

China Pacific Insurance (2601 HK)

Business innovation progressed alongside with life pressure

CPIC reported +5.5% YoY growth in gross written premiums in 9M20 (CPIC Life +0.2% and CPIC P/C +15%). Net profit declined 14.3% YoY mainly due to taxes. Life business was still under pressure, but growth of P&C accelerated in 3Q and likely maintained good quality. Despite difficulties, CPIC progressed on its business model innovation of digitization, "insurance + health/elderly care" and etc, which will boost its competitiveness in the future.

- **Life business still suffered**, from COVID-19 and its aftershocks. Agency channel FYRP decreased 34.2% in 9M20 (-37.7%/-30.5%/-30.5% in 1Q/2Q/3Q). We believe NBV margin decline likely narrowed in 3Q thanks to higher-margin products sold in 3Q. CPIC Life also rolled out innovative products which integrated insurance with health management, elderly care services, among others as differentiation.
- **P&C – accelerating premium growth in 3Q**. P&C achieved +7.2%/30.9% YoY premium growth in auto/non-auto business lines in 9M20, above peers' average. In particular, CPIC P/C seized opportunities from the recovery of new car sales, deepened channel integration and recorded +14.3% YoY increase in auto insurance premium, accelerating from 8.7% in 1H20. With the recovery of macroeconomic conditions, non-auto premium growth also accelerated quarter by quarter, up 33.2% in 3Q20 vs. 29.8% in 1H20. We believe underwriting margin of P&C business remained stable in 3Q.
- **Steady progress in investment**. Total investment yield was up 0.4ppt YoY to 5.5%, likely driven by equity investment gains, although net investment yield inched down 0.2ppt YoY to 4.6%. Asset allocation was largely stable, with the share of stocks and equity funds increasing 1ppt from YE19 to 9.3%. Group invested assets stood at RMB 1.6tn, up 12.7% from YE19.
- **Launched of CPIC's 5-year health care development strategy**. In Sep, CPIC signed agreements with Ruijin Hospital in Shanghai to establish an Internet hospital. This represented only one of the initiatives CPIC has taken to cooperate with top-notch resources and promote integrated business model of insurance and health care.
- **Valuation**. We lowered NBV and some other forecast to reflect w-t-e life premium growth in 3Q. TP is lowered to HK\$ 31.74. The H-share is now trading at 0.46/0.42 FY20/21E P/EV. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	321,895	347,517	364,565	387,102	408,083
YoY growth (%)	14.3	8.0	4.9	6.2	5.4
Total income (RMB mn)	353,103	382,682	403,374	425,211	448,052
Net profit (RMB mn)	18,019	27,741	23,898	29,403	30,899
EPS (RMB)	1.99	3.06	2.64	3.24	3.41
YoY Growth (%)	22.90	53.95	(13.85)	23.03	5.09
Consensus EPS (RMB)	N/A	N/A	2.83	3.10	3.47
P/B (x)	1.31	1.10	0.97	0.88	0.80
P/EV (x)	0.58	0.50	0.46	0.42	0.38
Yield (%)	4.61	5.54	4.77	5.87	6.17
ROE (%)	12.55	16.92	12.56	13.82	13.22

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$31.74
(Previous TP	HK\$33.93)
Up/Downside	+31.4%
Current Price	HK\$24.15

China Insurance Sector

Wenjie Ding, PhD

(852) 3900 0856 / (86) 755 2367 5597
 dingwenjie@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	318,892
Avg 3 mths t/o (HK\$ mn)	354.31
52w High/Low (HK\$)	30.72/16.92
Total Issued Shares (mn)	9,620

Source: Bloomberg

Shareholding Structure

Shenergy (Group)	14.64%
Fortune Investment	14.17%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.3%	7.3%
3-mth	7.6%	9.7%
6-mth	-0.6%	1.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. "Steady increase in operating profit" – 25 Aug 2020
2. "Prepared for headwinds" - 23 Mar 2020
3. "Margin priority may compensate FYRP decline" – 31 Oct 2019

Figure 1: CPIC's 9M20/3Q20 results summary

(RMB mn)						
P&L	9M20	9M19	YoY	3Q20	3Q19	YoY
Gross written premiums	302,500	286,817	5.5%	85,903	79,008	8.7%
Net premiums earned	273,210	258,274	5.8%	80,440	72,789	10.5%
Investment income	61,855	47,740	29.6%	24,089	16,219	48.5%
Total income	337,501	308,502	9.4%	104,789	89,876	16.6%
Insurance benefits and claim expenses	(240,616)	(214,471)	12.2%	(73,752)	(59,990)	22.9%
Underwriting costs	(32,572)	(37,272)	-12.6%	(9,953)	(10,306)	-3.4%
G&A expenses	(32,752)	(27,082)	20.9%	(12,356)	(8,981)	37.6%
Total expenses	(313,945)	(286,028)	9.8%	(98,913)	(81,610)	21.2%
Associates and JVs	395	387	2.1%	116	110	5.5%
Pre-tax profit	24,098	22,945	5.0%	6,468	8,460	-23.5%
Income tax	(3,923)	447		(884)	(1,594)	-44.5%
Less: Minority interests	(527)	(478)	10.3%	(175)	(135)	29.6%
Net profit	19,648	22,914	-14.3%	5,409	6,731	-19.6%
B/S	3Q20	3Q19	YoY	3Q20	2Q20	QoQ
Total assets	1,735,074	1,493,371	16.2%	1,735,074	1,685,465	2.9%
Insurance contracts liabilities	1,213,834	1,053,810	15.2%	1,213,834	1,181,122	2.8%
Total liabilities	1,527,258	1,318,438	15.8%	1,527,258	1,483,775	2.9%
Equity attributable to shareholders	202,750	170,233	19.1%	202,750	196,798	3.0%
Key indicators	9M20	9M19	YoY	3Q20	3Q19	QoQ
Life GWP (RMB mn)	186,176	185,880	0.2%	47,590	47,452	0.3%
Life FYRP from agency channel (RMB mn)	19,488	29,635	-34.2%	4,747	6,835	-30.5%
P&C GWP (RMB mn)	115,551	100,456	15.0%	38,879	32,209	20.7%
Auto insurance GWP (RMB mn)	72,330	67,447	7.2%	24,368	21,314	14.3%
Non-auto insurance GWP (RMB mn)	43,221	33,009	30.9%	14,511	10,895	33.2%
Net investment yield	4.6%	4.8%	-20 bps	n/a	n/a	n/a
Gross investment yield	5.5%	5.1%	40 bps	n/a	n/a	n/a

Source: Company data, CMBIS

Figure 2: Forecast revisions

RMB mn	New			Old			Diff		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
GWP	364,565	387,102	408,083	356,778	380,643	403,874	2.2%	1.7%	1.0%
Total income	403,374	425,211	448,052	395,351	417,409	441,433	2.0%	1.9%	1.5%
Net profit	23,898	29,403	30,899	28,175	32,364	33,599	-15.2%	-9.1%	-8.0%
New business value	19,297	23,119	26,238	20,731	24,999	28,833	-6.9%	-7.5%	-9.0%
NBV growth	-21.5%	19.8%	13.5%	-15.7%	20.6%	15.3%	-5.8 ppt	-0.8 ppt	-1.8 ppt
Embedded value (group)	427,830	470,377	513,211	431,359	473,971	518,366	-0.8%	-0.8%	-1.0%

Source: Company data, CMBIS estimates

Financial Summary

Income

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Group (%)						Group (%)					
Gross written premium	321,895	347,517	364,565	387,102	408,083	Total GWP growth	14.3	8.0	4.9	6.2	5.4
Incl: Life GWP	202,414	212,514	214,530	223,779	231,570	Total income growth	10.6	8.4	5.4	5.4	5.4
P&C GWP	117,808	132,979	150,034	163,322	176,513	Net profit growth	22.9	54.0	(13.9)	23.0	5.1
Net premiums earned	299,724	313,246	325,667	345,108	362,880	EV growth	17.5	17.8	8.0	9.9	-
Investment income	49,999	65,730	73,854	76,020	80,878	Net investment yield	4.9	4.9	4.3	4.2	4.2
Total income	353,103	382,682	403,374	425,211	448,052	Total investment yield	4.6	5.4	4.8	4.3	4.2
Insurance claims and reserves	(226,444)	(260,850)	(276,628)	(281,792)	(296,991)	Investment assets growth	14.1	15.1	18.0	10.9	9.4
Other operating expenses	(98,986)	(94,360)	(97,835)	(103,893)	(109,522)	Life (%)					
Total expenses	(325,430)	(355,210)	(374,463)	(385,685)	(406,514)	GWP growth	15.3	5.0	0.9	4.3	3.5
Associates and JVs	335	494	519	545	572	Agent FYRP growth	(9.7)	(22.4)	(28.7)	18.1	11.3
Pre-tax profit	28,008	27,966	29,429	40,070	42,110	NBV growth	1.5	(9.3)	(21.5)	19.8	13.5
Income tax	(9,574)	388	(5,003)	(10,018)	(10,527)	NBV margin (NBV/agent APE)	63.2	73.1	79.5	80.5	81.9
Less: Minority interests	(415)	(613)	(528)	(650)	(683)	Life comprehensive solvency	260.8	256.8	279.9	276.4	273.9
Net profit	18,019	27,741	23,898	29,403	30,899	P&C (%)					

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Group (%)						Group (%)					
Investment assets	1,233,222	1,419,263	1,674,548	1,857,432	2,032,821	Combined ratio	98.4	98.3	98.7	98.3	98.2
other assets	102,737	109,070	73,687	83,678	103,079	P&C comprehensive solvency	305.9	292.6	249.3	221.8	200.3
Total assets	1,335,959	1,528,333	1,748,235	1,941,110	2,135,900	Returns (%)					
Insurance liabilities	981,926	1,143,527	1,308,241	1,474,153	1,639,372	Life RoEV	24.7	23.1	13.8	14.0	13.8
Subordinated debt & others	199,985	201,486	231,964	237,035	245,220	P&C ROE	10.0	16.6	12.1	12.8	12.2
Total liabilities	1,181,911	1,345,013	1,540,205	1,711,188	1,884,592	Per share					
Shareholders' equity	149,576	178,427	202,160	223,379	244,058	EPS (RMB)	1.99	3.06	2.64	3.24	3.41
Minority interest	4,472	4,893	5,871	6,542	7,249	DPS (RMB)	1.00	1.20	1.03	1.27	1.34
Total equity	154,048	183,320	208,030	229,922	251,308	EVPS (RMB)	37.09	43.70	47.21	51.91	56.63
						BVPS (RMB)	16.51	19.69	22.31	24.65	26.93

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.