

CPIC (2601 HK)

VNB growth accelerated; NP turned positive YoY

BUY (Maintain)

CPIC turned to positive VNB growth by +30.7% YoY in 1Q24, outpacing peers i.e. China Life / Ping An +26.3%/+20.7% YoY in the corresponding period ([link/link](#)). The strong VNB momentum was driven by margin expansion to an est.15.8%, +3.7pct YoY (*CMBI est*), and a slight increase in FYP by 0.4% YoY to RMB32.8bn ([Fig.3](#)). The Group's net profit to S/H grew by +1.1% YoY to RMB 11.8bn in 1Q24, surpassing peers being the first among listed CN insurers to realize positive net profit growth. We see the insurer's life underwriting focus reverted back to agency with the agency FYRP/FYSP +25.4%/+44.5% in 1Q24, whereas in 4Q23 was -3.6%/-53.6% YoY. These enhanced the rally in agency FYP by +31.3% YoY to RMB16.1bn, shifting from a -21% decline in 4Q23. Bancassurance was another story, still consuming impacts on the tightened oversight since last fall. The channel's FYP was -21.8% YoY in 1Q24, although narrowed from a -54.6% decline in 4Q23 ([Fig 3](#)). We view the improved first-quarter print a head of steam built-up upon the proceeding *Changhang Transformation*, which has been initiated in 2022. We think the regulatory impact on bancassurance will gradually fade out after the lacklustre 4Q23 & 1Q23 prints. For P&C, CoR dropped by -0.4pct to 98%, with premium rise driven by non-auto segment. We stay overweight on the insurer's resilience and think the effective chg. of *Changhang* could deliver strong efficiency gains over quarters. We adjust our TP to HK\$24.8, implying 0.4x FY24E P/EV.

■ **Life focus back to agency; banca to face high base in 2Q24.** Despite the bancassurance FYP cut by -21.8% YoY, the insurer managed to lifting total FYP by +0.4% YoY to RMB32.8bn, outweighing listed peers i.e. China Life/Ping An Life/New China Life's 1Q24 FYP was down by -4.4%/-13.6%/-45.0% YoY. The uptick was driven by a shift of focus back to agency, where the channel's FYRP/FYSP +25.4%/+44.5% YoY in 1Q24, pulling an FYP increase by +31.3% ([Fig.3](#)). VNB achieved better-than-expected growth by +30.7% to RMB 5.2bn, partially thanks to contracted proportions of bancassurance sales. We estimate the margin (FYP basis) rose to 15.8%, +3.7pct YoY in 1Q24. Given a high base of bancassurance biz since 2Q23, we think CPIC may persist on strengthening agent productivity and group insurance to balance out growth. Looking ahead, we expect more upside on the insurer's margin expansion given progressive advancement on Changhang, which addressed on quality growth and stabilized contributions from bancassurance as regulatory impact gradually bottomed out.

■ **1Q24 net profit turnaround; eyes on investment.** The insurer showed resilient profitability as the Group's net profit to S/H +1.1% YoY to RMB11.8bn in 1Q24, suggesting a turnaround after declines for three consecutive quarters since 2Q23 ([Fig.2](#)). The print topped main peers as China Life /Ping An/New China Life still entangled with a net profit decline by -9.3%/-4.3%/-28.6% YoY respectively in 1Q24. Net investment results slid by -26.1% YoY due to drops in net interest income (-5.9%) and investment income turning from RMB1.1bn gain in 1Q23 to RMB1.5bn loss in 1Q24, offsetting the fair value gain of +23.8%.

■ **New TP at HK24.8.** The stock is trading at FY24E 0.3x P/EV and 0.6x P/BV. We adjust our TP based on SOTP, with Life EV reflecting on sensitivity changes under the new actuarial assumptions (@9%, 4.5%) by end-23 ([Fig.1](#)). Maintain BUY. New price target implies 0.4x FY24E P/EV and 0.84x FY24E P/BV ([Fig.1](#)).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	38,222	27,911	32,225	33,907	36,760
EPS (Reported)(RMB)	2.56	2.83	3.30	3.48	3.77
Consensus EPS (RMB)	n.a	n.a	3.25	3.48	3.86
Group EV / share (RMB)	54.0	55.0	58.0	60.9	63.8
P/B (x)	0.7x	0.6x	0.6x	0.6x	0.5x
P/Embedded value (x)	0.3x	0.3x	0.3x	0.3x	0.3x
Dividend yield (%)	6.1	6.1	6.3	6.6	6.8
ROE (%)	12.6	12.2	12.4	12.4	12.5

Source: Company data, Bloomberg, CMBIGM estimates

Target Price **HK\$24.80**
 (Previous TP) HK\$29.72)
Up/Downside **37.8%**
Current Price **HK\$18.00**

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Stock Data

Mkt Cap (HK\$ mn)	173,166.1
Avg 3 mths t/o (HK\$ mn)	289.9
52w High/Low (HK\$)	25.85/12.92
Total Issued Shares (mn)	9,620.3

Source: FactSet

Shareholding Structure

Schroders PLC	8.8%
JPMorgan Chase & Co.	7.3%

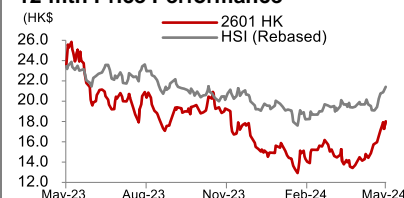
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	24.3%	15.6%
3-mth	28.2%	9.4%
6-mth	-6.0%	-11.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PwC

Recent reports:

- Ping An (2318 HK) - 1Q24 NBV beat; Life OPAT y/y turned positive, Apr.25, 2024 ([link](#))
- China Life (2628 HK) – Highest VNB growth in years; net profit decline narrowed on track, May 2, 2024 ([link](#))
- China Insurance – 1Q24 listed life insurers' growth dwindled; P&C rebounded in 3M24 driven by non-auto, Apr.22, 2024 ([link](#))

Rerating rationale

SOTP for CPIC Group incl. appraisal value for CPIC Life and P/B-ROE for CPIC P&C.

In our previous model, we adopted appraisal value approach to derive previous stock's price target at HK\$29.72. Concerning the adoption of new EV economic assumptions for CPIC Life and amounting investment uncertainties under IFRS 9 & 17 new accounting standards, we intend to revalue the stock based on SOTP for CPIC Group, from which 1) CPIC Life is valued through appraisal value approach reflecting the sensitivity movement on value in-force (VIF) to embedded value (EV), and value of new business (VNB) under new EV assumptions; 2) CPIC P&C is valued by P/B-ROE approach based on Gordon Growth, with implied FY24E P/BV at 0.71x; and 3) Others are measured on a basis of 0.7x FY24E book value. We apply a conglomerate discount by 10% to valuation. ([Fig.1](#))

Economic assumptions change: The insurer guided down the long-term investment return to 4.5% from 5.0%, and the risk discount rate to 9.0%, from previous 11%, by end 2023.

Our new TP ends at HK\$24.8, which implies 0.40x FY24E P/EV and 0.84x FY24E P/BV, as shown in [Fig.1](#). The stock is now trading at 0.29x FY24E P/EV and 0.61 FY24E P/BV. We expect to see the stock to turn a ride from progressive delivery of the efficiency gains from *Changhang Transformation*, and resilient earnings with marginal improvement on the net investment results. Maintain BUY.

Fig. 1: CPIC (2601 HK) SOTP valuation

SOTP Valuation	Forward EV/BV	Ownership (%)	2601.HK
FY24E L&H Embedded value, unadjusted	402.0	98.29%	395.2
FY24E L&H Embedded value, adjusted	194.4	98.29%	191.1
<i>Adj. for risk discount rate change*</i>			(156.8)
<i>Adj. for investment return change*</i>			(50.9)
PV (Total VNB), new EV assumptions*			(20.5)
Target valuation (RMB bn)			170.6
Implied Life P/EV (x)			0.42x
FY24E P&C Shareholders' equity	60.0	100.00%	60.0
ROE			13.4%
Target P/B (x)			0.71x
Target valuation (RMB bn)			42.7
Group co. and others	45.3	100.00%	45.3
Target P/B (x)			0.7x
Target valuation (RMB bn)			31.7
Total valuation (RMB bn)			245.0
Conglomerate discount (%)			-10.0%
Target price (HK\$)			24.80
Implied P/BV			0.84x
Implied P/EV			0.40x

Source: CMBIGM estimates | Note: adjustments on EV and PV(Total VNB) reflect the sensitivity movement on core EV assumptions chg. given 1) long-term investment return revised down to 4.5%, from 5.0%; and 2) risk discount rate revised down to 9.0%, from 11.0% by end 2023.

CPIC (2601 HK): 1Q24 key operating metrics

Fig. 2: Profitability analysis under IFRS 9 & IFRS 17

CPIC Group (RMB mn, %)	1Q24	1Q23	YoY %
Profitability & NAV under IFRS 9 & 17:			
Insurance revenue:	66,968	65,390	2.4%
Life	20,859	21,974	-5.1%
P&C	45,556	43,038	5.9%
Insurance service expenses	(57,126)	(55,615)	2.7%
Net reinsurance premiums income/(expenses)	(13)	(251)	-94.8%
Change in premium reserves			
Insurance service results	9,644	9,347	3.2%
Net finance income/(expenses)	(21,524)	(20,407)	5.5%
Interest income, net	13,311	14,143	-5.9%
Investment income, incl. AJVs	(1,547)	1,100	n.a
Fair value gains/(losses)	15,104	12,198	23.8%
Expected credit loss	37	246	-85.0%
Net investment result	5,381	7,280	-26.1%
Other results	(978)	(1,716)	-43.0%
Operating profit before tax	14,047	14,911	-5.8%
Net profit to equity S/H (IFRS 9 & 17)	11,759	11,626	1.1%
Net asset value to S/H (IFRS 9 & 17)	257,885	249,586	3.3%

Source: Company data, HKEx, CMBIGM

Fig. 3: CPIC Life core metrics – VNB growth and FYP/FYRP premiums

CPIC Life (RMB mn, %)	1Q24	1Q23	YoY %	2023	2022	YoY %	9M23	9M22	YoY %
Value of new business & YoY%	5,191	3,971	30.7%	10,962	9,205	19.1%	10,328	7,548	36.8%
Note: value of new business YoY chg. was measured under new EV assumptions since FY23, with the insurer's long-term investment return revised down to 4.5%, from 5.0% and risk discount rate down from 10.0% to 9.0%. VNB in FY22 was restated under new assumptions.									
CROSS-II Solvency ratios (%):	1Q24	4Q23	QoQ %	4Q23	3Q23	QoQ %	3Q23	2Q23	QoQ %
CPIC Life core solvency	107.9	117.0	-9.1 pct	117.0	115.7	1.2 pct	115.7	111.9	3.8 pct
CPIC Life comprehensive solvency	195.8	209.8	-14.0 pct	209.8	208.4	1.4 pct	208.4	197.4	11.0 pct
Premiums income breakdown:	1Q24	1Q23	YoY %	4Q23	4Q22	YoY %	3Q23	3Q22	YoY %
First-year premiums (FYP)	32,833	32,661	0.5%	8,457	15,138	-44.1%	18,858	12,320	53.1%
Renewals	73,117	75,756	-3.5%	21,698	20,155	7.7%	33,215	31,869	4.2%
Gross written premiums (GWP)	105,950	108,457	-2.3%	30,192	35,315	-14.5%	53,051	44,203	20.0%
By distributions:									
Agency FYP (incl. ST insurance)	16,124	12,277	31.3%	3,275	4,144	-21.0%	6,816	5,157	32.2%
Agency FYRP	10,585	8,443	25.4%	2,608	2,705	-3.6%	6,061	4,187	44.8%
as a % of FYP	65.6%	68.8%	-3.1 pct	79.6%	65.3%	14.4 pct	88.9%	81.2%	7.7 pct
Bancassurance FYP	8,718	11,145	-21.8%	3,866	8,517	-54.6%	9,333	4,069	129.4%
Group FYP	7,949	9,239	-14.0%	1,316	2,477	-46.9%	2,709	3,094	-12.4%

Source: Company data, HKEx, CMBIGM

Life persistency:	1Q24	1Q23	Chg.	2023	2022	Chg.	3Q23	3Q22	Chg.
13-month persistency ratio (%)	96.9	95.9	1.0 pct	95.7	88.0	7.7 pct	95.5	88.0	7.5 pct
25-month persistency ratio (%)	92.9	85.6	7.3 pct	84.0	73.4	10.6 pct			

Source: Company data, HKEx, CMBIGM

Fig. 4: CPIC P&C core metrics – Auto & Non-auto premium income

CPIC P&C (RMB mn, %)	1Q24	1Q23	YoY %	2023	2022	YoY %	9M23	9M22	YoY %
Underwriting CoR (%):	98.0	98.4	-0.4 pct	97.7	96.9	0.8 pct	98.7	97.8	0.9 pct
P&C premium by lines:									
Auto premium income	26,477	25,897	2.2%	103,514	97,992	5.6%	75,668	71,708	5.5%
PC Industry: auto premium	214,208	208,681	2.6%	867,260	821,000	5.6%	214,007	201,366	6.3%
CPIC auto market share %	12.4%	12.4%	-0.05 pct	11.9%	11.9%	0.00 pct	35.4%	35.6%	-0.25 pct
Non-auto premium income	36,014	31,646	13.8%	84,828	71,081	19.3%	72,787	62,177	17.1%
PC Industry: non-auto premium	276,268	258,063	7.1%	719,519	665,700	8.1%	146,218	148,578	-1.6%
CPIC non-auto mkt share %	13.0%	12.3%	0.77 pct	11.8%	10.7%	1.11 pct	49.8%	41.8%	7.93 pct
P&C Total premium income	62,491	57,543	8.6%	188,342	169,073	11.4%	148,455	133,885	10.9%
PC Industry: total premium	490,476	466,744	5.1%	1,586,779	1,486,700	6.7%	360,225	349,944	2.9%
CPIC P&C market share %	12.7%	12.3%	0.41 pct	11.9%	11.4%	0.50 pct	41.2%	38.3%	2.95 pct
CROSS-II Solvency ratios (%):									
P&C core solvency	170.2	164.1	6.1 pct	164.1	154.7	9.4 pct	154.7	146.5	8.2 pct
P&C comprehensive solvency	218.2	213.8	4.5 pct	213.8	204.7	9.1 pct	204.7	197.6	7.1 pct

Source: Company data, HKEx, CMBIGM

Fig. 5: CPIC Group core metrics – Investment asset and investment yields (%)

Investment performance:	1Q24	1Q23	YoY %	2023	2022	YoY %	9M23	9M22	YoY %
Net investment yield (%)	0.8	0.8	0.0 pct	4.0	4.3	-0.3 pct	3.0	4.1	-1.1 pct
Total investment yield (%)	1.3	1.4	-0.1 pct	2.6	4.1	-1.5 pct	3.2	4.1	-0.9 pct
(RMB mn)									
Total investment assets	2,344,793	2,250,281	4.2%						

Source: Company data, HKEx, CMBIGM | Note: net/total investment yield for 1Q24/1Q23 were not annualized.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		249,745	266,167	281,596	298,307	315,697
Insurance service expenses		(213,988)	(231,023)	(244,939)	(260,365)	(276,310)
Net expenses from reinsurance contracts held		(2,818)	(1,439)	(1,872)	(2,060)	(2,262)
Insurance service results		32,939	33,705	34,785	35,882	37,124
Net finance (expenses)/income from insurance contracts		(58,074)	(46,741)	(71,551)	(71,434)	(77,020)
Net finance (expenses)/income from reinsurance contracts		1,108	1,174	0	0	0
Interest income		0	58,262	58,367	60,957	66,393
Net investment income		77,048	(4,273)	28,250	26,589	28,961
Other gains/(losses) from changes in fair value		24	23	0	0	0
Net investment results		20,106	8,445	15,066	16,112	18,334
Other income		3,984	4,129	4,106	4,253	4,406
Other expenses		(16,032)	(14,051)	(17,960)	(18,388)	(18,781)
Foreign exchange gains/losses		1,085	159	29	29	29
Other results		(10,963)	(9,763)	(13,825)	(14,106)	(14,346)
Profit before tax		42,483	32,001	36,609	38,476	41,707
Income taxes		(4,261)	(4,090)	(4,384)	(4,569)	(4,947)
Net profit		38,222	27,911	32,225	33,907	36,760
Net profit attributable to shareholders		37,381	27,257	31,786	33,457	36,282

Note: data in 2021 was not restated under the IFRS 9 & 17 and thus not included for a comparative basis.

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions	211,375	219,097	172,606	187,765	203,862	222,829
Investments in associates and joint ventures	26,984	25,829	23,184	25,220	27,382	29,930
Property	19,218	19,756	21,384	24,772	28,696	33,243
Investment property	7,514	11,202	10,667	11,604	12,599	13,771
Insurance contract assets	245	305	335	365	398	439
Reinsurance contract assets	31,983	33,205	39,754	43,287	47,260	52,101
Financial investments:	1,479,035	1,672,821	2,009,336	2,185,804	2,373,189	2,593,990
At amortized cost:	0	0	82,334	89,565	97,243	106,291
At fair value through other comprehensive income:	1,466,682	1,646,261	1,345,400	1,463,558	1,589,026	1,736,869
At fair value through profit or loss:	12,353	26,560	581,602	632,681	686,919	750,830
Other assets	26,674	34,849	32,433	17,652	15,637	28,314
Cash and cash equivalents	45,977	54,272	34,263	37,272	40,467	44,232
Total assets	1,849,005	2,071,336	2,343,962	2,533,741	2,749,490	3,018,849
LIABILITIES						
Customer deposits and payables to brokerage customers	3,695	4,639	5,861	6,366	8,056	10,106
Insurance contract liabilities	1,486,435	1,664,848	1,872,620	2,039,058	2,226,193	2,454,211
Obligations under repurchase agreements	73,441	119,665	115,819	118,147	120,522	122,944
Bonds payable	9,995	9,999	10,285	10,285	10,285	10,285
Other liabilities	75,932	69,704	71,673	78,068	85,725	94,599
Total liabilities	1,650,242	1,869,664	2,076,258	2,251,924	2,450,781	2,692,145
EQUITIES						
Share capital	9,620	9,620	9,620	9,620	9,620	9,620
Reserves	114,932	94,269	118,518	108,801	100,289	100,289
Retained profits	69,046	92,588	121,448	143,421	166,778	192,515
Total shareholders' equity	193,598	196,477	249,586	261,842	276,686	302,424
Non-controlling interests	5,165	5,195	18,118	19,975	22,023	24,280
Total equity	198,763	201,672	267,704	281,817	298,709	326,704
Total liabilities & equity	1,849,005	2,071,336	2,343,962	2,533,741	2,749,490	3,018,849

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	1.00	1.02	1.02	1.05	1.10	1.13
EPS (Reported)	2.79	2.56	2.83	3.30	3.48	3.77
Consensus EPS	n.a	n.a	n.a	3.25	3.48	3.86
Group embedded value/share (HK\$)	51.80	54.01	55.04	58.00	60.85	63.79
VNB/share (HK\$)	1.39	0.96	1.14	1.41	1.48	1.56
No. of shares basic	9,620	9,620	9,620	9,620	9,620	9,620
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Return on equity (ROE)	13.1%	12.6%	12.2%	12.4%	12.4%	12.5%
Return on asset (ROA)	1.5%	1.3%	1.2%	1.3%	1.3%	1.3%
Return on life embedded Value	10.6%	6.0%	3.7%	7.0%	6.5%	6.4%
Combined ratio	99.0%	97.0%	97.7%	98.1%	98.1%	98.2%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)	0.3	0.3	0.3	0.3	0.3	0.3
P/B	0.7	0.7	0.6	0.6	0.6	0.5
Dividend yield (%)	6.0	6.1	6.1	6.3	6.6	6.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: data in 2021 was not restated under the IFRS 9 & 17 and thus not included for a comparative basis.

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