

Ping An Bank (000001 CH)

Conference call takeaway – Business outlook remains solid

We held an investor conference call with PAB on 20 Mar, during which management shared some color on potential impact from COVID-19 and business outlook for FY20. There are likely near-term pressures on margin and asset quality, but the Bank's successful retail transformation has laid a solid fundamental to weather through economic cycles, in our view.

- Asset quality pressure more visible in 2Q-3Q20.** Management expects MSE/corporate in cyclical industries to be the key casualty of COVID-19. That said, we may not see much fluctuation in NPLs in 1Q20, as companies' existing orders and cash on hand would still be able to support their loan repayment. Lack of demand and break of supply chain will amplify the impact in coming months, even with rising work resumption. PAB sees current retail/corporate loan mix of 60%/40% appropriate and should help to withstand macro uncertainties.
- Retail growth target remains unchanged despite temporary slowdown.** Subdued consumption activities will weigh on PAB's retail loan expansion in 1Q20, but management keeps steady full-year growth target for key retail products, such as credit card and auto finance. Retail business remains as the Bank's strategic focus, and the quality of customers migrated from other business channels of Ping An Group is expected to be better than that of market peers.
- NIM may narrow but should outperform peers.** Credit loosening and LPR reform have been driving down banks' asset yields at faster pace than liability cost, despite lower MLF/reverse repo rates. PAB's strategy is to shorten its liability duration, such as increasing proportion of demand deposits and lifting interbank borrowing during low-interest period. Management is confident to maintain current NIM advantage over peers.
- "Double 15" target stays on track.** Management emphasized that PAB is still striving to achieve the "Double 15" target (for both earnings growth and ROE) set by Ping An Group. Prudent impairment charges in 4Q19 and book value dilution from CB conversion were major overhangs on current ROE.
- Maintain BUY and RMB 19.80 TP.** We keep our FY20-21E earnings forecasts unchanged, but raise NPL ratio estimates by 10bp/7bp to 1.68%/1.53% to reflect higher NPL formation due to COVID-19. Given PAB's largely intact long-term outlook, we suggest to accumulate the stock after recent share price dips.

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	31,918	36,485	42,151
EPS (RMB)	1.39	1.54	1.60	1.84	2.13
EPS CHG (%)	7.3	10.3	4.0	14.7	15.9
Consensus EPS (RMB)	NA	NA	1.64	1.89	2.13
P/E (x)	9.0	8.1	7.8	6.8	5.9
P/B (x)	0.98	0.89	0.81	0.73	0.66
Dividend yield (%)	1.2	1.7	2.0	2.3	2.6
ROE (%)	11.3	11.1	10.8	11.2	11.8
NPL ratio (%)	1.75	1.65	1.68	1.53	1.37
Provision coverage (%)	155	183	190	212	235

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB 19.80
(Previous TP	RMB 19.80)
Up/Downside	+58.1%
Current Price	RMB 12.52

China Banking Sector

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Stock Data

Mkt Cap (RMB mn)	242,962
Avg 3 mths t/o (RMB mn)	1,688
52w High/Low (RMB)	17.6/11.6
Total Issued Shares (mn)	19,406

Source: Bloomberg

Shareholding Structure

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

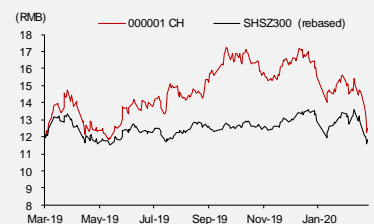
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-19.6%	-8.7%
3-mth	-24.5%	-17.0%
6-mth	-18.4%	-12.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Stable NIM and rising dividend payout highlight 4Q19 results – 14 Feb 2020
- Long-term prospect stays intact despite some NIM pressure – 22 Oct 2019
- 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: PAB's loan portfolio and NPL ratio

(RMB mn) Sector	FY19			FY18		
	Balance	Proportion	NPL ratio	Balance	Proportion	NPL ratio
Corporate						
Agriculture	4,619	0.2%	0.11%	5,837	0.3%	4.90%
Mining	31,891	1.4%	13.55%	41,140	2.1%	2.19%
Manufacturing	114,789	4.9%	3.43%	119,845	6.0%	6.75%
Energy	19,484	0.8%	0.90%	21,745	1.1%	0.62%
Transportation	43,768	1.9%	3.09%	39,131	2.0%	2.16%
Commerce	94,407	4.1%	7.24%	101,104	5.1%	7.94%
Real estate	228,663	9.8%	1.18%	176,016	8.8%	1.56%
Cultural and social services	158,747	6.8%	1.18%	144,186	7.2%	0.31%
Construction	40,031	1.7%	2.23%	45,403	2.3%	2.24%
Discounted bills	94,903	4.1%	-	41,702	2.1%	-
Others	134,682	5.8%	0.04%	107,407	5.4%	0.09%
Total corporate loans	965,984	41.6%	2.29%	843,516	42.2%	2.68%
Retail						
Mortgage	411,066	17.7%	0.30%	310,793	15.6%	1.00%
Credit cards	540,434	23.3%	1.66%	473,295	23.7%	7.29%
Auto finance	179,224	7.7%	0.74%	172,029	8.6%	1.32%
Unpledged consumer and biz loans	157,364	6.8%	1.34%	153,745	7.7%	0.54%
Others	69,133	3.0%	3.55%	44,151	2.2%	1.75%
Total retail loans	1,357,221	58.4%	1.19%	1,154,013	57.8%	1.07%
Total loans	2,323,205		1.65%	1,997,529		1.75%

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	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)	(64,646)	(69,292)	(74,416)
Operating profit	32,305	36,289	41,074	46,944	54,228
Non-operating income	(74)	(49)	(49)	(49)	(49)
Pre-tax profit	32,231	36,240	41,025	46,895	54,179
Income tax expenses	(7,413)	(8,045)	(9,107)	(10,410)	(12,027)
Minority interests	-	-	-	-	-
Net profit	24,818	28,195	31,918	36,485	42,151

Key Ratio

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Op. income 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%	13.2%	14.3%	15.5%
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%
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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	83,212	95,031	105,251
Other assets	156,403	164,758	162,790	181,669	200,207
Total assets	3,418,592	3,939,070	4,330,316	4,750,362	5,216,204
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	370,676	402,372	439,050
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	370,676	402,372	439,050

Asset quality

NPL ratio	1.75%	1.65%	1.68%	1.53%	1.37%
Provision coverage	155%	183%	190%	212%	235%
Provision/ total loans	2.71%	3.01%	3.20%	3.26%	3.22%
Credit costs	2.58%	2.71%	2.56%	2.45%	2.35%

Capital adequacy

CET-1 CAR	8.5%	9.1%	10.1%	10.1%	10.2%
Tier-1 CAR	9.4%	10.5%	10.8%	10.8%	10.7%
Total CAR	11.5%	13.2%	12.6%	12.3%	12.1%

Profitability

NIM	2.35%	2.62%	2.56%	2.53%	2.53%
ROE	11.3%	11.1%	10.8%	11.2%	11.8%
ROA	0.74%	0.77%	0.77%	0.80%	0.85%
RoRWA	1.05%	1.07%	1.10%	1.19%	1.24%

Per share

EPS (RMB)	1.39	1.54	1.60	1.84	2.13
DPS (RMB)	0.15	0.22	0.25	0.28	0.33
BVPS (RMB)	12.8	14.1	15.5	17.1	19.0

Source: Company data, CMBIS estimates

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