

PICC P&C (2328 HK)

Improving underwriting profit

PICC P&C's 1H20 performance was acceptable against all the challenges brought by COVID-19. GWP increased 4.4% to RMB 246.3bn. Underwriting profit increased 23% YoY thanks to the Company's focus on "cost reduction and profitability improvement". Net profit was RMB 13.2bn, representing YoY decline of 21.7% or YoY increase of +4.7% if excluding the impact of tax credits in 2019.

■ **Result positives. 1) Steady growth of premium income**, which is in line with market pace. Motor insurance GWP +2.8% to RMB 131bn, accounting for 53.2% of total GWP, whereas non-motor GWP +6.2% to RMB 115.3bn. **2) Improving underwriting profitability**. Underwriting profit rose 23% to RMB5.34bn. Combined ratio inching down 0.3ppt YoY to 97.3%, thanks primarily to reduction of expense ratio by 0.9ppt to 30% while loss ratio was up 0.6ppt to 65.3% in adverse market conditions. **3) Optimizing business structure**, underpinned by higher percentage of non-motor insurance (46.7%), larger share of household automobile insurance (68.9% of auto GWP) and increasing number of individual customers (+4.3% YoY to 99.82 million). **4) Acceleration of digital transformation**. For example, online customers reached 77.8% of household automobile insurance and online claim service usage rate climbed to 91.3%.

■ **Result negatives. 1) Credit and surety insurance incurred greater underwriting loss**, combined ratio of which rose 40.6ppt to 138.6% (loss ratio rose to 120%) due to higher rate of delinquency in time of COVID-19. Although the Company has tightened underwriting criteria in 1H20 (GWP -59% YoY), we think loss ratio may stay high in 2H20 given the large amount of underwriting in 2019 and grim outlook on underlying loan quality. **2) Investment yield declined**. NIY/TIY edged down 0.2/0.7ppt YoY, respectively, to 3.8%/4.6%. The Company also booked fair value loss on AFS financial assets to the amount of RMB 3.1bn in OCI.

■ **Risks. 1)** Claim expenses and loss ratio are likely to rise in 2H20 because of severe floods in some provinces in southern and central China, thereby weighing on underwriting profitability for the whole year. **2)** Worsening outlook on credit and surety insurance business if delinquency rate keeps going up.

■ **Cut TP and maintain BUY**. We adjust net profit forecast by -7.2%/11.5% in FY20/21 to reflect improving underwriting profit, yet more taxes to be paid in 2020. We thereby cut TP to HK\$ 9.06, which corresponds to 1.0x FY20E P/B. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Gross written premiums (RMB mn)	388,769	433,175	455,566	499,244	541,206
Underwriting profit (RMB mn)	5,304	3,177	5,932	14,463	15,738
Net profit (RMB mn)	16,222	24,282	22,121	30,074	32,142
EPS (RMB)	0.696	1.09	0.99	1.35	1.45
EPS CHG (%)	-47.90	56.86	-8.90	35.95	6.88
Consensus EPS (RMB)	0.70	1.11	1.07	1.20	1.23
PER (x)	9.38	5.98	5.66	4.17	3.90
PBR (x)	1.03	0.85	0.69	0.62	0.56
Yield (%)	4.17	7.06	7.46	10.14	10.83
ROE (%)	11.81	15.59	12.61	15.68	15.09

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$9.06
 (Previous TP) HK\$9.83
Up/Downside +44.3%
Current Price HK\$6.28

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	139,685
Avg 3 mths t/o (HK\$ mn)	278.30
52w High/Low (HK\$)	9.56/5.52
Total Issued Shares (mn)	22,243

Source: Bloomberg

Shareholding Structure

PICC Group	68.98%
Free float	31.02%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.8%	-1.0%
3-mth	2.9%	-6.0%
6-mth	-22.0%	-15.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- "Look to rebound after COVID-19" – 30 Mar 2020
- "Mixed underwriting results" – 28 Aug 2019
- "2018 results missed; cautious on expense ratio outlook" – 25 Mar 2019

Figure 1: PICC P&C's 1H20 results summary

(RMB mn)					
P/L	1H20	1H19	YoY	2H19	HoH
GROSS WRITTEN PREMIUMS	246,403	236,036	4.4%	197,139	25.0%
Motor vehicle insurance	131,019	127,487	2.8%	135,440	-3.3%
Non-auto insurance	115,285	108,549	6.2%	61,699	86.9%
Net earned premiums	194,484	180,188	7.9%	200,495	-3.0%
Net claims incurred	(126,885)	(116,654)	8.8%	(135,168)	-6.1%
Net policy acquisition costs	(37,995)	(37,594)	1.1%	(40,349)	-5.8%
Other underwriting expenses	(19,092)	(16,951)	12.6%	(21,449)	-11.0%
Administrative expenses	(5,173)	(4,650)	11.2%	(4,691)	10.3%
UNDERWRITING PROFIT	5,339	4,339	23.0%	(1,162)	n/a
Investment income	9,123	8,728	4.5%	8,258	10.5%
Net realised and unrealised gains	144	818	-82.4%	(85)	n/a
Finance costs	(616)	(991)	-37.8%	(433)	42.3%
Share of profits of associates	1,739	2,109	-17.5%	2,141	-18.8%
Other income and expenses	146	325	-55.1%	29	403.4%
PROFIT BEFORE TAX	15,817	15,169	4.3%	8,614	83.6%
Income tax expense	(2,638)	1,652	n/a	(1,156)	128.2%
Non-controlling interest	-	-	n/a	3	n/a
NET PROFIT	13,179	16,821	-21.7%	7,461	76.6%
B/S	1H20	1H19	YoY	2H19	HoH
Investment assets	493,567	441,070	11.9%	464,751	6.2%
Total assets	682,644	604,214	13.0%	596,081	14.5%
Insurance contract liabilities	358,485	323,777	10.7%	305,140	17.5%
Total liabilities	511,902	445,234	15.0%	426,127	20.1%
Shareholders' funds	170,738	158,972	7.4%	169,953	0.5%
Key metrics	1H20	1H19	YoY	2H19	HoH
Loss ratio	65.3%	64.7%	0.6 ppt	66.2%	-0.9 ppt
Expense ratio	32.0%	32.9%	-0.9 ppt	33.0%	-1 ppt
Combined ratio	97.3%	97.6%	-0.3 ppt	99.2%	-1.9 ppt
Net investment yield	3.8%	4.0%	-0.2 ppt	n/a	n/a
Total investment yield	4.6%	5.3%	-0.7 ppt	n/a	n/a
Core solvency margin ratio	262%	242%	20.1 ppt	251.7%	10.3 ppt
Comprehensive solvency margin ratio	306%	286%	20.3 ppt	282.1%	23.9 ppt

Source: Company data, CMBIS

Figure 2: Forecast revisions

RMB mn	New			Old			Diff		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
GWP	455,566	499,244	541,206	452,829	494,198	534,867	0.6%	1.0%	1.2%
Investment income	17,915	19,174	20,594	17,155	17,510	18,607	4.4%	9.5%	10.7%
Net profit	22,121	30,074	32,142	23,832	26,725	28,445	-7.2%	12.5%	13.0%
Combined ratio (%)	98.1	96.7	96.7	99.3	99.2	99.2	-1.2 ppt	-2.4 ppt	-2.4 ppt

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
GROSS WRITTEN PREMIUMS	388,769	433,175	455,566	499,244	541,206
Motor vehicle insurance	258,904	262,927	273,444	287,116	298,601
Non-auto insurance	129,865	170,248	182,121	212,127	242,605
Net earned premiums	344,124	380,683	410,994	443,907	483,045
Net claims incurred	(213,303)	(251,822)	(271,473)	(287,194)	(312,515)
Net policy acquisition costs	(90,508)	(77,943)	(82,973)	(88,216)	(95,994)
Other underwriting expenses	(26,820)	(38,400)	(40,828)	(43,461)	(47,293)
Administrative expenses	(8,189)	(9,341)	(9,788)	(10,572)	(11,504)
UNDERWRITING PROFIT	5,304	3,177	5,932	14,463	15,738
Investment income	16,635	16,986	17,915	19,174	20,594
Net realised and unrealised gains	(1,226)	733	290	316	343
Finance costs	(2,074)	(1,424)	(1,470)	(1,470)	(1,470)
Share of profits of associates	3,745	4,250	4,038	3,836	3,644
Other income and expenses	1,044	61	(55)	(88)	(127)
PROFIT BEFORE TAX	24,165	23,783	26,649	36,230	38,722
Income tax expense	(7,942)	496	(4,530)	(6,159)	(6,583)
Non-controlling interest	(1)	3	3	3	3
NET PROFIT	16,222	24,282	22,121	30,074	32,142

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Growth rates (%)					
GROSS WRITTEN PREMIUMS	11.0	11.4	5.2	9.6	8.4
Motor vehicle insurance	3.9	1.6	4.0	5.0	4.0
Non-auto insurance	28.5	31.1	7.0	16.5	14.4
NET PROFIT	(18.1)	49.7	(8.9)	36.0	6.9
Underwriting (%)					
Loss ratio	62.0	66.2	66.1	64.7	64.7
Expense ratio	36.5	33.0	32.0	32.0	32.0
Combined ratio	98.5	99.2	98.1	96.7	96.7
Solvency (%)					
Core solvency margin ratio	229	252	251	261	259
Comprehensive solvency margin ratio	275	282	303	309	304
Returns (%)					
ROE	11.8	15.6	12.6	15.7	15.1
ROA	3.0	4.2	3.5	4.4	4.4

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Investment assets	434,222	464,751	513,743	554,883	603,806
Other assets	116,397	131,330	140,986	146,104	152,714
TOTAL ASSETS	550,619	596,081	654,729	700,987	756,521
Insurance contract liabilities	275,781	305,140	326,027	355,439	385,407
Other liabilities	133,335	120,987	147,846	142,904	147,883
TOTAL LIABILITIES	409,116	426,127	473,873	498,343	533,290
Issued capital	22,242	22,242	22,242	22,242	22,242
Reserves	119,253	147,711	158,613	180,401	200,987
Shareholders' equity	141,495	169,953	180,855	202,643	223,229
TOTAL EQUITY	141,503	169,954	180,856	202,644	223,230

Investment (%)					
Investment assets, YoY	4.5	7.0	10.5	8.0	8.8
Per share data (RMB)					
EPS	0.70	1.09	0.99	1.35	1.45
DPS	0.27	0.46	0.42	0.57	0.61
BVPS	6.36	7.64	8.13	9.11	10.04

Source: Company data, CMBIS estimates

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