

PICC P&C (2328 HK)

3Q CoR miss dragged by non-auto claims

BUY (Maintain)

Target Price **HK\$14.00**
 (Previous TP) HK\$12.80
Up/Downside **15.9%**
Current Price **HK\$12.08**

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Stock Data

Mkt Cap (HK\$ mn)	268,683.4
Avg 3 mths t/o (HK\$ mn)	318.0
52w High/Low (HK\$)	14.04/8.69
Total Issued Shares (mn)	22242.0

Source: FactSet

Shareholding Structure

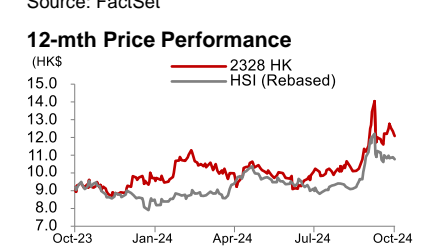
Citigroup Inc.	10.9%
GIC Private Ltd.	6.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.9%	8.7%
3-mth	20.6%	0.6%
6-mth	23.6%	7.8%

Source: FactSet



Source: FactSet

Auditor: Deloitte
Related reports:

- PICC P&C (2328 HK) - CoR sequentially improved turning to positive 2Q net profit growth; first interim dividend in place, Aug 30, 2024 ([link](#))
- PICC P&C (2328 HK) - 1Q24 catastrophe-induced claims fully released; FY24 CoR guidance sustained; exp. >40% payout, May7, 2024 ([link](#))
- PICC P&C (2328 HK) - Non-auto CoR better than expected; sustain 40%+ payout in next two years, Apr 2, 2024 ([link](#))
- PICC P&C (2328 HK) - Expect FY23E CoR guidance met; underwriting of NEVs and individual A&H to drive new growth Feb 5, 2024 ([link](#))
- China Insurance - 9M24 Monthly: Life growth normalized with highlights; P&C expected to see better UW profit, Oct 21, 2024 ([link](#))

PICC P&C released 3Q results. NPAT grew 38.0% YoY to RMB26.75bn in 9M24, close to the upper bound of its profit alert (up by 20%-40%) ([link](#)). 3Q NPAT hit a record high of RMB8.26bn, driven by a surge of fair value gains at RMB7.4bn (vs 3Q23: -RMB4.6bn), thanks to the 3Q equity market rally. The insurer's CoR was 98.2%, up 0.3pct YoY due to increased catastrophic losses from the non-auto segment, whose CoR deteriorated 1.9pct YoY to 100.5% (CAS basis) in 9M24, translating into a worsened 3Q CoR of 105.3% (CAS basis), according to mgmt. Auto CoR improved 0.6pct YoY to 96.8% in 9M24, which partially compensated for the non-auto underwriting loss of RMB676mn. Dragged by non-auto, the insurer's 3Q underwriting loss reached RMB2.56bn, expanding 22.3% YoY from a low base (3Q23 UW loss: RMB2.09bn) affected by Typhoon Doksuri. Mgmt. mentioned in earnings call that the heightened 3Q non-auto CoR was adversely impacted by frequent rainstorms in Jul-Aug and Typhoon Yagi in Sep, causing net claims of each to amount to RMB2.8bn/RMB1.6bn by end Sep. With weaker-than-expected 3Q CoR, we think the insurer would need to pay more efforts in 4Q to meet its full-year guidance of auto CoR <97% and non-auto CoR <100%. We maintain FY24E auto/non-auto CoR forecast at 96.6%/99.4% ([link](#)), **raise FY24-26E EPS forecast by 8%/7%/5% to RMB 1.44/1.51/1.60, and revise 12m-forward TP to HK\$14.0, implying 1.09x FY24E P/BV (previous: 1.04x). Maintain BUY.**

■ **3Q non-auto CoR missed.** In 9M24, non-auto CoR rose 1.9pct to 100.5%, as 3Q CoR deteriorated 1.8pct YoY to 105.3%, a miss against street view. Mgmt. attributed the rise of 3Q non-auto CoR to 1) inadequate net catastrophic loss to reach the threshold of reinsurance for excess of loss, and 2) a decrease of expense ratio was not reflected in current period CoR under new accounting standard. Net losses of Typhoon Doksuri were RMB3.5bn in 3Q23, higher than that of Typhoon Yagi (RMB1.6bn) and Typhoon Bebinca (RMB1.1bn) in Sep/Oct 2024, and rainstorms (RMB2.8bn) in Jul-Aug 2024. That said, despite lower net catastrophic losses per case, the aggregate amount (RMB5.6bn) in 3Q24 surpassed that of 3Q23 (RMB5.0bn) without claims amortization from reinsurance. According to mgmt., non-auto insurance incl. liability, commercial property, engineering and policy-oriented health suffered from an underwriting loss in 9M24. **We think the insurer would pay more efforts in 4Q through risk mitigation, and maintain our FY24E non-auto CoR forecast at 99.4%.**

■ **Auto CoR marginally improved.** Auto CoR improved 0.6pct to 96.8% in 9M24 contributing to 30.6% YoY growth in auto UWP to RMB71.2bn. 3Q auto CoR improved 1.4pct YoY to 97.4% (CMBI est), thanks to an optimized underwriting structure with the proportion of premiums from household vehicles up by 0.8pct YoY in 9M24. In 3Q24, auto premiums grew 4.6% YoY to RMB74.1bn, driven by an increasing number of insured vehicles. Avg. ticket size tended to stabilize in 3Q with positive QoQ growth as suggested by mgmt., which was also in line with our view ([link](#)). **We maintain our forecast of 4.0% auto premium growth in FY24E and full-year auto CoR at 96.6%.**

■ **Investment gains from positive fair value changes.** The insurer increased equity investment in 3Q, which bore fruit from the 3Q equity market rally. In 9M24, total investment income jumped 70.4% YoY to RMB27.5bn, implying a 12.6x YoY surge to RMB13.5bn in 3Q24 driven primarily by net fair value gains. Total investment yield (TIY) was 4.4% in 9M24, up 1.7pct YoY from 9M23. Looking ahead, we regard 3Q equity market rally as unsustainable, yet with improved allocation to FVOCI equities, we expect to see more stable investment income.

■ **Valuation:** The stock is now trading at 1.0x FY24E P/B, +2STD above 3-year historical avg. We revise up FY24-26E EPS forecast by 8%/7%/5% to RMB 1.44/1.51/1.60 to reflect the outperformance of investment income in 3Q24 and improved underwriting structure. **We raise 12m-forward TP to HK\$14.0 (previous: HK\$12.8) implying 1.09x FY24E P/BV. Maintain BUY.** Key risks involve deteriorated auto and non-auto CoR, weakened new vehicle sales, and increased volatility in capital market.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	29,164	24,585	32,058	33,621	35,599
EPS (Reported)(RMB)	1.31	1.11	1.44	1.51	1.60
Consensus EPS (RMB)	n.a	n.a	1.35	1.46	1.55
Combined ratio (%)	96.6	97.8	97.7	97.4	97.2
P/B (x)	1.1	1.1	1.0	0.9	0.9
Dividend yield (%)	4.3	4.4	5.2	5.4	5.8
ROE (%)	13.5	10.8	13.1	12.7	12.6

Source: Company data, Bloomberg, CMBIGM estimates | Note: stock market price quoted by market close on 30/10/2024.

Changes in key forecasts

(RMB bn, unless per share)	Current			Previous			Change (% , pct)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Insurance service results	20.0	21.6	23.2	19.9	21.2	22.5	0.2%	1.8%	3.2%
Net investment results	13.6	13.7	14.1	11.1	12.0	13.2	22.2%	14.3%	6.5%
Other results	(3.8)	(4.0)	(4.1)	(3.8)	(4.0)	(4.1)	0.0%	0.0%	0.0%
EPS	1.44	1.51	1.60	1.33	1.41	1.53	8.6%	6.8%	4.9%
Group NPAT	32.1	33.6	35.6	29.5	31.5	33.9	8.6%	6.8%	4.9%
BVPS	11.35	12.10	12.93	11.16	11.67	12.20	1.7%	3.7%	5.9%
Shareholders' equity	252.5	269.2	287.6	248.3	259.5	271.5	1.7%	3.7%	5.9%
Combined ratio (%)	97.7%	97.4%	97.2%	97.7%	97.5%	97.3%	0.0%	-0.1%	-0.1%
Auto combined ratio (%)	96.6%	96.4%	96.2%	96.6%	96.5%	96.4%	0.0pct	-0.2pct	-0.3pct
Non-auto combined ratio (%)	99.4%	99.2%	99.0%	99.4%	99.1%	98.9%	0.0pct	0.1pct	0.1pct
Auto premium income	296.6	308.0	320.0	296.6	308.0	320.0	0.0%	0.0%	0.0%
Non-auto premium income	243.0	251.3	261.0	243.0	251.3	261.0	0.0%	0.0%	0.0%

Source: CMBIGM estimates

PICC P&C (2328 HK) valuation based on P/B-ROE

(RMB bn, %)	2328.HK	
	FY24E	FY25E
P&C insurance		
Shareholders' equity (RMB mn)	252.5	269.2
Fair value P/B (x)	1.09x	1.07x
Cost of equity	9.7%	9.8%
3-year forward ROE (avg)	12.8%	12.7%
Long-term ROE	13.5%	13.5%
Long-term growth	3.0%	3.0%
Underwriting cycle discount (%)	-30%	-30%
Target valuation (RMB mn)	275.7	287.9
Valuation after volatility discount (HK\$)	13.5	14.1
Implied P/B (x)	1.09x	1.07x
Implied P/E (x)	8.60x	8.56x
Number of shares (mn)	22,242	
RMB/HKD (30/10/2024)	1.09	
Price Target (12-month forward):	14.0	
Previous target price (HK\$) (link)	12.8	
% Chg.	9.4%	

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		424,355	457,203	477,243	493,659	510,564
Insurance service expenses		(395,965)	(431,991)	(451,963)	(466,674)	(481,792)
Net expenses from reinsurance contracts held		(5,993)	(6,142)	(5,297)	(5,428)	(5,563)
Insurance service results		22,397	19,070	19,983	21,556	23,209
Net finance (expenses)/income from insurance contracts		(9,333)	(10,127)	(10,018)	(10,130)	(10,239)
Net finance (expenses)/income from reinsurance contracts		1,301	1,246	1,201	1,261	1,324
Interest income		20,180	11,710	11,869	12,585	13,192
Net investment income		(3,706)	4,077	10,239	9,943	9,827
Credit impairment losses		(500)	(423)	265	0	0
Net investment results		7,942	6,483	13,557	13,659	14,104
Other income		1,064	195	160	168	181
Other expenses		(1,818)	(2,203)	(2,631)	(2,762)	(2,817)
Foreign exchange gains/losses		759	111	(127)	(130)	(129)
Other results		(1,000)	(3,048)	(3,834)	(3,997)	(4,056)
Profit before tax		34,021	28,035	35,070	36,743	38,882
Income taxes		(4,912)	(3,469)	(3,077)	(3,191)	(3,353)
Net profit		29,109	24,566	31,993	33,553	35,530
Net profit attributable to shareholders		29,164	24,585	32,058	33,621	35,599

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
Investments in associates and joint ventures	55,731	58,085	62,601	68,101	72,196	76,041
Property	29,669	30,332	29,527	31,003	32,554	34,181
Investment property	5,851	7,440	7,576	7,692	8,077	8,508
Insurance contract assets	442	611	2,885	3,029	3,181	3,340
Reinsurance contract assets	31,600	36,827	38,891	40,836	42,877	45,021
Financial investments:	375,293	405,001	450,381	471,301	500,379	528,456
At amortized cost:	0	113,790	126,192	137,870	146,376	154,590
At fair value through other comprehensive income:	0	154,285	180,142	210,370	223,349	235,882
At fair value through profit or loss:	0	140,730	144,047	123,061	130,653	137,984
Loans and advances to customers	73,574	73,657	57,785	73,913	72,808	75,559
Deferred tax assets	4,749	12,083	10,139	10,646	11,178	11,737
Other assets	24,986	27,176	27,312	28,678	30,111	31,617
Cash and cash equivalents	17,414	21,250	16,526	20,041	19,741	20,487
Total assets	619,309	672,462	703,623	755,239	793,103	834,946
LIABILITIES						
Insurance contract liabilities	317,513	351,254	371,829	407,765	418,925	431,464
Investment contract liabilities	1,748	1,741	1,736	1,823	1,914	2,010
Obligations under repurchase agreements	37,985	41,690	40,037	40,838	41,654	42,488
Current tax liabilities	856	3,446	8	8	9	9
Bonds payable	8,058	8,097	8,365	8,783	9,222	9,684
Lease liabilities	1,786	1,484	1,316	1,382	1,451	1,523
Other liabilities	39,789	43,145	46,007	39,338	47,697	56,989
Liabilities in disposal group held for sale	407,735	450,857	469,319	499,962	520,900	544,198
EQUITIES						
Share capital	22,242	22,242	22,242	22,242	22,242	22,242
Reserves	186,570	196,471	209,178	230,239	246,980	265,323
Retained profits	64,966	79,782	78,496	83,513	94,173	106,141
Total shareholders' equity	208,812	218,713	231,420	252,481	269,222	287,565
Non-controlling interests	2,762	2,892	2,884	2,796	2,981	3,184
Total equity	211,574	221,605	234,304	255,277	272,204	290,749
Total liabilities & equity	619,309	672,462	703,623	755,239	793,103	834,946

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	0.41	0.48	0.49	0.58	0.60	0.64
EPS (Reported)	1.01	1.31	1.11	1.44	1.51	1.60
Consensus EPS	n.a	n.a	n.a	1.35	1.46	1.55
No. of shares basic	22,242	22,242	22,242	22,242	22,242	22,242
No. of shares diluted	22,242	22,242	22,242	22,242	22,242	22,242
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Return on equity (ROE)	10.6%	13.5%	10.8%	13.1%	12.7%	12.6%
Combined ratio		96.6%	97.8%	97.7%	97.4%	97.2%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/B	1.2	1.1	1.1	1.0	0.9	0.9
Dividend yield (%)	3.7	4.3	4.4	5.2	5.4	5.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: stock price data is quoted by market close on 30/10/2024.

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