

AIA Group Ltd. (1299 HK)

2H22 recovery in line; Upbeat trend in HK and mainland China in 2M23

AIA recorded 6% YoY growth of value of new business (VNB) in 2H22 on a constant FX rate (CER) basis, translating into 4.5% YoY VNB growth in 4Q22. The life insurer reported positive new business momentum across its major markets in 2H22, with 1) Mainland China's VNB growth turnaround to +3% YoY on a CER basis despite the negative impact from Omicron peak in Dec 2022, 2) 13% VNB growth of ASEAN business in 2H22 driven by multi-channel strategy, and 3) 5% YoY growth of HK VNB. During the analyst briefing, the management indicated that 1) the VNB growth of mainland visitors (MCV) business was strong in 2M23 as the border reopened; 2) despite the slight VNB decline of AIA China in Jan 2023 amid Omicron outbreaks, the new business momentum quickly bounced back to double digit in Feb and brought 2M23 China VNB growth to positive. The positive data of 2M23 reconfirm our view that AIA will record strong VNB recovery in FY23. Reiterate BUY.

- **Upbeat trend in HK/China markets in 2M23.** The management indicated that the VNB from MCV business in HK more than trebled in 2022, with strong momentum sustained into 2M23, as AIA has retained its premier agency with a MCV-specialized team of 6,800 agents, similar in scale to that of 2018, which enabled it to well capture the pent-up demands post the border reopening. In Mainland China, AIA saw double-digit VNB growth in Jul-Nov 2022. Despite an occasional interruption given resurgence of COVID cases in Dec 2022-Jan 2023, the new business momentum of AIA China immediately bounced back to double digit once again in Feb, turning the 2M23 VNB growth to positive.
- **Overall positive impact from an adoption of IFRS 9 & 17.** As disclosed, under the IFRS 17, AIA's contractual service margin (CSM, notably a replacement of residual margin), amounted to US\$55bn as of 1 Jan 2022, edging up the comprehensive equity (book value + CSM) to an aggregate of US\$101bn. For P&L, the impact of new accounting rules adoption to OPAT would be trivial at less than 5%, while to FY22 NPAT would be more striking with at least US\$2bn higher than as reported. On B/S, the book value resulted from the new standard would be 7% lower than reported as of 1 Jan 2022, but higher in end-FY22.
- **Sound capital position.** If excluded the impact of US\$3.6bn share buybacks in 2022, the Group LCSM PCR cover ratio would stand at 296% by end FY22 (vs 291% pro forma a year ahead), bolstered by a robust free surplus generation. The LCSM cover ratio remained resilient amid capital market volatilities, with less than 6ppt sensitivity to $\pm 50\text{bps}/\pm 10\%$ chg. in interest rate/equity price.
- **Valuation.** The stock is now trading at 1.5x P/EV FY24E, below a 2-year/5-year historical average P/EV at 1.7x/1.9x. Looking forward, we expect the uptick in HK and mainland China business will continue to underpin strong VNB growth for AIA throughout FY23. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (US\$ mn)	7,427	282	7,442	8,266	9,198
EPS (Reported)(US\$)	0.62	0.02	0.64	0.73	0.83
Consensus EPS (US\$)	n.a	n.a	0.62	0.70	0.82
VNB/share (US\$)	0.32	0.26	0.32	0.38	0.45
YoY growth (%)	13.9	(18.5)	22.6	20.2	18.7
Group embedded value / share (US\$)	6.3	5.9	6.3	6.9	7.8
Premium income (US\$ mn)	34,444	33,912	40,016	47,219	55,719
Premium income growth (%)	3.3	(1.5)	18.0	18.0	18.0
P/B (x)	2.1	3.2	2.7	2.5	2.2
P/Embedded value (x)	1.6	1.8	1.6	1.5	1.3
Dividend yield (%)	1.7	1.9	2.1	2.4	2.6
ROE (%)	12.0	0.6	18.2	18.4	18.7

Source: Company data, Bloomberg, CMBIGM estimates | Note: the stock price was quoted by market close at 4:00pm on Mar.10, 2023.

BUY (Maintain)

Target Price	HK\$118.00
(Previous TP)	HK\$118.00)
Up/Downside	44.7%
Current Price	HK\$81.55

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Stock Data

Mkt Cap (HK\$ mn)	951,675
Avg 3 mths t/o (HK\$ mn)	1,923.82
52w High/Low (HK\$)	93.70/57.25
Total Issued Shares (mn)	11,670

Source: FactSet

Shareholding Structure

Bank of New York Mellon	10.23%
JPMorgan Chase & Co	8.04%

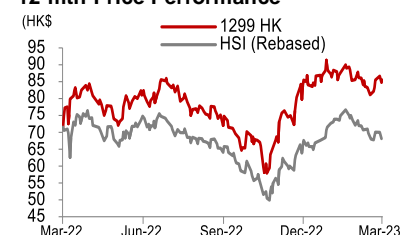
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-2.7%	5.6%
3-mth	0.0%	-0.1%
6-mth	14.4%	11.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PricewaterhouseCoopers

Recent Reports:

1. AIA Group Ltd. (1299 HK) – Long-term growth intact, expect 2H22 recovery ([link](#))
2. AIA Group Ltd. (1299 HK) – Pent-up demands to boost HK growth; Raise TP ([link](#))

AIA VNB / VNB margin / ANP growth on AER and CER basis

Figure 1: AIA FY22 VNB / VNB margin / ANP growth on AER and CER basis

Operating markets	VNB YoY%		VNB margin		ANP YoY%	
	AER basis	CER basis	AER basis	CER basis	AER basis	CER basis
AIA China	-17%	-15%	(9.4)ppt	(9.6)ppt	-6%	-4%
AIA HK	4%	4%	5.5 ppt	5.5 ppt	-3%	-3%
AIA Thailand	-4%	5%	(0.9)ppt	(0.9)ppt	-3%	6%
AIA Singapore	-2%	1%	1.0 ppt	0.8 ppt	-3%	-1%
AIA Malaysia	9%	15%	12.6 ppt	12.4 ppt	-10%	-5%
AIA Others	-18%	-12%	(5.7)ppt	(5.6)ppt	-3%	5%
Total	-8%	-5%	(2.3)ppt	(2.4)ppt	-4%	0%

Source: Company data, CMBIGM

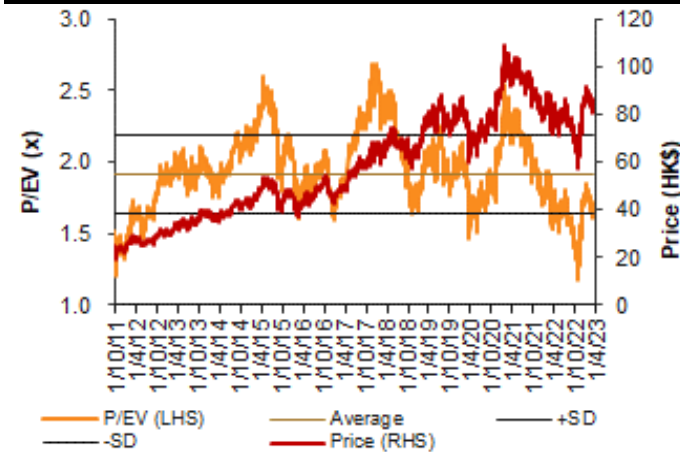
Figure 2: AIA 2H22 VNB / VNB margin / ANP growth on AER and CER basis

Operating markets	VNB YoY%		VNB margin		ANP YoY%	
	AER basis	CER basis	AER basis	CER basis	AER basis	CER basis
AIA China	-17%	-15%	(9.4)ppt	(9.6)ppt	-6%	-4%
AIA HK	4%	4%	5.5 ppt	5.5 ppt	-3%	-3%
AIA Thailand	-4%	5%	(0.9)ppt	(0.9)ppt	-3%	6%
AIA Singapore	-2%	1%	1.0 ppt	0.8 ppt	-3%	-1%
AIA Malaysia	9%	15%	12.6 ppt	12.4 ppt	-10%	-5%
AIA Others	-18%	-12%	(5.7)ppt	(5.6)ppt	-3%	5%
Total	-8%	-5%	(2.3)ppt	(2.4)ppt	-4%	0%

Source: Company data, CMBIGM

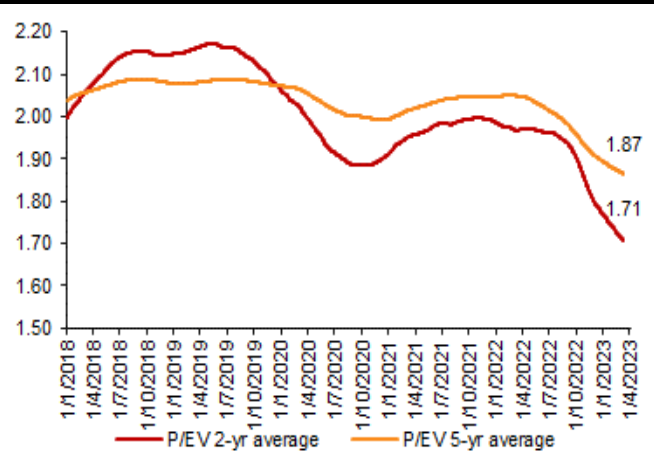
AIA trading band of 12M forward P/EV & Historical avg. P/EV

Figure 3: AIA 12M forward P/EV band



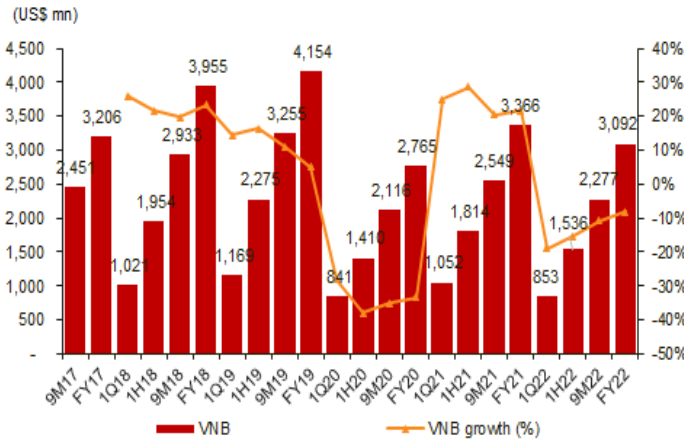
Source: Company data, CMBIGM estimates | Note: the stock price was quoted by market close at 4:00pm on Mar.10, 2023.

Figure 4: AIA's historical 2-yr and 5-yr avg. P/EV

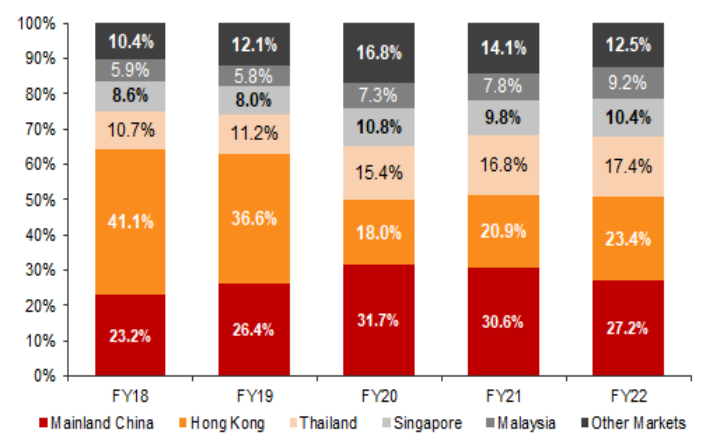


Source: Company data, CMBIGM estimates | Note: the stock price was quoted by market close at 4:00pm on Mar.10, 2023.

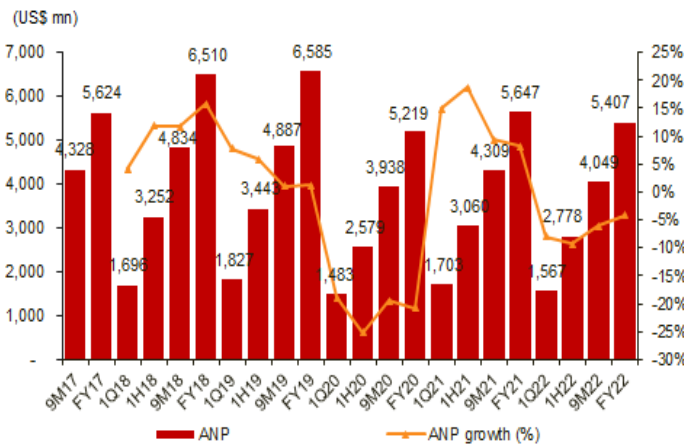
Focus Charts

Figure 5: AIA Group VNB & VNB growth (1Q17-FY22)


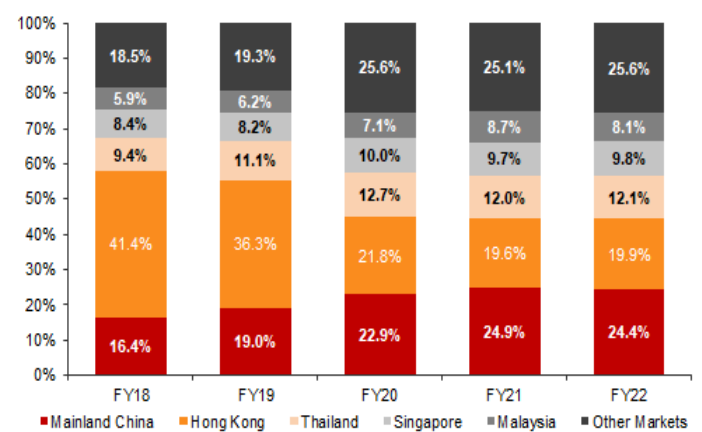
Source: Company data, CMBIGM

Figure 6: AIA Group VNB breakdown by countries


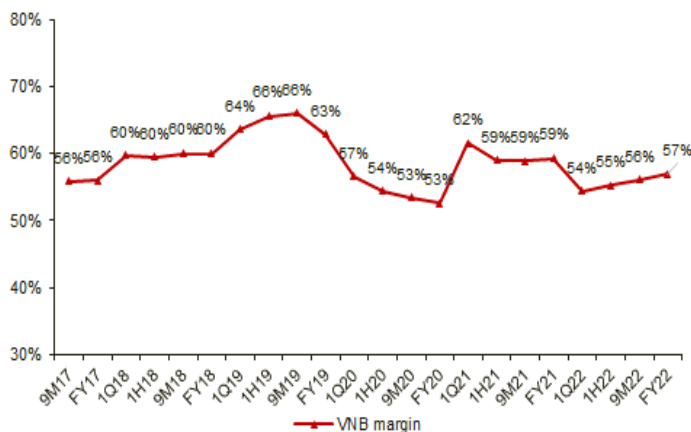
Source: Company data, CMBIGM

Figure 7: AIA Group ANP & ANP growth (1Q17-FY22)


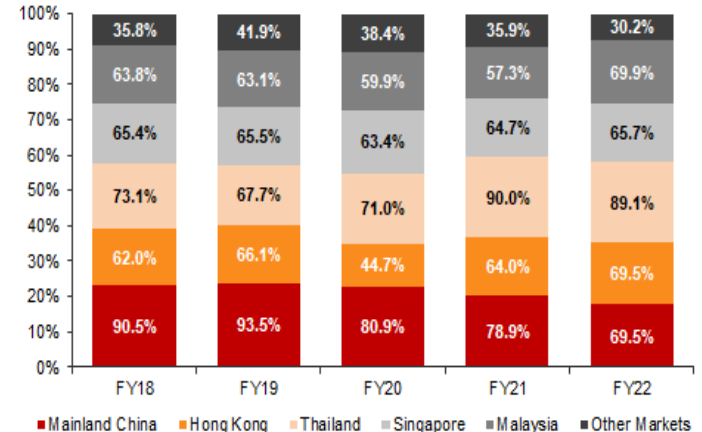
Source: Company data, CMBIGM

Figure 8: AIA Group ANP breakdown by countries


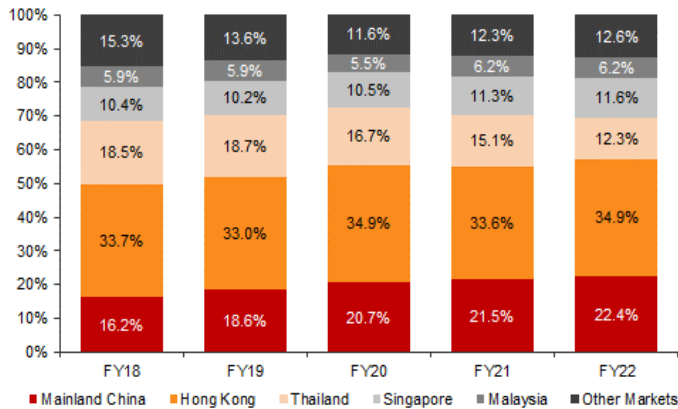
Source: Company data, CMBIGM

Figure 9: AIA Group VNB margin (ANP basis, quarterly)


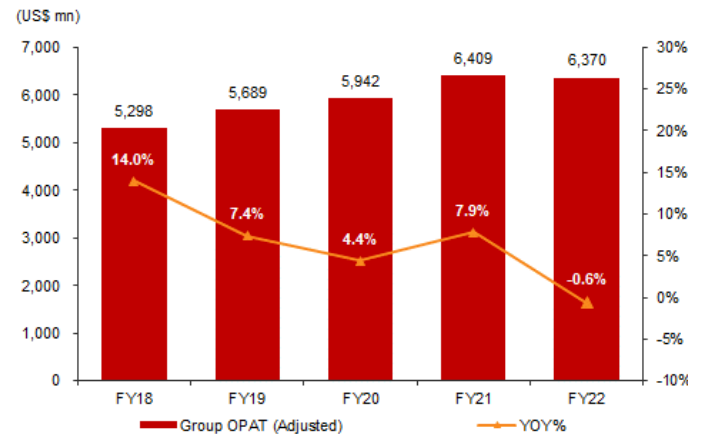
Source: Company data, CMBIGM

Figure 10: AIA Group VNB margin (ANP basis)


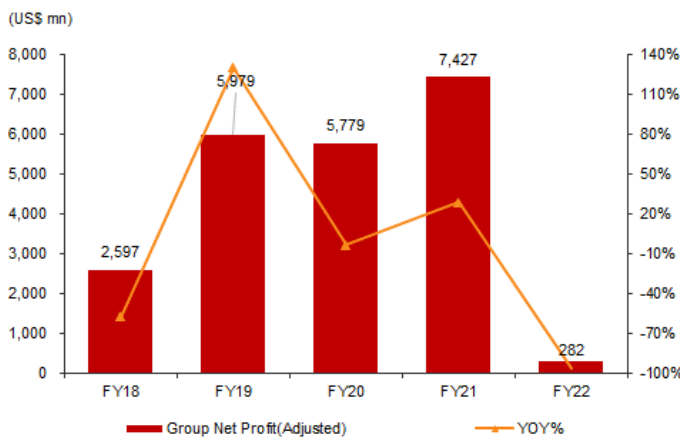
Source: Company data, CMBIGM

Figure 11: AIA: OPAT breakdown by countries

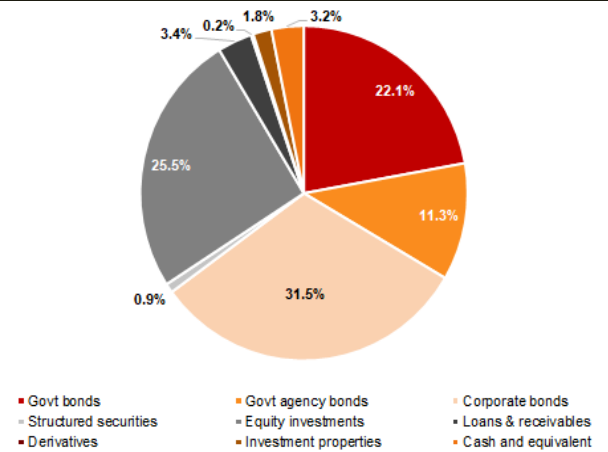
Source: Company data, CMBIGM

Figure 12: AIA Group OPAT & OPAT YoY%

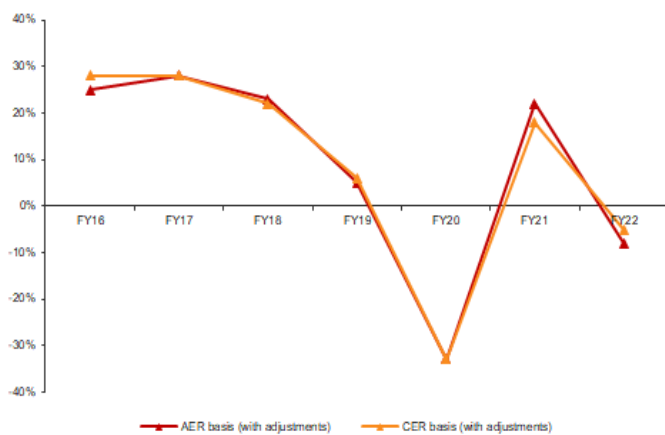
Source: Company data, CMBIGM

Figure 13: AIA Group NPAT & NPAT YoY%

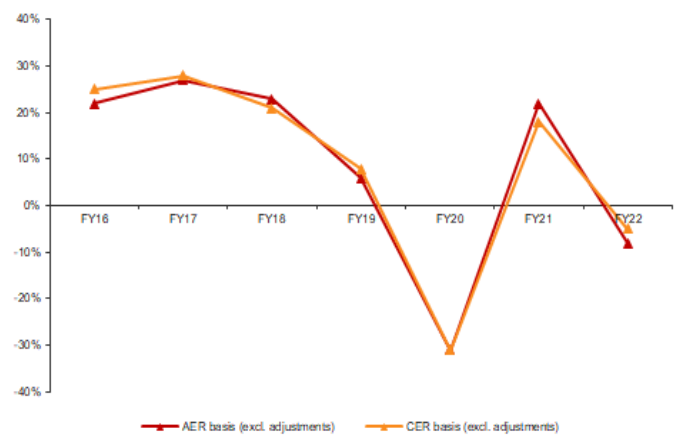
Source: Company data, CMBIGM

Figure 14: AIA Group Investment Portfolio in FY22

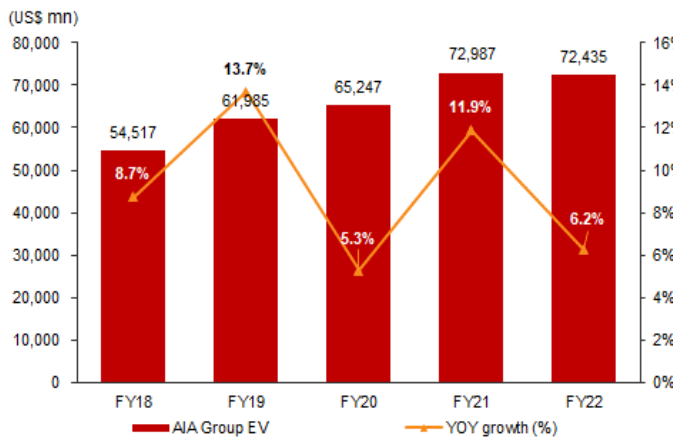
Source: Company data, CMBIGM

Figure 15: VNB Growth on AER & CER basis (adj.)

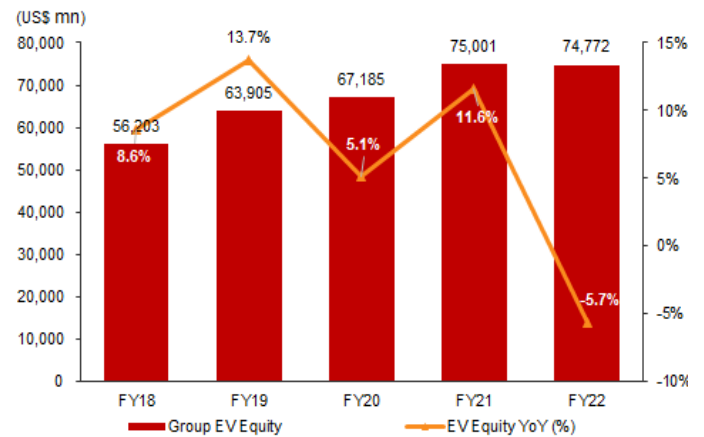
Source: Company data, CMBIGM

Figure 16: VNB Growth on AER & CER Basis (excl. adj.)

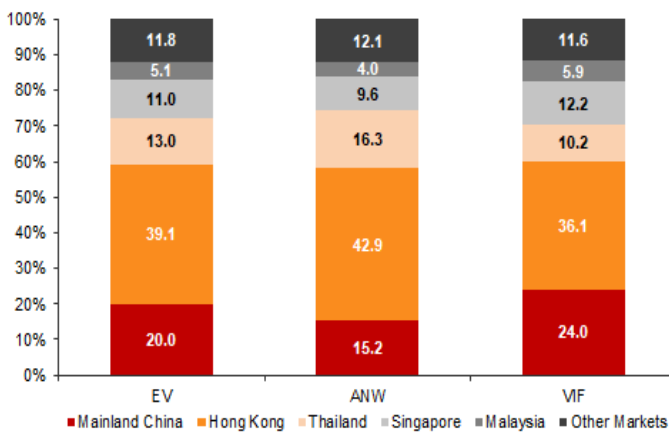
Source: Company data, CMBIGM

Figure 17: AIA Group EV & EV YoY%

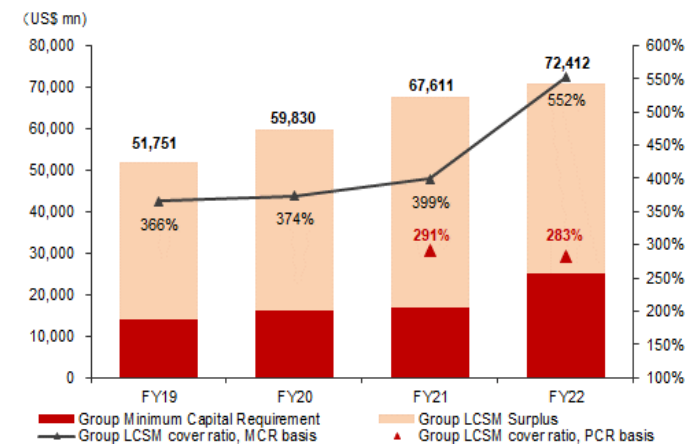
Source: Company data, CMBIGM

Figure 18: AIA Group EV Equity & EV Equity YoY%

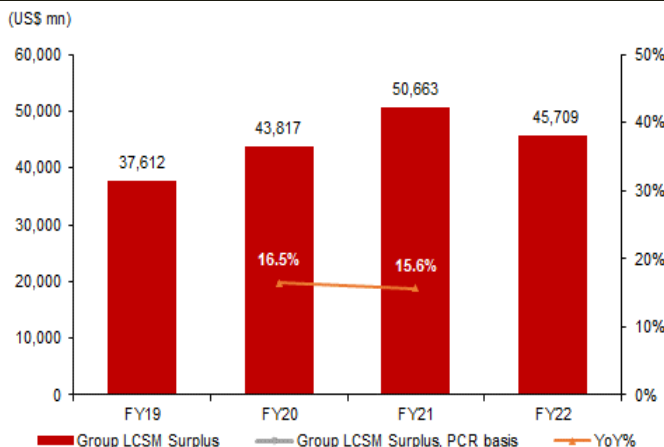
Source: Company data, CMBIGM

Figure 19: EV, ANW & VIF breakdown by countries

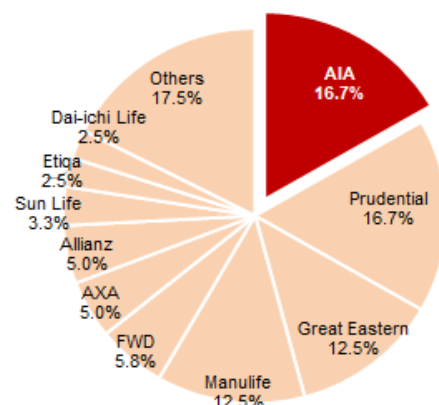
Source: Company data, CMBIGM

Figure 20: AIA Group LCSM cover ratio under GWS

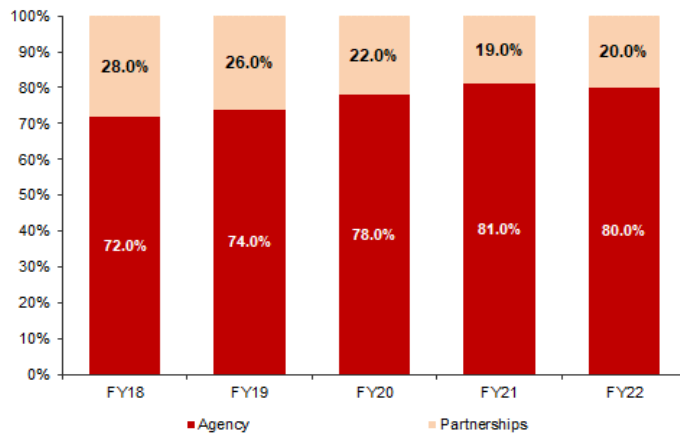
Source: Company data, CMBIGM | Note: LCSM stands for Local Capital Summation Method under the group-wide supervision (GWS) framework set by HKIA, where the new prescribed capital requirement (PCR) basis has been adopted since FY22.

Figure 21: AIA Group LCSM Surplus & YoY%

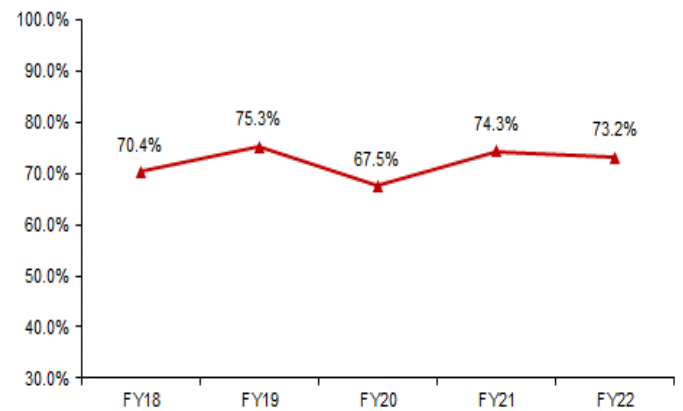
Source: Company data, CMBIGM | Note: the Group changed from minimum capital requirement (MCR) to prescribed capital requirement (PCR) under the LCSM in FY22; Group LCSM surplus in FY22 is on a PCR basis whereas the LCSM surplus in FY21 is on a MCR basis.

Figure 22: AIA life ANP market share in SEA (%)

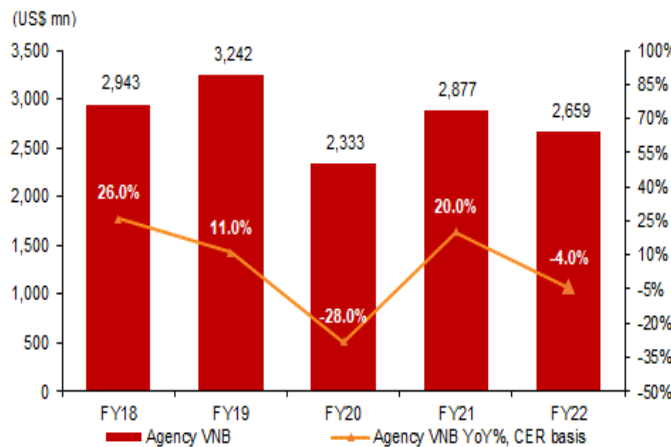
Source: Company data, CMBIGM, NMG; Note: Data subject to FY21, SEA markets refer to Thailand, Indonesia, Malaysia, the Philippines, Singapore and Vietnam, incl. most AIA Group's operating markets.

Figure 23: AIA distribution mix of agency and partnerships

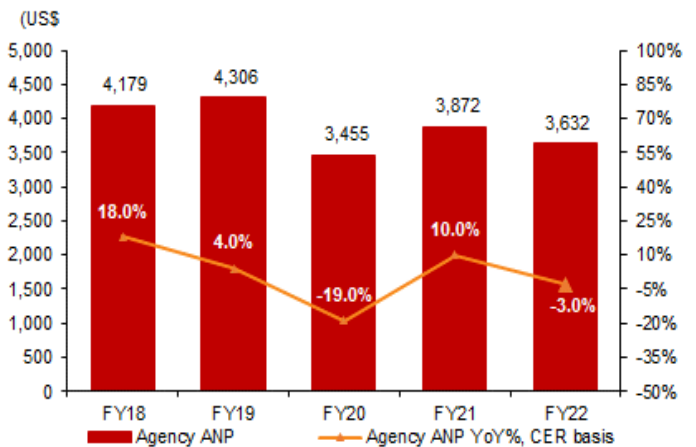
Source: Company data, CMBIGM

Figure 24: Premier Agency VNB margin sustained 70%+

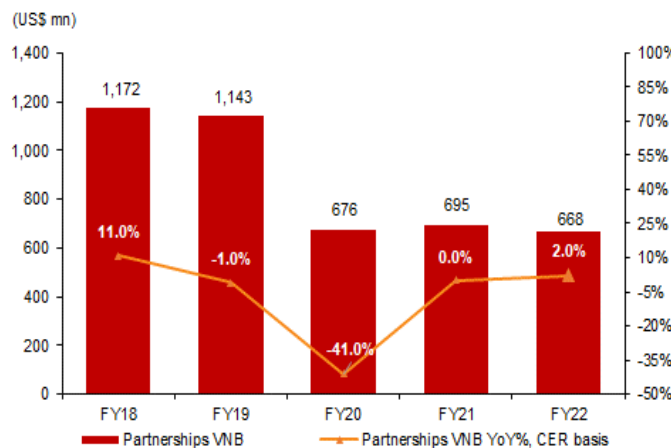
Source: Company data, CMBIGM | Note: the agency VNB margin is calc. on an ANP basis.

Figure 25: AIA Agency VNB & VNB YoY% (FY18-FY22)

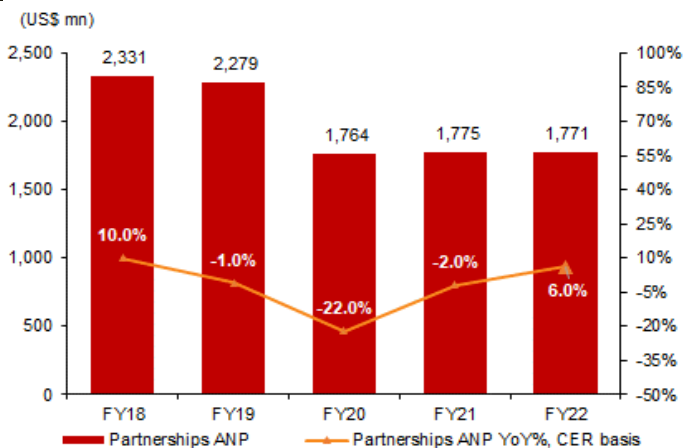
Source: Company data, CMBIGM; | Note: CER stands for year-over-year change based on constant exchange rate, which calc. with average exchange rates within a period of time, thus excl. the impacts of FX movements.

Figure 26: AIA Agency APE & APE YoY% (FY18-FY22)

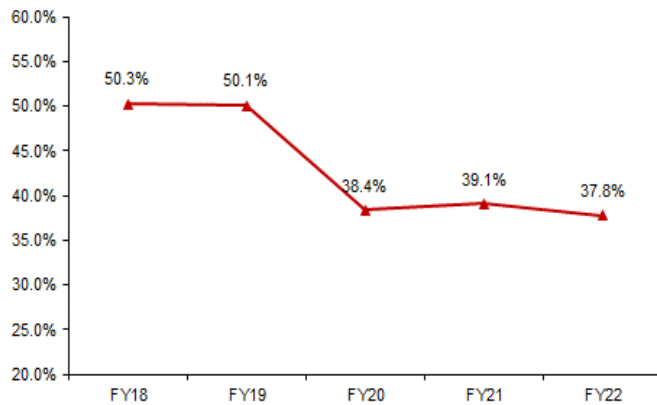
Source: Company data, CMBIGM; | Note: CER stands for year-over-year change based on constant exchange rate, which calc. with average exchange rates within a period of time, thus excl. the impacts of FX movements.

Figure 27: AIA Partnerships VNB & VNB YoY% (FY18-FY22)

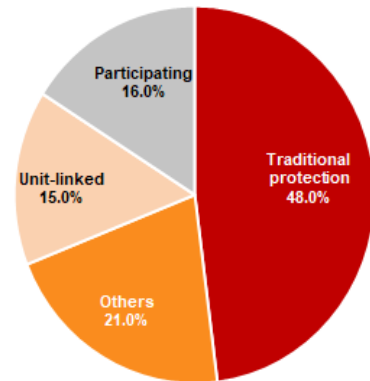
Source: Company data, CMBIGM; | Note: CER stands for year-over-year change based on constant exchange rate, which calc. with average exchange rates within a period of time, thus excl. the impacts of FX movements.

Figure 28: AIA Partnerships APE & APE YoY% (FY18-FY22)

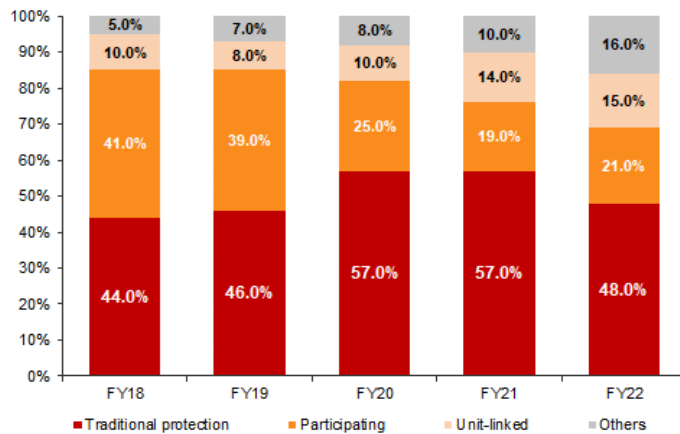
Source: Company data, CMBIGM; | Note: CER stands for year-over-year change based on constant exchange rate, which calc. with average exchange rates within a period of time, thus excl. the impacts of FX movements.

Figure 29: AIA Partnerships VNB margin, ANP basis

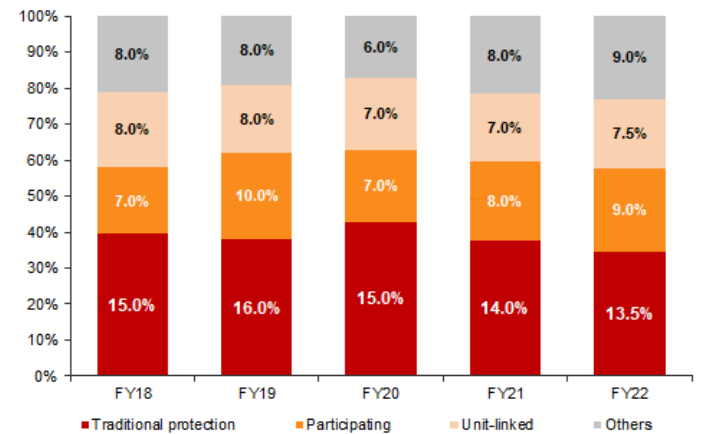
Source: Company data, CMBIGM

Figure 30: AIA VNB product mix in FY22

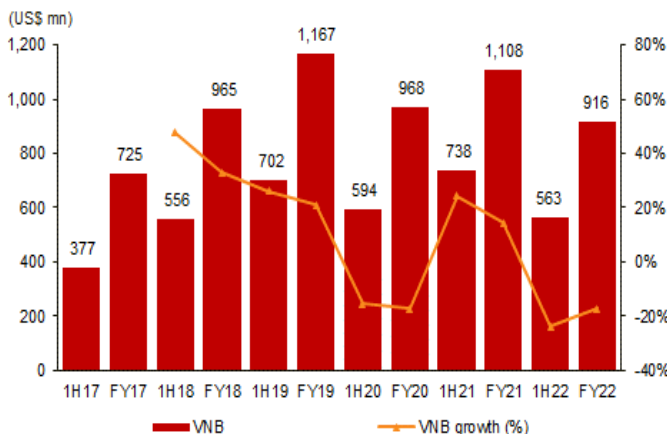
Source: Company data, CMBIGM

Figure 31: AIA VNB margin by products, FY18-FY22

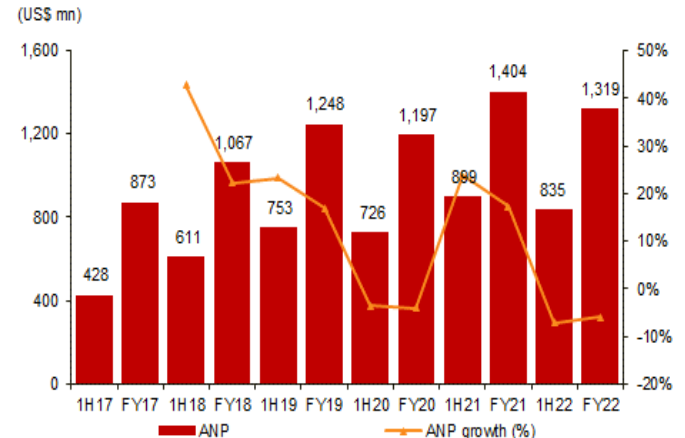
Source: Company data, CMBIGM

Figure 32: AIA PVNBP margin by products, FY18-FY22

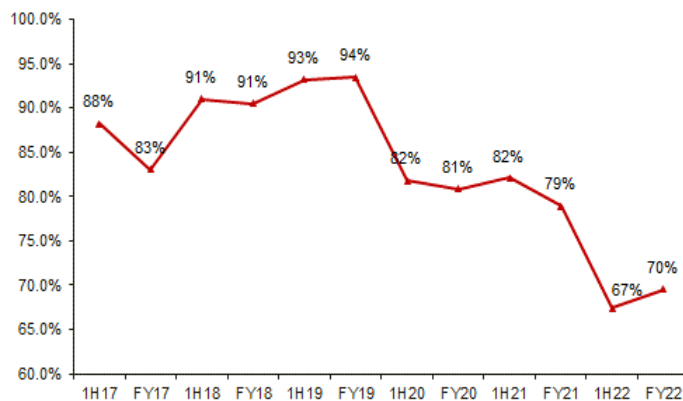
Source: Company data, CMBIGM

Figure 33: AIA China VNB & YoY (1Q17-FY22, semi-annual)

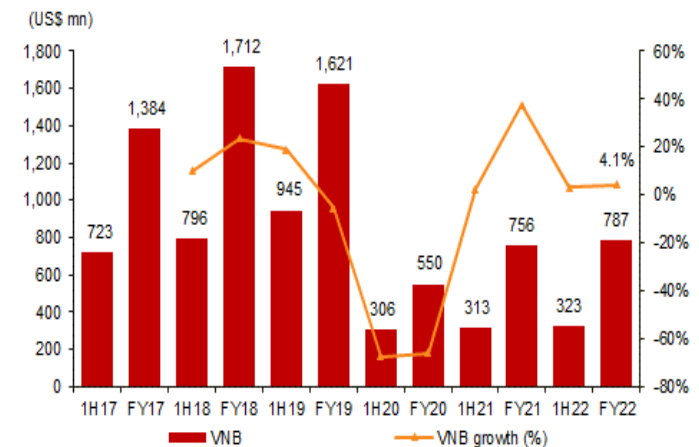
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure 34: AIA China ANP & YoY (1Q17-FY22, semi-annual)

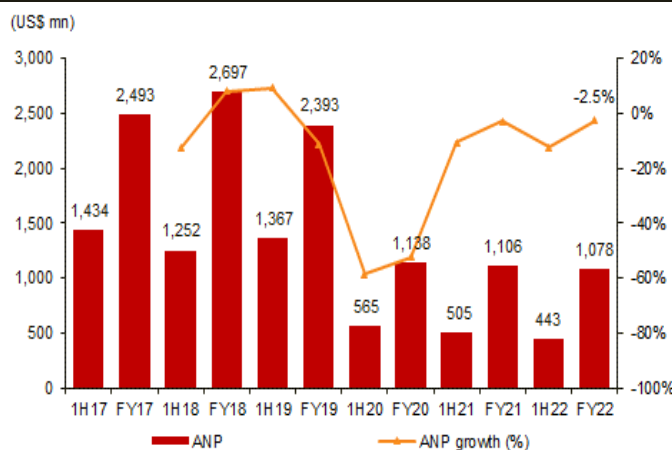
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure35: AIA China VNB margin (1Q17-FY22, semi-annual)

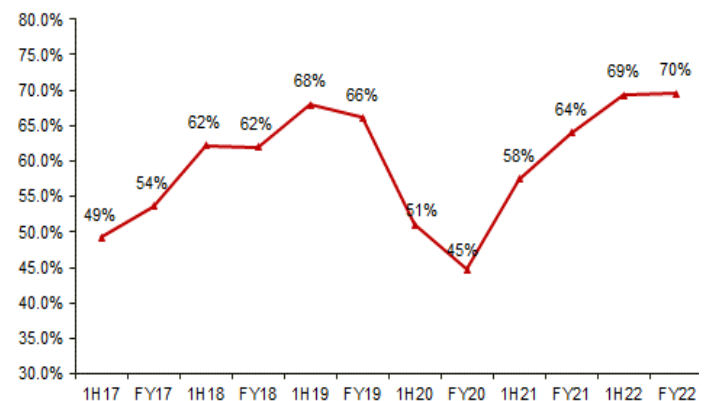
Source: Company data, CMBIGM

Figure 36: AIA HK VNB & YoY (1Q17-FY22, semi-annual)

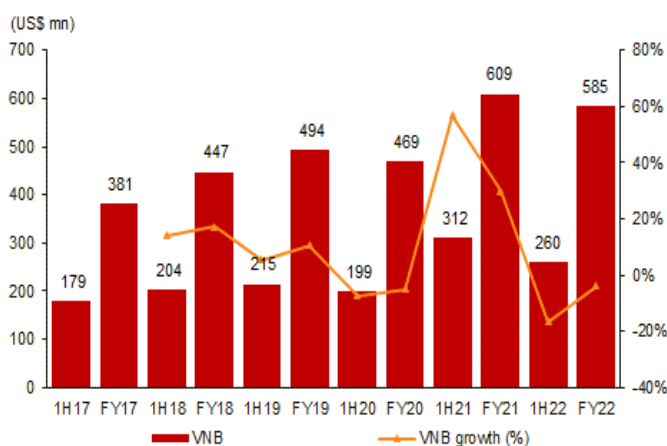
Source: Company data, CMBIGM | Note: 1) AIA Other markets covers geographical footprint in Australia, Cambodia, India, Indonesia, Myanmar, New Zealand, The Philippines, South Korea, Sri Lanka, Taiwan(China), Vietnam; 2) the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure 37: AIA HK ANP & YoY (1Q17-FY22, semi-annual)

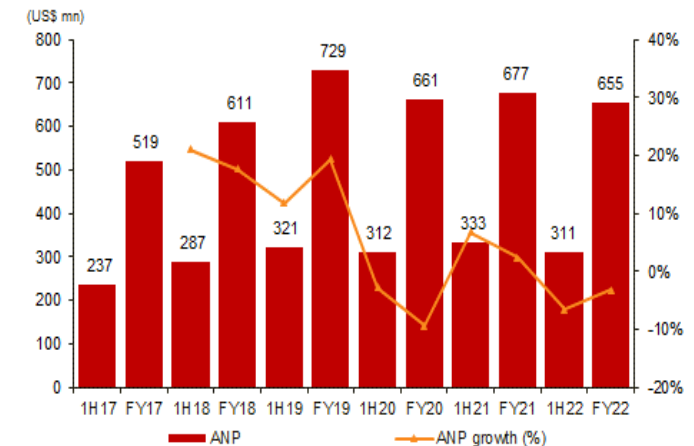
Source: Company data, CMBIGM | Note: 1) AIA Other markets covers geographical footprint in Australia, Cambodia, India, Indonesia, Myanmar, New Zealand, The Philippines, South Korea, Sri Lanka, Taiwan(China), Vietnam; 2) the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure38: AIA HK VNB margin (1Q17-FY22, semi-annual)

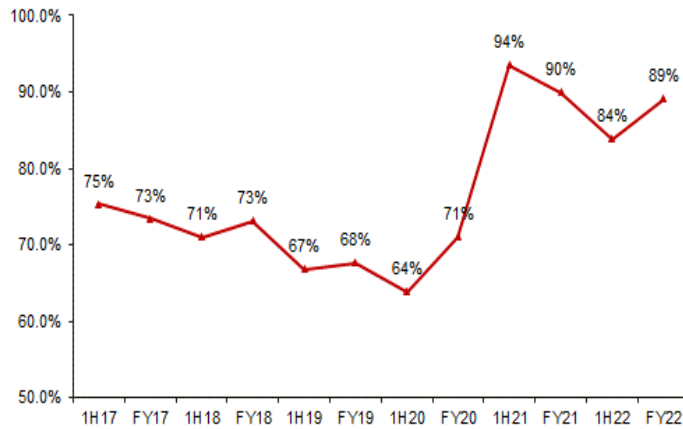
Source: Company data, CMBIGM | Note: 1) AIA Other markets covers geographical footprint in Australia, Cambodia, India, Indonesia, Myanmar, New Zealand, The Philippines, South Korea, Sri Lanka, Taiwan(China), Vietnam.

Figure 39: AIA Thailand VNB & YoY (1Q17-FY22, semi-annual)

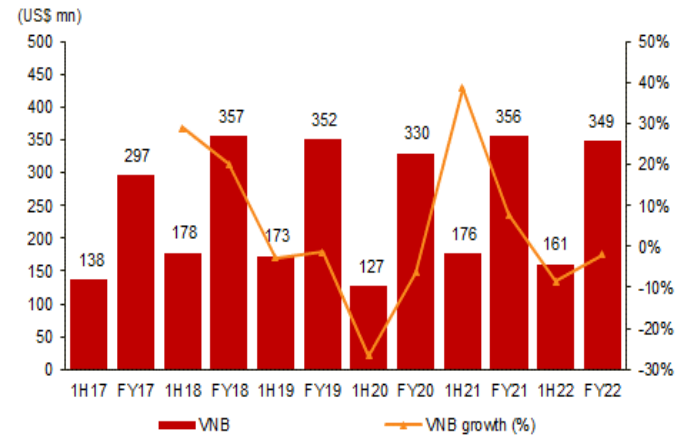
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure 40: AIA Thailand ANP & YoY (1Q17-FY22, semi-annual)

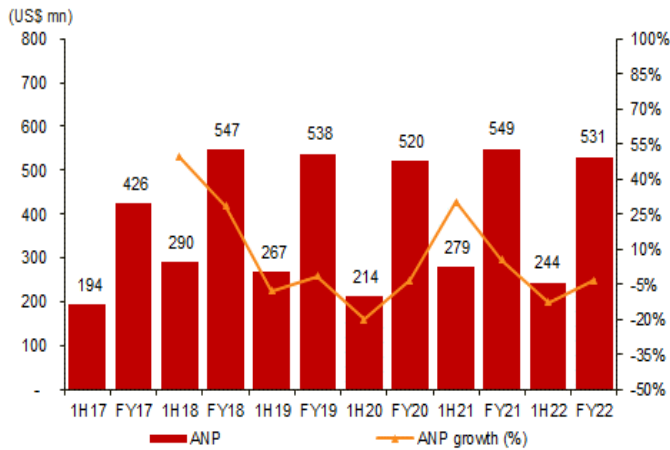
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure 41: AIA Thailand VNB margin (1Q17-FY22, semi-annual)

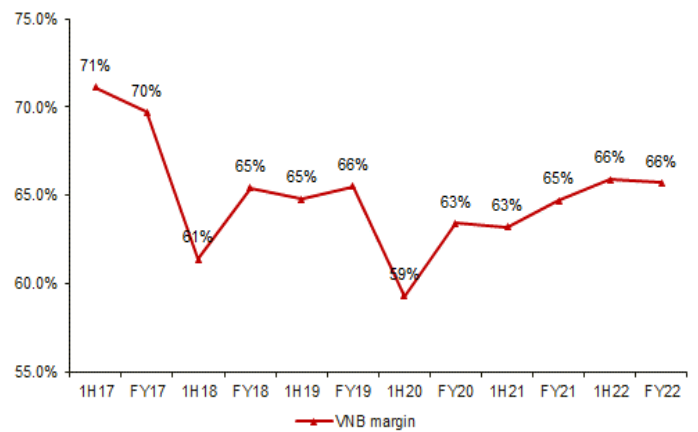
Source: Company data, CMBIGM

Figure 42: AIA Singapore VNB & YoY (1Q17-FY22, semi-annual)

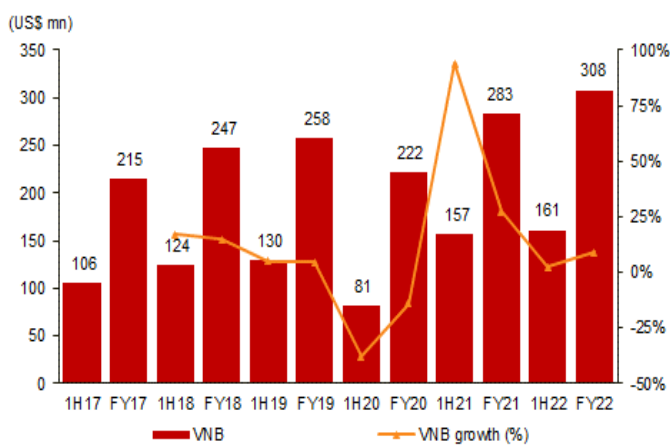
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure 43: AIA Singapore ANP & YoY (1Q17-FY22, semi-annual)

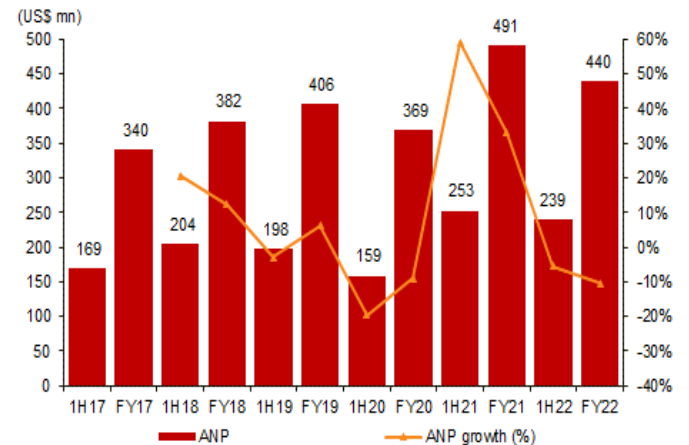
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure 44: AIA Singapore VNB margin (1Q17-FY22, semi-annual)

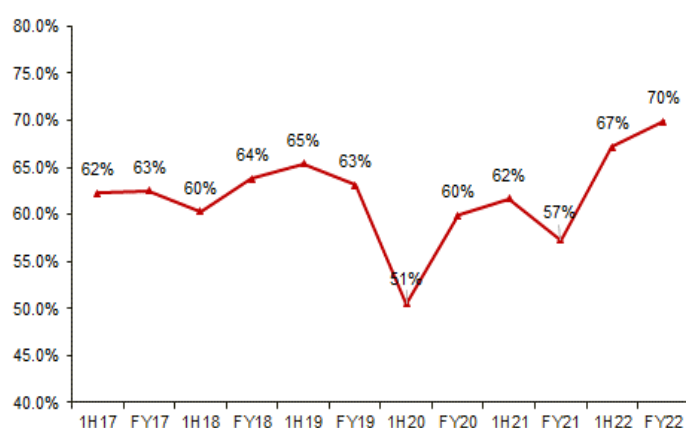
Source: Company data, CMBIGM

Figure 45: AIA Malaysia VNB & YoY (1Q17-FY22, semi-annual)

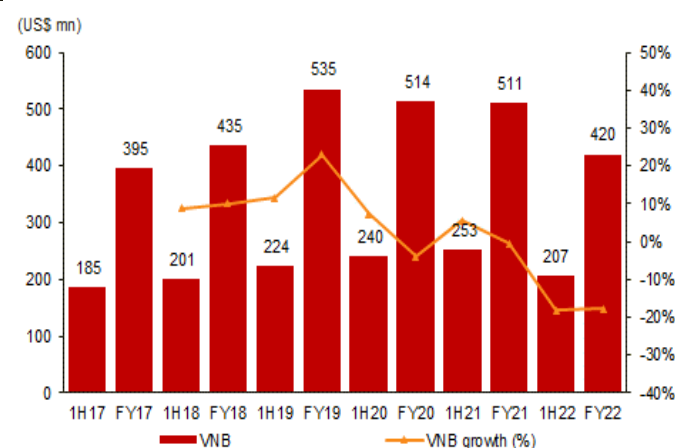
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure 46: AIA Malaysia ANP & YoY (1Q17-FY22, semi-annual)

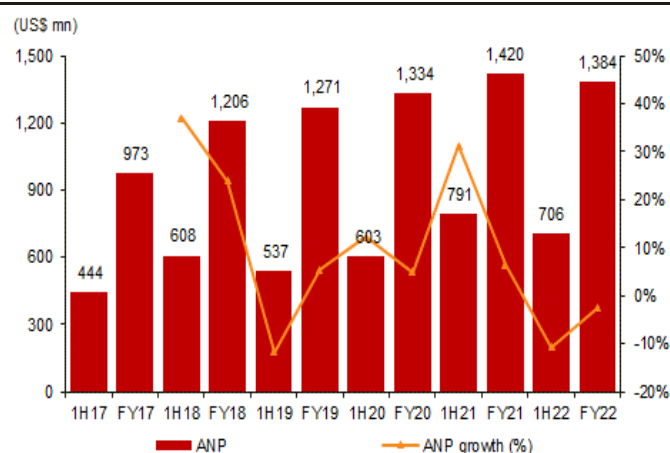
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure 47: AIA Malaysia VNB margin (1Q17-FY22, semi-annual)

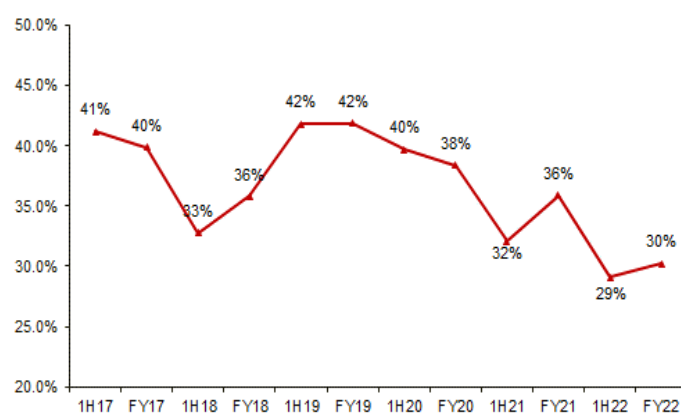
Source: Company data, CMBIGM

Figure 48: AIA Others VNB & YoY (1Q17-FY22, semi-annual)

Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure 49: AIA Others ANP & YoY (1Q17-FY22, semi-annual)

Source: Company data, CMBIGM | Note: the year-over-year growth is derived on an actual exchange rate (AER) basis.

Figure 50: AIA Others VNB margin (1Q17-FY22, semi-annual)

Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Total income	50,359	47,525	19,110	48,702	56,721	66,135
Premiums written (gross)	35,780	37,123	36,519	43,092	50,849	60,002
Premiums earned (net)	33,328	34,444	33,912	40,016	47,219	55,719
Investment income	16,707	12,748	(15,156)	8,332	9,147	10,062
Other operating income	324	333	354	354	354	354
Losses	(43,072)	(39,046)	(18,587)	(39,902)	(46,951)	(55,269)
Selling	(34,739)	(30,055)	(9,964)	(30,097)	(35,515)	(41,908)
Underwriting & commissions	(4,402)	(4,597)	(4,016)	(5,442)	(6,422)	(7,578)
Other operating expense	(3,012)	(3,402)	(3,644)	(3,359)	(3,964)	(4,677)
Non-operating income (expense)	(919)	(992)	(963)	(1,004)	(1,051)	(1,106)
Equity in affiliates (pretax)	(17)	(11)	(32)	0	0	0
Excp'l chrgs - others	0	0	0	0	0	0
Pretax income	7,270	8,468	491	8,800	9,769	10,866
Income taxes	(1,491)	(991)	(171)	(1,320)	(1,465)	(1,630)
Minority interest	0	(50)	(38)	(38)	(38)	(38)
Net income	5,779	7,427	282	7,442	8,266	9,198
Net income available to common	5,779	7,427	282	7,442	8,266	9,198

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Assets						
Cash & short-term investments	5,619	4,989	8,020	4,626	5,089	5,598
Total fixed income securities investment	211,216	209,391	173,668	194,420	213,862	224,496
Total equity securities investment	59,182	71,017	61,955	65,851	72,436	79,680
Real estate assets	7,361	7,460	7,444	7,501	8,251	9,077
Other investments	1,069	1,468	568	1,361	1,497	1,647
Investment in unconsolidated subs.	606	679	2,092	2,301	2,531	2,784
Intangible assets	2,634	2,914	3,277	3,605	3,965	4,362
Other assets	38,434	41,956	41,643	43,260	45,134	47,311
Total assets	326,121	339,874	303,048	322,925	352,766	385,706
Liabilities & shareholders' equity						
Insurance policy liabilities	235,952	251,283	226,647	242,526	261,264	283,375
ST debt & curr. portion LT debt	1,664	1,588	1,748	1,923	2,115	2,327
Long-term debt	8,559	9,588	11,206	11,766	12,355	12,972
Provision for risks & charges	230	194	160	184	212	243
Deferred tax liabilities	6,902	5,982	3,563	3,919	4,311	4,742
Other liabilities	9,146	10,305	21,174	18,320	25,852	29,227
Total liabilities	262,453	278,940	264,498	278,638	306,109	332,886
Total common equity	63,200	60,467	38,096	43,832	46,202	52,365
Common stock/ordinary capital	14,155	14,160	14,171	14,171	14,171	14,171
Capital surplus	0	0	0	0	0	0
Retained earnings	44,704	49,984	44,437	46,173	48,543	54,706
Equity reserves	4,341	(3,677)	(20,512)	(16,512)	(16,512)	(16,512)
Revaluation reserves	15,170	8,407	(6,709)	(2,709)	(2,709)	(2,709)
Other appropriated Reserves	233	(1,068)	(2,813)	(2,813)	(2,813)	(2,813)
Unappropriated (free) reserves	(11,062)	(11,016)	(10,990)	(10,990)	(10,990)	(10,990)
Total shareholders' equity	63,200	60,467	38,096	43,832	46,202	52,365
Minority interest	468	467	454	454	454	454
Total equity	63,668	60,934	38,550	44,286	46,656	52,819
Total liabilities & shareholders' equity	326,121	339,874	303,048	322,831	352,766	385,706

PER SHARE DATA	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
DPS	1.28	1.39	1.51	1.69	1.92	2.14
EPS (Reported)	3.71	4.81	0.19	5.04	5.75	6.49
Consensus EPS	na	na	na	0.62	0.70	0.82
Group embedded value/share (HK\$)	47.18	49.51	46.07	49.51	54.42	61.17
VNB/share (HK\$)	2.18	2.50	2.03	2.50	3.00	3.56
No. of shares basic	12,095	12,097	11,734	11,434	11,134	11,134
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Return on equity (ROE)	9.8	12.0	0.6	18.2	18.4	18.7
Return on asset (ROA)	1.9	2.2	0.1	2.4	2.4	2.5
Return on life embedded Value	11.2	4.6	-5.8	4.6	6.8	11.7
VNB margin (FYP APE basis)	53.0	59.6	57.2	57.9	59.3	60.6
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/EV	1.7	1.6	1.8	1.6	1.5	1.3
P/B	2.0	2.1	3.2	2.7	2.5	2.2
Div yield (%)	1.6	1.7	1.9	2.1	2.4	2.6

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

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