

CPIC (2601 HK)

Life OPAT beat, driving DPS to rise faster than Group OPAT

CPIC reported a beat on Life OPAT, NBV growth and CSM, indicating the insurer's strong capability to capitalize on value growth and effective A/L mgmt. amid a low interest rate environment. Group OPAT rose 2.5% YoY to RMB 34.4bn, and Life OPAT climbed 6.1% YoY to RMB 27.6bn, better than our forecast (+2%). Net profit came in at RMB45.0bn, up 64.9% YoY, at the upper-end of profit alert by 55%-70%. 4Q24 net profit was RMB 6.7bn, up 62% YoY, underpinned by robust insurance service results (4Q: +11.6% YoY/+1.3x QoQ) and net investment results (4Q: +4.6x YoY). DPS grew 6% YoY to RMB 1.08, implying 30.2% payout (+1.0pct) based on OPAT per share. NBV jumped 57.7%/20.9% on a like-for-like (LFL)/actual basis, even though the insurer revised down the EV assumptions by 50bps for LT investment return to 4.0% (from 4.5%) and risk discount rate (RDR) to 8.5% (from 9.0%). P&C CoR was 98.6%, up 0.9pct YoY with loss/expense ratio +1.7pct/-0.8pct to 70.8%/27.8%. Auto CoR deteriorated 0.6pct YoY to 98.2%, dragged by increased loss ratio (+2.7pct) more than offset the improved expense ratio (-2.1pct). Looking ahead, we are positive on the insurer's value growth to solid fundamentals, and better-than-peers A/L mgmt. Maintain BUY. We roll-forward to FY25E EV, NBV and P&C book value to derive the new TP at HK\$34.0, implying 0.54x FY25E P/EV.

■ **NBV outperformed; CSM release saw first positive growth.** Life NBV jumped 57.7% RMB 17.3bn like-for-like in FY24, outpacing our forecast at 36.2% ([link](#)). Agency/bancassurance NBV rose 37%/135% like-for-like to RMB 12.4bn/RMB 4.4bn, driven by margin expansions and steady increase of agency FYP (+14%). NBV margin was 21.9%, for which in agency/bancassurance were 35.2%/15.5%, +5.6pct/+9.8pct LFL. The revision on EV assumptions negatively impacted FY24 NBV by -23%. Per sensitivity, we reckon that another 50bps LT investment return and RDR cut would drag FY24 NBV/Life EV/Group EV by 30%/12%/9%. Agency force fell 6% YoY to 188k, whilst the number of core agents rose 10% YoY to 53k. As FYP per core agent/month (RMB 54.3k) equalled to 3.2 times for that of an avg. agent (RMB 16.7k), we see this scale-up as a key driver for agency FYP growth. CSM grew 11% HoH/5.6% YoY, thanks to the strong upswings of new business CSM (+57%) and change in estimates for VFA contracts (+264%) more than offset CSM release (+2.4% YoY/2H: +5% HoH) at a rate of 6.3%. Life OPAT grew 1.2% YoY to RMB 275.9bn on actual basis (vs. +6.1% YoY on LFL basis).

■ **P&C CoR higher-than-expected.** P&C insurance revenue grew 8%/12% YoY in FY24/2H24, dragged by increases in insurance service expenses (+8.5%) and net IFIE (+28.3%). Underwriting profit dropped 35.5% YoY to RMB2.67bn in FY24, with 2H implied UW loss at RMB 427mn (vs 2H23: +2.3bn). FY24 CoR was worse off to 98.6%, +0.9pct YoY, as loss/expense ratio was +1.7pct/-0.8pct to 70.8%/27.8%. Auto/Non-auto CoR deteriorated by 0.6pct/1.4pct YoY to 98.2%/99.1%, due to increased NAT CAT claims throughout the year. 2H24 implied CoR for auto/non-auto was 99.4%/101.7%, +2.1pct/+4.1pct, per CMBI.

■ **Valuation.** The stock is trading at 0.36x FY25E P/EV and 0.71x FY25E P/B with 3yr forward ROE at 14% and a yield at 5%. Considering investment volatilities, we revise FY25E-27E EPS estimates by -3%/-1%/1% to RMB 4.18/4.63/5.17, and roll-forward to FY25E EV, NBV and P&C book value to derive the new TP at HK\$34.0, implying FY25E 0.54x P/EV and 1.05x P/B. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Net profit (RMB mn)	27,911	46,441	41,532	45,935	51,362
EPS (Reported)(RMB)	2.83	4.67	4.18	4.63	5.17
Consensus EPS (RMB)	n.a	n.a	4.29	4.66	6.26
P/B (x)	0.9	0.8	0.7	0.7	0.6
P/Embedded value (x)	0.4	0.4	0.4	0.3	0.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$34.00
(Previous TP) HK\$35.50
Up/Downside 37.1%
Current Price HK\$24.80

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Stock Data

Mkt Cap (HK\$ mn)	238,584.5
Avg 3 mths t/o (HK\$ mn)	332.5
52w High/Low (HK\$)	33.15/14.14
Total Issued Shares (mn)	9620.3

Source: FactSet

Shareholding Structure

Shanghai International Group	7.2%
BlackRock, Inc.	6.1%

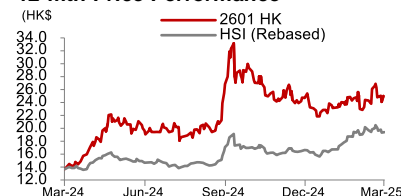
Source:

Share Performance

	Absolute	Relative
1-mth	7.8%	5.6%
3-mth	0.4%	-13.9%
6-mth	-7.6%	-18.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports

1. CPIC (2601 HK) – 3Q NBV growth accelerated; expect par sales to outgrow, Nov 1, 2024 ([link](#))
2. CPIC (2601 HK) - Steam ahead with doubled 2Q net profit and strong NBV uptrend; revise up TP, Sep 5, 2024 ([link](#))
3. CPIC (2601 HK) - VNB growth accelerated; NP turned positive YoY, May 6, 2024 ([link](#))

- **Solid investments; first positive net fair value impact to NAV.** Total investment income soared 131% YoY to RMB 120.4bn, driven by the rise of dividends (+39%) and a turnaround of fair value gains from FVTPL (+ RMB 49.4bn). Dividends from FVTPL equities and FVOCI equities grew 21.2%/45.4% YoY, indicating the insurer's long-persisted emphasis on high-yield strategy. FVOCI stocks amounted to RMB 76.1bn by FY24, marking a full-year surge of 1.81x YoY and 3.27x QoQ in 4Q24. **The net-off impact on fair value to A/L over NAV was 0.6%, first turning into positive, and outpacing peers (Ping An: -4%/China Life: -13%/NCL: -35%).**
- **Key risks:** prolonged low interest rate; intensified equity market fluctuations; lower-than-expected new business sales; P&C CoR worse-off than expectations, etc.

Key forecasts

(RMB bn, %)	Current			Previous			Change (% , pct)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
EPS	4.18	4.63	5.17	4.32	4.68	5.12	-3.4%	-1.1%	0.9%
Group NPAT	40.2	44.5	49.7	41.6	44.9	49.3	-3.4%	-1.1%	0.9%
NBV	14.8	16.5	18.5	16.6	18.5	20.6	-	-	-
NBV margin (FYP basis)	17.3%	17.8%	18.2%	19.3%	19.9%	20.3%	-	-	-
EV	608.1	659.2	714.3	672.8	736.2	804.3	-	-	-
ROE	13.4%	14.1%	14.9%	14.1%	14.1%	14.2%	-0.7pct	0.0pct	0.7pct
Operating RoEV	10.9%	10.9%	10.7%	11.1%	11.1%	10.9%	-	-	-
P&C CoR	98.5%	98.5%	98.4%	97.5%	97.4%	97.3%	1.0pct	1.0pct	1.0pct

Source: CMBI estimates | Note: Changes in estimates for NBV and EV are not comparable, due to the revision on EV economic assumptions of which the insurer applied 50bps cut for long-term investment return to 4.0% (from prev. 4.5%) and risk discount rate (RDR) to 8.5% (from prev. 9.0%). Our previous forecasts were based on the end-FY23 assumptions.

Valuation

(RMB bn, %)	Forward EV/BV	Ownership (%)	2601 HK
FY25E Life embedded value, unadjusted	463.2	98.3%	455.2
FY25E Life Embedded value, adjusted	284.0		279.1
<i>Adjustment reflecting risk discount rate change</i>			-158.5
<i>Adjustment reflecting investment return change</i>			-20.7
PV(Total VNB)			16.7
CPIC Life fair value (RMB mn)			295.9
Implied Life P/EV (x)			0.65x
FY25E P&C Shareholders' equity	74.2	100.0%	74.2
Target P/B (x)	0.6x		
CPIC P&C fair value (RMB mn)			43.3
Group co. and others	(0.3)	100.0%	(0.3)
Target P/B (x)	1.0x		
CPIC Group & others fair value (RMB mn)			(0.3)
Total valuation			338.9
<i>Conglomerate discount (%)</i>			-10.0%
Target price (HK\$)			34.00
Implied P/BV			1.05x
Implied P/Group EV			0.54x
Implied Life EV			0.72x
Implied P/OPAT			8.85x
<i>Upside (%)</i>			37.1%

Source: CMBI estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Insurance revenue	249,745	266,167	279,473	296,528	315,939	336,839
Insurance service expenses	(213,988)	(231,023)	(243,147)	(258,444)	(275,792)	(294,382)
Net expenses from reinsurance contracts held	(2,818)	(1,439)	(1,425)	(2,391)	(2,576)	(2,775)
Insurance service results	32,939	33,705	34,901	35,692	37,571	39,682
Net finance (expenses)/income from insurance contracts	(58,074)	(46,741)	(92,520)	(75,918)	(84,989)	(96,437)
Net finance (expenses)/income from reinsurance contracts	1,108	1,174	2,103	0	0	0
Interest income	0	58,262	55,991	60,072	65,108	71,856
Net investment income	77,048	(4,273)	65,160	41,891	48,978	57,694
Other gains/(losses) from changes in fair value	24	23	2	0	0	0
Net investment results	20,106	8,445	30,736	26,045	29,098	33,113
Other income	3,984	4,129	4,153	3,909	3,942	4,070
Other expenses	(16,032)	(14,051)	(13,623)	(13,221)	(12,869)	(12,561)
Foreign exchange gains/losses	1,085	159	(64)	(92)	(92)	(92)
Other results	(10,963)	(9,763)	(9,534)	(9,404)	(9,019)	(8,584)
Profit before tax	42,483	32,001	55,563	52,340	57,658	64,219
Income taxes	(4,261)	(4,090)	(9,122)	(10,808)	(11,722)	(12,857)
Net profit	38,222	27,911	46,441	41,532	45,935	51,362
Net profit attributable to shareholders	37,381	27,257	44,960	40,164	44,502	49,740

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions	219,097	172,606	180,669	200,136	225,934	259,880
Investments in associates and joint ventures	25,829	23,184	22,520	5,569,240	5,569,342	5,569,342
Property	19,756	21,384	22,744	22,972	23,202	23,435
Investment property	11,202	10,667	8,951	9,915	11,194	12,875
Insurance contract assets	305	335	22	26	31	36
Reinsurance contract assets	33,205	39,754	46,081	55,396	65,179	75,764
Financial investments:	1,672,821	2,009,336	2,482,029	2,743,409	3,090,196	3,546,631
At amortized cost:	0	82,334	64,844	71,831	81,090	93,274
At fair value through other comprehensive income:	1,646,261	1,345,400	1,749,986	1,938,547	2,188,426	2,517,237
At fair value through profit or loss:	26,560	581,602	667,199	733,032	820,680	936,121
Other assets	34,849	32,433	31,629	(5,314,549)	(5,173,201)	(5,101,725)
Cash and cash equivalents	54,272	34,263	40,262	44,600	50,349	57,914
Total assets	2,071,336	2,343,962	2,834,907	3,331,146	3,862,226	4,444,153
LIABILITIES						
Customer deposits and payables to brokerage customers	4,639	5,861	5,942	7,190	8,700	10,527
Insurance contract liabilities	1,664,848	1,872,620	2,229,514	2,680,216	3,153,528	3,665,665
Obligations under repurchase agreements	119,665	115,819	181,695	185,347	189,073	192,873
Bonds payable	9,999	10,285	10,286	10,286	10,286	10,286
Other liabilities	69,704	71,673	88,989	111,739	142,636	184,244
Total liabilities	1,869,664	2,076,258	2,516,426	2,994,777	3,504,223	4,063,595
EQUITIES						
Share capital	9,620	9,620	9,620	9,620	9,620	9,620
Reserves	94,269	118,518	129,907	115,247	98,849	80,157
Retained profits	92,588	121,448	151,890	181,664	216,638	254,513
Total shareholders' equity	196,477	249,586	291,417	306,531	325,106	344,289
Non-controlling interests	5,195	18,118	27,064	29,838	32,896	36,268
Total equity	201,672	267,704	318,481	336,369	358,003	380,558
Total liabilities & equity	2,071,336	2,343,962	2,834,907	3,331,146	3,862,226	4,444,153

PER SHARE DATA	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
DPS	1.02	1.02	1.08	1.13	1.25	1.37
EPS (Reported)	2.56	2.83	4.67	4.18	4.63	5.17
Consensus EPS	n.a	n.a	n.a	4.29	4.66	6.26
No. of shares basic	9,620	9,620	9,620	9,620	9,620	9,620
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Return on equity (ROE)	12.6%	12.2%	16.6%	13.4%	14.1%	14.9%
Combined ratio (%)	97.0%	97.7%	98.6%	98.5%	98.5%	98.4%
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/Embedded value (x)	0.4	0.4	0.4	0.4	0.3	0.3
P/B (x)	1.0	0.9	0.8	0.7	0.7	0.6
Dividend yield (%)	4.5	4.5	4.7	5.0	5.5	6.0

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

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