

China Pacific Insurance (2601 HK)

Lackluster life but improving P&C

CPIC released 2019 interim results on 25 Aug. While life insurance did not present many highlights, its P&C business outperformed and investment progressed steadily. GWP increased 7.7% to RMB 220.4bn (Life +5.6% to RMB 138.4bn; P&C +12.5% to RMB 68.2bn). Net profit surged 96.1% YoY to RMB 16.2bn thanks to new tax-deduction policies (+~RMB 4.8bn) and equity investment gains. Excluding one-off items, net profit growth was 38.1%. Group embedded value climbed 8.6% from YE18.

- Result highlights.** 1) The Group disclosed **operating profit** for the first time, which increased 14.7% YoY to RMB 13.61bn. This measure teases out one-off items and impact of assumption changes to monitor operation of lifers. 2) **P&C achieved further improvement in underwriting margin** with combined ratio going down 0.1ppt YoY to 98.6%. This was mainly attributable to non-auto insurance, of which combined ratio dropped 2.2ppt, offsetting 0.4ppt increase in that of auto insurance. The other two major P&C insurers both posted worsening underwriting margin of P&C business (combined ratio: PICC P&C +1.6ppt to 97.6% and Ping An P&C +0.8ppt to 96.6%). 3) **Successful customer development.** 15.7% more customers now hold ≥ 2 policies with CPIC and avg. insured amount of critical illness increased 6.4%.
- Negatives and silver linings.** 1) **Life NBV went down 8.4% YoY** due to both NBV margin contraction (-2.4ppt YoY) and slowdown in FYP growth (annualized FYP dropped -2.7% YoY). But negative growth reversed in 2Q to +0.8% YoY from -13.5% in 1Q, boding well for 2H19. 2) **Agent team headcount shrank** 11% to 796,000 whereas FYRP from individual agent channel dropped 10.1% YoY in 1H19. However, productivity measures remained largely intact and income per agent increased.
- Catalysts.** 1) Life product upgrade in 2H19 to boost sales; 2) more established "Insurance + Services" branding to enhance customer experience.
- Maintain BUY.** We trim TP to HK\$ 37.12 to reflect weaker-than-expected life NBV growth. The stock is currently trading at 0.75x FY19E P/EV, above peers' average (ex. Ping An). CPIC is our sector top-pick in 2019 and stock price has outperformed market. We maintain our positive view and regard the Company as a safe play in a volatile market.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
GWP (RMB mn)	281,644	321,895	349,515	378,174	408,011
YoY growth (%)	20.4	14.3	8.6	8.2	7.9
Total income (RMB mn)	319,405	353,103	385,533	417,928	450,786
Net profit (RMB mn)	14,662	18,019	27,922	31,170	31,795
EPS (RMB)	1.62	1.99	3.08	3.44	3.51
YoY Growth (%)	21.65	22.90	54.96	11.63	2.00
P/B (x)	2.03	1.86	1.65	1.50	1.37
P/EV (x)	0.97	0.83	0.75	0.69	0.63
Yield (%)	2.60	3.25	5.03	5.62	5.73
ROE (%)	10.89	12.55	17.52	17.52	16.33

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price HK\$37.12
 (Previous TP) HK\$40.52
Up/Downside +10.8%
Current Price HK\$34.30

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	373,258
Avg 3 mths t/o (HK\$ mn)	481
52w High/Low (HK\$)	34.75/ 24.20
Total Issued Shares (mn)	2,775 (H)
	6,287 (A)

Source: Bloomberg

Shareholding Structure

Shenergy (Group)	14.19%
Fortune Investment	14.17%

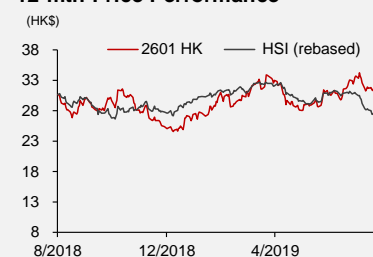
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.6%	13.9%
3-mth	22.1%	27.5%
6-mth	14.0%	25.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "Result in-line, expect FYRP recovery" – 24 Apr 2019
- "Undervalued solid player" – 26 Mar 2019
- "Committed to digital transformation" – 21 Nov 2018

Focus Charts

Figure 1: 1H19 results

RMB mn	1H19	1H18	YoY
GWP	207,809	192,633	7.9%
Less: Premiums ceded to reinsurers	(11,211)	(9,400)	19.3%
Net written premium	196,598	183,233	7.3%
Net change in unearned premium reserves	(11,113)	(6,125)	81.4%
Net premiums earned	185,485	177,108	4.7%
Investment income	32,131	25,629	25.4%
Other operating income	2,493	1,565	59.3%
Total income	220,109	204,302	7.7%
Net policyholders' benefits and claims	(154,579)	(140,272)	10.2%
Finance costs	(1,780)	(1,401)	27.1%
Interest credited to investment contracts	(1,659)	(1,377)	20.5%
Other operating and administrative expenses	(47,862)	(47,701)	0.3%
Total benefits, claims and expenses	(205,880)	(190,751)	7.9%
Share of profit in equity accounted investees	277	161	72.0%
Others	(21)	0	NA
Profit before tax	14,485	13,712	5.6%
Income tax	2,041	(5,263)	NA
Minorities	(343)	(195)	75.9%
Net profit attributable to equity holders	16,183	8,254	96.1%

Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
GWP	349,515	378,174	408,011	363,408	405,495	447,888	-3.8%	-6.7%	-8.9%
Total income	385,533	417,928	450,786	403,554	450,881	498,638	-4.5%	-7.3%	-9.6%
Net profit	27,922	31,170	31,795	21,620	25,067	28,028	29.1%	24.3%	13.4%
New business value	26,208	26,732	27,534	28,718	30,202	31,108	-8.7%	-11.5%	-11.5%
Embedded value (group)	373,506	407,208	440,424	373,608	413,620	454,950	-0.03%	-1.6%	-3.2%
RoEV (CPIC Life)	17.7%	15.8%	15.4%	18.1%	16.8%	16.1%	-0.4ppt	-1ppt	-0.7ppt
NBV growth	-3.4%	2.0%	3.0%	5.9%	5.2%	3.0%	-9.3ppt	-3.2ppt	-2.2ppt

Source: Company data, CMBIS

Figure 3: NBV by quarter

RMB mn	1Q	2Q	1H
2018	10,392	5,897	16,289
2019	8,986	5,941	14,927
YoY	-13.5%	0.8%	-8.4%

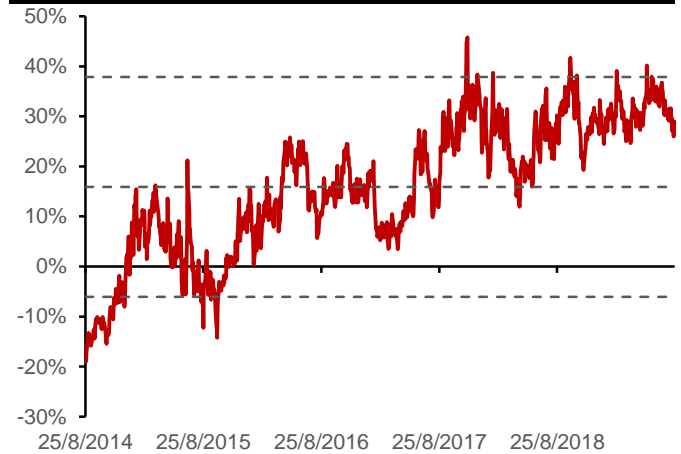
Source: Company data, CMBIS

Figure 4: P/EV



Source: Company data, CMBIS

Figure 5: A/H premium



Source: Company data, CMBIS

Financial Summary

Income

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premium	281,644	321,895	349,515	378,174	408,011
Incl: Life GWP	175,628	202,414	218,376	235,232	252,204
P&C GWP	104,614	117,808	131,140	142,942	155,807
Net premiums earned	263,554	299,724	323,739	350,135	377,375
Investment income	52,657	49,999	58,232	63,941	69,260
Total income	319,405	353,103	385,533	417,928	450,786
Insurance claims and reserves	(210,130)	(226,444)	(248,118)	(267,277)	(287,237)
Other operating expenses	(88,247)	(98,986)	(107,328)	(104,229)	(116,213)
Total expenses	(298,377)	(325,430)	(355,447)	(371,507)	(403,450)
Associates and JVs	74	335	451	474	497
Pre-tax profit	21,102	28,008	30,537	46,894	47,834
Income tax	(6,111)	(9,574)	(1,972)	(15,006)	(15,307)
Less: Minority interests	(329)	(415)	(643)	(718)	(732)
Net profit	14,662	18,019	27,922	31,170	31,795

Key ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Group (%)					
Total GWP growth	20.4	14.3	8.6	8.2	7.9
Total income growth	20.0	10.6	9.2	8.4	7.9
Net profit growth	21.6	22.9	55.0	11.6	2.0
EV growth	16.4	17.5	11.1	9.0	8.2
Net investment yield	5.4	4.9	4.5	4.5	4.5
Total investment yield	5.4	4.6	4.5	4.5	4.5
Investment assets growth	14.8	14.1	11.9	7.9	8.7
Life (%)					
GWP growth	27.9	15.3	7.9	7.7	7.2
Agent FYRP growth	31.2	(9.7)	(8.0)	2.0	3.0
NBV growth	40.3	1.5	(3.4)	2.0	3.0
NBV margin (NBV/agent APE)	56.5	63.2	66.4	66.4	66.4
Life comprehensive solvency	245.3	260.8	259.7	260.8	255.7
P&C (%)					
GWP growth	8.8	12.6	11.3	9.0	9.0
Auto GWP/total P&C	78.2	74.7	71.0	67.5	64.7
Loss ratio	59.9	56.3	56.3	56.3	56.3
Expense ratio	38.9	42.1	42.1	42.1	42.1

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Investment assets	1,081,282	1,233,222	1,379,836	1,488,970	1,618,152
other assets	89,942	102,737	101,052	139,200	157,362
Total assets	1,171,224	1,335,959	1,480,888	1,628,169	1,775,514
Insurance liabilities	858,507	981,926	1,112,771	1,240,808	1,371,315
Subordinated debt & others	171,598	199,985	193,924	195,103	194,852
Total liabilities	1,030,105	1,181,911	1,306,694	1,435,911	1,566,168
Shareholders' equity	137,498	149,576	169,210	186,558	202,914
Minority interest	3,621	4,472	4,983	5,701	6,432
Total equity	141,119	154,048	174,194	192,258	209,346

Combined ratio	98.8	98.4	98.4	98.4	98.4
P&C comprehensive solvency	267.4	305.9	302.4	300.0	296.4
Returns (%)					
Life RoEV	24.8	24.7	16.7	15.9	15.4
P&C ROE	10.7	10.0	16.7	15.7	13.9
Per share					
EPS (RMB)	1.62	1.99	3.08	3.44	3.51
DPS (RMB)	0.80	1.00	1.55	1.73	1.76
EVPS (RMB)	31.58	37.09	41.22	44.94	48.60
BVPS (RMB)	15.17	16.51	18.67	20.59	22.39

Source: Company data, CMBIS estimates

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