

CPIC (2601 HK)

Participating sales noticeably increased; MTM losses dragged a profit miss in 1Q25

CPIC reported 1Q25 results with strong NBV up 39% like-for-like, a beat to our expectation, yet net profit down 18.1% YoY as a miss. Net asset value slid 9.5% vs year-start to RMB 263.6bn, marking the first quarterly decline on record. We think the underperformance in profitability and NAV was dragged by **1) bonds' market-to-market (MTM) losses given a rising interest yield in 1Q25**, as China's 10YR govt. bond yield grew 14.4bps to over 1.8% vs prior year-end; and **2) a short-term duration mismatch b/w yield curves for investment (spot rate) and discount rate of traditional insurance liability reserves (50-day moving average of 10YR govt. bond yield**, vs Ping An: 20D MA vs NCI: 60D MA vs TPL: spot), which caused the lag on rise of investment yields. NBV jumped 11.3% YoY (headline) and 39% like-for-like (LFL) to RMB5.8bn in 1Q25, propelled by bancassurance FYP growth (+131%) amid margin recovery, with par premiums representing 18.2% of total new written premiums, up 16.1pct YoY. P&C CoR improved 0.6pct to 97.4%, possibly due to benign NAT CAT losses and continued prudent expense controls. Auto/non-auto premium growth slowed down to 1.3%/0.7% YoY (vs 4Q24: +4.1%/ +7.6%). Despite a 1Q profit fluctuation, **we think investors should focus more on the insurer's long-term value pegged on OPAT, which grew 5% LFL in 1Q25 per mgmt.** Maintain BUY with TP (unchanged) at HK\$34.0, implying 0.51x FY25 P/EV.

■ **NBV beat; with par sales noticeably increased.** In 1Q25, NBV jumped 39.0% like-for-like to RMB 5.78bn post EV assumption adjustments in FY24, thanks to FYP growth in bancassurance (+131%) amid steady margin recovery. Mgmt. mentioned in call that agency and bancassurance NBV margin grew 5pct/6pct LFL to ~20%/20%. Headline NBV growth was 11.3% YoY, a beat to our expectation and that of major peers (vs Ping An: flattish). FYP of participating-type policies made up for 18.2% of total new written premiums in 1Q25 (vs 1Q24: 2.1%). By FY24, par FYRP has surged more than ten-fold to RMB2.0bn, making up 5% of total regular-paid premiums, and we expect this amount to further climb in 1Q25. Agency force was steady at 18.8k, up 1.1% YoY/flattish QoQ, whilst agency FYP dropped 15.2% YoY (vs 4Q24: -6.4%) possibly due to a decline of single-paid. Bancassurance FYRP surged 86.1 YoY, boosting banca FYP up by 131%. We expect full-year NBV to ride on waves of margin expansion in FY25E.

■ **NAV subdued for a duration mismatch b/w A/L yield curve.** Net profit slid 18% YoY to RMB 9.63bn, due to MTM losses on FVTPL bonds outweighing that of equities. Shareholders' equity retreated 9.5% from year-start, marking its first quarterly decline. We attribute the underperformance to 1) changes in fair value gains which slumped 89% YoY, dragging down 1Q25 net profit; and 2) a duration mismatch b/w the yield curves for asset investments (spot rate) and discount rate applied for traditional insurance liability reserves (50-day MA). OCI tumbled RMB37.3bn in 1Q25 vs year-start, with the discount rate for liability reserves still implying the interest rate downturn in 4Q24 (-53bps), in contrast to a rising bond yield in 1Q25 (i.e. China's 10YR govt. bond up 14.4bps from end-FY24). We expect these fair value losses from TPL bonds to reverse in 2Q as yields fall.

■ **Valuation:** The stock is trading at FY25E 0.31x P/EV and 0.62x P/B with avg. 3yr forward ROE at 14% and a yield of 6%. Looking ahead, we expect the short-term pressure on earnings and net assets could ease amid an interest rate down cycle, viewing positive on the insurer's LT investment value pegged on OPAT. Maintain BUY, with TP at HK\$34.0, implying 0.51x FY25E P/EV and 1.0x P/B.

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	4.39	4.68	5.23
P/B (x)	0.8	0.6	0.6	0.6	0.6
P/Embedded value (x)	0.4	0.3	0.3	0.3	0.3
Dividend yield (%)	5.2	5.5	6.3	7.1	8.0
ROE (%)	12.2	16.6	13.4	14.1	14.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$34.00
Up/Downside 63.1%
Current Price HK\$20.85

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Stock Data

Mkt Cap (HK\$ mn)	200,584.1
Avg 3 mths t/o (HK\$ mn)	359.0
52w High/Low (HK\$)	33.15/17.28
Total Issued Shares (mn)	9620.3

Source: FactSet

Shareholding Structure

Shanghai International Group	7.2%
BlackRock, Inc.	6.1%

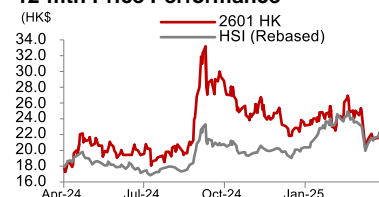
Source:

Share Performance

	Absolute	Relative
1-mth	-15.9%	-10.4%
3-mth	-9.9%	-17.1%
6-mth	-27.6%	-32.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

Related reports:

- CPIC (2601 HK) – Life OPAT beat, driving DPS to rise faster than Group OPAT, Apr 1, 2025 ([link](#))
- CPIC (2601 HK) – 3Q NBV growth accelerated; expect par sales to outgrow, Nov 1, 2024 ([link](#))
- CPIC (2601 HK) - Steam ahead with doubled 2Q net profit and strong NBV uptrend; revise up TP, Sep 5, 2024 ([link](#))
- CPIC (2601 HK) - VNB growth accelerated; NP turned positive YoY, May 6, 2024 ([link](#))

Some key highlights from the call

1. NAV: 1Q25 NAV retreated 9.5% from year-start, mainly dragged by RMB37.3bn decrease in OCI due to FVOCI bonds' mark-to-market losses amid a rising interest yield in first quarter. In Apr, the drop declined to RMB 27.0bn as yields fell, down 27.6% vs year-start, per mgmt.

2. OCI fluctuations: Over the past two years (1Q23-4Q24), the effect on OCI from A/L duration mismatch in yield curves amounted to RMB 1.0bn per quarter, less than 0.5% of per-quarter net assets. Mgmt. expects full-year net assets to smooth out quarterly fluctuations and remain steady.

3. PAR FYRP: Par sales continued to rise with FYRP surged more than ten-fold compared to year-start, per mgmt.

4. Group OPAT disclosure: 1Q25 Group OPAT grew 5% like-for-like, and full-year Group OPAT is expected to rise on track by low single digit in FY25E. OPAT will be updated on a quarterly basis later on.

5. Potential PIR cut in 3Q25E: The upper limit of pricing interest rate (PIR) for traditional insurance could be again lowered in 3Q25E; could refer to the research value of PIR announced by the Association in 2Q25.

6. CSM: 1Q25 CSM was affected by market fluctuations by less than 1%. If excl. significant volatilities of interest rate, mgmt. expects the full-year CSM to achieve positive growth.

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	7,976,554	7,976,656	7,976,656
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	(7,721,863)	(7,581,554)	(7,511,460)
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	3,861,187	4,441,732
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	215,599	252,092
Total shareholders' equity	196,477	249,586	291,417	306,531	324,067	341,869
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	356,964	378,137
Total liabilities & equity	2,071,336	2,343,962	2,834,907	3,331,146	3,861,187	4,441,732

PER SHARE DATA	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
DPS	1.02	1.02	1.08	1.24	1.39	1.56
EPS (Reported)	2.56	2.83	4.67	4.18	4.63	5.17
Consensus EPS	n.a	n.a	n.a	4.39	4.68	5.23
Group embedded value/share (RMB)	54.01	55.04	58.43	63.21	68.42	74.00
VNB/share (RMB)	0.96	1.14	1.38	1.54	1.71	1.92
No. of shares basic (mn)	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	0.3	0.3	0.3	0.3
P/B (x)	0.8	0.8	0.6	0.6	0.6	0.6
Dividend yield (%)	5.2	5.2	5.5	6.3	7.1	8.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: stock price data was quoted by market close on 28/4/2025.

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