

AIA Group Ltd. (1299 HK)

1H24 VNB beat with margin recovery; expect total >US\$7bn cash returns to shareholders in FY24

The pan-Asian insurer disclosed 1H24 results with robust VNB growth of +25% YoY (CER basis) to US\$2,455mn, beating our estimate and Bloomberg consensus by 1.4%/1.4%, driven by a sequential rebound of VNB margin by +4.5pct YoY (CER basis, *CMBI* est.) in 2Q24, on top of a 2.1pct YoY (CER basis) increase in 1Q24. We see continued margin recovery in HK and mainland China by +8.8pct/+6.4pct YoY (CER basis) to 65.7%/56.6% in 1H24 (vs 1Q24: 64.3%/54.6%), leading to a solid VNB increase by +26%/+36% YoY (CER basis), making up 67% of total VNB. Group OPAT and OPAT per share was +7%/+10% YoY (CER basis) in 1H24, contributing to an improved operating ROE at 15.3% (+1.4pct YoY). We regard this output as a derivative of the Group's capital mgt. program launched in April 2024, which poised for an improved ROE through new business accretion and in-force mgt. to drive growth in free surplus, and back for enhanced shareholders' returns. The company guided a three-year OPAT per share CAGR at 9-11% in FY23-26E, signalling a mid-term earnings growth prospect to support underlying free surplus generation (UFSG), and successive S/H returns amounted to US\$7.13bn (*CMBI* est) in FY24. Looking ahead, we expect 1) product mix will continue to drive VNB margin increase since the proportion of par products in AIA China is still enjoying room for improvement (1H24: 10% of AIA China VNB); and 2) Group's strong capital position will buttress S/H returns given an est. US\$2.9bn total payout target (75% of NFSG) in FY24e. Reiterate BUY, with TP at HK\$94.0, implying 1.85x FY24E P/EV.

■ **AIA HK and China saw margin recovery.** VNB margin decline in AIA HK and AIA China was a key concern lingering in market after 1H23 earnings release. We see sequential margin rebounds in AIA HK and AIA China to 65.7%/56.6% in 1H24, +8.8pct/+6.4pct YoY (CER basis), on top of levels at 64.3%/54.6% in 1Q24, underpinning robust VNB growth of these two markets by +26%/+36% YoY (CER basis). For AIA China, margin expansion was driven by both product and channel mix. Agency VNB grew 20% YoY, making up 84% of total VNB backed by >60% margin, thanks to a mix of traditional protections, private pension and retirement, other long-term savings and participating products at 45%/25%/17%/10%. Bancassurance VNB margin was >40% given a selective strategy on HNWL clients. AIA HK saw resilient MCV and domestic VNB growth by +24%/28% YoY in 1H24. Looking ahead, we expect to see higher proportion of VNB from par products in China, as recent pricing interest rate cut for traditional protections to 3.0% will likely give rise to a shift from traditional life to participating, in our view.

■ **OPAT per share CAGR target at 9%-11% in mid-term.** In 1H24, Group's OPAT per share was +10% YoY (CER basis) to US\$30.18, driven by +10% YoY in CSM release to US\$ 2.8bn and more efficient operating variances by +58% YoY to US\$71mn. Operating ROE rose to 15.3%, up from 13.5% in FY23, thanks to solid new business growth. The insurer guided a 9%-11% CAGR for OPAT per share in FY23-26E, which implied a sustainable mid-term growth prospect on dividends, in our view, as the payout is based on operating profit. The interim dividend was US\$0.445 per share, +5.2% YoY, with a full-year payout to 38.5% (*CMBI* est).

■ **Expect US\$7.13bn shareholder returns in FY24.** The Group's net free surplus generation was US\$2.2bn, +9% YoY (CER basis) in 1H24. Successive new business layers continue to grow UFSG and pave way for total S/H returns. We expect the pro-forma FY24 S/H returns to reach US\$7.13bn, incl. 1) US\$1.71bn FY23 final dividends; 2) US\$1.67bn 1H24 share buybacks; 3) US\$0.64bn interim dividends and 4) remaining US\$3.12bn of total US\$12bn buyback program due in April 2025, equivalent to 8.5% of market cap. We look positive on AIA's strong capital position to boost long-term shareholder returns in addition to fundamental.

■ **Valuation:** The stock is trading at 1.07x FY24E P/EV, below 1-std of 5-year avg. We remain positive on the Group's organic growth and sustained focus on S/H returns backed by strong capital position. We revised our price target to HK\$94.0 (last: HK\$96.5) based on appraisal value approach, implying 1.85x FY24 P/EV. Changes mainly reflect exp. movements in bond yields and forex. Reiterate BUY.

BUY (Maintain)

Target Price **HK\$94.00**
 (Previous TP) HK\$96.50
Up/Downside **72.6%**
Current Price **HK\$54.45**

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Stock Data

Mkt Cap (HK\$ mn)	620,675.6
Avg 3 mths t/o (HK\$ mn)	1,647.8
52w High/Low (HK\$)	73.80/46.00
Total Issued Shares (mn)	11399.0

Source: FactSet

Shareholding Structure

Bank of New York Mellon Corp.	10.0%
JPMorgan Chase & Co.	9.0%

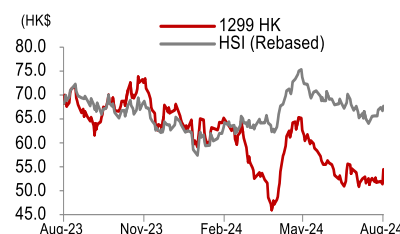
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.2%	1.2%
3-mth	-12.6%	-4.9%
6-mth	-16.7%	-21.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PwC

Recent Reports:

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

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating profit (US\$ mn)	6,421	6,213	6,555	7,153	7,952
Operating EPS (US\$)	0.54	0.54	0.59	0.66	0.75
Consensus Op. EPS (US\$)	n.a	n.a	0.58	0.65	0.74
P/Embedded value (x)	1.19	1.18	1.07	0.94	0.82
Dividend yield (%)	2.8	3.0	3.2	3.7	4.2
Operating ROE (%)	12.8	14.5	16.0	16.5	16.1

Source: Company data, Bloomberg, CMBIGM estimates

Changes in forecast and valuation

(US\$ mn, %)	Current			Previous			Change (% , pct)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
VNB	4,686	5,475	6,455	4,641	5,316	6,109	1.0%	3.0%	5.7%
VNB margin	54.2%	55.9%	57.5%	54.4%	55.4%	56.4%	-0.2 pct	0.5 pct	1.2 pct
ANP	8,625	9,785	11,219	8,489	9,497	10,648	1.6%	3.0%	5.4%
Group OPAT	6,555	7,153	7,952	6,559	7,156	7,922	-0.1%	0.0%	0.4%
EV	71,442	79,600	89,402	71,959	78,218	85,548	-0.7%	1.8%	4.5%
Operating ROE	16.0%	16.5%	16.1%	15.8%	16.5%	17.3%	0.3 pct	-0.1 pct	-1.2 pct
Operating ROEV	15.6%	16.7%	17.1%	14.4%	15.1%	15.6%	1.2 pct	1.6 pct	1.5 pct

Source: Company data, CMBIGM estimates

Pro-forma FY24E shareholder returns and capital ratio (%)

Pro-forma shareholder returns to reach US\$7.13bn

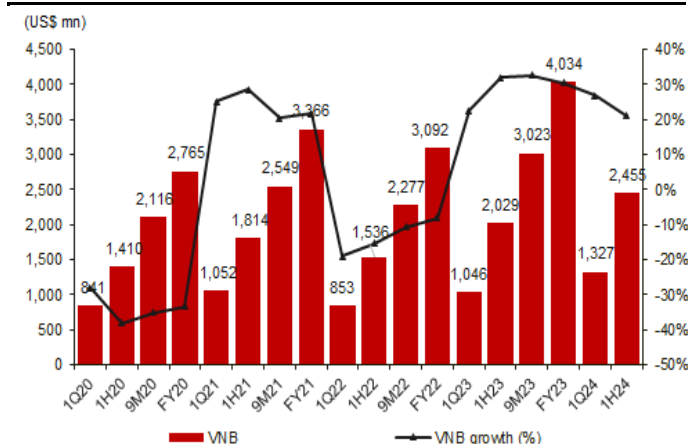
(US\$ mn, %)

FY23 final dividends (1)	1,705	
1H24 total share buybacks (2)	1,673	
1H24 interim dividends (3)	636	US\$44.50 cents per share
Total cash returns to S/H from dividends and buybacks	4,014	
US\$12bn buyback program excess capital (4)	3,120	
Pro-forma total cash returns to shareholder, FY24E	7,134	
Market cap (23/8/2024)	84,343	
<i>~ as a % to mkt cap</i>	<i>8.5%</i>	
FY23 total shareholder returns	5,930	
Pro-forma FY24 shareholder returns YoY%	20.3%	

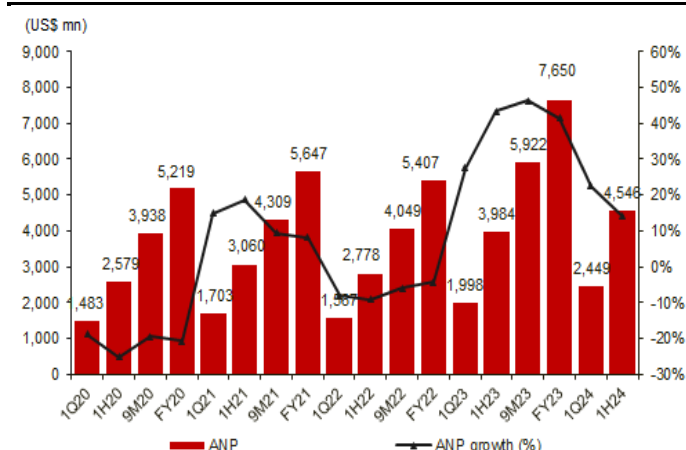
FY24 shareholder capital ratio (%)	Pro-forma estimate	1H24	FY23
S/H capital resources	37,020	40,140	40,847
Free surplus	11,440	14,560	16,329
Required capital	15,307	15,307	15177
Eligible Tier-2 debt capital	10,273	10,273	9341
Shareholder capital ratio (%)	241.9%	262.2%	269.1%

Source: Company data, Wind, CMBIGM estimates

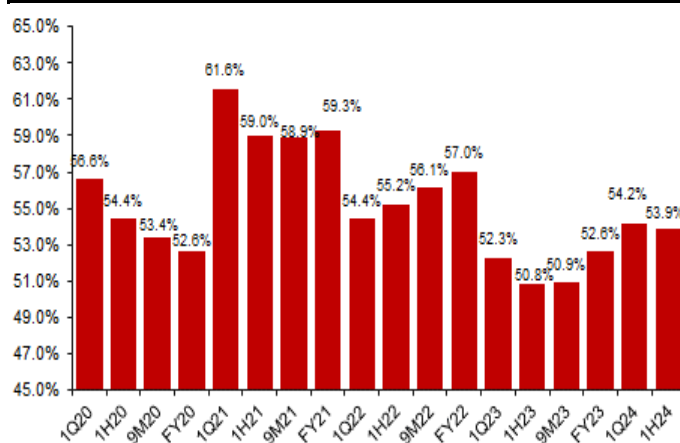
Focus Charts

Figure 1: AIA Group VNB and VNB YoY % (CER basis)


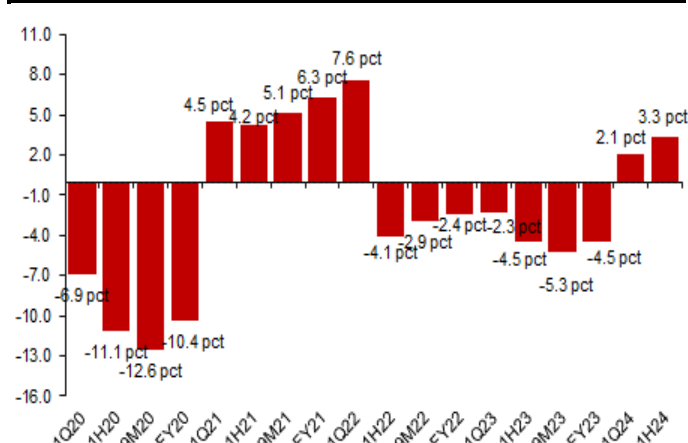
Source: Company data, CMBIGM estimates

Figure 2: AIA Group ANP and ANP YoY % (CER basis)


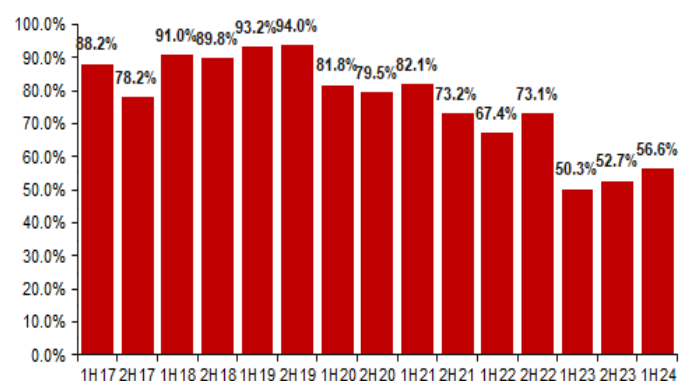
Source: Company data, CMBIGM estimates

Figure 3: AIA Group VNB margin, 1Q20-1H24


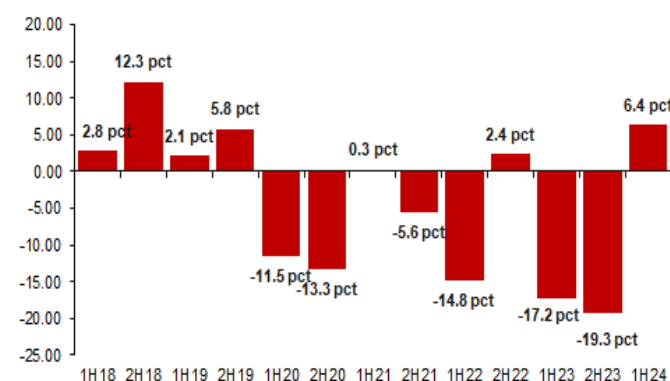
Source: Company data, CMBIGM estimates

Figure 4: AIA Group VNB margin chg. (CER basis)


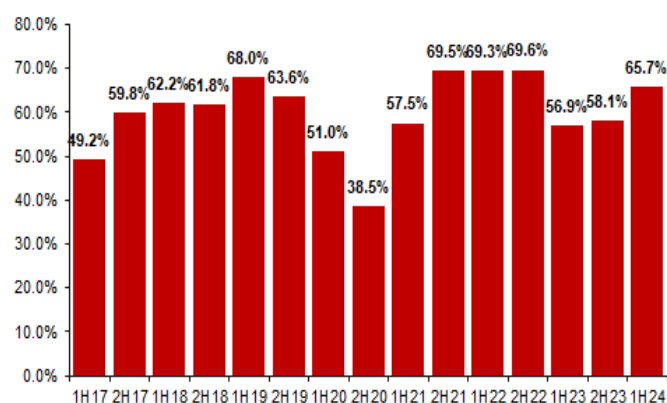
Source: Company data, CMBIGM estimates

Figure 5: AIA China VNB margin, 1H17-1H24


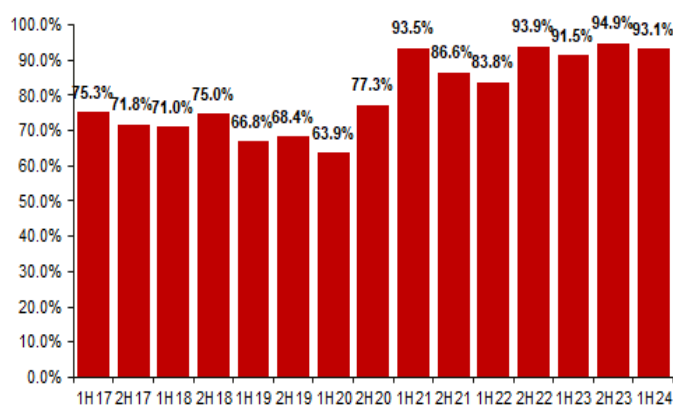
Source: Company data, CMBIGM estimates

Figure 6: AIA China VNB margin chg. (CER basis)


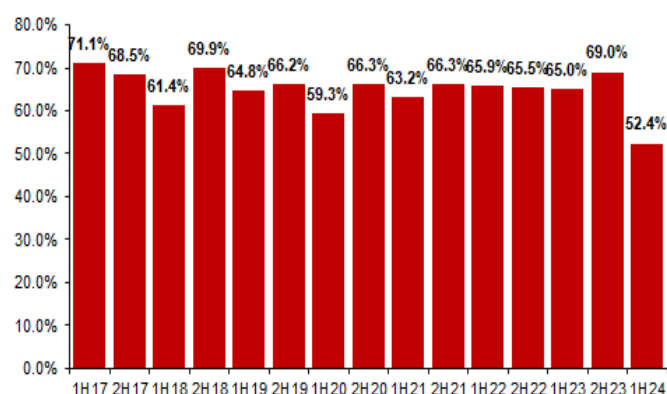
Source: Company data, CMBIGM estimates

Figure 7: AIA HK VNB margin, 1H17-1H24

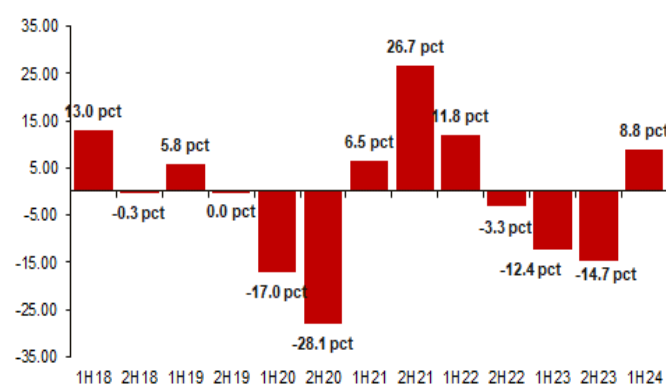
Source: Company data, CMBIGM estimates

Figure 9: AIA Thailand VNB margin, 1H17-1H24

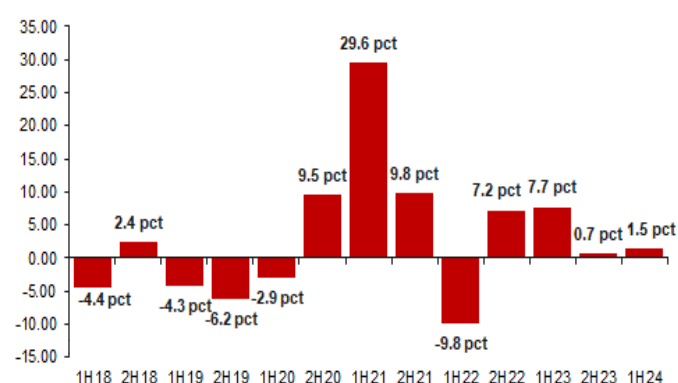
Source: Company data, CMBIGM estimates

Figure 11: AIA Singapore VNB margin, 1H17-1H24

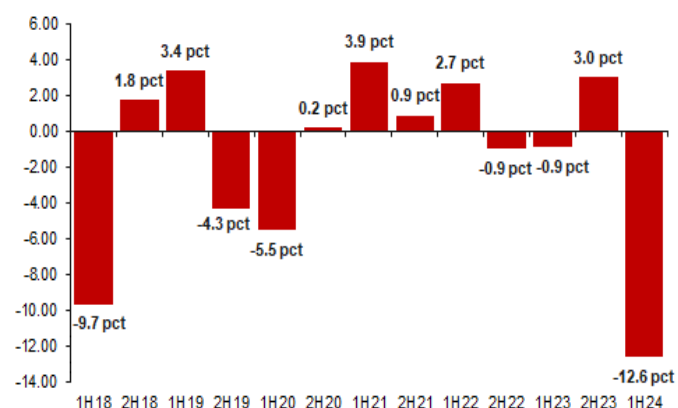
Source: Company data, CMBIGM estimates

Figure 8: AIA HK VNB margin chg. (CER basis)

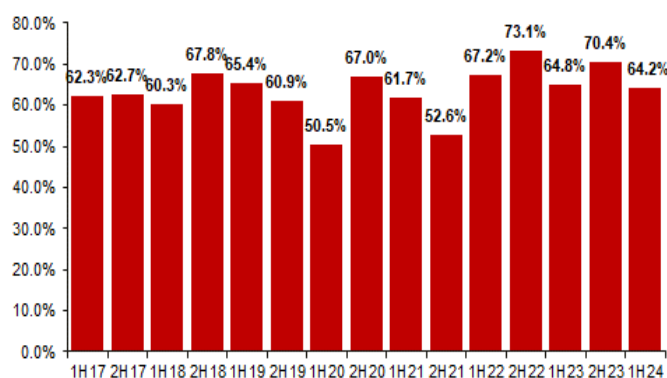
Source: Company data, CMBIGM estimates

Figure 10: AIA Thailand VNB margin chg. (CER basis)

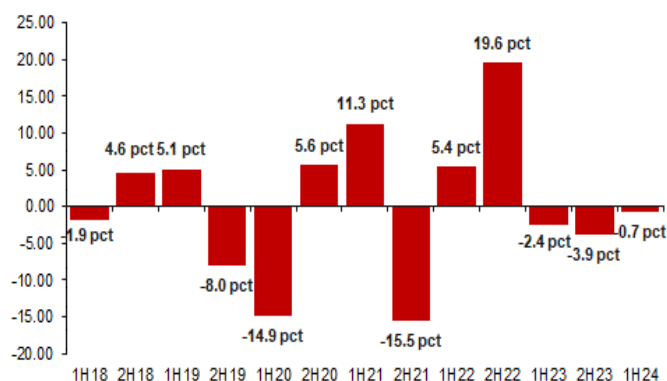
Source: Company data, CMBIGM estimates

Figure 12: AIA Singapore VNB margin chg. (CER basis)

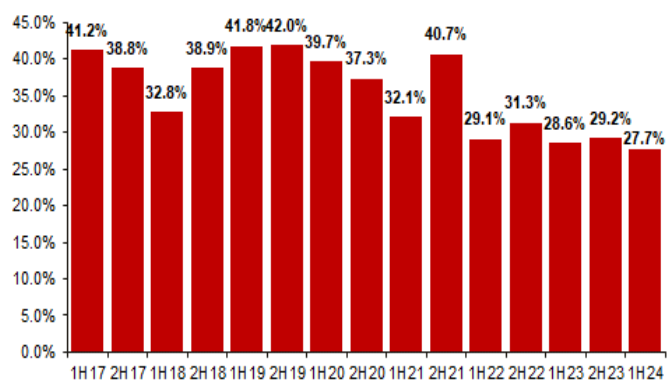
Source: Company data, CMBIGM estimates

Figure 13: AIA Malaysia VNB margin, 1H17-1H24

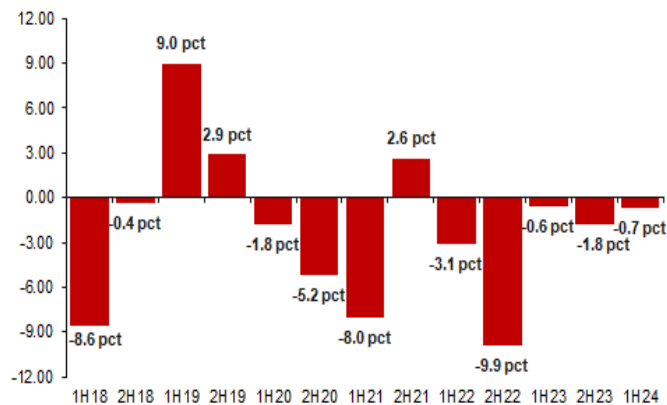
Source: Company data, CMBIGM estimates

Figure 14: AIA Malaysia VNB margin chg. (CER basis)

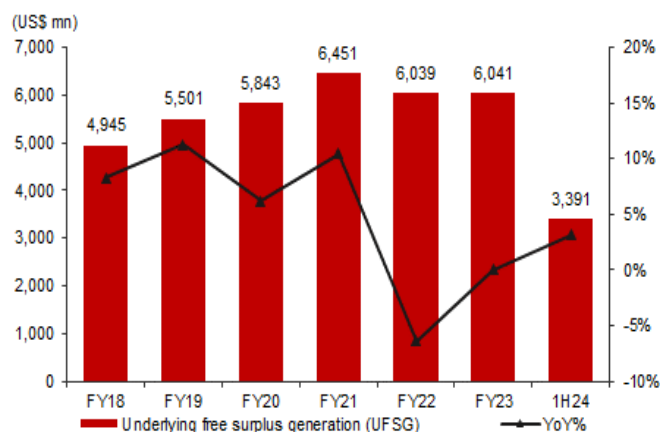
Source: Company data, CMBIGM estimates

Figure 15: AIA Other markets VNB margin, 1H17-1H24

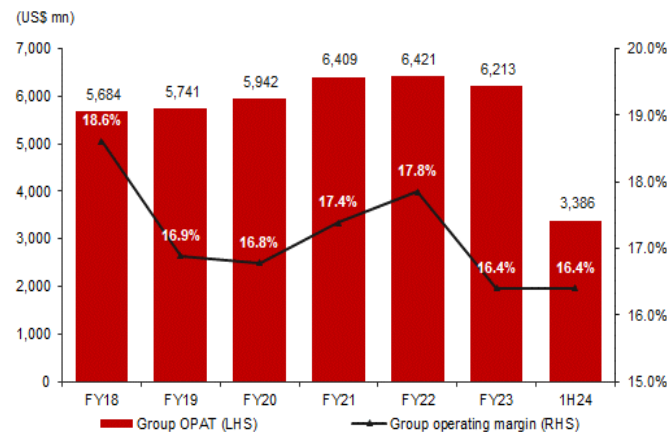
Source: Company data, CMBIGM estimates

Figure 16: AIA Other markets VNB margin chg. (CER basis)

Source: Company data, CMBIGM estimates

Figure 17: Group underlying free surplus & YoY%

Source: Company data, CMBIGM estimates

Figure 18: Group OPAT and operating margin (%)

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Insurance revenue		16,319	17,514	19,263	21,081	23,455
Contracts not measured under PAA		14,524	15,107	16,206	17,413	19,054
Contracts measured under PAA		1,795	2,407	3,056	3,668	4,401
Insurance service expenses		(10,434)	(12,078)	(13,221)	(14,512)	(16,053)
Contracts not measured under PAA		(8,869)	(9,775)	(10,209)	(10,897)	(11,715)
Contracts measured under PAA		(1,565)	(2,303)	(3,013)	(3,615)	(4,338)
Net expenses from reinsurance contracts held		(419)	(345)	(378)	(416)	(458)
Insurance service results		5,466	5,091	5,663	6,152	6,944
Net finance (expenses)/income from insurance contracts		31,122	(10,301)	(8,903)	(7,708)	(8,491)
Net investment results		3,597	3,792	3,657	3,825	4,110
Other expenses		(1,512)	(1,534)	(1,541)	(1,587)	(1,635)
Other results		(1,438)	(1,555)	(1,549)	(1,596)	(1,644)
Profit before tax		4,414	4,881	7,007	7,916	8,985
Income taxes		(689)	(783)	(986)	(1,124)	(1,356)
Net profit		3,364	3,779	5,923	6,734	7,576
Net profit attributable to shareholders		3,331	3,764	5,804	6,709	7,547

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
ASSETS						
Intangible assets	2,914	3,277	3,615	3,558	3,630	3,703
Investments in associates and joint ventures	831	2,056	1,331	1,568	1,631	1,697
Property	2,744	2,844	4,058	4,571	4,662	4,756
Investment property	4,716	4,600	4,504	4,507	4,689	4,879
Insurance contract assets	3,681	2,037	1,457	1,530	1,606	1,687
Reinsurance contract assets	6,436	5,763	6,047	6,349	6,667	7,000
Financial investments:	278,231	232,711	248,958	264,230	285,977	312,528
At amortized cost	6,910	6,353	5,888	6,249	6,764	7,391
At FVOCI	103,580	86,060	88,612	94,048	101,788	111,239
At FVTPL	167,741	140,298	154,458	163,933	177,425	193,898
Deferred tax assets	104	229	301	334	341	348
Current tax recoverable	120	117	207	194	198	202
Other assets	6,486	4,524	4,316	4,450	4,540	4,631
Cash and cash equivalents	4,989	8,020	11,525	9,684	10,475	11,438
Assets in disposal group held for sale	0	4,293	0	0	0	0
Total assets	311,252	270,471	286,319	300,976	324,416	352,869
LIABILITIES						
Insurance contract liabilities	217,773	181,851	203,271	217,846	234,216	252,469
Investment contract liabilities	13,896	9,092	9,170	9,598	10,582	11,666
Borrowings	9,588	11,206	11,800	12,519	13,802	15,217
Obligations under repurchase agreements	1,588	1,748	3,461	3,370	3,506	3,648
Derivative financial instruments	1,392	8,638	8,035	8,406	8,745	9,099
Provisions	186	153	174	176	184	191
Deferred tax liabilities	4,103	3,409	3,204	3,461	3,601	3,746
Current tax liabilities	389	467	387	403	419	436
Other liabilities	5,121	4,264	4,887	3,789	2,611	3,183
Liabilities in disposal group held for sale	0	4,111	0	0	0	0
Total liabilities	254,745	225,323	244,725	259,847	277,966	299,978
EQUITIES						
Share capital	14,160	14,171	14,176	14,183	14,190	14,198
Reserves	(7,134)	(15,998)	(17,398)	(17,638)	(14,299)	(10,663)
Retained profits	48,997	46,499	44,333	44,255	46,180	48,923
Total shareholders' equity	56,023	44,672	41,111	40,799	46,071	52,457
Non-controlling interests	484	476	483	330	379	434
Total equity	56,507	45,148	41,594	41,129	46,450	52,890
Total liabilities & equity	311,252	270,471	286,319	300,976	324,416	352,869

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	0.19	0.20	0.21	0.23	0.25	0.29
Operating EPS	0.53	0.54	0.54	0.59	0.66	0.75
Operating EPS (diluted)	0.53	0.54	0.54	0.59	0.66	0.75
Consensus EPS	n.a	n.a	n.a	0.58	0.65	0.74
Group embedded value/share (US\$)	6.03	5.85	5.92	6.51	7.44	8.54
VNB/share (US\$)	0.28	0.26	0.36	0.43	0.52	0.62
No. of shares basic	12,097	11,781	11,399	10,968	10,698	10,469
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Operating ROE	10.8%	12.8%	14.5%	16.0%	16.5%	16.1%
Operating ROEV	12.1%	9.0%	13.0%	15.6%	16.7%	17.1%
VNB margin (FYP APE basis)	59.3%	57.0%	52.6%	54.2%	55.9%	57.5%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)	1.2	1.2	1.2	1.1	0.9	0.8
P/B (x)	1.5	1.8	1.9	1.9	1.6	1.4
Dividend yield (%)	2.7	2.8	3.0	3.2	3.6	4.2
Dividend payout (%)	35.2	36.6	38.4	38.5	38.6	39.0

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

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SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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