

PICC P&C (2328 HK)

Continual UW margin improvement

In 9M22, PICC P&C's net profit increased 30% YoY to RMB25.9bn, translating to 98% YoY profit growth in the third quarter. Underwriting (UW) profit grew 246% YoY in 9M22 (vs +53% YoY in 1H22), as the 3Q22 UW profits turned positive given a QoQ increase of RMB2.85bn compared to a RMB2.2bn respective loss resulted in 3Q21. The substantial improvements in UW profits can be credited to a descending combined ratio (-2.4ppt YoY in 9M22, -4.7ppt YoY in 3Q22) and robust premium growth (+10% YoY in 9M22, +11% YoY in 3Q22). Such a promising end attributes to: (1) a centralized claims management system newly-applied to control losses across non-auto lines, (2) auto business picked up on the back of robust new car sales, and re-pricing of NEV insurance. Upon the third quarter reporting, the industry-leading insurer saw a 35% YoY decline in natural catastrophe losses compared to prior years. With a solid loss reserve ratio outperforming peers and historical average, we look positive on the insurer's UW profits margin to maintain through 4Q22 and FY23. Reiterate BUY.

■ Auto: Growth momentum and combined ratio both improved in 3Q22.

PICC P&C leveraged its strong pricing and service capabilities to accomplish sustainable outperformance in its auto business. Auto combined ratio dropped 4.3ppt YoY to 94.4% in 3Q22, translating into 9M22 combined ratio at 95.1%, implying an improvement of 2.3ppt YoY. Despite COVID restrictions, the insurer's auto premium growth still picked up 8.0% YoY in 3Q22 (vs. +6.7% YoY in 1H22, +2.8%YoY in 2Q22), thanks to increasing new car sales.

■ Non-auto: Expanding underwriting margin given proactive claims management.

In 9M22, the insurer's non-auto business turned the overall UW profitable, with a combined ratio declined 2.9ppt YoY to 98.4% from 101.3% in 9M21. The UW margin improvement widened to 5.7ppt YoY in 3Q22 compared to merely 1.1ppt YoY increase in the first half. This is mainly due to: 1) centralized claims management on agricultural insurance, and 2) proactive reductions on high-loss business segments, in particular, commercial property and liability insurance. To illustrate, the UW margin of agricultural insurance was up 6.3ppt YoY to 4.9%, and commercial property insurance ended -10.8ppt/-10.7ppt YoY on loss/combined ratio respectively.

■ **Valuation/Key risks.** PICC P&C is now trading at 4.8x P/E FY23E and 0.6x P/BV FY23E with 9% dividend yield and approx.14% ROE. We believe the rebound in premium growth and continual improvement in its underwriting margin will further drive stock re-rating. We increased FY22E-24E EPS forecast by 8-12% which resulted in a lift of TP from HK\$12.62 to HK\$12.74.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit (RMB mn)	20,868	21,652	28,472	31,748	35,735
EPS (Reported)(RMB)	0.94	0.97	1.28	1.43	1.61
YoY growth (%)	(14.1)	3.8	31.5	11.5	12.6
Consensus EPS (RMB)	n.a	0.88	1.26	1.39	1.52
Premium income (RMB mn)	393,127	396,997	430,931	474,024	521,426
Combined ratio (%)	98.9	99.6	97.6	97.6	97.6
P/E (x)	7.3	7.1	5.4	4.8	4.3
P/B (x)	0.8	0.8	0.7	0.6	0.6
Dividend yield (%)	5.5	5.9	7.8	8.7	9.8
ROE (%)	11.7	11.1	13.5	13.9	14.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$12.74**

(Previous TP) HK\$12.62)

Up/Downside **+71.0%**

Current Price **HK\$7.45**

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Stock Data

Mkt Cap (HK\$ mn)	52,708.4
Avg 3 mths t/o (HK\$ mn)	8.1
52w High/Low (HK\$)	8.87/6.21
Total Issued Shares (mn)	6899.0

Source: FactSet

Shareholding Structure

PICC Group	69.0%
Free Float	31.0%

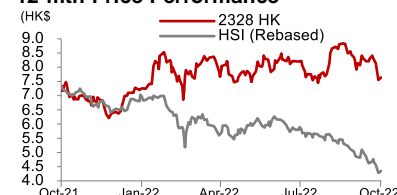
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.6%	6.9%
3-mth	-6.8%	24.8%
6-mth	-0.9%	28.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Deloitte

Recent Reports:

1. PICC P&C – 1H21 performance in line ([link](#))
2. PICC P&C – Auto growth pick up; Non-auto UW to improve ([link](#))
3. PICC P&C – Expect CoR improvement in FY22 ([link](#))
4. PICC P&C – CoR improvement in 1Q22 ([link](#))
5. PICC P&C – Strong beat in 1H22 ([link](#))

Company Overview

Figure 1. PICC Group: 3Q22 results at a glance

(RMBmn)	9M21	9M22	YoY chg	3Q21	3Q22	YoY chg	1H21	1H22	YoY chg
Net profit attribute to shareholders	20,775	23,495	13.1%	3,891	5,645	45.1%	16,884	17,850	5.7%
PICC P&C	19,992	25,948	29.8%	3,495	6,907	97.6%	16,497	19,041	15.4%
PICC Life	5,313	3,681	-30.7%	856	329	-61.6%	4,457	3,352	-24.8%
PICC Health	472	897	90.0%	213	155	-27.2%	259	742	186.5%
Total investment assets	1,135,248	1,098,229	-3.3%				1,108,126	1,230,807	11.1%
Total investment income	49,274	46,028	-6.6%	13,912	13,600	-2.2%	35,362	32,428	-8.3%

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2. PICC P&C: 3Q22 results at a glance

Premium income (RMB mn)	9M21	9M22	YoY chg	3Q21	3Q22	YoY chg	1H21	1H22	YoY chg
Auto	183,004	196,028	7.1%	62,249	67,220	8.0%	120,755	128,808	6.7%
Non-auto	162,792	184,996	13.6%	30,921	36,396	17.7%	131,871	148,600	12.7%
A&H	70,129	80,369	14.6%	10,093	11,487	13.8%	60,036	68,882	14.7%
Agro	37,371	45,924	22.9%	7,698	9,203	19.6%	29,673	36,721	23.8%
Liability	26,075	27,246	4.5%	7,199	7,981	10.9%	18,876	19,265	2.1%
Credit	1,832	4,171	127.7%	669	1,497	123.8%	1,163	2,674	129.9%
Property	12,613	12,922	2.4%	2,492	2,670	7.1%	10,121	10,252	1.3%
Cargo	3,670	3,713	1.2%	1,141	1,133	-0.7%	2,529	2,580	2.0%
Others	11,102	10,651	-4.1%	1,629	2,425	48.9%	9,473	8,226	-13.2%
P&C total	345,796	381,024	10.2%	93,170	103,616	11.2%	252,626	277,408	9.8%

Combined ratio:

P&C total:

Combined ratio (%)	98.9	96.5	(2.4) ppt	102.1	97.5	(4.7) ppt	97.2	96.0	(1.2) ppt
Expense ratio (%)	25.1	24.3	(0.8) ppt	24.4	24.0	(0.4) ppt	25.5	24.5	(1.0) ppt
Loss ratio (%)	73.8	72.2	(1.6) ppt	77.7	73.5	(4.2) ppt	71.7	71.5	(0.2) ppt

Auto insurance:

Combined ratio (%)	97.4	95.1	(2.3) ppt	98.8	94.4	(4.3) ppt	96.7	95.4	(1.3) ppt
Expense ratio (%)	26.5						26.3	25.7	(0.6) ppt
Loss ratio (%)	70.9						70.4	69.7	(0.6) ppt

Non-auto insurance:

Combined ratio (%)	101.3	98.4	(2.9) ppt	107.0	101.2	(5.7) ppt	97.9	96.8	(1.1) ppt
Expense ratio (%)	22.9						24.0	22.5	(1.5) ppt
Loss ratio (%)	78.4						73.9	74.3	0.4 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Total income	398,756	412,267	418,538	450,757	495,711	545,496
Premiums written (gross)	433,175	433,187	449,533	494,486	543,935	598,328
Premiums earned (net)	380,683	393,127	396,997	430,931	474,024	521,426
Investment income	16,986	17,709	17,996	20,070	21,795	24,188
Realized gains (losses)	1,439	4,551	4,562	(146)	0	0
Other operating income	(352)	(3,120)	(1,017)	(98)	(108)	(118)
Losses	(379,223)	(391,542)	(397,747)	(422,897)	(465,106)	(511,532)
Selling	(251,822)	(260,320)	(292,588)	(312,856)	(344,141)	(378,555)
Underwriting & commissions	(77,943)	(69,075)	(60,116)	(61,192)	(67,311)	(74,042)
Other operating expense	(49,458)	(62,147)	(45,043)	(48,849)	(53,654)	(58,935)
Equity in affiliates (pretax)	4,250	3,951	4,524	5,429	6,515	7,817
Pretax income	23,783	24,676	25,315	33,288	37,119	41,781
Income taxes	496	(3,808)	(3,663)	(4,817)	(5,371)	(6,046)
Consolidated net income	24,279	20,868	21,652	28,472	31,748	35,735
Minority interest	3	0	0	0	0	0
Net income	24,282	20,868	21,652	28,472	31,748	35,735

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	96,918	97,135	90,988	101,026	112,124	124,436
Total fixed income securities investment	149,072	168,511	172,851	191,921	213,003	236,393
Total equity securities investment	91,728	110,734	143,804	159,669	177,208	196,668
Real estate assets	22,684	30,328	29,594	32,614	35,939	39,604
Other investments	0	0	0	0	0	0
Premium balance receivables	53,593	50,103	55,399	60,939	67,033	73,736
Investment in unconsolidated subs.	50,477	53,262	56,945	62,640	68,903	75,794
Deferred tax assets	5,121	5,055	7,116	7,472	7,845	8,238
Intangible assets	0	0	0	0	0	0
Other assets	126,488	131,673	125,925	136,641	148,334	161,099
Total assets	596,081	646,801	682,622	752,921	830,390	915,967
Liabilities & shareholders' equity						
Insurance policy liabilities	306,902	314,623	340,529	369,867	402,026	437,401
Insurance reserves	146,627	153,780	169,606	183,822	199,459	216,661
Unearned premiums	158,513	159,093	169,175	184,010	200,328	218,277
Policy claims	0	0	0	0	0	0
Other insurance liabilities	1,762	1,750	1,748	2,035	2,239	2,463
ST debt & curr. portion LT debt	16,759	29,028	37,985	41,784	45,962	50,558
Deferred tax liabilities	0	0	0	0	0	0
Other liabilities	102,466	113,119	98,459	121,815	144,473	169,284
Total liabilities	426,127	456,770	476,973	533,466	592,461	657,243
Total common equity	169,953	187,513	202,887	219,455	237,929	258,724
Common stock/ordinary capital	22,242	22,242	22,242	22,242	22,242	22,242
Capital surplus	11,412	11,412	11,412	11,412	11,412	11,412
Retained earnings	40,998	48,030	58,318	74,886	93,360	114,155
Equity reserves	106,713	117,241	122,327	122,327	122,327	122,327
Revaluation reserves	59,703	61,814	64,100	64,100	64,100	64,100
Other appropriated Reserves	35,598	44,015	46,815	46,815	46,815	46,815
Total shareholders' equity	169,953	187,513	202,887	219,455	237,929	258,724
Minority interest	1	2,518	2,762	0	0	0
Total equity	169,954	190,031	205,649	219,455	237,929	258,724
Total liabilities & shareholders' equity	596,081	646,801	682,622	752,921	830,390	915,967

PER SHARE DATA	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
DPS	0.46	0.38	0.41	0.54	0.60	0.67
EPS (Reported)	1.09	0.94	0.97	1.28	1.43	1.61
Consensus EPS	na	na	0.88	1.26	1.39	1.52
No. of shares basic	22,242	22,242	22,242	22,242	22,242	22,242
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Return on equity (ROE)	15.6%	11.7%	11.1%	13.5%	13.9%	14.4%
Return on asset (ROA)	4.2%	3.4%	3.3%	4.0%	4.0%	4.1%
Combined ratio	99.2%	98.9%	99.6%	97.6%	97.6%	97.6%
Loss ratio	66.2%	66.2%	73.7%	72.6%	72.6%	72.6%
Expense ratio	33.0%	32.7%	25.9%	25.0%	25.0%	25.0%
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/B	1.0	0.7	0.6	0.7	0.7	0.6
Div yield (%)	6.7	5.5	5.9	7.8	8.7	9.8
Div payout (%)	42.2	40.0	41.8	41.8	41.8	41.8

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

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