

CPIC (2601 HK)

Margin expansion driven by improving agency quality; Critical illness biz picked up in Apr

BUY (Maintain)

CPIC achieved positive VNB growth for three consecutive quarters with 16.6% YoY growth reported in 1Q23, outperforming major peers (i.e. Ping An/China Life +8.8%/+7.7% YoY). The strong VNB momentum in 1Q23 was primarily driven by margin expansion resulted from favourable changes in product and duration mix, thanks to improved agent productivity and capability on back of the Group's ongoing agency reform. The headcount of highly productive agency force that contributed above 90% of the insurer's VNB modestly rebounded QoQ in 1Q23, whereas major peers are still weighing on a downward trend in agent scale (vs Ping An/China Life -9.2%/-0.9% QoQ). Beyond volumes, the revenue side of metrics incl. average first-year commissions (FYC) and total income per agent increased substantially YoY. Since April, CPIC Life has seen a new business sales pickup in critical illness insurance contracts, bearing the fruit of the Company's newly launched product campaign to meet with untapped protection demands. Looking forward, we expect the improvement on product mix driven by enhanced agent quality will continue to accelerate margin expansion. Raise VNB forecasts in FY23E-25E by 7-8%. Reiterate BUY.

■ **Life: Strong VNB YoY driven by margin expansion; protection business picked up in April.** VNB margin on first-year premium (FYP) basis improved 3pcts YoY to 12% in 1Q23 (vs 9% in 1Q22), given new business contributions from long-term annuity and whole life insurance increased. The lengthened duration of insurance policies contributing to high margin outputs partially confirmed the insurer's improved agency capability. Beyond first quarter, the management as well mentioned in briefing that new business sales on critical illness contracts rebounded when entering into April, leading the industry on recovery of high margin protection business whilst most peers were still muddling with challenges on VNB margin decline given tilts towards savings products. We look positive on subsequent improvements on product mix composed of more protections, which help generate higher margin and boost VNB growth.

■ **P&C: UW margin progressively improved; minimal impacts under the adoption of IFRS 17.** CPIC P&C reported its first quarterly results under the adoption of IFRS 17 since the inception of regulatory mandates on 1/1/2023. In 1Q23, the P&C insurer's combined ratio improved 1.2pcts YoY to 98.4% compared to 99.6% in 1Q22 under IFRS17, vs 99.1% under old accounting rules reported for 1Q22. Total UW margin increase benefited from the Auto sector given less loss experience occurred compared to the industry average.

■ **Valuation.** CPIC-H is now trading at 0.4x P/EV FY23E and 0.8x P/BV FY23E, lingering around the 2-yr avg. We believe the valuation holds space for upward re-rating on margin expansion in boost of future VNB growth.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (RMB mn)	27,618	25,240	39,272	45,703	52,332
EPS (Reported)(RMB)	2.79	2.56	3.98	4.63	5.30
YoY growth (%)	6.0	(8.2)	55.5	16.4	14.5
Consensus EPS (RMB)	n.a	n.a	2.94	3.37	3.71
Group embedded value / share (RMB)	51.80	54.01	58.25	64.46	71.21
Combined ratio (%)	99.0	97.3	97.3	97.3	97.3
P/B (x)	1.0	0.7	0.8	0.7	0.6
P/Embedded value (x)	0.4	0.4	0.4	0.3	0.3
Dividend yield (%)	4.4	6.6	6.4	7.4	8.5
ROE (%)	12.1	11.0	16.3	16.8	16.8

Source: Company data, Bloomberg, CMBIGM estimates | Note: the stock price is quoted by market close at 4:00pm on 28/4/2023.

Target Price HK\$29.72
(Previous TP) HK\$29.72
Up/Downside 27.3%
Current Price HK\$23.35

China Insurance

Gigi CHEN, CFA
(852) 3916 3739
gigichen@cmbi.com.hk

Nika MA
(852) 3900 0805
nikama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn) 64,796.3
Avg 3 mths t/o (HK\$ mn) 281.1
52w High/Low (HK\$) 24.20/12.20
Total Issued Shares (mn) 2775.0

Source: FactSet

Shareholding Structure

China Baowu Steel Group 14.1%
Shenergy (Group) 13.8%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	13.1%	12.5%
3-mth	1.3%	15.5%
6-mth	90.1%	42.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PwC

Related Reports:

1. CPIC (2601 HK) - Re-energizing agency force ([link](#))
2. CPIC (2601 HK) - VNB growth turned positive in June ([link](#))
3. CPIC (2601 HK) - VNB growth turned positive in 3Q22 ([link](#))
4. CPIC (2601 HK) - Expect sustainable DPS growth onwards ([link](#))

Focus Charts - 1Q23 key metrics

Figure 1: CPIC Group 1Q23 vs 1Q22 results under IFRS 17

(RMBmn)	1Q22	1Q23	YoY chg
Net profit attribute to shareholders	9,127	11,626	27.4%
Group insurance revenue	61,169	65,390	6.9%
Life	23,253	21,974	-5.5%
P&C	37,720	43,038	14.1%
Net investment yield (%)	1.0	0.8	(0.2) ppt
Total investment yield (%)	1.0	1.4	0.4 ppt
Total investment assets	1,867,262	2,079,546	11.4%
Total investment income	17,371	1,100	-93.7%

Source: Company Data, CMBIGM

Figure 2: CPIC Life 1Q23 vs 1Q22 results under IFRS 17

CPIC Life	1Q22	1Q23	YoY chg
VNB	3,406	3,971	16.6%
FYP (P/L related)	37,090	32,661	-11.9%
VNB margin (FYP)	9.2%	12.2%	3.0 ppt
Agency FYP	13,060	12,277	-6.0%
Agency FYRP	8,099	8,443	4.2%

Source: Company Data, CMBIGM

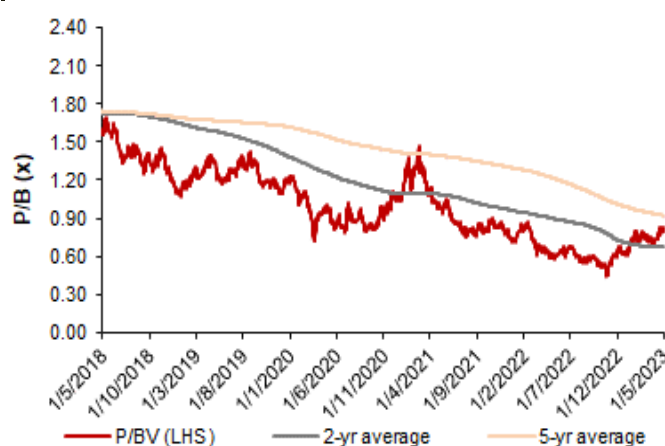
Figure 3: CPIC P&C 1Q23 vs 1Q22 results under IFRS 17

CPIC P&C	1Q22	1Q23	YoY chg
Combined ratio (%)	99.6	98.4	(1.2) ppt
Premium income	49,282	57,543	16.8%
Auto	24,439	25,897	6.0%
Non-auto	24,843	31,646	27.4%

Source: Company Data, CMBIGM

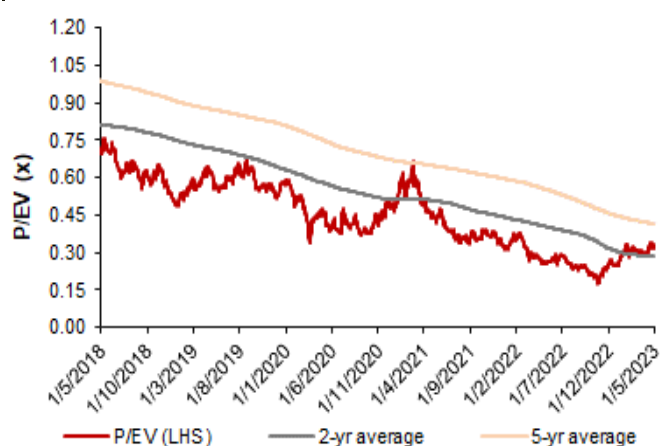
Valuation: 12M forward P/BV & P/EV vs 2-yr / 5-yr historical avg.

Fig. 4: CPIC 12M forward P/B at 0.8x close to its 2-yr avg.



Source: Company data, CMBIGM | Note: the company stock price is quoted by market close at 4:00pm on 28/4/2023.

Fig. 5: CPIC 12M forward P/EV at 0.4x close to its 2-yr avg.



Source: Company data, CMBIGM | Note: the company stock price is quoted by market close at 4:00pm on 28/4/2023.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Total income	418,964	436,331	449,945	451,070	461,000	481,423
Premiums written (gross)	362,064	366,782	398,818	395,140	405,240	424,478
Premiums earned (net)	331,639	339,535	368,878	362,872	370,755	387,418
Investment income	82,740	91,643	75,768	82,985	84,919	88,440
Other operating income	4,585	5,153	5,299	5,213	5,326	5,565
Losses	(390,238)	(406,334)	(425,170)	(412,319)	(415,855)	(429,687)
Selling	0	(42,099)	(45,589)	0	0	0
Underwriting & commissions	0	(30,304)	(27,929)	0	0	0
Other operating expense	(93,479)	(417,919)	(436,671)	(80,338)	(84,268)	(91,224)
Operating income before interest expense	32,070	34,004	29,193	43,702	50,491	57,510
Interest expense	(3,344)	(4,007)	(4,418)	(4,951)	(5,347)	(5,774)
Operating income after interest expense	29,238	30,796	25,176	39,172	45,587	52,200
Pretax income	29,238	30,796	25,176	39,172	45,587	52,200
Income taxes	(3,886)	(3,178)	64	100	116	133
Minority interest	768	784	631	982	1,143	1,308
Net income	25,352	27,618	25,240	39,272	45,703	52,332
Net income available to common shareholders	24,584	26,834	24,609	38,290	44,560	51,024

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	20,878	32,545	33,134	33,420	33,708	33,999
Investments	685,322	738,116	832,594	839,774	847,015	854,319
Total fixed income securities investment	909,358	1,006,651	1,123,327	1,133,014	1,142,784	1,152,638
Total equity securities investment	24,443	26,984	25,829	26,052	27,647	30,927
Real estate assets	27,159	27,656	30,958	28,364	28,391	28,223
Other investments	0	0	0	0	0	0
Premium balance receivables	50,435	57,321	62,094	62,629	63,169	63,714
Deferred tax assets	845	1,998	8,903	8,980	9,057	9,135
Intangible assets	1,357	1,372	1,372	1,372	1,372	1,372
Goodwill	3,323	3,479	6,666	0	0	0
Other assets	47,884	50,042	51,422	51,865	52,313	52,764
Total assets	1,771,004	1,946,164	2,176,299	2,195,065	2,380,439	2,571,196
Liabilities & shareholders' equity						
Insurance policy liabilities						
ST debt & curr. portion LT debt	97,117	112,838	130,028	139,630	150,001	161,201
Long-term debt	3,430	3,105	2,718	2,718	2,718	2,718
Deferred tax liabilities	5,055	3,601	832	832	832	832
Other liabilities	219,391	208,882	250,675	251,872	253,949	256,893
Total liabilities	1,550,169	1,713,759	1,942,171	1,939,605	2,088,122	2,237,306
Total common equity						
Common stock/ordinary capital	9,620	9,620	9,620	9,620	9,620	9,620
Retained earnings	81,533	93,169	105,205	137,356	172,994	213,179
Equity reserves	124,071	123,952	107,253	100,187	100,187	100,187
Total shareholders' equity	215,224	226,741	222,078	247,163	282,801	322,986
Minority interest	5,611	5,664	5,682	8,298	9,516	10,903
Total equity	220,835	232,405	234,128	255,460	292,317	333,890
Total liabilities & shareholders' equity	1,771,004	1,946,164	2,176,299	2,195,065	2,380,439	2,571,196

PER SHARE DATA	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
DPS	1.30	1.00	1.02	1.31	1.53	1.75
EPS (Reported)	2.63	2.79	2.56	3.98	4.63	5.30
Diluted EPS	2.63	2.79	2.56	3.98	4.63	5.30
Group embedded value/share (HK\$)	47.75	51.80	54.01	58.25	64.46	71.21
No. of shares basic	9,353	9,620	9,620	9,620	9,620	9,620
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Return on equity (ROE)	12.5%	12.1%	11.0%	16.3%	16.8%	16.8%
Return on asset (ROA)	1.5%	1.4%	1.2%	1.8%	1.9%	2.1%
Return on life embedded Value	14.8%	8.1%	4.2%	7.5%	10.1%	10.0%
VNB margin (FYP APE basis)	77.9%	53.2%	45.8%	49.1%	49.6%	50.5%
Combined ratio	99.0%	99.0%	97.3%	97.3%	97.3%	97.3%
Loss ratio	61.4%	69.6%	68.5%	68.5%	68.5%	68.5%
Expense ratio	37.6%	29.4%	28.8%	28.8%	28.8%	28.8%
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/EV	0.4	0.4	0.4	0.4	0.3	0.3
P/B	1.0	1.0	0.7	0.8	0.7	0.6
Div yield (%)	6.3	4.9	5.0	6.4	7.4	8.5

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
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

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.