

# China / Hong Kong Company Update

# Ping An Bank

Bloomberg: 000001 CH Equity | Reuters: 000001.SZ

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DBS Group Research . Equity

22 Apr 2022

**BUY** (Reinstating coverage)

Last Traded Price (21 Apr 2022): RMB15.81 (CSI300 Index : 3,996)

Price Target 12-mth: RMB21.10 (33% upside)

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### What's New

- Expect asset quality to improve as property related risk is now largely digested
- Key advantage in comprehensive services capability will underpin rapid growth in retail and corporate banking
- Expect 19% earnings CAGR in FY22-24F and ROE improving to 12-13% in FY23-24F
- Reinstate coverage with BUY and TP of Rmb 21.1

## Comprehensive services offering is a big advantage

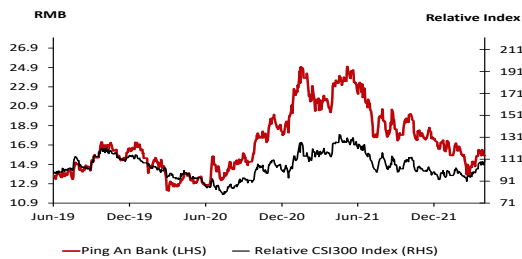
### Investment Thesis

**Improving asset quality.** We see positive trend in NPL ratio in 2022 led by 1) more careful management in credit card division; and 2) over 90% of property risk related assets have been impaired or written-off already.

**Leading position in retail banking.** We expect PAB to maintain higher-than-peers NIM given its strong retail business. Meanwhile, its corporate banking business reported high growth in FY21 with 36% increase in number of corporate clients.

**Leveraging on Ping An Group's ecosystem.** Comprehensive services and client acquisition channels are PAB's core competitive advantages. It stands to benefit from cross-selling opportunities, while leveraging on fintech capabilities to improve operating efficiency and credit risks.

### Price Relative



### Valuation:

We reinstate BUY with TP at Rmb 21.1. Our valuation is based on the DDM methodology, assuming 12% cost of equity, 12% ROE, and 6% terminal growth. Our TP implies 1.1x FY22F P/B and 9.9x FY22F P/E, which is undemanding given its earnings CAGR of 17.7% in FY22-24F and improving ROE to 12.8% in FY24F from 10.8% in 2021.

### Where we differ:

We believe PAB is well positioned to capture the opportunities from secular growth in China's wealth management market, supported by its strong retail banking arm and strong sales channel, and comprehensive services capability in addition to leveraging on Ping An Group. We expect PAB's fee income to grow by 7.5% CAGR in FY21-24F.

### Key Risks to Our View:

A further slowdown in China's economy, deteriorating asset quality, and weak investment demand would pose major risks to PAB.

### Forecasts and Valuation

FY Dec (RMB m)	2021A	2022F	2023F	2024F
Pre-prov. Profit	119,802	131,392	148,235	162,499
Pre-prov. Profit Gth	12	10	13	10
Pretax Profit	45,879	53,216	62,233	72,370
Net Profit	33,487	39,298	46,439	54,468
EPS (RMB)	1.73	2.03	2.39	2.81
EPS Gth (%)	19	17	18	17
PE (x)	9.2	7.8	6.6	5.6
DPS (RMB)	0.23	0.26	0.31	0.36
Div Yield (%)	1.4	1.7	2.0	2.3
BV Per Share (RMB)	16.77	18.48	20.61	23.10
P/Book Value (x)	0.9	0.9	0.8	0.7
ROAE (%)	10.8	11.5	12.2	12.8
ROAE (ex-exceptional) (%)	10.8	11.5	12.2	12.8
ROA (%)	0.71	0.75	0.80	0.84

	2021A	2022F	2023F	2024F
Earnings Rev (%)		New	New	New
Consensus EPS (RMB)		2.05	2.43	2.82
Other Broker Recs:		B:40	S:1	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

### At A Glance

Issued Capital (m shrs)	19,406
Mkt Cap (RMBm/US\$m)	307,585 / 48,109
Major Shareholders (%)	
Ping An Insurance Group Co of China Ltd	49.6
Ping An Life Insurance Co. of China, Ltd	8.4
Free Float (%)	42.1
3m Avg. Daily Val. (US\$m)	293.28
GICS Industry: Financials / Banks	



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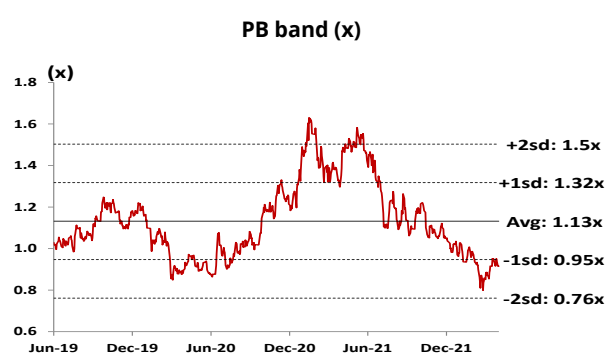
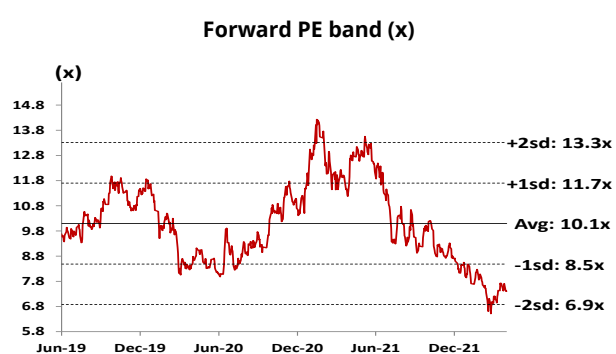
Live more, Bank less

## Ping An Bank

### Company Background

Ping An Bank (PAB) is a joint-stock commercial bank, headquartered in Shenzhen. As a subsidiary of Ping An Insurance, PAB leverages resources from its parent company to speed up its business transformation from corporate banking to retail banking through digitalisation. By the end of FY21, PAB's total assets amounted to Rmb4.9tr, while gross loans and total deposits amounted to Rmb3.07tr and Rmb2.99tr, respectively.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Ping An Bank

### Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
NIM (%)	2.88	2.79	2.78	2.79	2.79
Loan growth (%)	15	15	14	9	9
Fee growth (%)	(10)	(4)	11	6	6
Cost-to-income (%)	30.1	29.3	28.9	28.0	27.7
Credit cost (%)	1.72	2.04	1.96	1.94	1.84
Customer Deposits Growth (%)	10	11	11	11	10
Yld. On Earnings Assets (%)	5.21	5.01	4.92	4.96	5.01
Avg Cost Of Funds (%)	2.32	2.21	2.23	2.25	2.27

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Interest Income	113,470	120,336	130,033	146,075	161,409
Non-Interest Income	40,072	49,047	54,773	59,743	63,198
<b>Operating Income</b>	<b>153,542</b>	<b>169,383</b>	<b>184,806</b>	<b>205,818</b>	<b>224,607</b>
Operating Expenses	(46,215)	(49,581)	(53,413)	(57,584)	(62,108)
<b>Pre-provision Profit</b>	<b>107,327</b>	<b>119,802</b>	<b>131,392</b>	<b>148,235</b>	<b>162,499</b>
Provisions	(70,418)	(73,817)	(78,053)	(85,858)	(89,962)
Associates	(155)	(106)	(123)	(144)	(167)
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>36,754</b>	<b>45,879</b>	<b>53,216</b>	<b>62,233</b>	<b>72,370</b>
Taxation	(7,826)	(9,543)	(11,069)	(12,945)	(15,053)
Minority Interests	0	0	0	0	0
Preference Dividend	(874)	(2,849)	(2,849)	(2,849)	(2,849)
<b>Net Profit</b>	<b>28,054</b>	<b>33,487</b>	<b>39,298</b>	<b>46,439</b>	<b>54,468</b>
Net Profit bef Except	28,054	33,487	39,298	46,439	54,468

### Growth (%)

Net Interest Income Gth	26.13	6.05	8.06	12.34	10.50
Net Profit Gth	2.68	19.37	17.35	18.17	17.29

### Margins, Costs & Efficiency (%)

Spread	2.90	2.80	2.69	2.72	2.74
Net Interest Margin	2.94	2.82	2.74	2.77	2.78
Cost-to-Income Ratio	30.1	29.3	28.9	28.0	27.7

### Business Mix (%)

Net Int. Inc / Opg Inc.	73.9	71.0	70.4	71.0	71.9
Non-Int. Inc / Opg inc.	26.1	29.0	29.6	29.0	28.1
Fee Inc / Opg Income	19.3	19.5	19.3	18.8	18.3
Oth Non-Int Inc/Opg Inc	6.8	9.4	10.4	10.3	9.9

### Profitability (%)

ROAE Pre Ex.	9.9	10.8	11.5	12.2	12.8
ROAE	9.9	10.8	11.5	12.2	12.8
ROA Pre Ex.	0.7	0.8	0.8	0.8	0.9
ROA	0.7	0.7	0.8	0.8	0.8

Source: Company, DBS HK

## Ping An Bank

### Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Cash/Bank Balance	283,982	312,033	344,796	381,000	419,100
Government Securities	0	0	0	0	0
Inter Bank Assets	272,484	179,076	205,937	236,828	272,352
Total Net Loans & Adv.	2,610,841	2,984,753	3,382,476	3,685,620	4,021,571
Investment	832,341	893,186	973,573	1,080,666	1,221,152
Associates	0	0	0	0	0
Fixed Assets	10,893	11,974	13,162	14,468	15,904
Goodwill	7,568	7,568	7,568	7,568	7,568
Other Assets	450,405	532,790	563,776	723,125	885,443
<b>Total Assets</b>	<b>4,468,514</b>	<b>4,921,380</b>	<b>5,491,289</b>	<b>6,129,276</b>	<b>6,843,091</b>
Customer Deposits	2,695,935	2,990,518	3,304,522	3,651,497	4,016,647
Inter Bank Deposits	670,458	573,390	602,060	614,101	626,383
Debts/Borrowings	611,865	823,934	985,938	1,183,126	1,419,751
Others	126,125	138,090	170,233	210,709	262,003
Minorities	0	0	0	0	0
Shareholders' Funds	364,131	395,448	428,536	469,843	518,308
<b>Total Liab&amp; S/H's Funds</b>	<b>4,468,514</b>	<b>4,921,380</b>	<b>5,491,289</b>	<b>6,129,276</b>	<b>6,843,091</b>

Source: Company, DBS HK

### Financial Stability Measures (%)

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Balance Sheet Structure</b>					
Loan-to-Deposit Ratio	99.2	102.8	105.8	104.8	104.3
Net Loans / Total Assets	58.4	60.6	61.6	60.1	58.8
Investment / Total Assets	18.6	18.1	17.7	17.6	17.8
Cust. Dep./Int. Bear. Liab.	66.7	66.2	66.2	65.7	65.2
Interbank Dep / Int. Bear.	19.0	16.1	14.2	13.1	11.9
<b>Asset Quality</b>					
NPL / Total Gross Loans	1.2	1.0	1.0	1.0	1.0
NPL / Total Assets	0.7	0.6	0.6	0.6	0.6
Loan Loss Reserve Coverage	200.1	285.4	323.8	367.5	400.2
Provision Charge-Off Rate	2.6	2.4	2.2	2.2	2.1
<b>Capital Strength</b>					
Total CAR	13.3	13.3	13.8	13.8	13.7
Tier-1 CAR	8.7	8.6	8.5	8.5	8.6

Source: Company, DBS HK

## Ping An Bank

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

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**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

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\*Share price appreciation + dividends

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