

# China Taiping (966 HK)

## NBV decline worse than expected

China Taiping announced 2019 results on 27 Mar. GWP+11.7% YoY (TPL +13.6%, TPI +11.1%). Net profit +30.9% YoY, attributable to tax deductions and enhanced investment gains. Group EV to shareholders rose steadily by 14.8% YoY to HK\$ 44.56 per share (EV of TPL +21.3%). However, NBV of TPL declined 18.8% YoY and NBV margin shrank, indicating a challenging 2020 ahead. We cut TP accordingly, but recent low valuation offers enough cushion and the Company lifted dividend payout ratio.

- Result positives.**
  - Life GWP +13.6% YoY, above industry average growth. Underwriting quality remained steady with industry-leading persistency ratios. TPL's FYRP +1.4%YoY.
  - Investment assets +23% YoY. The Company increased allocation in long-term equity investment and high-dividend stocks, which lifted NIY by 30bps to 4.72%.
  - Strengthening strategic client cooperation, contributing to premium and pension under management, as well as cross-selling initiatives to drive premium growth.
  - Breakthroughs in overseas business units making market influence. For example, TPL (HK) achieved FYP growth of +57.6% YoY.
  - Dividend proposed at HK\$ 0.3 per share, up HK\$0.2 YoY and boosting payout ratio to 12.2% from 5.4% in 2018. This makes investing in the Company more attractive, though dividend yield still lags peers'.
- Result negatives.**
  - NBV -18.8%/-20.6% YoY on RMB/HK\$ basis (-13.3%/-30.3% in 1H/2H on HK\$ basis), below our estimate. NBV margin declined 7.6ppt to 28.4%. FYRP from individual agent channel declined 5.5% YoY. In 2020, downward pressures on FYRP and NBV margin are very likely to linger.
  - Number of individual life agents was 385,655 at YE19, down 24.8% YoY/18.2% HoH. Although high-productivity agents increased 13.1% YoY, the shrinkage in agent team could pose challenges for premium growth in 2020 against macro as well as industry headwinds.
- Cut TP to HK\$ 20.54.** We lowered NBV forecast for TPL to reflect FYRP growth and NBV margin pressures in 2020. We also revise up cost of equity assumptions given recent market volatilities. Therefore, TP is trimmed to HK\$20.54. The stock is currently trading at 0.38x FY20E P/EV. Valuation is attractive. Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Gross written premium (HK\$ mn)	199,632	223,019	229,905	243,697	257,563
Total income (HK\$ mn)	213,662	244,528	250,653	267,243	283,678
Net profit (HK\$ mn)	6,884	9,009	8,748	10,022	11,187
EPS (HK\$)	1.84	2.46	2.36	2.72	3.04
EPS CHG (%)	12.71	33.24	(3.84)	15.01	11.92
Consensus EPS (HK\$)	1.84	2.67	2.69	3.06	n/a
P/E (x)	9.89	7.42	7.72	6.71	6.00
P/B (x)	1.00	0.86	0.77	0.69	0.61
P/EV (x)	0.47	0.41	0.38	0.35	0.32
Yield (%)	0.55	1.64	1.58	1.82	2.04
ROE (%)	9.88	10.42	12.68	10.83	11.12

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$20.54
(Previous TP)	HK\$26.14)
Up/Downside	+66.4%
Current Price	HK\$12.34

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#### Stock Data

Mkt Cap (HK\$ mn)	44,350
Avg 3 mths t/o (HK\$ mn)	198.69
52w High/Low (HK\$)	26.22/ 11.12
Total Issued Shares (mn)	3,594

Source: Bloomberg

#### Shareholding Structure

China Taiping Group	59.64%
Free float	40.36%

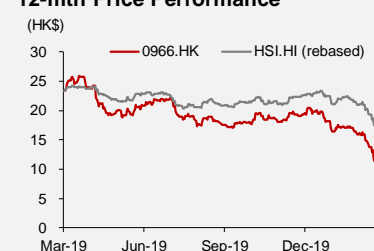
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-22.5%	-13.8%
3-mth	-36.1%	-23.2%
6-mth	-29.8%	-22.4%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

#### Related Reports

- "More cautious on underwriting outlook" – 29 Aug 2019
- "Looking forward to market-based mechanisms" – 2 Apr 2019
- "Effective agent team mgmt. underpins 2H18 growth" – 24 Aug 2018
- "NBV growth lead; P&C margin improved" – 26 Mar 2018

## Focus charts

Figure 1: Earnings

RMB mn								
P/L	1H19	2H19	HoH	2H18	YoY	2018A	2019A	YoY
Total premiums written and policy fees	138,923	84,095	-39.5%	69,543	20.9%	199,632	223,019	11.7%
Net earned premiums and policy fees	138,923	84,095	-39.5%	69,543	20.9%	199,632	223,019	11.7%
Total premiums written and policy fees	138,923	84,095	-39.5%	69,543	20.9%	199,632	223,019	11.7%
Realized investment gains	1,561	1,153	-26.1%	-2,066	-155.8%	-451	2,714	-702.3%
Fair value gains	-908	-1,464	61.3%	-1,424	2.8%	-2,285	-2,372	3.8%
<b>Total income</b>	<b>147,624</b>	<b>96,904</b>	<b>-34.4%</b>	<b>75,603</b>	<b>28.2%</b>	<b>213,662</b>	<b>244,528</b>	<b>14.4%</b>
Net policyholders' benefits	-30,009	-28,364	-5.5%	-22,919	23.8%	-76,934	-58,374	-24.1%
Net commission expenses	-13,401	-10,602	-20.9%	-10,810	-1.9%	-25,044	-24,004	-4.2%
Administrative and other expenses	-16,869	-18,409	9.1%	-16,539	11.3%	-31,008	-35,278	13.8%
Change in life insurance reserves	-77,403	-35,575	-54.0%	-21,415	66.1%	-65,487	-112,979	72.5%
<b>Total benefits, losses and expenses</b>	<b>-137,683</b>	<b>-92,951</b>	<b>-32.5%</b>	<b>-71,683</b>	<b>29.7%</b>	<b>-198,472</b>	<b>-230,634</b>	<b>16.2%</b>
Associates and JVs	216	1,544	613.6%	412	274.9%	344	1,761	411.9%
Finance costs	-1,231	-1,097	-10.8%	-1,173	-6.5%	-2,421	-2,328	-3.8%
<b>Pretax profit</b>	<b>8,926</b>	<b>4,400</b>	<b>-50.7%</b>	<b>3,158</b>	<b>39.3%</b>	<b>13,112</b>	<b>13,326</b>	<b>1.6%</b>
Income tax charges	157	-940	-699.4%	-1,215	-22.6%	-4,292	-783	-81.8%
Non-controlling interests	2,338	1,196	-48.9%	269	344.1%	1,936	3,534	82.5%
Net profit attributable to shareholders	6,744	2,264	-66.4%	1,674	35.2%	6,884	9,009	30.9%
<b>B/S</b>	<b>1H19</b>	<b>2H19</b>	<b>HoH</b>	<b>2H18</b>	<b>YoY</b>	<b>2018A</b>	<b>2019A</b>	<b>YoY</b>
Investment assets	696,860	760,254	9.1%	608,295	25.0%	608,295	760,254	25.0%
Total assets	832,918	919,420	10.4%	752,101	22.2%	752,101	919,420	22.2%
Insurance liabilities	507,374	534,557	5.4%	433,102	23.4%	433,102	534,557	23.4%
Total liabilities	739,005	825,363	11.7%	671,706	22.9%	671,706	825,363	22.9%
Shareholders' funds	76,411	76,308	-0.1%	65,730	16.1%	65,730	76,308	16.1%
<b>Key metrics</b>	<b>1H19</b>	<b>2H19</b>	<b>HoH</b>	<b>2H18</b>	<b>YoY</b>	<b>2018A</b>	<b>2019A</b>	<b>YoY</b>
NBV of TPL	6,557	3,954	-39.7%	5,674	-30.3%	13,237	10,511	-20.6%
Group embedded value	156,591	160,166	2.3%	139,563	14.8%	139,563	160,166	14.8%
Combined ratio of TPI	99.8%	99.9%	0.1ppt	99.8%	0.1ppt	99.8%	99.9%	0.1ppt
Net investment yield	n/a	n/a	n/a	n/a	n/a	4.42%	4.72%	0.3ppt
Total investment yield	4.73%	n/a	n/a	n/a	n/a	3.95%	4.77%	0.8ppt

Source: Company data

## Financial Summary

### Income statement

YE 31 Dec (HK\$ mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Gross written premium	199,632	223,019	229,905	243,697	257,563
Incl: Life GWP	148,309	166,130	166,796	175,779	185,256
P&C GWP	28,875	30,871	32,414	34,359	36,077
Net premiums earned	184,574	208,768	215,629	228,021	240,830
Investment income	22,583	30,876	30,679	34,216	37,175
<b>Total income</b>	<b>213,662</b>	<b>244,528</b>	<b>250,653</b>	<b>267,243</b>	<b>283,678</b>
Insurance claims and reserves	(142,420)	(171,352)	(172,485)	(183,080)	(193,691)
Other operating expenses	(56,051)	(59,282)	(62,197)	(66,001)	(69,828)
<b>Total expenses</b>	<b>(198,472)</b>	<b>(230,634)</b>	<b>(234,682)</b>	<b>(249,080)</b>	<b>(263,519)</b>
Associates and JVs	344	1,761	1,814	1,868	1,924
Finance cost	(2,421)	(2,328)	(2,367)	(2,367)	(2,367)
Pre-tax profit	13,112	13,326	15,417	17,664	19,716
Income tax	(4,292)	(783)	(3,238)	(3,709)	(4,140)
Less: Minority interests	1,936	3,534	3,432	3,932	4,389
<b>Net profit</b>	<b>6,884</b>	<b>9,009</b>	<b>8,748</b>	<b>10,022</b>	<b>11,187</b>

### Balance sheet

YE 31 Dec (HK\$ mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Investment assets	608,295	760,254	863,993	973,372	1,091,891
other assets	143,806	159,166	167,125	170,467	173,876
<b>Total assets</b>	<b>752,101</b>	<b>919,420</b>	<b>1,031,117</b>	<b>1,143,839</b>	<b>1,265,767</b>
Insurance liabilities	473,439	590,776	695,515	809,339	928,738
Borrowings & others	198,266	234,587	230,462	217,467	205,124
<b>Total liabilities</b>	<b>671,706</b>	<b>825,363</b>	<b>925,976</b>	<b>1,026,806</b>	<b>1,133,861</b>
<b>Shareholders' equity</b>	<b>65,730</b>	<b>76,308</b>	<b>85,300</b>	<b>94,948</b>	<b>107,014</b>
Minority interest	14,666	17,749	19,841	22,085	24,892
Total equity	80,396	94,057	105,141	117,033	131,906

### Key ratios

YE 31 Dec Group (%)	FY18A	FY19E	FY20E	FY21E	FY22E
Total GWP growth	11.7%	11.7%	3.1%	6.0%	5.7%
Total income growth	9.0%	14.4%	2.5%	6.6%	6.1%
Net profit growth	12.2%	30.9%	-2.9%	14.6%	11.6%
EV growth	11.3%	14.8%	9.0%	8.6%	8.2%
Net investment yield	4.41%	4.46%	4.32%	4.27%	4.17%
Total investment yield	3.93%	4.51%	3.78%	3.72%	3.60%
<b>Life (%)</b>					
GWP growth	10.8%	12.0%	0.4%	5.4%	5.4%
Agent FYRP growth	11.2%	-5.5%	-15.1%	15.0%	8.0%
NBV growth	-2.9%	-20.6%	-15.0%	10.0%	8.0%
NBV margin (agent, APE)	40.9%	34.6%	34.6%	34.6%	34.6%
Life comprehensive solvency	224%	227%	223%	219%	219%
<b>P&amp;C (%)</b>					
GWP growth	10.6%	6.9%	5.0%	6.0%	5.0%
Loss ratio	53.9%	50.3%	50.5%	50.4%	50.4%
Expense ratio	45.9%	49.6%	49.1%	49.1%	49.1%
Combined ratio	99.8%	99.9%	99.6%	99.5%	99.5%
P&C comprehensive solvency	225%	271%	267%	262%	256%
<b>Returns (%)</b>					
Life RoEV	18.2%	22.7%	12.5%	12.0%	11.5%
Group ROE	10.4%	12.7%	10.8%	11.1%	11.1%
<b>Per share</b>					
EPS (HKD)	1.84	2.46	2.36	2.72	3.04
DPS (HKD)	0.10	0.30	0.29	0.33	0.37
EVPS (HKD)	38.83	44.56	48.56	52.74	57.09
BVPS (HKD)	18.29	21.23	23.73	26.42	29.78

Source: Company data, CMBIS estimates

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