

China Pacific Insurance (2601 HK)

Margin priority may compensate FYRP decline

CPIC announced 3Q19 results on 30 Oct 2019. GWP increased 7.7% YoY in 9M19 (Life +5.0%, P&C +12.9%). Net profit rose to RMB 22.9bn, representing YoY growth of 80.2%, or 42.6% after deducting non-recurring benefits from tax policy adjustments. Deepening decline of FYRP may spook market, but the Company's adherence to high-margin products would ensure a benign trend of NBV in the future.

- Result highlights. 1) Satisfactory investment performance.** Total investment income increased 24.4% YoY. Net investment yield stayed flat at 4.8% whereas gross investment yield inched up 0.4ppt YoY to 5.1%. **2) P&C premium growth were on track** by advancing 12.9% YoY to RMB 100.5bn. Auto GWP rose 5.3% YoY. We think underwriting quality outlook also remains positive, although combined ratio was not announced in quarterly reports.
- FYRP decline deepened, but margin improvement may boost NBV.** The decline of agency channel FYRP deepened in 3Q19 to -25%, vs. -16% in 1H19 (-18.1%/-11.7% in 1Q/2Q), primarily resulting from macro and industry headwinds as well as a high base last year. Management said the decline was mainly attributable to the shrink of lower-margin products. As the Company sticks to margin priority strategy, NBV decline could narrow in 2H19. We slightly revise down NBV forecast for 2019 to RMB 25.6bn, representing YoY decline of 5.5% (1H19 YoY decline was 8.4%).
- Life business strategy unfolded during Investor Day event.** The Company introduced clear strategic focus and action plans, which emphasizes 1) value, over volume, 2) core agent force expansion, 3) enriching "insurance + health + retirement" service ecosystem, and 4) technology empowerment. We think the above will lay solid foundation for long-term development for CPIC's life insurance business in light of new market environment.
- Risks.** 1) FYRP and NBV growth. 2) Potential short-term per share figures dilution following GDR issuance. 3) Capital market volatilities.
- Valuation.** We keep TP unchanged, after rolling over valuation basis to FY20E but slightly revise down FYRP, NBV and EV forecast in FY19. The H-share is now trading at 0.57x FY20E group P/EV with ~6% dividend yield, 1std below historical average. Our TP corresponds to 0.74x FY20E group P/EV. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
GWP (RMB mn)	281,644	321,895	348,591	376,492	405,628
YoY growth (%)	20.4	14.3	8.3	8.0	7.7
Total income (RMB mn)	319,405	353,103	384,796	416,571	448,807
Net profit (RMB mn)	14,662	18,019	28,175	31,541	34,993
EPS (RMB)	1.62	1.99	3.11	3.48	3.86
YoY Growth (%)	21.65	22.90	56.36	11.95	10.95
P/B (x)	2.03	1.86	1.35	1.22	1.10
P/EV (x)	0.97	0.83	0.62	0.57	0.52
Yield (%)	2.60	3.25	6.11	6.84	7.59
ROE (%)	10.89	12.55	17.52	17.41	17.48

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$37.12
(Previous TP)	HK\$37.12)
Up/Downside	+30.2%
Current Price	HK\$28.50

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	320,575
Avg 3 mths t/o (HK\$ mn)	451.39
52w High/Low (HK\$)	34.75/ 24.20
Total Issued Shares (mn)	2,775 (H)
	6,287 (A)

Source: Bloomberg

Shareholding Structure

Shenergy (Group)	14.64%
Fortune Investment	14.17%

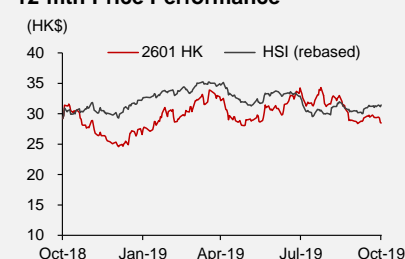
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.9%	-3.0%
3-mth	-16.6%	-12.0%
6-mth	-11.2%	-1.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "Potential GDR unlocks global access" – 24 Sep 2019
- "Lackluster life but improving P&C" – 26 Aug 2019
- "Result in-line, expect FYRP recovery" – 24 Apr 2019
- "Undervalued solid player" – 26 Mar 2019

Figure 1: 9M19 result summary

(RMB mn)						
P&L	9M18	9M19	YoY	3Q18	3Q19	YoY
Gross written premiums	266,310	286,817	7.7%	73,677	79,008	7.2%
Net premiums earned	248,111	258,274	4.1%	71,003	72,789	2.5%
Investment income	38,391	47,740	24.4%	12,975	16,219	25.0%
Total income	288,958	308,502	6.8%	84,817	89,876	6.0%
Insurance benefits and claim expenses	(194,474)	(214,621)	10.4%	(54,095)	(60,042)	11.0%
Underwriting costs	(45,256)	(37,272)	-17.6%	(12,798)	(10,306)	-19.5%
G&A expenses	(22,946)	(27,082)	18.0%	(9,144)	(8,981)	-1.8%
Total expenses	(268,561)	(286,028)	6.5%	(77,971)	(81,610)	4.7%
Associates and JVs	238	387	62.6%	77	110	42.9%
Pre-tax profit	20,635	22,945	11.2%	6,923	8,460	22.2%
Income tax	(7,621)	447	-105.9%	(2,358)	(1,594)	-32.4%
Less: Minority interests	299	478	59.9%	104	135	29.8%
Net profit	12,715	22,914	80.2%	4,461	6,731	50.9%
B/S	3Q18	3Q19	YoY	2Q19	3Q19	QoQ
Total assets	1,290,212	1,493,371	15.7%	1,475,220	1,493,371	1.2%
Insurance contracts liabilities	916,694	1,053,810	15.0%	1,024,510	1,053,810	2.9%
Total liabilities	1,142,861	1,318,438	15.4%	1,308,141	1,318,438	0.8%
Equity attributable to shareholders	142,996	170,233	19.0%	162,526	170,233	4.7%
Key indicators	9M18	9M19	YoY	3Q18	3Q19	YoY
Life GWP (RMB mn)	176,996	185,880	5.0%	45,959	47,452	3.2%
Life FYRP from agency channel (RMB mn)	36,404	29,635	-18.6%	9,213	6,835	-25.8%
P&C GWP (RMB mn)	88,983	100,456	12.9%	28,298	100,456	255.0%
Auto insurance GWP (RMB mn)	64,041	67,447	5.3%	20,186	67,447	234.1%
Net investment yield	4.80%	4.80%	0.0 ppt	n/a	n/a	n/a
Gross investment yield	4.70%	5.10%	+0.4 ppt	n/a	n/a	n/a
Key indicators	3Q18	3Q19	YoY	2Q19	3Q19	QoQ
Group investment assets (RMB mn)	1,183,688	1,370,719	15.8%	1,356,282	1,370,719	1.1%
Comprehensive solvency ratio - Life	255.0%	259.0%	+4.0 ppt	257.0%	259.0%	+2.0 ppt
Comprehensive solvency ratio - P&C	308.0%	291.0%	-17 ppt	285.8%	291.0%	+5.2 ppt

Source: Company data, CMBIS

Financial Summary

Income

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premium	281,644	321,895	348,591	376,492	405,628
Incl: Life GWP	175,628	202,414	217,451	233,550	249,820
P&C GWP	104,614	117,808	131,140	142,942	155,807
Net premiums earned	263,554	299,724	322,828	348,476	375,025
Investment income	52,657	49,999	58,417	64,262	69,657
Total income	319,405	353,103	384,796	416,571	448,807
Insurance claims and reserves	(210,130)	(226,444)	(247,306)	(265,801)	(285,145)
Other operating expenses	(88,247)	(98,986)	(107,060)	(103,792)	(111,513)
Total expenses	(298,377)	(325,430)	(354,366)	(369,593)	(396,658)
Associates and JVs	74	335	451	474	497
Pre-tax profit	21,102	28,008	30,882	47,452	52,646
Income tax	(6,111)	(9,574)	(2,058)	(15,185)	(16,847)
Less: Minority interests	(329)	(415)	(649)	(726)	(806)
Net profit	14,662	18,019	28,175	31,541	34,993

Key ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Group (%)					
Total GWP growth	20.4	14.3	8.3	8.0	7.7
Total income growth	20.0	10.6	9.0	8.3	7.7
Net profit growth	21.6	22.9	56.4	11.9	10.9
EV growth	16.4	17.5	11.4	8.9	8.4
Net investment yield	5.4	4.9	4.5	4.5	4.5
Total investment yield	5.4	4.6	4.5	4.5	4.5
Investment assets growth	14.8	14.1	12.6	7.7	9.0
Life (%)					
GWP growth	27.9	15.3	7.4	7.4	7.0
Agent FYRP growth	31.2	(9.7)	(10.0)	2.0	3.0
NBV growth	40.3	1.5	(5.5)	2.0	3.0
NBV margin (NBV/agent APE)	56.5	63.2	66.4	66.4	66.4
Life comprehensive solvency	245.3	260.8	262.4	264.0	260.0
P&C (%)					
GWP growth	8.8	12.6	11.3	9.0	9.0
Auto GWP/total P&C	78.2	74.7	71.0	67.5	64.7
Loss ratio	59.9	56.3	56.3	56.3	56.3
Expense ratio	38.9	42.1	42.1	42.1	42.1
Combined ratio	98.8	98.4	98.4	98.4	98.4
P&C comprehensive solvency	267.4	305.9	299.7	297.5	296.8
Returns (%)					
Life RoEV	24.8	24.7	16.5	15.7	15.3
P&C ROE	10.7	10.0	16.8	15.9	15.3
Per share					
EPS (RMB)	1.62	1.99	3.11	3.48	3.86
DPS (RMB)	0.80	1.00	1.56	1.75	1.94
EVPS (RMB)	31.58	37.09	41.32	45.00	48.76
BVPS (RMB)	15.17	16.51	19.00	20.99	23.19

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Investment assets	1,081,282	1,233,222	1,388,112	1,495,078	1,629,827
other assets	89,942	102,737	113,528	153,172	174,328
Total assets	1,171,224	1,335,959	1,501,639	1,648,250	1,804,155
Insurance liabilities	858,507	981,926	1,119,445	1,245,898	1,381,209
Subordinated debt & others	171,598	199,985	205,074	206,400	206,262
Total liabilities	1,030,105	1,181,911	1,324,518	1,452,298	1,587,471
Shareholders' equity	137,498	149,576	172,142	190,249	210,178
Minority interest	3,621	4,472	4,979	5,702	6,505
Total equity	141,119	154,048	177,121	195,952	216,683

Source: Company data, CMBIS estimates

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