

China Pacific Insurance (2601 HK)

Steadfast moves in face of difficulties

CPIC announced 1Q20 financial results. GWP increased 2.2% YoY, among which life -1.1% while P&C +10.4%. Net profit rose 53.1% YoY to RMB 8.39bn thanks to an increase in investment income and reduction in underwriting cost. The Group's life business was under pressure in 1Q like peers. However, improving agent quality during the past and orientation towards value creation bode well for business recovery in 2Q and onward.

- Result highlights.** 1) Robust investment performance. Although capital market volatilities incurred fair value loss of RMB 83mn on trading securities vs. RMB 1.07bn positive gain in the same period last year, we believe realized gains on equity securities as well as dividend and interest income remained robust to boost net profit. Net investment yield and total investment yield recorded 4.2%/4.5%, down 20bp/10bp YoY, respectively. 2) P&C premium growth increased 32.5% for non-automobile insurance since the Company accelerated online sales and services and developed innovative health and liability insurance to capture demand.
- Result negatives mainly involved life business growth**, which decelerated more than expected. Individual channel FYP declined 31.1% while FYRP dropped 37.7%. The Company did not announce NBV growth in 1Q report. However, since NBV margin may go down a bit due to product mix shifting towards shorter term during the onset of COVID-19, we estimate NBV decline in 1Q20 could be worse than FYRP decline. We expect with the containment of COVID-19, life FYRP growth will gradually resume in 2Q.
- Increased shareholding by Shanghai SASAC.** The third largest shareholder of the Company, Shanghai State-owned Assets Operation Co., Ltd. has accumulated 42.3 million shares during 1Q20, increasing its shareholding from 5.58% to 6.05%, after Shenergy Group (14.64%) and Hwabao Investment (14.17%). This move indicated Shanghai SASAC's confidence in CPIC over the long run. We also believe the Group will be able to embrace more opportunities arising from Shanghai's SOE reform and integration of the Yangtze River Delta Region.
- Reiterate BUY.** We maintain financial forecasts and TP unchanged. The stock has rebounded over 23% since our previous update on 23 Mar. The H-share is now trading at 0.46x FY20E P/EV, which we think has priced in the worst 1Q. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	321,895	347,517	358,220	378,698	397,616
YoY growth (%)	14.3	8.0	3.1	5.7	5.0
Total income (RMB mn)	353,103	382,682	392,272	413,893	433,226
Net profit (RMB mn)	18,019	27,741	29,546	31,063	32,465
EPS (RMB)	1.99	3.06	3.26	3.43	3.58
Consensus EPS (RMB)	N.A.	N.A.	2.75	3.09	3.49
YoY Growth (%)	22.90	53.95	6.51	5.13	4.51
P/B (x)	1.30	1.09	0.98	0.89	0.81
P/EV (x)	0.58	0.49	0.46	0.41	0.38
Yield (%)	4.64	5.57	5.93	6.24	6.52
ROE (%)	12.55	16.92	15.69	14.90	14.14

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$33.93
(Previous TP)	HK\$33.93)
Up/Downside	+41.4%
Current Price	HK\$24.00

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	262,204
Avg 3 mths t/o (HK\$ mn)	497.34
52w High/Low (HK\$)	34.75/ 17.9
Total Issued Shares (mn)	2,775 (H)
	6,287 (A)

Source: Bloomberg

Shareholding Structure

Shenergy (Group)	14.64%
Fortune Investment	14.17%

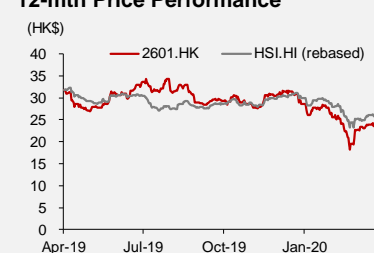
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.5%	4.1%
3-mth	-16.1%	-1.6%
6-mth	-18.2%	-8.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "Prepared for headwinds" – 23 Mar 2020
- "Margin priority may compensate FYRP decline" – 31 Oct 2019
- "Potential GDR unlocks global access" – 24 Sep 2019
- "Lackluster life but improving P&C" – 26 Aug 2019

Figure 1: CPIC's 1Q20 results summary

(RMB mn)					
P&L	1Q20	1Q19	YoY	4Q19	QoQ
Gross written premiums	131,148	128,386	2.2%	60,700	116%
Net premiums earned	117,067	115,833	1.1%	54,972	113%
Investment income	19,913	16,412	21.3%	17,990	11%
Total income	138,022	132,949	3.8%	74,180	86%
Insurance benefits and claim expenses	(101,486)	(97,323)	4.3%	(46,379)	119%
Underwriting costs	(12,218)	(15,638)	-21.9%	(9,581)	28%
G&A expenses	(9,926)	(9,416)	5.4%	(10,939)	-9%
Total expenses	(127,416)	(125,398)	1.6%	(71,394)	78%
Associates and JVs	184	213	-13.6%	107	72%
Pre-tax profit	10,824	7,764	39.4%	5,021	116%
Income tax	(2,234)	(2,165)	3.2%	(59)	3686%
Less: Minority interests	(202)	(120)	68.3%	(135)	50%
Net profit	8,388	5,479	53.1%	4,827	74%
B/S	1Q20	1Q19	YoY	4Q19	QoQ
Total assets	1,611,323	1,425,015	13.1%	1,528,333	5.4%
Insurance contracts liabilities	1,143,897	995,169	14.9%	1,068,021	7.1%
Total liabilities	1,420,404	1,258,263	12.9%	1,345,013	5.6%
Equity attributable to shareholders	185,925	162,090	14.7%	178,427	4.2%
Key indicators	1Q20	1Q19	YoY	4Q19	QoQ
Life GWP (RMB mn)	91,873	92,852	-1.1%	26,634	244.9%
Life FYRP from agency channel (RMB mn)	9,665	15,523	-37.7%	3,365	187.2%
P&C GWP (RMB mn)	39,044	35,366	10.4%	32,523	20.1%
Auto insurance GWP (RMB mn)	23,524	23,652	-0.5%	25,771	-8.7%
Non-auto insurance GWP (RMB mn)	15,520	11,714	32.5%	6,752	129.9%
Net investment yield	4.20%	4.40%	-20 bps	n/a	n/a
Gross investment yield	4.50%	4.60%	-10 bps	n/a	n/a
Key indicators	1Q20	1Q19	YoY	4Q19	QoQ
Group investment assets (RMB mn)	1,482,004	1,307,780	13.3%	1,419,263	4.4%
Comprehensive solvency ratio - Life	254.0%	263.0%	-9 ppt	256.8%	-2.8 ppt
Comprehensive solvency ratio - P&C	290.0%	303.9%	-13.9 ppt	292.6%	-2.6 ppt

Source: Company data, CMBIS

Financial Summary

Income

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Gross written premium	321,895	347,517	358,220	378,698	397,616
Incl: Life GWP	202,414	212,514	216,357	222,585	227,242
P&C GWP	117,808	132,979	141,863	156,114	170,374
Net premiums earned	299,724	313,246	320,415	337,458	352,926
Investment income	49,999	65,730	68,066	72,442	76,125
Total income	353,103	382,682	392,272	413,893	433,226
Insurance claims and reserves	(226,444)	(260,850)	(255,816)	(269,394)	(281,504)
Other operating expenses	(98,986)	(94,360)	(96,166)	(101,552)	(106,526)
Total expenses	(325,430)	(355,210)	(351,982)	(370,946)	(388,030)
Associates and JVs	335	494	519	545	572
Pre-tax profit	28,008	27,966	40,809	43,492	45,768
Income tax	(9,574)	388	(10,610)	(11,743)	(12,586)
Less: Minority interests	(415)	(613)	(653)	(686)	(717)
Net profit	18,019	27,741	29,546	31,063	32,465

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Group (%)					
Total GWP growth	14.3	8.0	3.1	5.7	5.0
Total income growth	10.6	8.4	2.5	5.5	4.7
Net profit growth	22.9	54.0	6.5	5.1	4.5
EV growth	17.5	17.8	8.3	9.8	-
Net investment yield	4.9	4.9	4.3	4.3	4.2
Total investment yield	4.6	5.4	4.6	4.4	4.2
Investment assets growth	14.1	15.1	10.8	9.5	8.3
Life (%)					
GWP growth	15.3	5.0	1.8	2.9	2.1
Agent FYRP growth	(9.7)	(22.4)	(16.1)	12.9	9.2
NBV growth	1.5	(9.3)	(8.8)	15.7	11.9
NBV margin (NBV/agent APE)	63.2	73.1	78.6	80.3	82.0
Life comprehensive solvency	260.8	256.8	276.8	275.4	275.2
P&C (%)					
GWP growth	12.6	12.9	6.7	10.0	9.1
Auto GWP/total P&C	74.7	70.1	66.4	63.3	60.3
Loss ratio	56.3	60.2	59.5	59.3	59.2
Expense ratio	42.1	38.1	39.2	39.0	39.0
Combined ratio	98.4	98.3	98.7	98.3	98.2
P&C comprehensive solvency	305.9	292.6	176.1	161.9	146.6
Returns (%)					
Life RoEV	24.7	23.1	14.8	14.8	14.6
P&C ROE	10.0	16.6	14.9	13.5	12.9
Per share					
EPS (RMB)	1.99	3.06	3.26	3.43	3.58
DPS (RMB)	1.00	1.20	1.28	1.34	1.40
EVPS (RMB)	37.09	43.70	47.33	51.99	57.00
BVPS (RMB)	16.51	19.69	21.87	24.15	26.52

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Investment assets	1,233,222	1,419,263	1,572,314	1,721,764	1,864,617
other assets	102,737	109,070	118,319	133,449	152,920
Total assets	1,335,959	1,528,333	1,690,633	1,855,213	2,017,537
Insurance liabilities	981,926	1,143,527	1,278,304	1,411,282	1,541,006
Subordinated debt & others	199,985	201,486	208,294	218,603	228,972
Total liabilities	1,181,911	1,345,013	1,486,598	1,629,884	1,769,977
Shareholders' equity	149,576	178,427	198,218	218,804	240,296
Minority interest	4,472	4,893	5,817	6,524	7,264
Total equity	154,048	183,320	204,035	225,328	247,560

Source: Company data, CMBIS estimates

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