of Guangzhou Branch and Assistant to President (Feb 1999 - May 2006), and Vice President of SDB (May 2006 - Oct 2016). Formerly, he had also worked for the PBoC and ICBC.
Mr. GUO Shibang (郭世邦)	Dec 2017 May 2017	Executive Director, Assistant to the President	Mr. GUO has over 10 years' experience in the Bank and in affiliated companies of Ping An, including SME Financial Department of SDB (Mar 2011 – Mar 2014), Chief Risk Officer, Director of Compliance, Deputy General Manager and Special assistant to CEO of Ping An Securities (Mar 2014 – Oct 2016), Special assistant to the Chairman of PAB (Oct 2016 – May 2017). Formerly, he had also worked for ICBC and MSB.
Mr. YAO Guiping (姚贵平)	Dec 2017 May 2017	Executive Director, Assistant to the President	Mr. YAO has over 20 years' experience in the SDB and PAB, and served as General Manager of Corporate Banking Department and Transaction Banking Department of former PAB (Apr 2004 – Jun 2008), President of PAB Shenzhen Branch (Jun 2008 – Nov 2016), Director of Corporate Banking of PAB (May 2014 – May 2017), Executive Deputy Director of Retail Banking Development Committee of PAB (Jul 2016 – Nov 2016), etc. Prior to that, he had worked for the PBoC and ICBC.
Mr. WU Peng (吴鹏)	Aug 2011	Vice President	Mr. WU has been Vice President of the Bank since Aug 2011, and has over 30 years' experience in affiliated companies of Ping An, including Vice General Manager of Shenzhen Subsidiary of Ping An Life Insurance, General Manager of Nanjing Subsidiary of Ping An Life Insurance, Assistant Manager of Ping An Property Insurance, Vice General Manager of Ping An Life Insurance, General Manager of Ping An Property Insurance, Chairman of Ping An Insurance Hong Kong, and General Manager of East Business Division of SDB.
Mr. XIANG Youzhi (项有志)	Jan 2018	Chief Financial Officer	Mr. XIANG has over 10 years' experience in the Bank and in affiliated companies of Ping An, including Director of Finance and Accounting Department of SDB (Apr 2007 – Jul 2013), General Manager of Corporate Planning Department of Ping An Insurance (Group) Company of China (Jul 2013 – May 2014) and CFO and General Manager of Finance Department of Ping An Insurance (Group) Company of China (May 2014 – Aug 2017). Prior to that, he had worked for CMB (Sep 1998 – Apr 2007).

Name	Date of appointment	Existing position	Experience
Mr. ZHOU Qiang (周強)	Jun 2014	Secretary to the BOD	Mr. ZHOU has been Secretary to the BOD of PAB since Jun 2014. He has nearly 20 years' experience in affiliated companies of Ping An, including Business Manager of Investment Banking BU, Vice General Manager of Investment Bank Management Department and General Manager of Ping An Securities (Jul 2001 - Apr 2007), Vice Director of the BOD Office and Representative Securities Affairs of Ping An Insurance (Group) Company of China (Apr 2007 - Oct 2011), and General Manager Assistant and Vice General Manager of Ping An Securities (Oct 2011 - May 2014).

Source: Company data, CMBIS

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