

# Ping An (2318 HK)

## Steady growth in operating profit

**Summary.** Ping An announced 1H19 interim results, where operating profit rose 23.8% YoY. Group embedded value per share increased 11% YoY while annualized RoEV was 11.2% YoY.

- **Operating profit +23.8% YoY in 1H19 to RMB 73.46bn**, which has become the primary gauge for the Company's operation and the basis for dividend payout. Net profit increased 68% YoY to RMB 97.7bn, representing 70% of consensus estimate for the entire year. The surge in net profit was primarily attributable to 1) strong growth in operating profit; 2) one-off impact of the decrease in income tax for 2018 after implementing new pre-tax deduction rules of fee and commission expenses (RMB 10.45bn); and 3) short-term investment variance (RMB 13bn) when actual investment return exceeded assumptions.
- **NBV margin expansion; positive NBV guidance.** In 1H19, NBV increased 4.7% YoY (6.1%/3.2% in 1Q/2Q), primarily attributable to margin improvement (+5.7ppt YoY to 44.7%) offsetting FYRP decline. Although agent headcount was reduced 9.3% from YE18 to 1.29 million, agent channel NBV margin expanded 9.9ppt YoY to 58.9% thanks to product structure optimization toward protection products. Mgmt. still pencils in faster-than-2018 NBV growth in 2019, i.e. >7.3%, which implies that NBV growth in 2H19 should exceed 8.9%.
- **Heavy investment in technology.** In 1H19, operating profit from technology business dipped 33% YoY to RMB 2.8bn. However, tech business realized total revenue of RMB 38.4bn, up 33.6% YoY. Positioned as technology-powered retail financial services group, Ping An kept increasing investment in technologies, by building open platforms (e.g. HealthKconnect), acquiring traffic and user data (e.g. OneConnect) and engaging in fundamental technologies, such as AI and blockchain. Ping An Good Doctor experienced explosive revenue growth of 102.4% YoY in 1H19.
- **Valuation.** The stock now trades at 1.25x 1H19A P/EV, above peers' average. Excluding the value of technology business, it trades at 1.18x P/EV. Ping An's valuation premium vs. peers has been stable over time for its technology empowerment, which not only boosts traditional finance business, but also generates revenue and profit for the Group.

### Earnings Summary

(YE 31 Dec)	FY16A	FY17A	FY18A
Gross written premium (RMB mn)	469,555	605,035	719,556
Interest income from banking (RMB mn)	131,075	147,386	161,714
Total income (RMB mn)	774,488	974,570	1,082,146
YoY growth (%)	11.7	25.8	11.0
Net profit (RMB mn)	62,394	89,088	107,404
EPS (RMB)	3.50	4.99	6.02
YoY growth (%)	17.4	42.6	20.6
P/E (x)	22.3	15.6	13.0
P/B (x)	3.6	2.9	2.5
P/EV (x)	2.2	1.7	1.4
Yield (%)	1.0%	1.9%	2.9%
ROE (%)	17.4%	20.8%	20.9%

Source: Company data, CMBIS estimates

**NOT RATED**

Current Price (H) HK\$ 89.15  
Current Price (A) RMB 87.46

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#### Stock Data

Mkt Cap (HK\$ mn)	1,719,061
Avg 3 mths t/o (HK\$ mn)	2,549
52w High/Low (HK\$)	98.00/65.95
Total Issued Shares (mn)	7,488 (H)
	10,833 (A)

Source: Bloomberg

#### Shareholding Structure

Charoen Pokphand Group	9.04%
Shenzhen Investment Holdings	5.27%

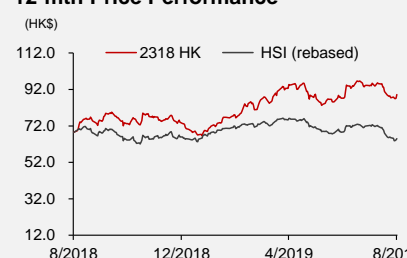
Source: HKEX

#### Share Performance

	Absolute	Relative
1-mth	-7.4%	3.7%
3-mth	-1.9%	8.8%
6-mth	14.1%	24.9%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: PwC

## Focus Charts

Figure 1: P&L

RMB mn	1H19	1H18	... YoY (%)
<b>Gross written premiums</b>	446,481	408,194	9.4%
Less: premiums ceded to reinsurers	(11,623)	(10,491)	10.8%
Net written premiums	434,858	397,703	9.3%
Change in unearned premium reserves	(13,426)	(11,417)	17.6%
<b>Net earned premiums</b>	421,432	386,286	9.1%
Reinsurance commission income	3,667	3,810	-3.8%
Interest income from banking operations	86,583	81,424	6.3%
Interest revenue from non-banking operations	49,402	44,849	10.2%
Fees and commission income from non-insurance operations	26,861	24,850	8.1%
Investment income	61,659	15,680	293.2%
Share of profits and losses of associates	12,164	8,798	38.3%
Other income and other gains	28,478	23,204	22.7%
<b>Total income</b>	690,246	588,901	17.2%
Claims and policyholders' benefits	(325,736)	(273,928)	18.9%
Commission expenses on insurance operations	(61,657)	(70,323)	-12.3%
Interest expenses on banking operations	(42,827)	(44,198)	-3.1%
Fees and commission expenses on non-insurance operations	(4,850)	(3,637)	33.4%
Loan impairment loss, net	(30,003)	(22,924)	30.9%
Loan loss provisions, net of reversals	0	0	NA
Other impairment losses on other assets	(979)	(609)	60.8%
Foreign exchange (losses)/gains	457	(769)	NA
General and administrative expenses	(83,054)	(66,169)	25.5%
Interest expenses on non-banking operations	(9,756)	(8,596)	13.5%
Other expenses	(15,602)	(10,985)	42.0%
<b>Total expenses</b>	(574,007)	(502,138)	14.3%
<b>Profit before tax</b>	116,239	86,763	34.0%
Income tax	(10,501)	(21,993)	-52.3%
Non-controlling interests	(8,062)	(6,675)	20.8%
<b>Net profit</b>	97,676	58,095	68.1%

Source: Company data, CMBIS estimates

Figure 2: NBV

NBV, Rmb mn	Year of 2019	Year of 2018	YoY Change
1Q	21,642	20,398	6.1%
2Q	19,410	18,811	3.2%
<b>1H</b>	<b>41,052</b>	<b>39,209</b>	<b>4.7%</b>

Source: Company data, CMBIS estimates

Figure 3: Key metrics

RMB mn	1H19/ As at 30 Jun 2019	1H18/ As at YE18	Change (%)
<b>Group</b>			
Total assets	7,562,398	7,142,960	5.9%
Total equity	6,798,426	6,459,317	5.2%
Shareholders' equity	625,327	556,508	12.4%
Embedded value of Group	1,113,181	1,002,456	11.0%
Operating return on EV	11.2%	13.5%	-2.3 ppt
Total investment assets	2,956,795	2,794,620	5.8%
Net investment yield	4.5%	4.2%	0.3 ppt
Total investment yield	5.5%	4.0%	1.5 ppt
<b>Life and health insurance</b>			
New business value	74,138	72,294	2.6%
NBV margin (FYP based)	44.7%	39.0%	5.7 ppt
Individual	58.9%	49.0%	9.9 ppt
Bancassurance	18.7%	14.8%	3.9 ppt
Embedded value of L&H	713,191	613,223	16.3%
Number of individual agents	1,235,000	1,320,000	-6.4%
Persistency ratio - 13 month	90.6%	94.3%	-3.7 ppt
Persistency ratio - 25 month	91.3%	90.9%	0.4 ppt
<b>P&amp;C insurance</b>			
Combined ratio	96.6%	95.8%	0.8 ppt
Loss ratio	59.2%	57.4%	1.8 ppt
Expense ratio	37.4%	38.4%	-1.0 ppt
ROE	12.4%	8.3%	4.1 ppt
<b>Banking business</b>			
Net profit	15,403	13,372	15.2%
Net assets	256,603	240,042	6.9%
Net interest margin	2.62%	2.26%	0.4 ppt
Non-performing loan ratio	1.68%	1.75%	-0.1 ppt
Provision coverage ratio	194.37%	159.45%	34.9 ppt
Capital adequacy ratio	8.89%	8.54%	0.4 ppt
<b>Trust business</b>			
Net profit	1,874	1,694	10.6%
Net assets	19,858	17,738	12.0%
Assets held in trust	504,946	534,124	-5.5%
<b>Securities business</b>			
Net profit	1,252	956	31.0%
Net assets	30,431	29,401	3.5%
<b>Solvency</b>			
Solvency ratio of L&H	228.0%	218.8%	9.2 ppt
Solvency ratio of P&C	255.3%	223.8%	31.5 ppt
Solvency ratio of Group	223.9%	216.4%	7.5 ppt

Source: Company data, CMBIS estimates

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