

AIA Group Ltd. (1299 HK)

Robust VONB growth in-line; new buyback of US\$1.6bn implying 6% total S/H returns

AIA reported solid VONB growth at 18% YoY (CER, or 17% AER) to US\$4.71bn in FY24, slightly lower than our estimate of 20% (CER)/18% (AER) YoY ([link](#)). VONB margin was 54.5% (ANP basis), +1.9pct YoY, vs. our forecast at 54.7%. Group OPAT grew 7% YoY (CER) to US\$6.6bn, bolstered by 2H OPAT +9.5% YoY (vs. 1H24: +3.5%). OPAT per share was up 12% to US\$0.60 in FY24, thanks to a combined effect of US\$2.5bn share buyback (avg. no. of shares: -4%) in 2H24. Underlying free surplus generation (UFSG) amounted to US\$6.33bn, +6% YoY, enhancing the net FSG, the core metric for shareholder returns, which was up by 3% YoY to US\$4.02bn in FY24. Within the year, total shareholders' return was US\$6.5bn, incl. US\$2.3bn of dividends and US\$4.2bn of share buybacks. **Amid earnings, AIA also announced a new buyback program of US\$1.6bn in 2025, with US\$0.6bn from 75% net FSG, and additional US\$1.0bn following a review on the Group's capital position, lower than our estimate of US\$2.0bn to finish in one year.** For 2025, total shareholders' return (TSR) could reach 6%, incl. US\$2.4bn FY24 dividends (3.1%) and US\$2.3bn share buybacks (2.8%) over the year-start market cap. **We adjust TP to HK\$89 (prev. HK\$94), based on P/EV vs RoEV and appraisal value approach, implying 1.6x FY25 P/EV. Reiterate BUY.**

■ **AIA HK/CN led Group VONB growth.** Group VONB was up 18% YoY (CER) to US\$4.7bn in FY24, with 2H/4Q growth cooled to +13%/+9% YoY (CER) due to the slowdown of AIA China in 4Q24 (2H: -0.2%/4Q: est. double-digit decline). VONB of AIA HK and AIA China was up 23%/20% YoY (CER) to US\$1.8bn/US\$1.2bn, making up 35%/24% of total VONB. For AIA HK, MCV and domestic segments rose 22%/24% YoY showing resilient rebounds on top of a high base in FY23. Agency and partnership VONB was up 23%/25% YoY. AIA China revised down the long-term investment return assumption due to prolonged low interest rates in FY24 (CNGB10YR down to 1.68% by end-FY24 vs year-start: 2.57%). The like-for-like VONB growth could be higher than the headline growth of 20%. With an aim to expand to 1-2 provinces annually unchanged, we remain positive on AIA China's VONB upside for its enhanced economies of scale. AIA ASEAN sustained the strong momentum, where VONB of SG/TH/MY grew 15%/15%/10% YoY (CER). In 2025, we expect Group VONB to rise 14% (CER).

■ **OPAT per share achieved 9-11% target; steady capital generation.** Group OPAT grew 7% YoY (CER) to US\$6.6bn, with OPAT per share up 12% to US\$0.6, thanks to continued share buybacks that reduced share count by 4%. Operating ROE was up 1.3pct YoY (AER) to 14.8%, driven by 1) profitable new business layering, where new business CSM (+11%) was 36% higher than CSM release to P/L (+7%); and CSM balance increased 9.1% YoY; 2) robust expected return on the in-force book (+9%); 3) stabilizing net investment results. Shareholder capital ratio was 236%, comfortably above the 200% guidance. In FY25E, we expect the net FSG to be US\$4.0bn after incl. 10% increase of total dividends and US\$1.6bn buybacks with free surplus balance at US\$11.9bn.

■ **Valuation.** The stock is trading at 1.12x FY25E P/EV, near historical trough (vs 3yr/5yr avg. at 1.3x/1.5x), with FY24-26E operating ROE remaining at ~16%. We are positive on the insurer's VONB prospects, driven by expansions in mainland China, robust WM demands in HK/SG, and VONB acceleration of TATA AIA Life. **Reiterate BUY, with TP adjusted to HK\$89.0, implying 1.60x FY25E P/EV.**

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
OPAT (US\$ mn)	6,213	6,605	6,823	7,425	8,122
Operating EPS (US\$)	0.54	0.60	0.66	0.73	0.82
Consensus EPS (US\$)	n.a	n.a	0.66	0.74	0.76
P/EV (x)	1.3	1.2	1.1	1.0	0.9
Dividend yield (%)	2.6	2.9	3.1	3.5	3.8
Operating ROE (%)	14.5	16.2	15.8	15.0	14.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$89.00
(Previous TP)	HK\$94.00)
Up/Downside	43.1%
Current Price	HK\$62.20

China Insurance

Nika MA

(852) 3900 0805

nikama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	663,460.0
Avg 3 mths t/o (HK\$ mn)	2,086.4
52w High/Low (HK\$)	74.55/46.00
Total Issued Shares (mn)	10832.0

Source: FactSet

Shareholding Structure

Bank of New York Mellon Corp.	10.0%
JPMorgan Chase & Co.	7.9%

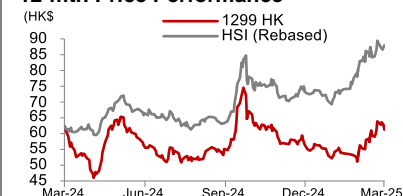
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	8.8%	2.7%
3-mth	8.4%	-9.6%
6-mth	11.7%	-19.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. AIA Group (1299 HK) - FY24 preview: OPAT back to growth trajectory; resilient VNB despite modest slowdown in 2H ([link](#))

2. AIA Group (1299 HK) - FY23 VNB +33% in line; strong MCV momentum sustained to 1-2M24, Mar 18, 2024 ([link](#))

3. AIA Group (1299 HK) - AIA Group Ltd. (1299 HK) - 1H24 VNB beat with margin recovery; expect total >US\$7bn cash returns to shareholders in FY24, Aug 26, 2024 ([link](#))

Key risks: 1) significant slowdown in HK/China new sales volumes; 2) slower-than-expected free surplus generation that affects the Group capital generation; and 3) prolonged financial market and geopolitical volatilities across Asia ex-Japan markets etc.

Valuation

Considering investment fluctuations and VONB divergence across geographic markets, we slightly revised down the OPAT per share by 1.5%/3.3% in FY25E/FY26, and VONB by 4%/6% in FY25E/FY26E.

We adopt P/EV vs RoEV based on Gordon Growth Model and Appraisal Value Approach for the valuation of AIA, considering the insurer's proposition as a mature pan-Asian leader across the Asia ex-Japan geographies. We derive our new 12-month forward price target at HK\$89.0 (prev. HK\$94), by taking the weighted average of two methods on a pro-rata basis of time. The new TP implies 1.60x FY25E P/EV vs. trading at 1.12x FY25E P/EV. The price target derived from the P/EV vs RoEV approach is HK\$54 and from Appraisal value approach is HK\$120.

For P/EV vs RoEV method, we apply the weighted average risk-free rate at 4.4% (i.e. avg. risk-free rate across operating geographies), a risk premium of 550bps, a beta of 1.5x, and 2% terminal growth rate. For the appraisal value approach, we apply the risk discount rate (RDR) of 9.1%, a long-term investment return of 8.6%, and 2% terminal growth rate.

The new TP implies 1.60x FY25E P/EV vs. trading at 1.12x FY25E P/EV, with 43% upside.

P/EV vs RoEV approach based on Gordon Growth Model			
	2025E	2026E	2027E
Required return	10.0%	10.0%	10.0%
Risk-free rate	4.4%	4.4%	4.4%
Risk premiums	5.5%	5.5%	5.5%
Beta (x)	1.5x	1.5x	1.5x
COE	12.6%	12.6%	12.6%
RoEV (3-year forward)	12.3%	12.5%	12.7%
Terminal growth rate	2.0%	2.0%	2.0%
P/EV multiple (x)	0.97	0.99	1.01
EV	72,732	77,494	83,302
Total value (US\$ mn)	70,501	76,578	83,889
No. of shares outstanding	10,171	9,936	9,723
Fair value (US\$)	6.93	7.71	8.63
USD/HKD	7.80	7.80	7.80
Fair value (HK\$)	54.1	60.1	67.3

Source: CMBIGM estimates

Appraisal value approach	2025E	2026E	2027E	Terminal value
EV (US\$ mn)	72,732	77,494	83,302	
VNB (US\$ mn)	5,325	6,068	6,941	
Forecast Period	1	2	3	4
Risk discount rate (RDR)	9.1%	9.1%	9.1%	9.1%
Long-term investment return assumption	8.6%	8.6%	8.6%	8.6%
Discount factor	91.6%	91.2%	90.8%	71.9%
VNB growth%	13.0%	14.0%	14.4%	2.0%
VNB multiplier (x)	15.6x			
Target valuation (US\$ mn)	156,027	172,409	191,869	
No. of shares outstanding	10,171	9,936	9,723	
Fair value (US\$)	15.3	17.4	19.7	
USD/HKD	7.8	7.8	7.8	
Fair value (HK\$)	119.6	135.3	153.9	
12-month forward price target (HK\$)	89.0			
Implied P/EV (x)	1.60x			

Source: CMBIGM estimates

Appraisal value: New business multiplier (NBM) sensitivity analysis

		Terminal growth (%)										
		-0.50%	0.00%	0.50%	1.00%	1.50%	2.0%	2.50%	3.00%	3.50%	4.00%	4.50%
Discount rate (g)	5.6%	19.3x	21.0x	23.0x	25.5x	28.6x	32.5x	37.6x	44.7x	55.2x	72.1x	104.0x
	6.1%	17.7x	19.2x	20.8x	22.8x	25.3x	28.3x	32.2x	37.3x	44.3x	54.7x	71.4x
	6.6%	16.4x	17.6x	19.0x	20.6x	22.6x	25.0x	28.0x	31.9x	36.9x	43.9x	54.1x
	7.1%	15.2x	16.2x	17.4x	18.8x	20.5x	22.4x	24.8x	27.8x	31.6x	36.6x	43.5x
	7.6%	14.1x	15.0x	16.1x	17.3x	18.6x	20.3x	22.2x	24.6x	27.5x	31.3x	36.2x
	8.1%	13.2x	14.0x	14.9x	15.9x	17.1x	18.5x	20.1x	22.0x	24.4x	27.3x	31.0x
	8.6%	12.4x	13.1x	13.9x	14.8x	15.8x	16.9x	18.3x	19.9x	21.8x	24.1x	27.0x
	9.1%	11.7x	12.3x	13.0x	13.8x	14.6x	15.6x	16.8x	18.1x	19.7x	21.6x	23.9x
	9.6%	11.0x	11.6x	12.2x	12.9x	13.6x	14.5x	15.5x	16.6x	18.0x	19.5x	21.4x
	10.1%	10.4x	10.9x	11.5x	12.1x	12.8x	13.5x	14.4x	15.4x	16.5x	17.8x	19.4x
	10.6%	9.9x	10.3x	10.8x	11.4x	12.0x	12.6x	13.4x	14.3x	15.2x	16.4x	17.7x
	11.1%	9.4x	9.8x	10.2x	10.7x	11.3x	11.9x	12.5x	13.3x	14.1x	15.1x	16.2x
	11.6%	9.0x	9.3x	9.7x	10.2x	10.6x	11.2x	11.8x	12.4x	13.2x	14.0x	15.0x
	12.1%	8.5x	8.9x	9.2x	9.6x	10.1x	10.5x	11.1x	11.7x	12.3x	13.1x	13.9x
	12.6%	8.2x	8.5x	8.8x	9.2x	9.6x	10.0x	10.5x	11.0x	11.6x	12.2x	12.9x

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Insurance revenue	16,319	17,514	19,314	21,309	23,718	26,521
Contracts not measured under PAA:	14,524	15,107	16,361	17,766	19,466	21,418
Contracts measured under PAA	1,795	2,407	2,953	3,544	4,252	5,103
Insurance service expenses	(10,434)	(12,104)	(13,205)	(14,594)	(16,253)	(18,179)
Contracts not measured under PAA:	(8,869)	(9,775)	(10,256)	(11,138)	(12,106)	(13,202)
Contracts measured under PAA	(1,565)	(2,329)	(2,949)	(3,456)	(4,147)	(4,977)
Net expenses from reinsurance contracts held	(419)	(286)	(418)	(460)	(506)	(556)
Insurance service results	5,466	5,124	5,691	6,256	6,959	7,785
Net finance (expenses)/income from insurance contracts	31,122	(10,512)	(6,743)	(10,386)	(12,000)	(13,555)
Net investment results	3,597	3,581	3,528	3,292	3,369	3,413
Other expenses	(1,512)	(1,451)	(1,439)	(1,482)	(1,527)	(1,572)
Other results	(1,438)	(1,472)	(1,455)	(1,499)	(1,544)	(1,590)
Operating profit before tax	7,504	7,235	7,751	8,036	8,771	9,594
Income taxes	(1,050)	(1,007)	(1,119)	(1,185)	(1,316)	(1,439)
Operating profit after tax	6,454	6,228	6,632	6,851	7,455	8,155
Operating profit attributable to shareholders	6,421	6,213	6,605	6,823	7,425	8,122
Net profit	3,365	3,781	6,853	6,712	7,280	7,941
Net profit attributable to shareholders	3,331	3,764	6,836	6,696	7,262	7,922

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
ASSETS						
Intangible assets	3,277	3,615	3,478	3,548	3,619	3,692
Investments in associates and joint ventures	2,056	1,331	1,710	1,779	1,851	1,926
Property	2,844	4,058	4,447	4,536	4,628	4,721
Investment property	4,600	4,504	4,570	4,755	4,947	5,147
Insurance contract assets	2,037	1,457	972	1,021	1,072	1,125
Reinsurance contract assets	5,763	6,047	5,730	6,017	6,317	6,633
Financial investments:	232,711	248,958	272,151	294,547	321,890	348,361
At amortized cost:	6,353	5,888	6,169	6,677	7,296	7,896
At fair value through other comprehensive income:	86,060	88,612	98,289	106,377	116,253	125,813
At fair value through profit or loss:	140,298	154,458	167,693	181,493	198,341	214,651
Deferred tax assets	229	301	549	560	571	583
Current tax recoverable	117	207	219	223	228	232
Other assets	4,524	4,316	3,527	3,598	3,670	3,744
Cash and cash equivalents	8,020	11,525	8,101	8,762	9,568	10,349
Assets in disposal group held for sale	4,293	0	0	0	0	0
Total assets	270,471	286,319	305,454	329,345	358,361	386,512
LIABILITIES						
Insurance contract liabilities	181,851	203,271	221,412	241,187	263,383	288,021
Investment contract liabilities	9,092	9,170	6,967	7,681	8,468	9,336
Borrowings	11,206	11,800	13,329	14,695	16,201	17,862
Obligations under repurchase agreements	1,748	3,461	4,616	4,802	4,997	5,198
Derivative financial instruments	8,638	8,035	8,615	8,963	9,325	9,702
Provisions	153	174	202	210	219	227
Deferred tax liabilities	3,409	3,204	4,116	4,282	4,455	4,635
Current tax liabilities	467	387	220	229	238	248
Other liabilities	4,264	4,887	4,909	475	(2,466)	(11,532)
Liabilities in disposal group held for sale	4,111	0	0	0	0	0
Total liabilities	225,323	244,725	264,641	282,803	305,124	324,030
EQUITIES						
Share capital	14,171	14,176	14,183	14,192	14,201	14,212
Retained profits	46,499	44,333	44,691	46,741	49,429	54,330
Total shareholders' equity	44,672	41,111	40,490	46,137	52,743	61,892
Non-controlling interests	476	483	323	405	494	591
Total equity	45,148	41,594	40,813	46,542	53,237	62,482
Total liabilities & equity	270,471	286,319	305,454	329,345	358,361	386,512

PER SHARE DATA	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
DPS (US\$)	0.20	0.21	0.22	0.25	0.27	0.30
EPS (Reported) (US\$)	0.54	0.54	0.60	0.66	0.73	0.82
Diluted EPS (US\$)	0.54	0.54	0.60	0.66	0.73	0.82
Consensus EPS (US\$)	n.a	n.a	n.a	0.66	0.74	0.76
Group embedded value/share (US\$)	5.85	5.92	6.38	7.15	7.80	8.57
VNB/share (US\$)	0.26	0.36	0.44	0.53	0.62	0.72
No. of shares basic (mn)	11,781	11,399	10,832	10,171	9,936	9,723
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Operating return on equity (Operating ROE)	12.8%	14.5%	16.2%	15.8%	15.0%	14.2%
Operating RoEV	9.0%	13.0%	14.9%	15.5%	16.2%	16.9%
VNB margin (APE basis)	57.0%	52.6%	54.5%	55.6%	56.7%	57.6%
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/Embedded value (x)	1.3	1.3	1.2	1.1	1.0	0.9
P/B (x)	2.1	2.2	2.1	1.8	1.5	1.3
Dividend yield (%)	2.5	2.6	2.9	3.1	3.4	3.7
Dividend payout (%)	36.6	38.4	37.7	37.7	37.1	36.5

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

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CMB International Global Markets Limited

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

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