

Ping An (2318 HK)

Slower 3Q21 momentum

Ping An reported 33.5% YoY decline of VNB in 3Q21, translating into 17.8% YoY decrease in 9M21. VNB margin on FYP basis declined by 5ppt YoY to 30.7% in 9M21, or down 4.2ppt YoY in 3Q21, owing to: (1) lower contribution from high-margin critical illness business, and (2) assumption changes at the end of FY20 leading to negative YoY impact on margins. The management revised down the guidance to double-digit YoY decline of VNB in FY21E from previous guidance of positive VNB growth in 2H21E, given a continual decline in agent headcounts (-31% in 9M21) and the challenging market conditions.

- Expect VNB momentum to turn around in 2Q22.** Ping An Life will start the 2022 Jumpstart pre-sale in early November (vs 2021 pre-sale started in Oct 2020), with campaigns for short-term savings products till Double 12, and then will shift focus to high-margin products in mid-December. The margins of the new jumpstart products are set at largely same as the old ones. Given that the 2022 Jumpstart pre-sale period will be around one month shorter than that of 2021, we expect the pressure on new business momentum is likely to sustain till 1Q22. We believe the low base effect will kick in starting from 2Q22, and the agent headcounts will bottom out around 2Q-3Q22.
- Digital agency channel reform well on track.** Ping An continued to see positive progress on its pilot projects under the agency reform in 3Q21. The insurer targets to expand the pilot programs to a nationwide implementation before the end FY22.
- Exposure to real estate investment.** The insurance investment exposure to real estate sector rose to 5.5% in 3Q21 from 4.8% of total investment at end-1H21, owing to an incremental investment in commercial properties with over 7% rental yields, while the exposure to property stocks and bonds remained largely stable. No major impairment of real estate investment in 3Q21.
- Lower VNB forecasts and roll forward TPs to FY22E.** We lower our FY21E/FY22E VNB growth forecasts to -18%/+6% YoY and roll over our TPs to FY22E at HK\$95.07/RMB78.91 for H/A share. Ping An is trading at 0.5x P/EV FY22E or 0.9x P/BV FY22E. We think the valuation is not demanding and the current share price already factored in the slowdown of life insurance business and a write-down of real estate investments. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
GWP (RMB mn)	795,064	797,880	754,958	752,311	759,812
YoY growth (%)	10.5	0.4	(5.4)	(0.4)	1.0
Net profit (RMB mn)	149,407	143,099	125,262	145,991	153,812
EPS (RMB)	8.4	8.1	6.9	8.0	8.4
YoY growth (%)	39.6	(3.7)	(15.4)	16.5	5.4
Consensus EPS (RMB)	N.A.	8.1	7.0	8.6	9.6
P/E (x)	5.8	6.0	7.1	6.1	5.8
P/B (x)	1.3	1.2	1.0	0.9	0.9
P/EV (x)	0.7	0.7	0.6	0.5	0.5
Yield (%)	4.3	4.7	4.9	5.8	6.1
ROE (%)	20.8	17.8	14.1	14.8	14.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$95.07
(Previous TP)	HK\$97.82)
Up/Downside	+62.8%
Current Price	HK\$58.40

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Stock Data

Mkt Cap (HK\$ mn)	1,113,158
Avg 3 mths t/o (HK\$ mn)	2,477.49
52w High/Low (HK\$)	103.6/48.8
Total Issued Shares (mn)	7,448 (H)
	10,833 (A)

Source: Bloomberg

Shareholding Structure

Charoen Pokhand Group	7.85%
Shenzhen Investment Holdings	5.27%

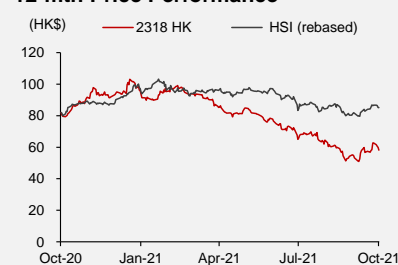
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	8.7%	2.7%
3-mth	-7.9%	-9.9%
6-mth	-29.8%	-20.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- "Positive progress on digital agency reform" – 30 Aug 2021
- "Transfer of Coverage; 1H21 preview: Worst case already priced in" – 27 Jul 2021

3Q21 Results Highlights

Ping An reported 9.2% YoY growth of OPAT for 9M21, translating into 7.3% YoY growth in 3Q21. Net profit declined by 20.8% YoY to RMB82bn in 9M21, tracking 65% of FY21E market consensus, with 3Q21 net profit down 31.2% YoY dragged by (1) lower investment income amid A share market volatility, (2) RMB5.2bn MTM losses of Lufax convertible bonds in 3Q, (3) higher reserve catch-up due to lower 750-day average 10-yr CGB yield.

■ Life Insurance:

VNB declined by 33.5% YoY in 3Q21 or -17.8% YoY in 9M21, further widening from the 11.7% YoY decline in 1H21. VNB margin on FYP basis declined by 5ppt YoY to 30.7% in 9M21, or down 4.2ppt YoY in 3Q21, owing to (1) shrinking agency force, (2) continual decline in critical illness business, and (3) assumption changes in end-FY20 lead to negative YoY impact on margin.

OPAT declined by 2.8% YoY in 9M21 or down 1.8% YoY in 3Q21, primarily due to (1) slower new business generation, and (2) a decline in positive operating variance on the back of higher lapse rate.

Agent headcount further shrank to 0.71mn in 3Q, down 20% QoQ or down 33% YoY. On the other hand, agent productivity on FYP basis increased by 5% YoY in 3Q, as the insurer trims low productivity agents.

■ Property & Casualty Insurance:

9M21 combined ratio improved by 1.8ppt YoY to 97.3%, translating into a 1ppt YoY improvement of COR in 3Q21.

Auto insurance COR continued to increase on YoY basis in 3Q21, owing to (1) a lower base in July-Sep 2020 before the start of the comprehensive auto insurance reform, and (2) higher catastrophe losses from floods in 3Q21. Auto premium income declined by 10% in 3Q21 vs 7% in 1H21.

From non-auto front, the YoY improvement from credit insurance started to phase out in 3Q21. The improvement was mainly from a 37ppt reduction in the combined ratio of credit guarantee insurance. Non-auto premium income declined by 18% in 3Q21 vs 9% in 1H21.

■ Ping An Bank:

Net profit growth remained strong at 32.5% YoY in 3Q21, primarily driven by (1) strong growth of fee income and (2) lower loan loss provisions due to improvement in asset quality. Pre-provision operating profit increased by 10% YoY in 3Q21.

NIM edged down by 4bps QoQ to 2.75% in 3Q21, and down 7bps YoY to 2.81% in 9M21, as the market yields trending down.

NPL ratio further improved by 3bps QoQ to 1.05%, and the 60-day overdue ratio decreased by 6bps QoQ to 0.85%. Asset quality continued to improve.

■ Technology: OPAT from technology business declined 2.4% YoY in 3Q21, and the Company booked RMB3.5bn net loss in 3Q21 due to a RMB5.2bn non-operating loss arose from the revaluation of convertible bonds issued by Lufax to Ping An Group.

Focus Charts

Figure 1. Ping An: 3Q21 Results Summary

(RMB mn)	9M20	9M21	YoY chg	3Q20	3Q21	YoY chg	1H20	1H21
Net profit attribute to shareholders	103,041	81,638	-20.8%	34,358	23,633	-31.2%	68,683	58,005
OPAT attribute to shareholders	108,692	118,737	9.2%	34,382	36,901	7.3%	74,310	81,836
Life insurance	74,764	72,701	-2.8%	23,637	23,206	-1.8%	51,127	49,495
P&C insurance	11,003	13,221	20.2%	2,769	2,480	-10.4%	8,234	10,741
Bank	12,981	16,887	30.1%	5,054	6,696	32.5%	7,927	10,191
Trust	2,239	1,869	-16.5%	588	616	4.8%	1,651	1,253
Broker	2,381	2,808	17.9%	872	1,131	29.7%	1,509	1,677
Other AMC	3,808	7,192	88.9%	1,137	2,114	85.9%	2,671	5,078
Technology	4,669	7,437	59.3%	1,231	1,201	-2.4%	3,438	6,236
Others	(3,153)	(3,378)	7.1%	(906)	(543)	-40.1%	(2,247)	(2,835)
Operating ROE	20.9	20.3	(0.6) ppt				21.6	21.0
Net investment yield (%)	4.5	4.2	(0.3) ppt				4.1	3.8
Total investment yield (%)	5.2	3.7	(1.5) ppt				4.5	3.5
Total investment income	135,869	103,564	-23.8%	49,970	37,510	-24.9%	85,899	66,054

Source: Company data, CMBIS

Figure 2. Ping An Life: 3Q21 Results Summary

(RMB mn)	9M20	9M21	YoY chg	3Q20	3Q21	YoY chg	1H20	1H21
VNB	42,844	35,237	-17.8%	11,813	7,850	-33.5%	31,031	27,387
FYP	120,152	114,749	-4.5%	35,604	27,108	-23.9%	84,548	87,641
VNB margin (FYP)	35.7%	30.7%	(5.0) ppt	33.2%	29.0%	(4.2) ppt	36.7%	31.2%
Surrender	27,052	39,612	46.4%	9,752	13,458	38.0%	17,300	26,154
Number of agents (mn)	1.05	0.71	-33%	1.05	0.71	-33%	1.15	0.88
Agent productivity (FYP/month/agent)	12,052	14,739	22%	10,821	11,409	5%	12,189	15,363

Source: Company data, CMBIS

Figure 3. Ping An P&C: 3Q21 Results Summary

(RMB mn)	9M20	9M21	YoY chg	3Q20	3Q21	YoY chg	1H20	1H21
Combined ratio (%)	99.1	97.3	(1.8) ppt				98.1	95.9
Premium income	219,490	199,343	-9%	75,372	66,030	-12%	144,118	133,313
Auto	147,072	135,468	-8%	51,426	46,453	-10%	95,646	89,015
Non-auto	72,418	63,875	-12%	23,946	19,577	-18%	48,472	44,298

Source: Company data, CMBIS

Figure 4. Ping An Bank: 3Q21 Results Summary

(RMB mn)	9M20	9M21	YoY chg	3Q20	3Q21	YoY chg	1H20	1H21
NIM	2.88	2.81	(0.07) ppt	2.48	2.75	0.27 ppt	2.87	2.83
Cost to Income ratio	27.5	27.8	0.3 ppt	-	-	-	27.3	27.4
NPL ratio	1.32	1.05	(0.27) ppt	1.32	1.05	(0.27) ppt	1.65	1.08
Special mention ratio	1.59	1.37	(0.22) ppt	1.59	1.37	(0.22) ppt	1.86	0.96
Broad NPL ratio	2.91	2.42	(0.49) ppt	2.91	2.42	(0.49) ppt	3.51	2.04
Provision coverage ratio	218.3	268.4	50.1 ppt	218.3	268.4	50.1 ppt	214.9	259.5
60 days overdue coverage ratio	226.3	330.5	104.2 ppt	226.3	330.5	104.2 ppt	228.4	306.1
Core T1 (>7.5%)	8.94	8.56	(0.38) ppt	8.94	8.56	(0.38) ppt	8.93	8.49
T1 (>8.5%)	11.29	10.58	(0.71) ppt	11.29	10.58	(0.71) ppt	11.35	10.58
Capital adequacy ratio (>10.5%)	13.86	12.55	(1.31) ppt	13.86	12.55	(1.31) ppt	13.96	12.58

Source: Company data, CMBIS

Financial Summary

Income statement						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
GWP & policy fees	795,064	797,880	754,958	752,311	759,812	Group					
Net earned premiums	748,779	757,599	712,777	708,548	714,169	Net investment yield	5.1%	5.3%	5.0%	5.2%	5.2%
Reinsurance income	7,572	6,356	7,514	7,756	8,058	Total investment yield	6.7%	6.5%	4.6%	5.2%	5.2%
Total premium income	756,351	763,955	720,291	716,305	722,227	ROAE	24.3%	19.9%	15.6%	16.4%	15.6%
						ROAA	1.9%	1.6%	1.3%	1.3%	1.3%
Investment income	201,738	225,046	168,891	203,978	217,197	EV growth	19.8%	10.6%	8.5%	11.9%	12.1%
Net inv't income from banking	90,187	100,404	110,949	122,044	136,398	ROEV	18.0%	10.1%	8.2%	11.3%	11.4%
Net fees and commission income	44,230	51,762	58,430	63,559	69,164	Life & Health insurance					
Claims and benefits	(578,313)	(614,751)	(534,908)	(534,836)	(530,216)	GWP growth	11.5%	-2.3%	-8.8%	-4.2%	-2.4%
Commission expenses	(114,766)	(102,021)	(108,984)	(103,600)	(104,282)	Agency FYRP growth	-7.8%	-28.3%	-7.0%	2.0%	5.0%
G&A expenses	(177,164)	(181,166)	(153,687)	(160,066)	(163,025)	VNB growth	5.1%	-34.7%	-18.4%	5.9%	7.7%
Impairment loss	(67,266)	(79,458)	(74,015)	(75,646)	(83,555)	VNB margin (APE basis)	56.0%	47.6%	41.1%	42.4%	43.5%
Other income and expenses	6,518	7,148	(23,547)	(39,700)	(58,923)	L&H EV growth	23.5%	8.9%	6.1%	8.6%	9.9%
Associates/JVs	23,224	16,845	14,428	14,676	14,936	L&H operating ROEV	26.1%	14.9%	13.7%	14.8%	15.7%
Pretax profit	184,739	187,764	177,850	206,713	219,920	P&C insurance					
						GWP growth	9.5%	5.5%	0.0%	6.0%	6.0%
Tax	(20,374)	(28,405)	(31,469)	(35,525)	(36,706)	Combined ratio	96.4%	99.1%	98.0%	98.0%	97.5%
Less: minorities	(14,958)	(16,260)	(21,119)	(25,197)	(29,402)	ROE	10.2%	8.5%	9.8%	10.6%	11.1%
Net profit	149,407	143,099	125,262	145,991	153,812	Profit breakdown:					
						Life & health insurance	69.4%	67.1%	62.4%	68.1%	72.4%
						P&C insurance	15.3%	11.3%	11.5%	11.5%	12.3%
						Banking	10.9%	11.7%	17.4%	17.8%	19.7%
						Others	4.4%	9.9%	8.7%	2.7%	-4.4%
						Per share data:					
						EPS (RMB)	8.41	8.10	6.85	7.99	8.41
						DPS (RMB)	2.10	2.27	2.40	2.80	2.94
						BVPS (RMB)	36.82	41.71	46.17	51.36	56.83
						VNBPS (RMB)	4.15	2.71	2.21	2.34	2.52
						Group EVPS (RMB)	65.67	72.65	78.83	88.25	98.92

Source: Company data, CMBIS estimates

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