

Ping An Bank (000001 CH)

Long-term prospect stays intact despite some NIM pressure

PAB reported 9M19 earnings of RMB 23.6bn, up 15.5% YoY and accounting for 82.8%/84.0% of CMBIS/consensus full-year estimates. 3Q19 net profit picked up 16.0% YoY, accelerating from 15.2% YoY in 1H19. Revenue growth stayed robust at 19.4% YoY, driven by strong net interest income (+32.4% YoY) and net fee income (+63.7% YoY), while offset by lower investment gain due to high-base effect. The Bank boosted impairment charges (+21.8% YoY) for more stringent NPL recognition. As such, 9M19 annualized ROE edged up 4bps YoY to 12.64% despite a dilution impact from CB conversion.

- Results positives:**
 - Loan growth was healthy at 3.3% QoQ**, on the back of faster expansion of retail loans (+4.0% QoQ) vs corporate loans (+2.4% QoQ). The proportion of retail loans reached 59.2% as of 3Q19. Meanwhile, number of retail and private banking client grew steadily by 3.8% QoQ and 6.5% QoQ, respectively;
 - Net fee income surged 63.7% YoY**, likely on strong fees from settlement and agency service businesses;
 - Asset quality remained stable**. NPL ratio was flat at 1.68%, while above 90day overdue loan ratio fell 12bps QoQ to 1.46%, implying stricter NPL recognition. Credit cost rebounded to 3.2%, and provision coverage climbed 3.7ppts to 186.2%;
 - Capital position was strengthened post CB conversion**. CET 1 and total CAR rose 87bps/74bps QoQ to 9.75%/13.36%. The Bank has proposed to issue RMB 50bn perpetual bonds, which could further boost Tier 1 CAR by 196bps.
- Results negatives:**
 - NIM narrowed 9bps QoQ to 2.62%**, as loan yields retreated 19bps QoQ on possibly more prudent credit allocation, while funding cost was largely stable.
 - Deposit balance shrank 2.3% QoQ**, after a decent 10.2% HoH growth in 1H19. CBIRC's tightened regulation on structured deposits may restrain PAB's deposit growth, as its proportion of structured deposit was 18.5% as of 2Q19.
- Maintain BUY and raise TP to RMB 21.2**. We see muted share price reaction after the mixed 3Q19 results. However, we remain upbeat on PAB's long-term outlook given the Bank's in-depth retail transformation and market-oriented business strategy. We lifted our FY19-21 earnings forecast by 3-10% and rolled forward the valuation basis to FY20. Our new RMB 21.2 TP is derived from 1.35x target P/B and FY20E BVPS of RMB 15.7.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating income (RMB mn)	105,786	116,716	138,475	151,349	166,153
Net profit (RMB mn)	23,189	24,818	28,621	33,761	40,217
EPS (RMB)	1.30	1.39	1.52	1.69	2.03
EPS CHG (%)	(1.3)	7.3	8.8	11.7	19.6
P/E (x)	13.0	12.1	11.1	10.0	8.3
P/B (x)	1.43	1.32	1.20	1.08	0.96
Dividend yield (%)	0.8	0.9	0.9	1.0	1.2
ROE (%)	11.6	11.3	11.9	11.4	12.2
NPL ratio (%)	1.70	1.75	1.64	1.64	1.54
Provision coverage (%)	151	155	195	225	258

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	RMB 21.2
(Previous TP)	RMB 17.0)
Up/Downside	+25.5%
Current Price	RMB 16.9

China Banking Sector

Terry Sun, CFA

(852) 3900 0836

terrysun@cmbi.com.hk

Karen Sui

(852) 3761 8775

suixiaomeng@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	327,766
Avg 3 mths t/o (RMB mn)	1,790.86
52w High/Low (RMB)	17.6/9.15
Total Issued Shares (mn)	17,170

Source: Bloomberg

Shareholding Structure

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

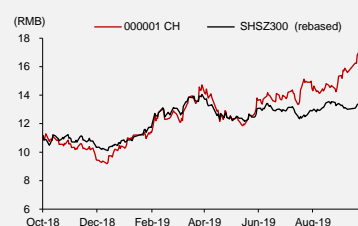
Source: Company data

Share Performance

	Absolute	Relative
1-mth	7.6%	9.5%
3-mth	18.0%	16.1%
6-mth	12.1%	19.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- 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: 3Q19 results summary

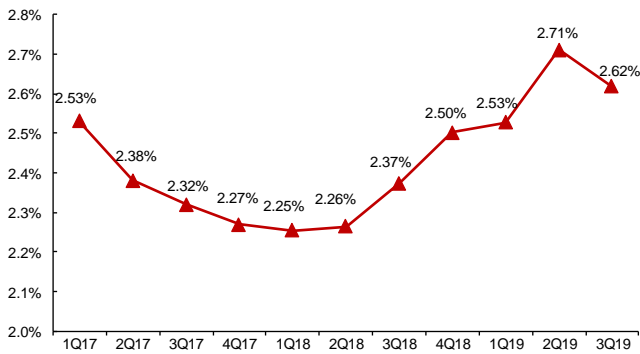
(RMB mn)						
P&L	9M18	9M19	YoY	3Q18	3Q19	YoY
Net interest income	54,529	66,269	21.5%	17,093	22,630	32.4%
Net fee and commission income	23,705	27,831	17.4%	5,766	9,440	63.7%
Operating income	86,664	102,958	18.8%	29,423	35,129	19.4%
Operating expense	(26,428)	(31,249)	18.2%	(8,887)	(10,661)	20.0%
PPoP	60,236	71,709	19.0%	20,536	24,468	19.1%
Impairment losses	(33,622)	(40,996)	21.9%	(11,324)	(13,792)	21.8%
Pre-tax profit	26,614	30,713	15.4%	9,212	10,676	15.9%
Income tax	(6,110)	(7,055)	15.5%	(2,115)	(2,455)	16.1%
Net profit	20,456	23,621	15.5%	7,084	8,218	16.0%

B/S	3Q18	3Q19	YoY	2Q19	3Q19	QoQ
Gross loans	1,922,047	2,151,167	11.9%	2,081,896	2,151,167	3.3%
Customers' deposits	2,134,641	2,313,764	8.4%	2,367,562	2,313,764	-2.3%
Total assets	3,352,056	3,707,683	10.6%	3,590,766	3,707,683	3.3%
NPLs	32,245	36,127	12.0%	34,925	36,127	3.4%

Key ratios	9M18	9M19	YoY	2Q19	3Q19	QoQ
NIM	2.29%	2.62%	33bp	2.71%	2.62%	-9bp
ROE	12.6%	12.6%	0ppt	13.2%	12.9%	-0.3ppt
NPL ratio	1.68%	1.68%	0bp	1.68%	1.68%	0bp
Provision coverage	168.8%	186.2%	17.3ppt	182.5%	186.2%	3.7ppt
LDR	90.0%	93.0%	2.9ppt	87.9%	93.0%	5.0ppt
CET-1 CAR	8.5%	9.8%	122bp	8.9%	9.8%	87bp

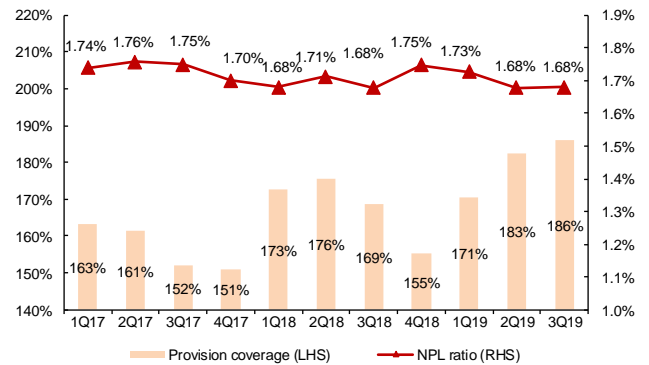
Source: Company data, CMBIS

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: Change in earnings forecast

	Net profit (RMB mn)			EPS (RMB)			NIM		
	Old	New	Change	Old	New	Change	Old	New	Change
FY19E	27,849	28,621	+2.8%	1.48	1.52	+2.9%	2.46%	2.60%	+14bp
FY20E	31,594	33,761	+6.9%	1.58	1.69	+7.1%	2.45%	2.58%	+13bp
FY21E	36,415	40,217	+10.4%	1.83	2.03	+10.7%	2.44%	2.59%	+15bp

Source: Company data, CMBIS

Financial Summary

Income Statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Interest income	148,068	162,888	182,920	199,310	216,454
Interest expenses	(74,059)	(88,143)	(90,551)	(99,416)	(107,713)
Net interest income	74,009	74,745	92,369	99,894	108,741
Net fee income	30,674	31,297	34,913	39,143	43,868
Others	1,103	10,674	11,193	12,312	13,543
Operating income	105,786	116,716	138,475	151,349	166,153
Operating expenses	(32,638)	(36,540)	(42,213)	(45,895)	(50,012)
PPoP	73,148	80,176	96,262	105,453	116,141
Provision	(42,925)	(47,871)	(59,018)	(61,534)	(63,837)
Operating profit	30,223	32,305	37,244	43,919	52,304
Non-operating income	(66)	(74)	(74)	(74)	(74)
Pre-tax profit	30,157	32,231	37,170	43,845	52,230
Income tax expenses	(6,968)	(7,413)	(8,549)	(10,084)	(12,013)
Minority interests	-	-	-	-	-
Net profit	23,189	24,818	28,621	33,761	40,217

Key Ratio

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Op. income mix					
Net interest income	70%	64%	67%	66%	65%
Net fee income	29%	27%	25%	26%	26%
Others	1%	9%	8%	8%	8%
Total	100%	100%	100%	100%	100%
Growth, YoY					
Net interest income	-3.1%	1.0%	23.6%	8.1%	8.9%
Net fee income	10.1%	2.0%	11.6%	12.1%	12.1%
Operating income	-1.8%	10.3%	18.6%	9.3%	9.8%
PPoP	-4.1%	9.6%	20.1%	9.5%	10.1%
Net profit	2.6%	7.0%	15.3%	18.0%	19.1%
Gross loans	15.5%	17.2%	10.0%	9.5%	9.5%
Customer deposits	4.1%	7.4%	10.0%	8.0%	8.0%

Efficiency

Cost-to-income ratio	29.9%	30.3%	29.5%	29.4%	29.1%
----------------------	-------	-------	-------	-------	-------

Balance Sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Due from central banks	305,986	273,513	300,657	332,696	359,146
Interbank assets	231,157	195,017	214,519	235,971	259,568
Investments	807,002	850,317	925,535	1,018,089	1,105,359
Gross loans	1,704,230	1,997,529	2,197,282	2,406,024	2,634,596
Less: provision	43,810	54,187	70,071	88,521	104,841
Other assets	243,909	156,403	195,777	201,430	182,907
Total assets	3,248,474	3,418,592	3,763,700	4,105,689	4,436,735
Due to central banks	130,652	149,756	172,219	198,052	227,760
Interbank liabilities	762,663	725,461	774,990	812,665	863,887
Customer deposits	2,000,420	2,149,142	2,364,056	2,553,181	2,757,435
Debt securities issued	45,116	81,755	89,931	94,427	99,148
Other liabilities	87,569	72,436	68,555	72,526	76,837
Total liabilities	3,026,420	3,178,550	3,469,751	3,730,851	4,025,067
Shareholders' equity	222,054	240,042	293,948	374,838	411,667
Incl. Perpetual bonds	-	-	-	50,000	50,000
Incl. Preferred stocks	19,953	19,953	19,953	19,953	19,953
Minority interest	-	-	-	-	-
Total equity	222,054	240,042	293,948	374,838	411,667

Asset quality

NPL ratio	1.70%	1.75%	1.64%	1.64%	1.54%
Provision coverage	151%	155%	195%	225%	258%
Provision/ total loans	2.57%	2.71%	3.19%	3.68%	3.98%
Credit costs	2.57%	2.36%	2.58%	2.44%	2.30%

Capital adequacy

CET-1 CAR	8.3%	8.5%	10.0%	10.2%	10.5%
Tier-1 CAR	9.2%	9.4%	10.7%	10.9%	11.2%
Total CAR	11.2%	11.5%	12.6%	12.6%	12.7%

Profitability

NIM	2.37%	2.35%	2.60%	2.58%	2.59%
ROE	11.6%	11.3%	11.9%	11.4%	12.2%
ROA	0.75%	0.74%	0.80%	0.86%	0.94%
RoRWA	1.05%	1.05%	1.12%	1.20%	1.31%

Per share

EPS (RMB)	1.30	1.39	1.52	1.69	2.03
DPS (RMB)	0.14	0.15	0.15	0.17	0.21
BVPS (RMB)	11.8	12.8	14.1	15.7	17.6

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc."), of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.