

# Prudential Plc. (2378 HK)

## 15% APE growth in 2M23; Minimal exposure to US banking sector

Prudential plc reported in line results for FY22, with NBP excl. HK up 5% YoY on constant exchange rates (CER) basis. The group NBP declined 11% on CER basis in FY22, mainly dragged by interest rate assumption changes. Excluding the impact of negative economic assumption changes, the insurer's group NBP decreased 4% YoY in FY22. The total DPS for FY22 grew 9% YoY to 0.1878 US\$. In 2M23, group APE growth of Pru accelerated to 15% YoY, driven by 1) upbeat MCV (mainland China visitors) business momentum in HK, 2) robust new business growth in mainland China driven by multi-channel distribution of CPL, and 3) continual positive growth in Indonesia since 4Q22. The insurer's capital position remained sound with GWS GPCR cover ratio stood at 302% at end-FY22. Looking forward, we expect the insurer's rally in HK MCV business, robust growth momentum in China JV, and the recovery of Indonesia momentum will underpin a strong VNB growth throughout FY23. Reiterate BUY.

- **Minimal exposure to SVB and Signature Bank.** During the analyst briefing, the management indicated that among Pru's exposure to corporate debt of US banking sector amounted to US\$1.1bn, less than 1% of its total investment assets. And among the US\$1.1bn exposure, 95% are allocated to systemically important banks. The exposure to SVB and Signature Bank specifically was only about US\$1mn, less than 0.01% of Pru's debt holdings.
- **Upbeat APE momentum in 2M23.** In 2M23, the APE growth of Pru reached 15% YoY on CER basis, up from +10% YoY in 3Q22 and +11% in 4Q22. We expect the new business growth to further accelerate in the coming months, given that 1) the MCV traffic is still on the rise ever since the full reopening on 6 Feb, and 2) Pru HK has retained sufficient sales force, as around 10,000 out of its 19,000 agents are specialized for MCV business.
- **Limited impact from IFRS 17&9.** The book value would have increased US\$1.8-2.7bn under IFRS 9&17 as of end-FY21, due to release of prudent margins and changes in timings of profit recognition, while the OPAT FY22 would have declined by US\$0.65-0.85bn. The contractual service margin (CSM) amounted to ~US\$25bn as of end-FY21, which will unwind at 9-10% p.a. The IFRS 17 Equity Adjusted (book value + CSM + Risk adjustment – Related tax) stood around US\$43bn at end-FY21, about 10% below the EEV.
- **Valuation:** The stock is now trading at 0.8x P/EV FY24E and 1.9x P/BV FY24E. We believe the rally in HK MCV business and the uptick in mainland China and Indonesia business are poised for 20%+ NBP growth in 2023.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (US\$ mn)	(2,042)	998	3,063	3,798	4,408
EPS (Reported)(US\$)	(0.78)	0.36	1.11	1.38	1.60
Consensus EPS (US\$)	na	na	1.13	1.30	1.47
Group embedded value / share (US\$)	17.24	15.34	16.34	17.28	18.40
Premium income (US\$ mn)	22,373	21,401	25,965	30,267	35,345
Premium income growth (%)	2.3	(4.3)	21.3	16.6	16.8
P/B (x)	2.2	2.2	2.1	1.9	1.7
P/Embedded value (x)	0.8	0.9	0.8	0.8	0.8
Dividend yield (%)	1.3	1.4	4.1	5.1	6.0
ROE (%)	(10.8)	5.9	17.3	19.6	20.6

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** HK\$143.00  
 (Previous TP) HK\$143.00  
**Up/Downside** 31.4%  
**Current Price** HK\$108.80

### China Insurance

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### Stock Data

Mkt Cap (HK\$ mn)	299,091.2
Avg 3 mths t/o (HK\$ mn)	119.1
52w High/Low (HK\$)	134.80/68.75
Total Issued Shares (mn)	2749.0

Source: FactSet

### Shareholding Structure

BlackRock	8.5%
Vanguard	5.6%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-11.0%	-5.2%
3-mth	2.6%	1.7%
6-mth	27.4%	23.4%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Recent Reports:

1. Prudential PLC(2378 HK) - Asia-focus leading player; border-reopening tailwinds in 2023 ([link](#))
2. Prudential PLC (2378 HK) - Strong new biz momentum from China JV ([link](#))

**Auditor: KPMG LLP**

## PRU NBP / NBP margin / APE growth on AER and CER basis

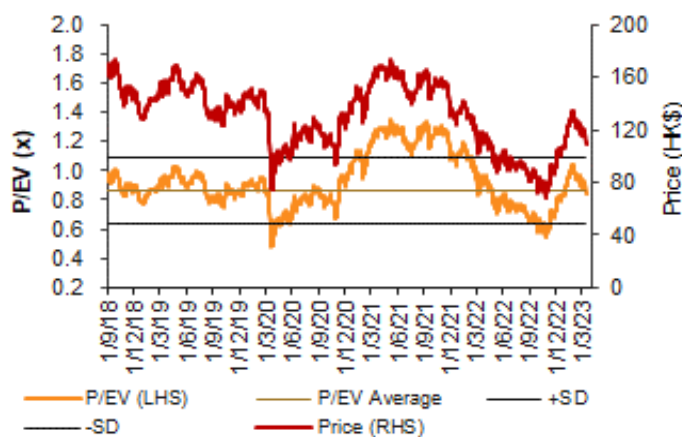
Figure 1: PRU FY22 NBP / New Business margin (NBM) / APE growth on AER and CER basis

Operating markets	NBP YoY%		NBP margin		APE YoY%	
	AER basis	CER basis	AER basis	CER basis	AER basis	CER basis
China JV (CPL)	10%	15%	(1.6)ppt	(1.6)ppt	14%	19%
Hong Kong	-48%	-47%	(60.3)ppt	(60.3)ppt	-5%	-4%
Indonesia	0%	4%	1.0 ppt	2.5 ppt	-2%	2%
Malaysia	-31%	-27%	(6.0)ppt	(6.2)ppt	-22%	-17%
Singapore	-5%	-2%	(5.6)ppt	(5.6)ppt	4%	6%
Growth markets and otl	13%	20%	(0.4)ppt	(0.7)ppt	14%	22%
<b>Total</b>	<b>-14%</b>	<b>-11%</b>	<b>(10.0)ppt</b>	<b>(11.0)ppt</b>	<b>5%</b>	<b>9%</b>

Source: Company data, CMBIGM

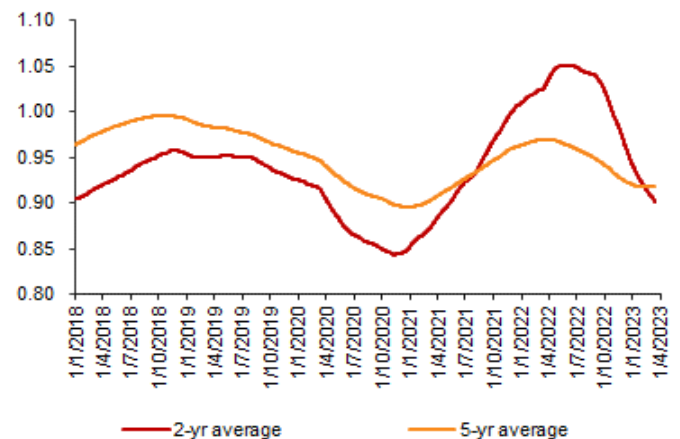
## PRU trading band of 12M forward P/EV & Historical avg. P/EV

Figure 2: PRU 12M forward P/EV band, FY18-FY23



Source: Company data, CMBIGM | Note: the stock price is quoted by market close at 4pm on 15 Mar 2023.

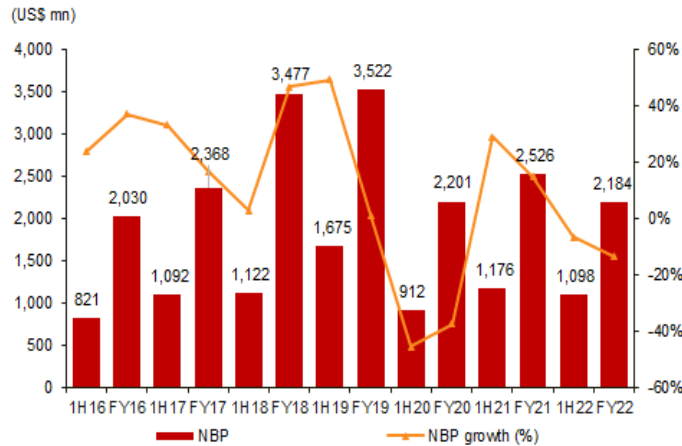
Figure 3: PRU's historical 2-yr and 5-yr avg. P/EV



Source: Company data, CMBIGM | Note: the stock price is quoted by market close at 4pm on 15 Mar 2023 with the P/EV TTM at 0.84.

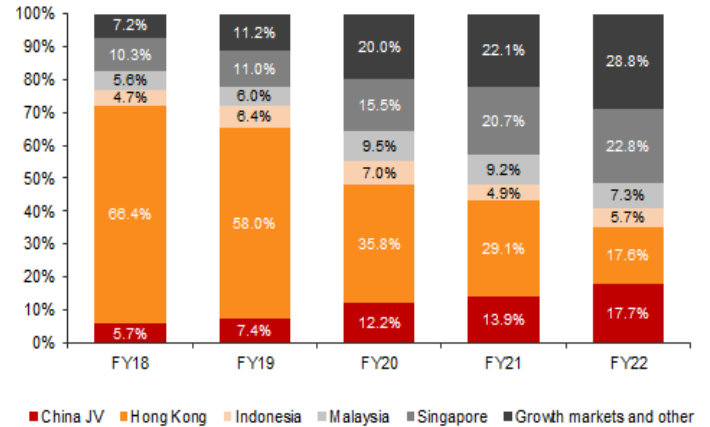
## Focus Charts

**Figure 4: PRU Asia NBP & NBP growth (1H16-FY22)**



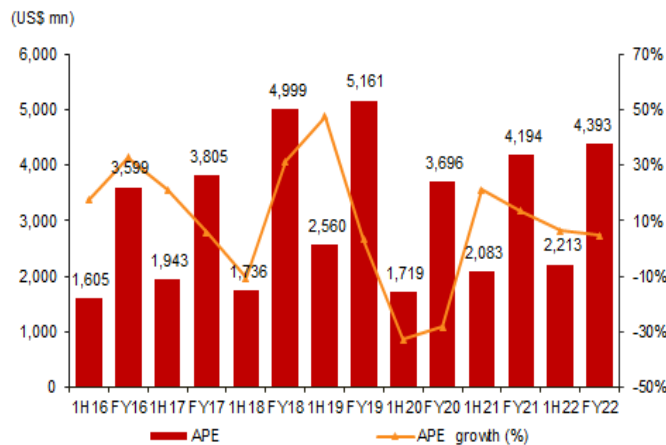
Source: Company data, CMBIGM

**Figure 5: PRU Asia NBP breakdown by country**



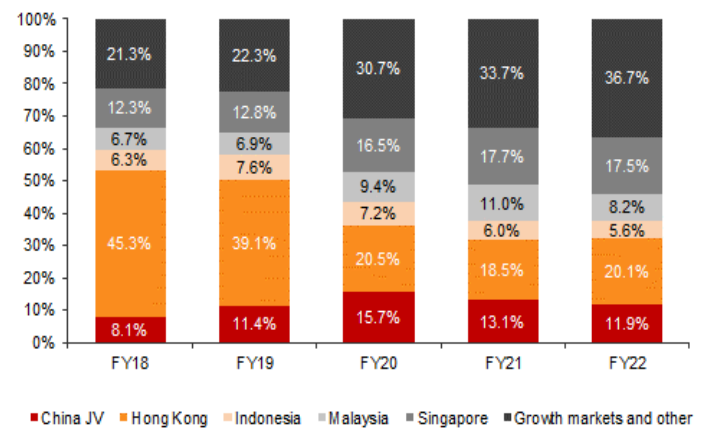
Source: Company data, CMBIGM

**Figure 6: PRU Asia APE & APE growth (1H16-FY22)**



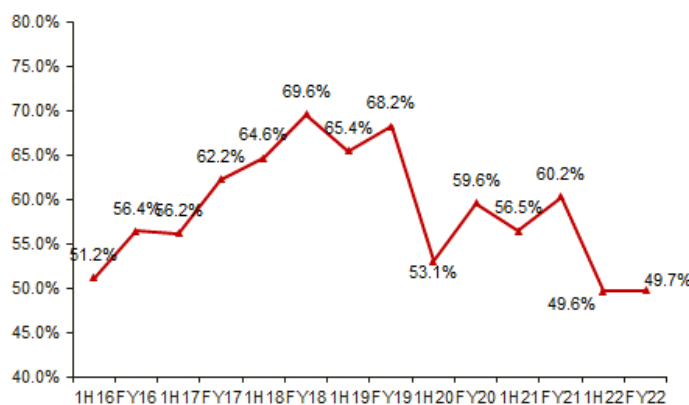
Source: Company data, CMBIGM

**Figure 7: PRU Asia APE breakdown by country**



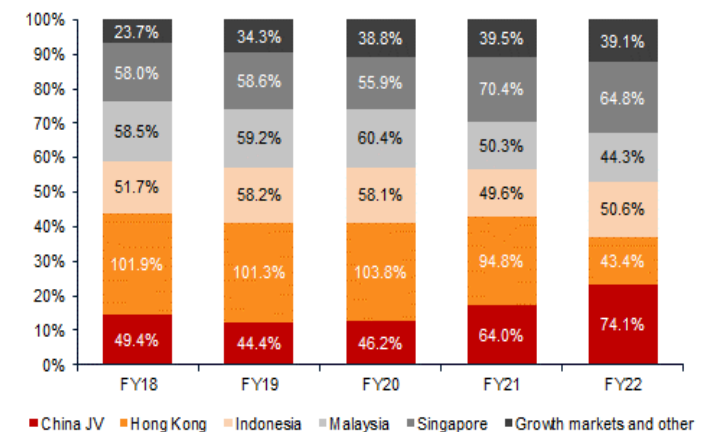
Source: Company data, CMBIGM

**Figure 8: PRU Asia NBP margin (APE basis, semi-annual)**

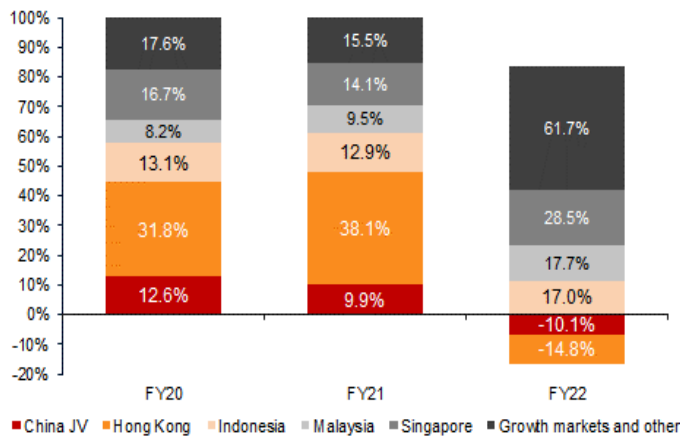


Source: Company data, CMBIGM

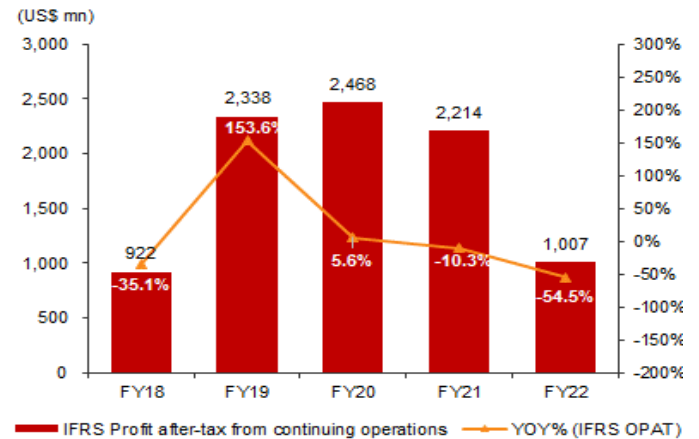
**Figure 9: PRU Asia NBP margin (APE basis)**



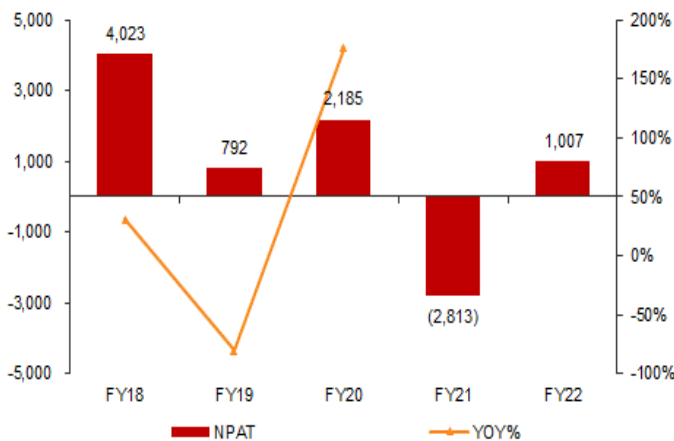
Source: Company data, CMBIGM

**Figure 10: PRU Asia EEV OPBT breakdown by countries**

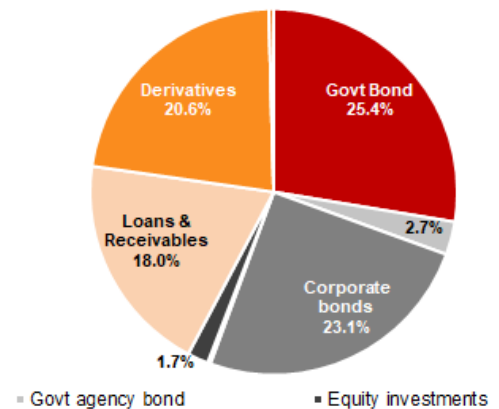
Source: Company data, CMBIGM | Note: OPBT stands for IFRS operating profit before tax breakdown by each operating market.

**Figure 11: PRU Group IFRS OPAT & OPAT YoY%**

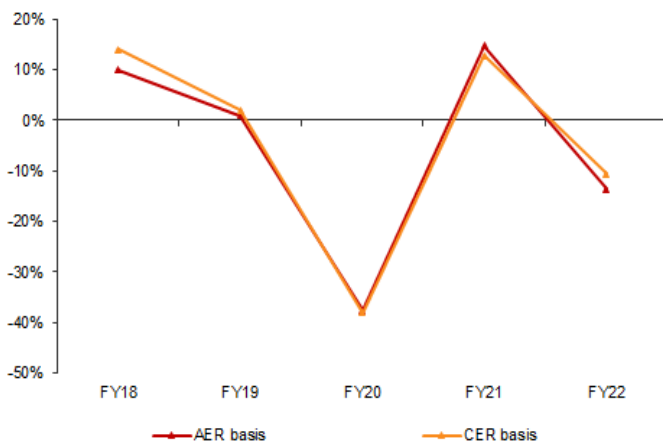
Source: Company data, CMBIGM

**Figure 12: PRU Group IFRS NPAT & NPAT YoY%**

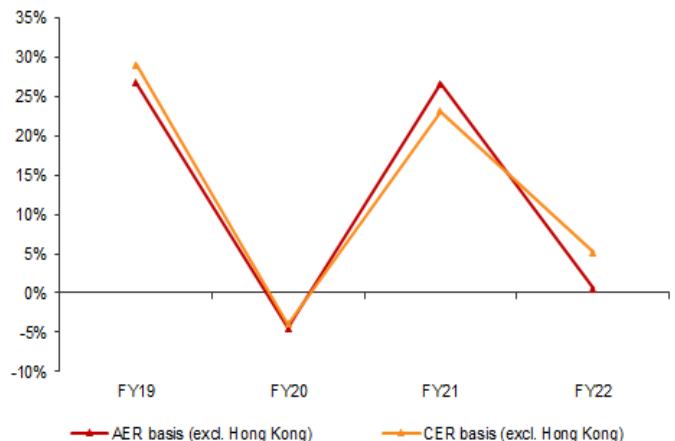
Source: Company data, CMBIGM | Note: the year-on-year comparison is not applicable given a net loss of US\$2.8bn in FY21.

**Figure 13: PRU Group Investment Portfolio in FY22**

Source: Company data, CMBIGM

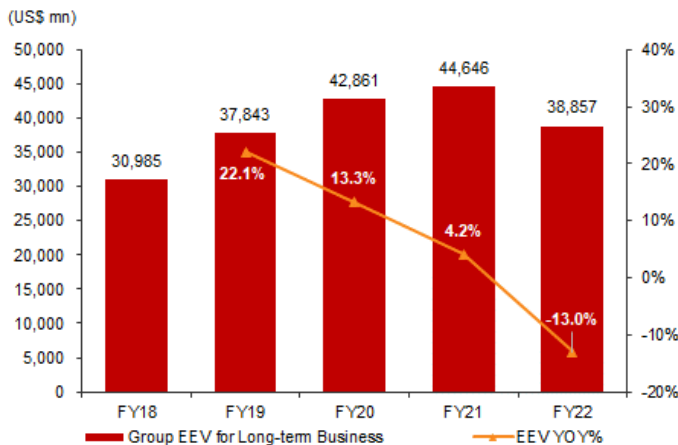
**Figure 14: PRU Asia NBP Growth on AER & CER basis**

Source: Company data, CMBIGM

**Figure 15: PRU Asia excl. HK NBP Growth on AER & CER basis**

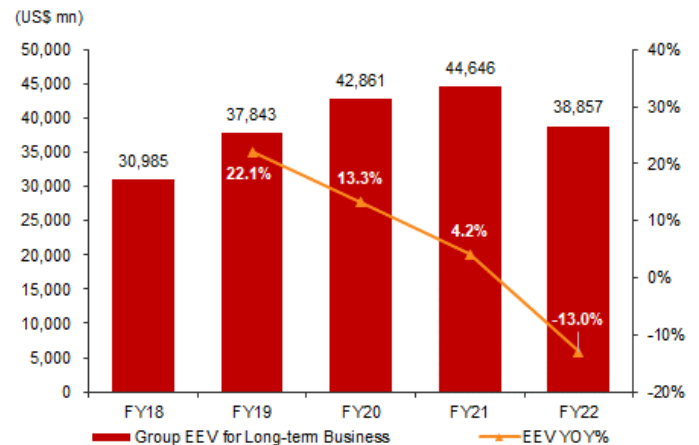
Source: Company data, CMBIGM

Figure 16: PRU Asia EEV &amp; EEV YoY%



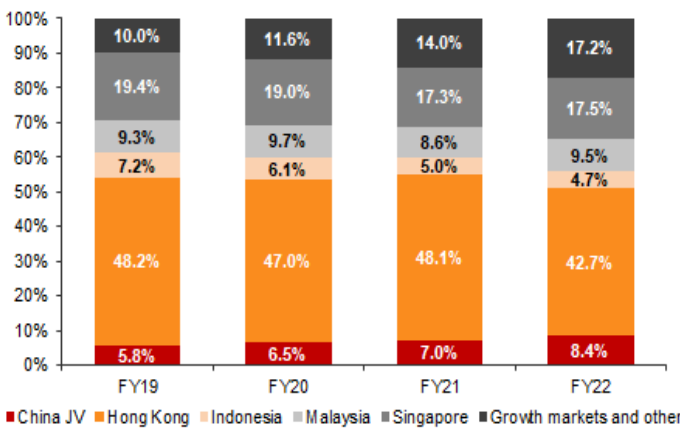
Source: Company data, CMBIGM

Figure 17: PRU Asia EEV Equity &amp; EEV Equity YoY%



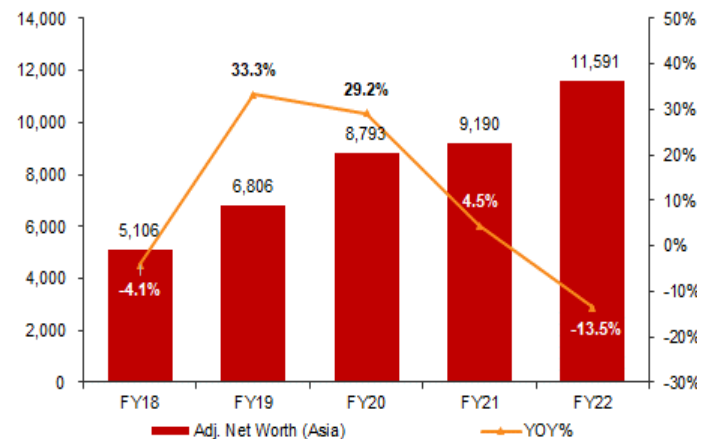
Source: Company data, CMBIGM

Figure 18: PRU EEV breakdown by country



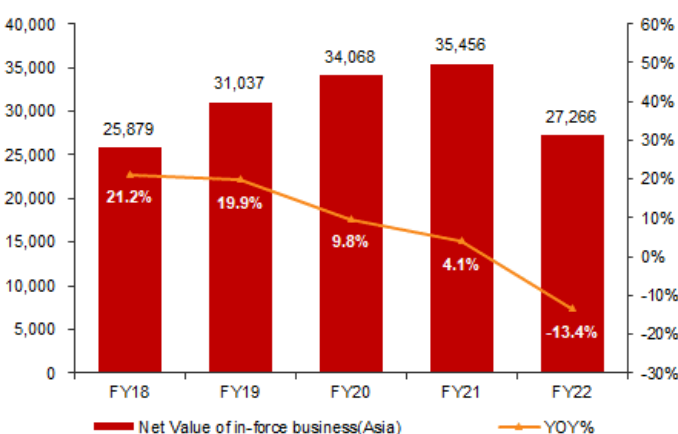
Source: Company data, CMBIGM

Figure 19: PRU Asia ANW &amp; ANW YoY%



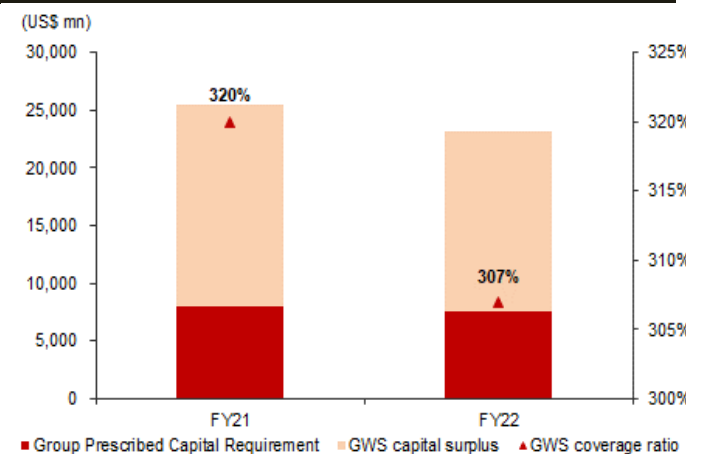
Source: Company data, CMBIGM | Note: ANW stands for adjusted net worth.

Figure 20: PRU Asia Net VIF &amp; VIF YoY%

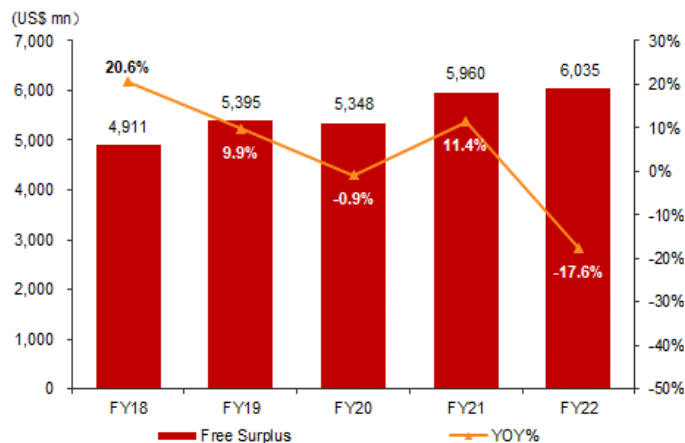


Source: Company data, CMBIGM | Note: VIF stands for value in-force business.

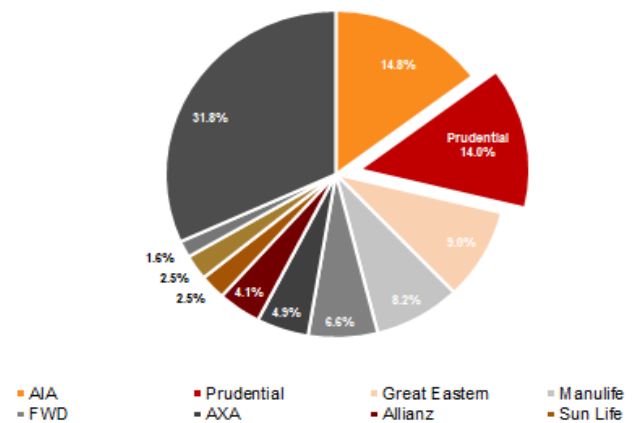
Figure 21: PRU Group LCSM Surplus &amp; YoY% (PCR basis)



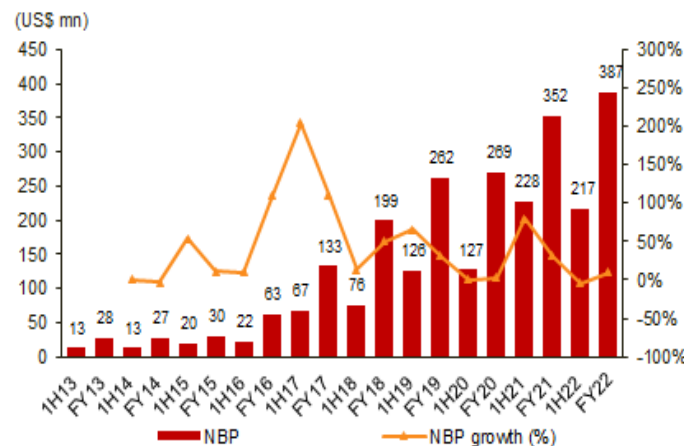
Source: Company data, CMBIGM

**Figure 22: PRU Group Free Surplus Generation & YoY%**

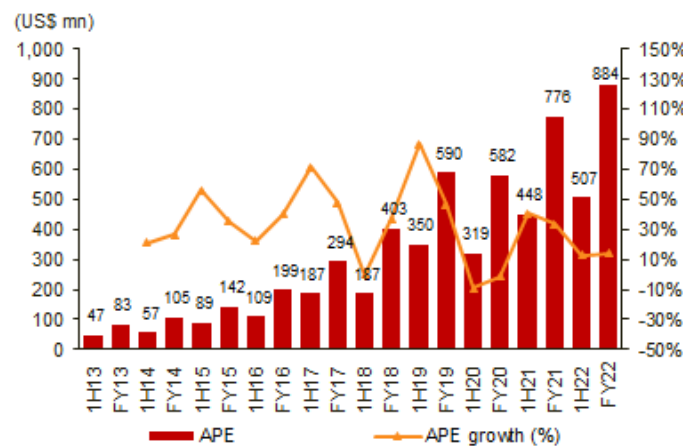
Source: Company data, CMBIGM

**Figure 23: Prudential APE market share in SEA (%)**

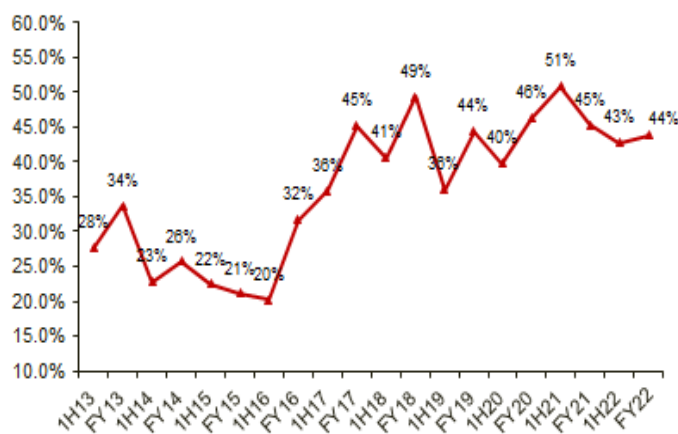
Source: Company data, CMBIGM, NMG | Note: Data subject to FY21, SEA markets refer to Thailand, Indonesia, Malaysia, the Philippines, Singapore and Vietnam.

**Figure 24: PRU China NBP & YoY (1H13-FY22, semi-annual)**

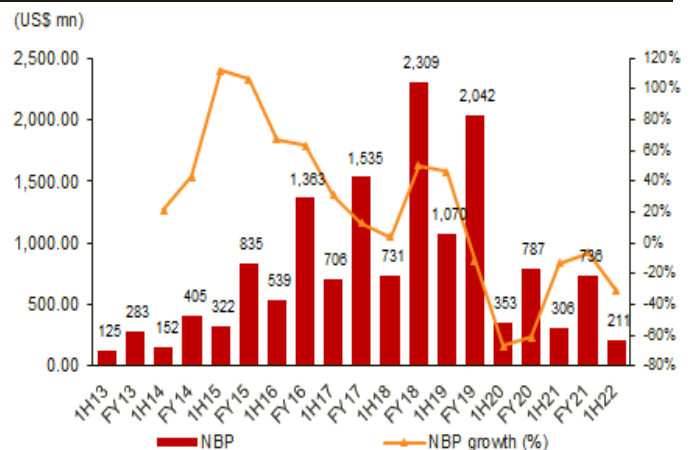
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

**Figure 25: PRU China APE & YoY (1H13-FY22, semi-annual)**

Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

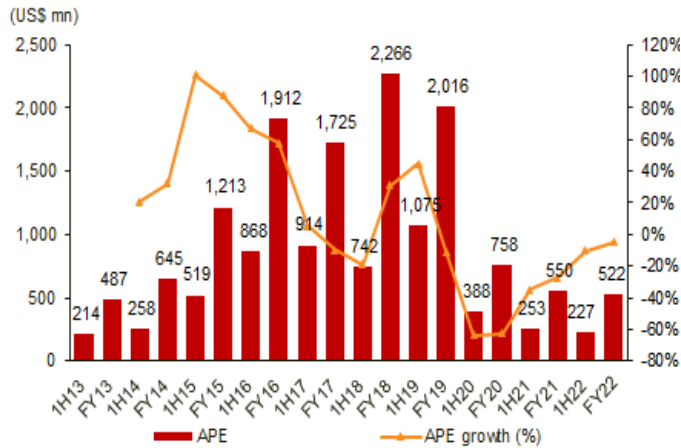
**Figure 26: PRU China NBP margin (1H13-FY22, semi-annual)**

Source: Company data, CMBIGM

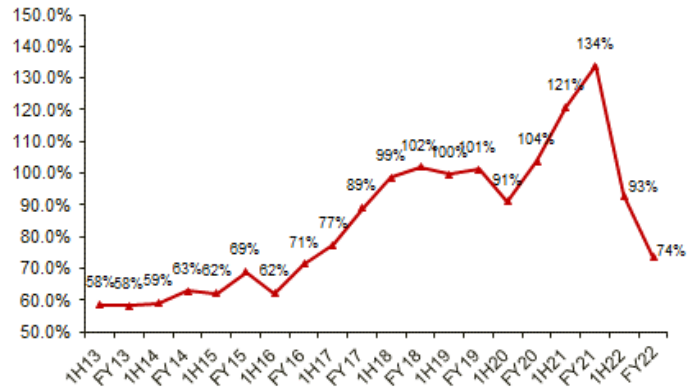
**Figure 27: PRU HK NBP & YoY (1H13-FY22, semi-annual)**

Source: Company data, CMBIGM

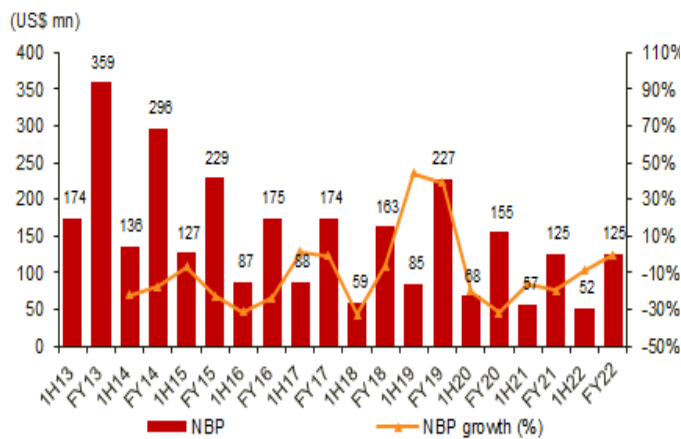


**Figure 28: PRU HK APE & YoY (1H13-FY22, semi-annual)**

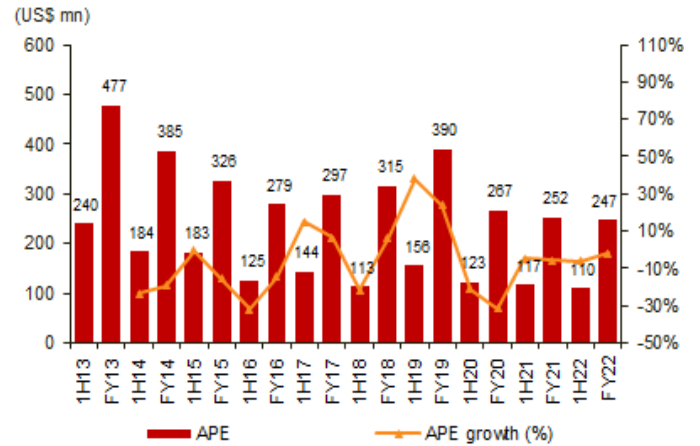
Source: Company data, CMBIGM

**Figure 29: PRU HK NBP margin (1H13-FY22, semi-annual)**

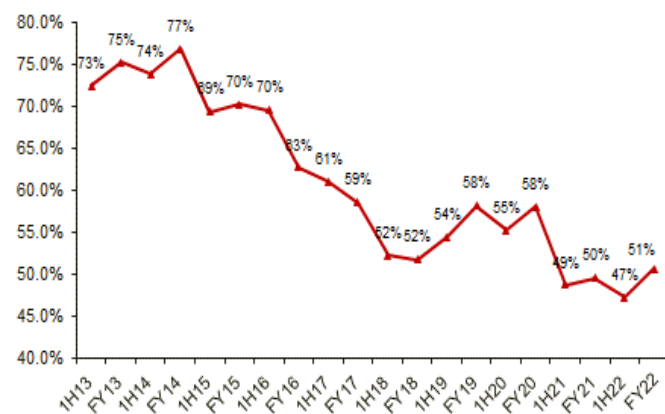
Source: Company data, CMBIGM

**Figure 30: PRU Indonesia NBP & YoY (1H13-FY22, semi-annual)**

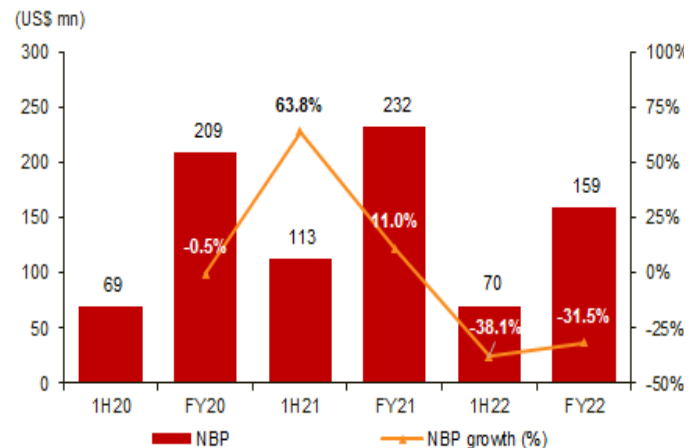
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

**Figure 31: PRU Indonesia APE & YoY (1H13-FY22, semi-annual)**

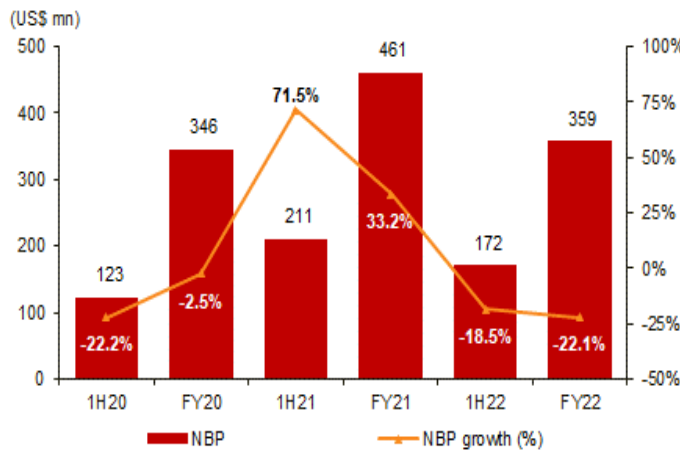
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

**Figure 32: PRU Indonesia NBP margin (1H13-FY22, semi-annual)**

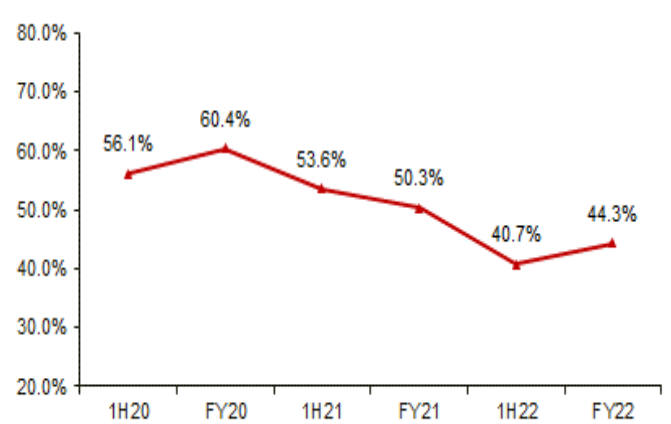
Source: Company data, CMBIGM

**Figure 33: PRU Malaysia NBP & YoY (1H20-FY22, semi-annual)**

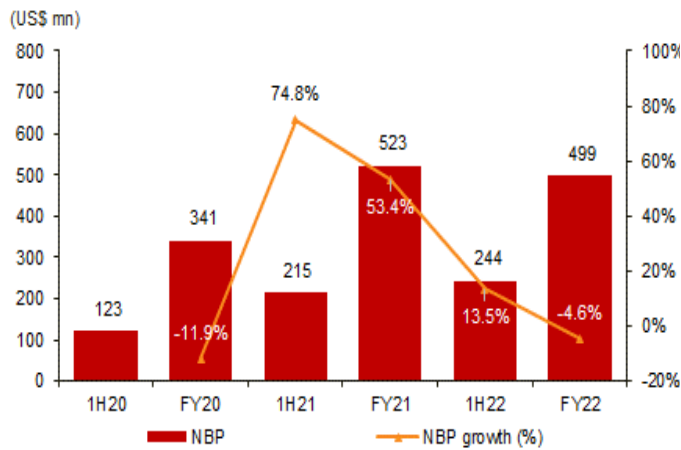
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

**Figure 34: PRU Malaysia APE & YoY (1H20-FY22, semi-annual)**

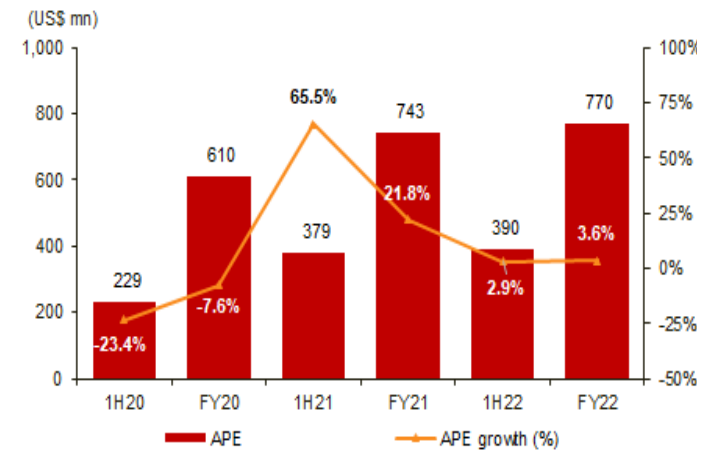
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

**Figure35: PRU Malaysia NBP margin (1H20-FY22, semi-annual)**

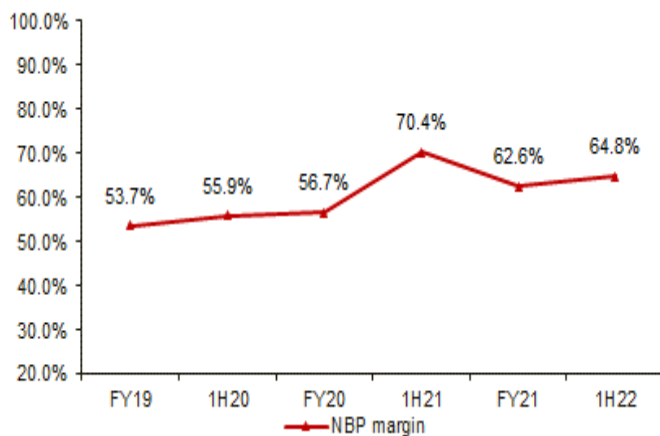
Source: Company data, CMBIGM

**Figure 36:PRU Singapore NBP & YoY (1H20-FY22,semi-annual)**

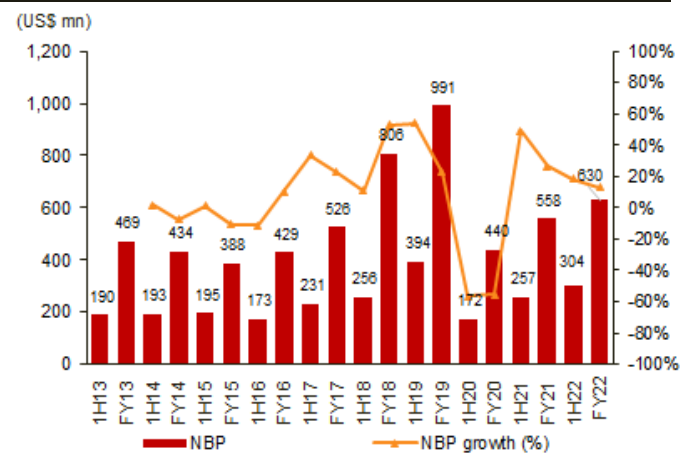
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

**Figure37: PRU Singapore APE & YoY (1H20-FY22,semi-annual)**

Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

**Figure38:PRU Singapore NBP margin(1H17-FY22,semi-annual)**

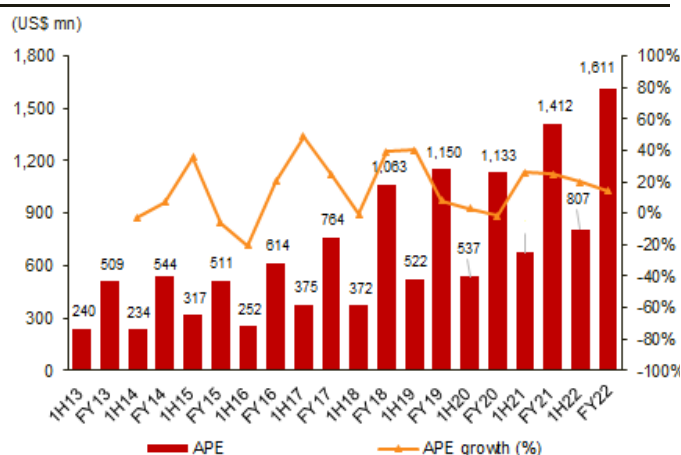
Source: Company data, CMBIGM

**Figure 39: PRU Others NBP & YoY (1H13-FY22, semi-annual)**

Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

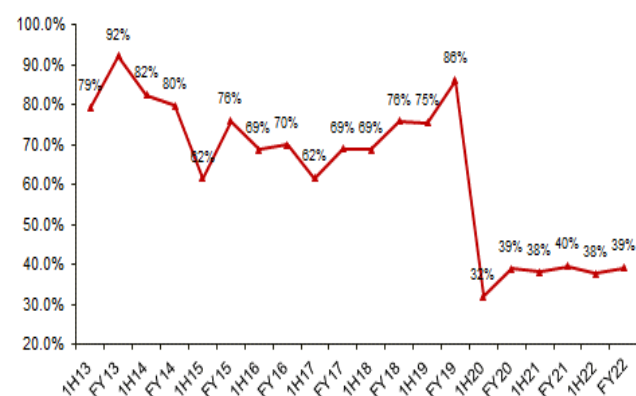


Figure 40: PRU Others APE &amp; YoY (1H13-FY22, semi-annual)



Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure 41: PRU Others NBP margin (1H13-FY22, semi-annual)



Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
<b>Total income</b>	<b>36,247</b>	<b>26,500</b>	<b>(8,219)</b>	<b>29,539</b>	<b>33,932</b>	<b>39,468</b>
Premiums written (gross)	23,495	24,217	23,344	28,223	32,899	38,418
Premiums earned (net)	21,870	22,373	21,401	25,965	30,267	35,345
Investment income	13,762	3,486	(30,159)	3,200	3,229	3,614
Other operating income	615	641	539	373	435	509
<b>Losses</b>	<b>(33,585)</b>	<b>(23,834)</b>	<b>9,672</b>	<b>(25,473)</b>	<b>(28,885)</b>	<b>(33,607)</b>
Selling	(2,880)	(2,976)	(2,082)	(7,368)	(8,466)	(9,796)
Underwriting & commissions	(30,359)	(20,495)	11,899	(17,906)	(20,220)	(23,612)
Other operating expense	(346)	(363)	(145)	(199)	(199)	(199)
<b>Operating income before interest expense</b>	<b>2,662</b>	<b>2,666</b>	<b>1,453</b>	<b>4,067</b>	<b>5,047</b>	<b>5,861</b>
<b>Operating income after interest expense</b>	<b>2,662</b>	<b>2,666</b>	<b>1,453</b>	<b>4,067</b>	<b>5,047</b>	<b>5,861</b>
Equity in affiliates (pretax)	517	352	29	29	29	29
<b>Pretax income</b>	<b>3,179</b>	<b>3,018</b>	<b>1,482</b>	<b>4,096</b>	<b>5,076</b>	<b>5,890</b>
Income taxes	(711)	(804)	(475)	(1,024)	(1,269)	(1,472)
<b>Consolidated net income</b>	<b>2,468</b>	<b>2,214</b>	<b>1,007</b>	<b>3,072</b>	<b>3,807</b>	<b>4,417</b>
Minority interest	(67)	771	(9)	(9)	(9)	(9)
<b>Net income</b>	<b>2,401</b>	<b>2,985</b>	<b>998</b>	<b>3,063</b>	<b>3,798</b>	<b>4,408</b>
Discontinued operations	(283)	(5,027)	0	0	0	0
<b>Net income available to common</b>	<b>2,118</b>	<b>(2,042)</b>	<b>998</b>	<b>3,063</b>	<b>3,798</b>	<b>4,408</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
<b>Assets</b>						
Cash & short-term investments	8,018	7,170	5,514	6,143	6,858	7,692
Investments	1,962	2,183	1,915	2,107	2,317	2,549
Total fixed income securities investment	144,299	106,397	85,800	95,586	106,710	119,694
Total equity securities investment	278,635	61,601	57,679	64,258	71,736	80,464
Real estate assets	916	516	456	502	553	609
Other investments	4,466	481	569	634	708	794
Deferred tax assets	4,858	266	310	341	375	413
Intangible assets	20,345	6,858	7,155	7,685	8,288	8,993
Goodwill	961	907	890	890	890	890
Other assets	51,637	12,723	5,654	6,219	6,841	7,525
<b>Total assets</b>	<b>516,097</b>	<b>199,102</b>	<b>165,942</b>	<b>184,365</b>	<b>205,277</b>	<b>229,624</b>
<b>Liabilities &amp; shareholders' equity</b>						
<b>Insurance policy liabilities</b>	<b>436,787</b>	<b>150,755</b>	<b>121,213</b>	<b>136,792</b>	<b>154,347</b>	<b>174,847</b>
ST debt & curr. portion LT debt	15,651	12,208	8,738	9,432	10,221	11,120
Long-term debt	9,559	7,250	6,077	6,177	6,287	6,408
Provision for risks & charges	350	372	348	383	421	463
Deferred tax liabilities	6,075	2,862	2,872	3,159	3,475	3,823
Other liabilities	25,556	8,391	9,567	9,785	10,020	10,285
<b>Total liabilities</b>	<b>493,978</b>	<b>181,838</b>	<b>148,815</b>	<b>165,729</b>	<b>184,771</b>	<b>206,947</b>
Common stock/ordinary capital	173	182	182	182	182	182
Capital surplus	2,637	5,010	5,006	5,006	5,006	5,006
Retained earnings	14,424	10,216	10,810	12,294	14,135	16,273
Equity reserves	3,644	1,680	962	962	962	962
Revaluation reserves	0	0	0	0	0	0
<b>Total shareholders' equity</b>	<b>20,878</b>	<b>17,088</b>	<b>16,960</b>	<b>18,444</b>	<b>20,285</b>	<b>22,423</b>
Minority interest	1,241	176	167	192	221	254
<b>Total equity</b>	<b>22,119</b>	<b>17,264</b>	<b>17,127</b>	<b>18,636</b>	<b>20,506</b>	<b>22,677</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>516,097</b>	<b>199,102</b>	<b>165,942</b>	<b>184,365</b>	<b>205,277</b>	<b>229,624</b>

PER SHARE DATA	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
DPS	0.16	0.18	0.19	0.57	0.71	0.83
EPS (Reported)	0.82	(0.78)	0.36	1.11	1.38	1.60
Consensus EPS	na	na	na	0.94	1.09	1.22
Group embedded value/share (HK\$)	20.70	17.24	15.34	16.34	17.28	18.40
VNB/share (HK\$)	0.85	0.96	0.80	0.96	1.14	0.00
No. of shares basic	2,609	2,746	2,750	2,750	2,750	2,750
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Return on equity (ROE)	10.5%	(10.8%)	5.9%	17.3%	19.6%	20.6%
Return on asset (ROA)	0.4%	(0.6%)	0.5%	1.7%	1.9%	2.0%
Return on life embedded Value	(1.3%)	(13.1%)	(12.0%)	6.3%	5.6%	6.3%
VNB margin (FYP APE basis)	48.9%	60.2%	49.7%	50.0%	50.9%	52.7%
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E	17.0	-	38.0	12.4	10.0	8.6
P/B	1.7	2.2	2.2	2.1	1.9	1.7
Div yield (%)	1.2	1.3	1.4	4.1	5.1	6.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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