

Ping An (2318 HK)

Stabilizing agency scale

Ping An's OPAT increased 10% YoY in 1Q22, with the solid growth of life and banking profits partially offset by a decline in P&C OPAT. The insurance group's net profit decreased 24% YoY, primarily dragged by investment volatility of A share market and MTM losses from Lufax convertible bonds. Excluding the negative assumption changes over surrender and expenses in EV calculation, VNB declined 25% YoY in 1Q22, due to 1) high base of critical illness products sales in 1Q21 and 2) lower agent headcount (-45% YoY). We note that 1) the decline of agent number narrowed to 10% QoQ in 1Q22 from 15% QoQ in 4Q21 and 20% QoQ in 3Q21; 2) the number of retail customers (+0.7% QoQ) and contracts per customer (+7% YoY) continued to grow, 3) agent productivity continued to improve, as the channel reform is well on track; 4) banking asset quality remained stable in spite of the challenging market environment; and 5) solvency capital remained sufficient under C-ROSS 2.0. Looking ahead, we expect to see sequential improvements in new business momentum in the rest of 2022, as the agency scale is gradually stabilizing. Maintain BUY.

- Agency scale to stabilized.** According to our channel check, agency number largely stabilized on MoM basis in March. Although there might still be some volatility in 2Q due to Omicron outbreaks, we think the agency scale is likely to bottom out around mid-2022.
- Sufficient capital under C-ROSS 2.0.** Ping An shifted to C-ROSS 2.0 (China Risk Oriented Solvency System 2.0) in 1Q22 reporting. Under the new solvency regime, the core solvency margins of Ping An Life/P&C stood at 142.5%/167.5% respectively at end-1Q22, above the regulatory requirement (50%). We believe the group's solvency positions are sufficient to support its progressive dividend policy.
- Valuation.** Ping An's A and H shares are trading at 0.5x P/EV FY22E and 0.9x P/BV FY22E with operating ROE of 19%, near a historical trough valuation. We think current share price has already factored in the worst case of new business slowdown and investment asset write-down, and the downside from here is limited. We think the company's progressive dividend policy and sequential improvement in business momentum will continue to support the insurer's share price performance.

Earnings Summary

| (YE 31 Dec) | FY20A | FY21A | FY22E | FY23E | FY24E |
|---------------------|---------|---------|---------|---------|---------|
| GWP (RMB mn) | 797,880 | 760,843 | 762,018 | 794,989 | 837,654 |
| YoY growth (%) | 0.4 | (4.6) | 0.2 | 4.3 | 5.4 |
| Net profit (RMB mn) | 143,099 | 101,618 | 115,345 | 131,153 | 148,027 |
| EPS (RMB) | 8.1 | 5.7 | 6.3 | 7.2 | 8.1 |
| YoY growth (%) | (3.7) | (29.0) | 9.8 | 13.7 | 12.9 |
| Consensus EPS (RMB) | 8.1 | 7.0 | 7.4 | 8.5 | 9.5 |
| P/E (x) | 5.9 | 8.3 | 7.6 | 6.7 | 5.9 |
| P/B (x) | 1.1 | 1.1 | 1.0 | 0.9 | 0.8 |
| P/EV (x) | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 |
| Yield (%) | 4.7 | 5.1 | 5.3 | 6.0 | 6.8 |
| ROE (%) | 19.9 | 12.9 | 13.6 | 14.2 | 14.7 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$81.40**
 Up/Downside **+58.4%**
 Current Price **HK\$51.40**

China Insurance Sector

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Stock Data

| | |
|--------------------------|------------------|
| Mkt Cap (HK\$ mn) | 930.892 |
| Avg 3 mths t/o (HK\$ mn) | 1,817.13 |
| 52w High/Low (HK\$) | 87.30/45.80 |
| Total Issued Shares (mn) | 7,448 (H) |
| | 10,833 (A) |

Source: Bloomberg

Shareholding Structure

| | |
|------------------------------|-------|
| Charoen Pokphand Group | 6.80% |
| Shenzhen Investment Holdings | 5.27% |

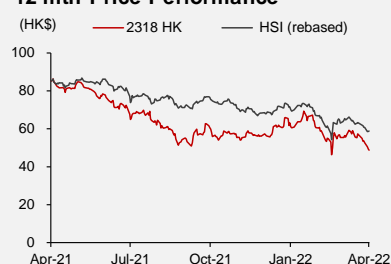
Source: HKEX

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -9.0% | -1.0% |
| 3-mth | -16.1% | -1.3% |
| 6-mth | -9.2% | 10.2% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Recent Reports:

- China Insurance Sector – FY21 results preview – 11 Mar 2022 ([link](#))
- China Insurance – P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22 – 10 Dec 2021 ([link](#))
- Ping An – Agency reform well on track – 21 Mar 2022 ([link](#))

Focus Charts

Figure 1. Ping An: 1Q22 Results Summary

| (RMBmn) | 1Q21 | 1Q22 | YoY chg |
|---------------------------------------|---------|---------|-----------|
| Net profit attribute to shareholders | 27,223 | 20,658 | -24.1% |
| OPAT attribute to shareholders | 39,120 | 43,047 | 10.0% |
| Life insurance | 25,267 | 29,052 | 15.0% |
| P&C insurance | 5,096 | 3,003 | -41.1% |
| Bank | 5,872 | 7,448 | 26.8% |
| AMC | 2,280 | 2,579 | 13.1% |
| Technology | 2,333 | 2,745 | 17.7% |
| Others | (1,728) | (1,780) | 3.0% |
| Net investment yield (%) | 3.5 | 3.3 | (0.2) ppt |
| Total investment yield (%) | 3.1 | 2.3 | (0.8) ppt |
| # of individual customers (mn) | 220.6 | 223.4 | 1% |
| Avg. # of contracts per customer (mn) | 2.75 | 2.94 | 7% |
| # of cross-selling customers (mn) | 84.6 | 108.4 | 28% |
| % of cross-selling customers | 38.3 | 48.5 | 10.2 ppt |

Source: Company data, CMBIGM

Figure 2: Ping An Life

| | 1Q21 | 1Q22 | YoY chg |
|--------------------------------------|--------|--------|-----------|
| VNB | 18,980 | 12,589 | -33.7% |
| FYP | 60,527 | 51,203 | -15.4% |
| VNB margin (FYP) | 31.4% | 24.6% | (6.8) ppt |
| Surrender | 13,107 | 14,859 | 13.4% |
| # of agents (mn) | 0.99 | 0.54 | -45% |
| Agent productivity (FYP/month/agent) | 20,080 | 29,990 | 49% |

Source: Company data, CMBIGM

Figure 3: Ping An P&C

| | 1Q21 | 1Q22 | YoY chg |
|--------------------|--------|--------|---------|
| Combined ratio (%) | 95.2 | 96.8 | 1.6 ppt |
| Premium income | 66,175 | 73,018 | 10% |
| Auto | 42,638 | 47,083 | 10% |
| Non-auto | 23,537 | 25,935 | 10% |

Source: Company data, CMBIGM

Figure 4: Ping An Bank

| | 1Q21 | 1Q22 | YoY chg |
|---------------------------------|-------|-------|------------|
| NIM | 2.87 | 2.80 | (0.07) ppt |
| Cost to Income ratio | 28.1 | 26.2 | (1.9) ppt |
| NPL ratio | 1.10 | 1.02 | (0.08) ppt |
| Special mention ratio | 1.06 | 1.41 | 0.35 ppt |
| Broad NPL ratio | 2.16 | 2.43 | 0.27 ppt |
| Provision coverage ratio | 245.2 | 289.1 | 43.9 ppt |
| 60 days overdue coverage ratio | 278.6 | 316.5 | 37.9 ppt |
| Core T1 (>7.5%) | 8.67 | 8.64 | (0.03) ppt |
| T1 (>8.5%) | 10.81 | 10.54 | (0.27) ppt |
| Capital adequacy ratio (>10.5%) | 13.20 | 13.28 | 0.08 ppt |

Source: Company data, CMBIGM

Financial Summary

| Income statement | | | | | | Key ratios | | | | | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|------------------------------------|--------|--------|-------|-------|--------|
| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E | YE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
| GWP & policy fees | 797,880 | 760,843 | 762,018 | 794,989 | 837,654 | Group | | | | | |
| Net earned premiums | 757,599 | 739,933 | 737,490 | 769,305 | 810,506 | Net investment yield | 5.3% | 5.2% | 4.6% | 4.7% | 4.7% |
| Reinsurance income | 6,356 | 5,908 | 7,567 | 8,083 | 8,686 | Total investment yield | 6.5% | 5.3% | 4.2% | 4.7% | 4.7% |
| Total premium income | 763,955 | 745,841 | 745,057 | 777,388 | 819,192 | ROAE | 19.9% | 12.9% | 13.6% | 14.2% | 14.7% |
| | | | | | | ROAA | 1.6% | 1.0% | 1.1% | 1.1% | 1.2% |
| Investment income | 225,046 | 203,513 | 168,693 | 200,102 | 210,015 | EV growth | 10.6% | 5.1% | 8.6% | 11.7% | 11.6% |
| Net inv't income from banking | 100,404 | 121,368 | 117,717 | 131,540 | 150,230 | ROEV | 10.1% | 4.9% | 8.2% | 11.1% | 11.0% |
| Net fees and commission income | 51,762 | 41,584 | 48,536 | 52,557 | 56,939 | Life & Health insurance | | | | | |
| Claims and benefits | (614,751) | (618,662) | (575,554) | (599,736) | (612,928) | GWP growth | -2.3% | -4.0% | -5.9% | 0.7% | 2.1% |
| Commission expenses | (102,021) | (80,711) | (102,886) | (106,884) | (112,213) | Agency FYRP growth | -28.3% | -5.3% | -5.0% | 10.0% | 10.0% |
| G&A expenses | (181,166) | (177,061) | (167,901) | (181,841) | (200,025) | VNB growth | -34.7% | -23.6% | -7.0% | 9.2% | 9.3% |
| Impairment loss | (79,458) | (105,042) | (43,984) | (54,898) | (63,133) | VNB margin (APE basis) | 47.6% | 37.2% | 36.0% | 36.5% | 37.0% |
| Other income and expenses | 7,148 | 1,404 | (15,878) | (22,823) | (30,832) | L&H EV growth | 8.9% | 6.3% | 8.3% | 10.4% | 10.3% |
| Associates/JVs | 16,845 | 7,346 | 5,854 | 6,045 | 6,245 | L&H operating ROEV | 14.9% | 11.8% | 13.9% | 14.6% | 15.0% |
| Pretax profit | 187,764 | 139,580 | 179,653 | 201,449 | 223,490 | P&C insurance | | | | | |
| | | | | | | GWP growth | 5.5% | -5.5% | 10.0% | 10.0% | 10.0% |
| Tax | (28,405) | (17,778) | (38,630) | (42,513) | (43,957) | Combined ratio | 99.1% | 98.0% | 98.0% | 98.0% | 98.0% |
| Less: minorities | (16,260) | (20,184) | (25,678) | (27,783) | (31,506) | ROE | 8.5% | 9.6% | 11.0% | 10.7% | 10.9% |
| | | | | | | | % | % | % | % | % |
| Net profit | 143,099 | 101,618 | 115,345 | 131,153 | 148,027 | Profit breakdown: | | | | | |
| | | | | | | Life & health insurance | 67.1% | 59.3% | 45.4% | 47.0% | 50.6% |
| Balance sheet | | | | | | P&C insurance | 11.3% | 15.9% | 11.4% | 11.6% | 10.8% |
| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E | Banking | 11.7% | 20.7% | 23.2% | 22.1% | 22.2% |
| Investment assets | 5,601,861 | 5,801,001 | 6,099,449 | 6,406,911 | 6,719,034 | Others | 9.9% | 4.0% | 20.0% | 19.4% | 16.4% |
| Loans to customers | 2,599,510 | 2,980,975 | 3,428,121 | 3,942,339 | 4,533,690 | Per share data: | | | | | |
| Total assets | 9,527,870 | 10,142,026 | 11,045,118 | 12,044,944 | 13,150,076 | EPS (RMB) | 8.10 | 5.75 | 6.31 | 7.17 | 8.10 |
| Insurance contract liabilities | 2,972,460 | 3,261,354 | 3,466,720 | 3,736,790 | 4,007,230 | DPS (RMB) | 2.27 | 2.44 | 2.52 | 2.87 | 3.24 |
| Customer deposits | 2,693,833 | 3,002,049 | 3,362,295 | 3,765,770 | 4,217,663 | BVPS (RMB) | 41.71 | 44.44 | 48.23 | 52.53 | 57.39 |
| Total liabilities | 8,539,965 | 9,064,303 | 9,872,509 | 10,765,861 | 11,750,671 | VNBPS (RMB) | 2.71 | 2.07 | 1.93 | 2.10 | 2.30 |
| Total equity | 987,905 | 1,077,723 | 1,172,608 | 1,279,083 | 1,399,405 | Group EVPS (RMB) | 72.65 | 76.34 | 82.89 | 92.60 | 103.33 |
| Shareholders' equity | 762,560 | 812,405 | 881,612 | 960,304 | 1,049,120 | | | | | | |

Source: Company data, CMBIGM estimates

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