

AIA Group Ltd. (1299 HK)

Strong 1Q23 momentum

With double-digit new business growth achieved across HK/China, ASEAN and India markets, AIA recorded 28%/23% YoY growth of value of new business (VNB) in 1Q23 on a constant/actual FX rate (CER/AER) basis respectively. The life insurer saw its agent productivity further rose at a double-digit in 1Q23, with total number of new recruits picking up at the meanwhile. Looking forward, given the catalysts on: 1) strong momentum in recovery of life insurance demands in mainland market, 2) AIA's continued geographical expansions approved by Chinese regulatory into new cities, i.e. Zhengzhou, Henan province in China, and 3) the comeback of mainland visitors boosting the MCV business in HK since reopening in 2M23, we expect the strong new business momentum to sustain throughout FY23. Raise VNB forecasts in FY23E-FY25E by 5%. Reiterate BUY.

- **Double-digit VNB growth across all major markets and the JV in India.** In mainland China, despite a weak January sales due to resurgence of COVID cases in 12M22, the new business momentum recovered and rallied significantly in 2M-3M23, reverting the 1Q23 VNB growth into a double-digit. Approved with an operating license, the insurer is enabled to expand its local operations to Zhengzhou, Henan province lately, enhancing the geographic layouts nationwide. In HK, domestic business as well generated double-digit VNB growth in 1Q23, along with the revival of MCV business since Feb 2023. VNB from Thailand, Malaysia and Singapore all achieved double-digit growth in 1Q23, riding the tides of economic recovery in ASEAN markets post pandemic. Besides, the CPL, AIA's associate in mainland China, also recorded strong new business momentum driven by favourable product mix.
- **Limited exposure to the recent US/EU banking crisis.** In 1Q23, AIA disclosed a detailed breakdown regarding its corporate debt portfolios by credit rating, geography, and investment sectors, which showed limited exposure to sub debt/AT1 bonds taking only 5%/0.1% of total bond holdings in non-PAR & shareholders' funds by end-FY22, equivalent to 4.2%/0.1% of AIA's total book value. The bonds held in banking, non-bank financials and real estate sectors across US and EU accounted for total approx. 8.6% of AIA's total book value or 4.8% of its total EV at end-FY22. Given the majority of AIA's debt investments in Asia Pacific, we regard the recent market sell-offs concerning the insurer's asset impairments were pretty much overdone.
- **Valuation.** The stock is now trading at 1.6x P/EV FY24E, below a 2-year/5-year historical avg. P/EV at 1.7x/1.9x, respectively. Looking forward in FY23, we expect the uptick in HK and mainland China business will underpin a sustainable strong rally in life VNB across channels which are enhanced by the insurer's premier agency and outstanding partnerships. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (US\$ mn)	7,427	282	7,458	8,298	9,234
EPS (Reported)(US\$)	0.62	0.02	0.64	0.74	0.83
Consensus EPS (US\$)	na	na	0.60	0.68	0.75
VNB/share (US\$)	0.33	0.26	0.33	0.40	0.47
Group embedded value / share (US\$)	6.32	5.87	6.32	6.97	7.85
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)	2.2	3.3	2.8	2.6	2.3
P/Embedded value (x)	1.7	1.8	1.7	1.6	1.4
Dividend yield (%)	1.6	1.8	2.0	2.3	2.5
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 27 Apr 2023.

BUY (Maintain)

Target Price **HK\$118.00**
(Previous TP **HK\$118.00**)
Up/Downside **38.5%**
Current Price **HK\$85.20**

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Stock Data

Mkt Cap (HK\$ mn)	995,551.1
Avg 3 mths t/o (HK\$ mn)	1,740.3
52w High/Low (HK\$)	91.35/57.95
Total Issued Shares (mn)	11873.0

Source: FactSet

Shareholding Structure

Bank of New York Mellon	10.3%
JPMorgan Chase & Co	8.1%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.8%	3.6%
3-mth	-6.8%	6.4%
6-mth	41.9%	10.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

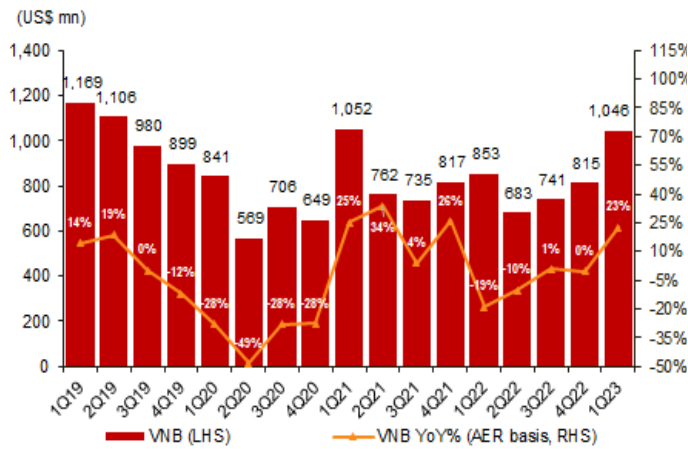
Auditor: PricewaterhouseCoopers

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](#))
3. AIA Group Ltd. (1299 HK) – 2H22 recovery in line; Upbeat trend in HK and mainland China in 2M23 ([link](#))

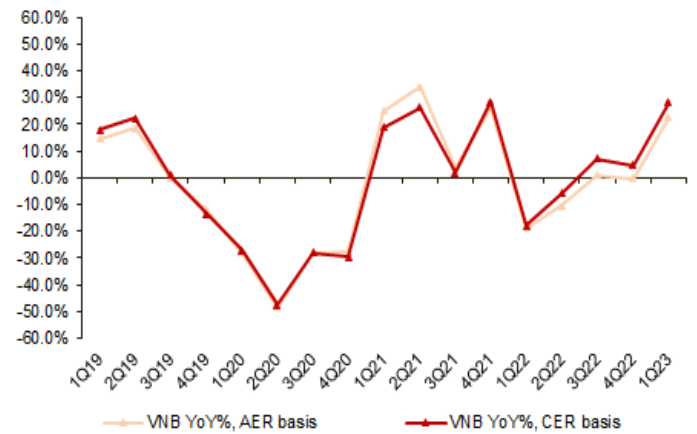
Focus Charts

Figure 1: AIA VNB & VNB YoY% (quarterly, AER basis)



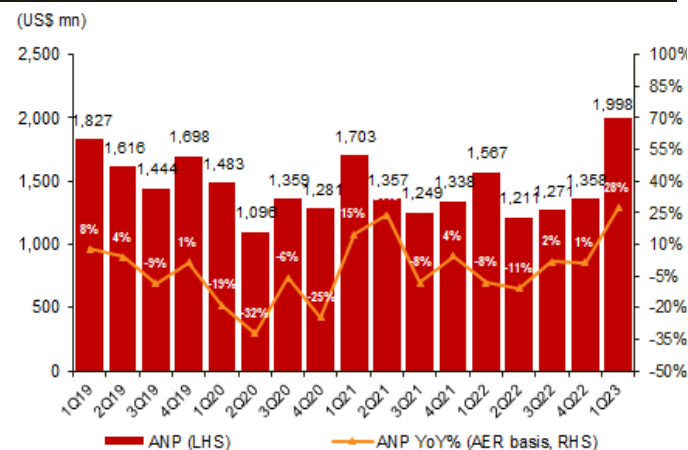
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on actual exchange rate (AER) basis.

Figure 2: AIA VNB YoY%, AER vs CER basis



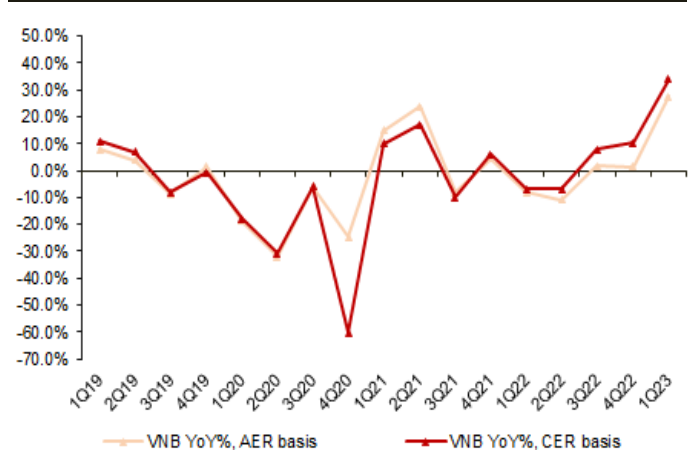
Source: Company data, CMBIGM | Note: the year-over-year growth on constant exchange rate (CER) basis is as reported by the company using constant average exchange rates within a year.

Figure 3: AIA ANP & ANP YoY% (quarterly, AER basis)



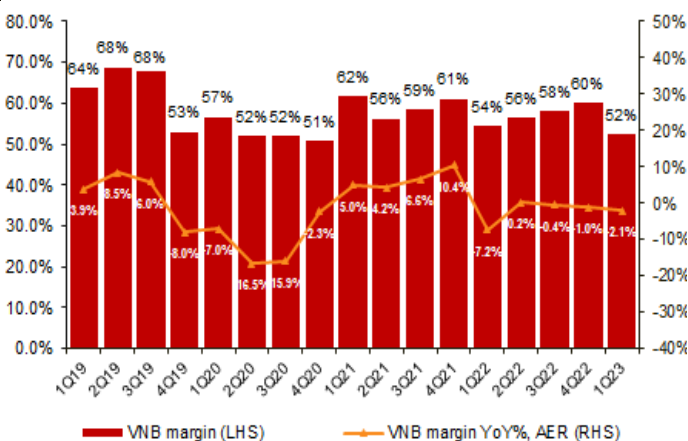
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on actual exchange rate (AER) basis.

Figure 4: AIA ANP YoY%, AER vs CER basis



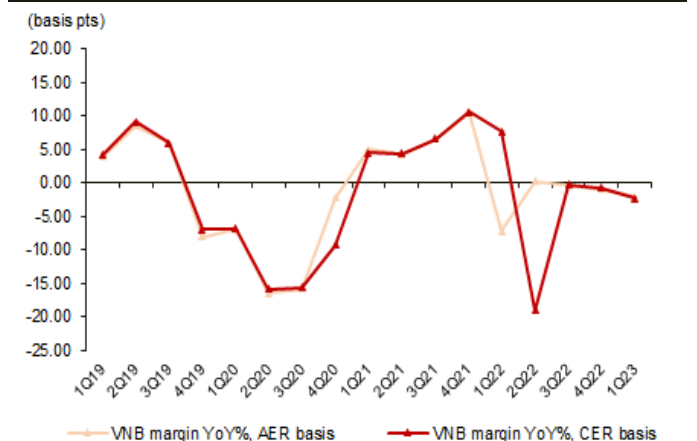
Source: Company data, CMBIGM | Note: the year-over-year growth on constant exchange rate (CER) basis is as reported by the company using constant average exchange rates within a year.

Figure 5: AIA VNB margin & YoY% (quarterly, ANP basis)



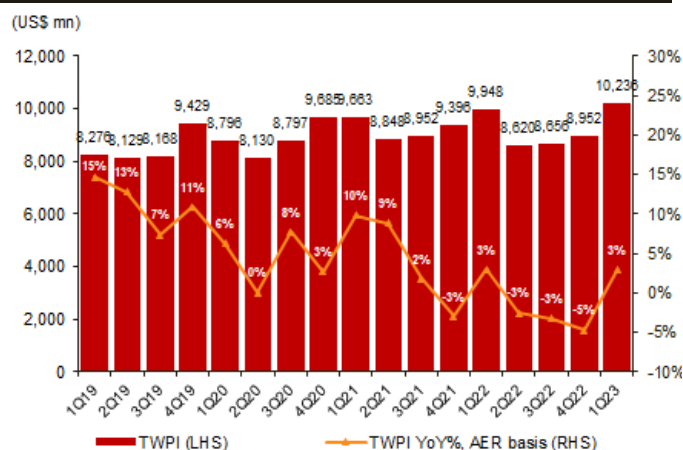
Source: Company data, CMBIGM | Note: the year-over-year growth is derived on actual exchange rate (AER) basis.

Figure 6: AIA VNB margin YoY%, AER vs CER basis



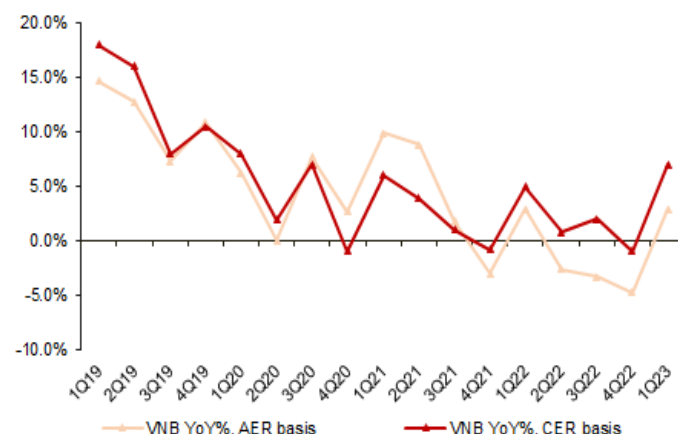
Source: Company data, CMBIGM | Note: the year-over-year growth on constant exchange rate (CER) basis is as reported by the company.

Figure 7: AIA TWPI & TWPI YoY% (quarterly, AER basis)



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

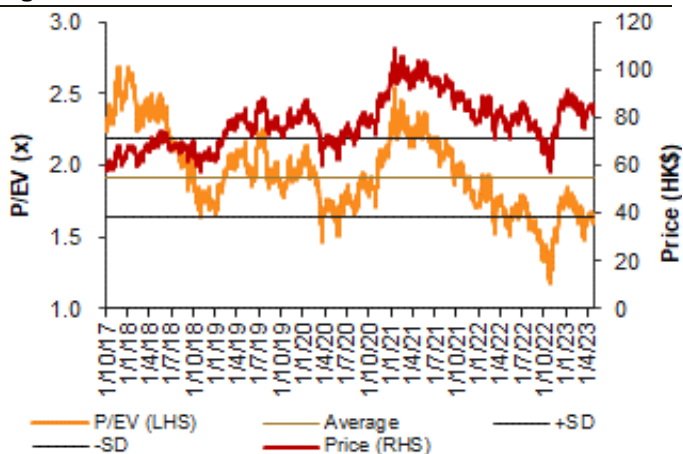
Figure 8: AIA VNB margin YoY%, AER vs CER basis



Source: Company data, CMBIGM | Note: the year-over-year growth on constant exchange rate (CER) basis is as reported by the company using constant average exchange rates within a year.

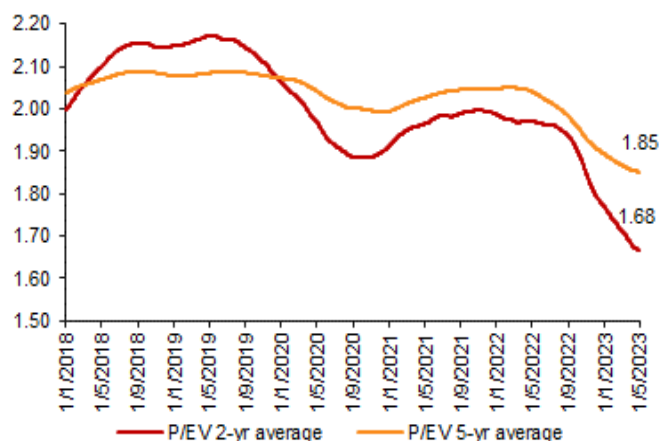
Valuation: 12M forward P/EV & Historical avg. P/EV

Figure 9: AIA 12M forward P/EV band



Source: Company data, CMBIGM estimates | Note: the stock price was quoted by market close at 4:00pm on 27 Apr 2023.

Figure 10: AIA's historical 2-yr and 5-yr avg. P/EV



Source: Company data, CMBIGM estimates | Note: By market close on 27/4/2023, AIA's P/EV recorded at 1.66, lower than its 2-yr/5-yr average.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Total income	50,359	47,525	19,110	48,720	56,758	66,176
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)	8,350	9,185	10,104
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	8,818	9,807	10,908
Income taxes	(1,491)	(991)	(171)	(1,323)	(1,471)	(1,636)
Minority interest	0	(50)	(38)	(38)	(38)	(38)
Net income	5,779	7,427	282	7,458	8,298	9,234
Net income available to common shareholders	5,779	7,427	282	7,458	8,298	9,234

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Assets						
Cash & short-term investments	5,619	4,989	8,020	8,822	9,704	10,675
Total fixed income securities investment	211,216	209,391	173,668	191,035	210,138	219,725
Total equity securities investment	59,182	71,017	61,955	65,089	71,598	78,758
Real estate assets	7,361	7,460	7,444	8,188	9,007	9,908
Other investments	1,069	1,468	568	625	687	756
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	18,309	25,821	29,172
Total liabilities	262,453	278,940	264,498	278,628	306,077	332,831
Total common equity	63,200	60,467	38,096	43,843	46,234	52,421
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	46,184	48,575	54,762
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	43,843	46,234	52,421
Minority interest	468	467	454	454	454	454
Total equity	63,668	60,934	38,550	44,297	46,688	52,875
Total liabilities & shareholders' equity	326,121	339,874	303,048	322,925	352,766	385,706

PER SHARE DATA	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
DPS (US\$)	0.17	0.18	0.19	0.22	0.25	0.27
EPS (US\$, reported)	0.48	0.62	0.02	0.64	0.74	0.83
Consensus EPS	na	na	na	0.60	0.68	0.75
Group embedded value/share (US\$)	6.03	6.32	5.87	6.32	6.97	7.85
VNB/share (HK\$)	2.18	2.61	2.03	2.61	3.14	3.73
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%	2.5%	2.5%
Return on life embedded Value	11.2%	4.8%	(5.8%)	4.8%	7.1%	11.9%
VNB margin (FYP APE basis)	52.6%	59.3%	57.0%	57.8%	59.2%	60.5%
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/B	2.1	2.2	3.3	2.8	2.6	2.3
P/EV	1.8	1.7	1.8	1.7	1.6	1.4
Div yield (%)	1.5	1.6	1.8	2.0	2.3	2.5

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

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