

Prudential Plc. (2378 HK)

Strong new biz momentum from China JV

Prudential Plc. will report FY22 results on 15 March (Wed). We expect to see decent APE (annualized premium equivalent) growth in 2H22 on the back of recovery in new business momentum of South East Asian (SEA) markets. On the other hand, NBP (new business profit) margin is likely to see downtrend in 2H22, primarily due to negative assumption changes of interest rate hikes across the insurer's key operating markets, except for China. Looking into 2023, we believe the insurer will deliver strong NBP growth in both HK and mainland China markets, given 1) the release of pent-up demands of Mainland China Visitors (MCVs) to boost new business premium (NBP) growth in HK, and 2) our channel check results suggesting Pru's China JV, CITIC-Prudential Life (CPL), potentially record double-digit APE growth in 2023 jumpstart season. We expect that the turnaround of new business momentum in China JV and Pru HK will underpin overall high-teen NBP growth of Pru in 2023E. Reiterate BUY.

- **Strong new business momentum in China JV by 2023 jumpstart.** Based on our recent channel checks, we estimate that CPL captured a double-digit APE YoY increase in the 2023 jumpstart season, winding up robust growth in both agency and bancassurance channels. We believe the pick-up in new business momentum was incrementally driven by 1) enhanced agent productivity, and 2) a shift in targets of wealth allocation for high-net-worth individuals towards savings-related products. We expect the strong new business growth to sustain in 2023E.
- **HK-Mainland border reopening fuelled NBP momentum in HK.** According to data from HK Immigration Department, up to 6 Feb, the date of HK-China fully border reopening, the average daily traffic of Mainland China Visitors (MCVs) rose to 45k within one month to 1 Mar, amounting to 38% of the figure in 2019. So far, the MCV daily traffic is still on the rise, given the average daily traffic last week (23 Feb -1 Mar) reaching 47% of the amount in 2019. With the lifting mask mandate on 1 Mar, we expect the traffic number will further pick up in response to an easing environment. Given this, we believe Pru's new business growth will come to fruition in 2023 under the release of increasing MCVs' pent-up demands.
- **Valuation:** The stock is now trading at 1.0x P/EV FY23E and 2.2x P/BV FY23E. We believe the insurer's rally in HK MCV business and robust growth momentum in China JV are poised for sequential rebound of its NBP growth in 2023. Besides, expanding mass-affluent markets in Asia rack up sustainable protection demands in pursuit of wealth growth, which will enhance the fundamental for stock re-rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit (US\$ mn)	2,118	(2,042)	1,249	2,067	2,677
Operating EPS (US\$)	0.87	1.02	0.90	1.08	1.24
Consensus Operating EPS (US\$)	n.a	n.a	0.84	1.14	1.33
VNB/share (US\$)	0.8	1.0	0.8	1.0	1.1
YoY growth (%)	(37.7)	13.4	(13.9)	17.7	12.3
Group EV / share (US\$)	20.7	17.2	14.9	16.3	17.9
Premium income (US\$ mn)	21,870	22,373	24,177	27,738	31,332
Premium income growth (%)	(49.7)	2.3	8.1	14.7	13.0
P/B (x)	1.9	2.5	2.4	2.2	2.0
P/Embedded value (x)	0.8	0.9	1.0	1.0	0.9
Dividend yield (%)	1.0	1.1	0.8	1.2	1.5
ROE (%)	10.5	(10.8)	7.2	11.3	13.3

Source: Company data, Bloomberg, CMBIGM estimates

Note: stock price quoted by market close at 4:00pm on 2 Mar 2023.

BUY (Maintain)

Target Price **HK\$143.00**

(Previous TP) HK\$143.00

Up/Downside **17.5%**

Current Price **HK\$121.70**

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Stock Data

Mkt Cap (HK\$ mn)	334,635
Avg 3 mths t/o (HK\$ mn)	30.58
52w High/Low (HK\$)	136.50/68.75
Total Issued Shares (mn)	2,750

Source: Bloomberg

Shareholding Structure

BlackRock	8.59%
Vanguard	5.62%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-6.2%	0.4%
3-mth	32.6%	20.5%
6-mth	50.1%	42.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Recent Reports:

1. Prudential PLC(2378 HK) - Asia-focus leading player; border-reopening tailwinds in 2023 ([link](#))

Auditor: KPMG LLP

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Total income	93,736	36,247	26,500	2,593	30,942	34,596
Premiums written (gross)	45,064	23,495	24,217	26,170	30,024	33,914
Premiums earned (net)	43,481	21,870	22,373	24,177	27,738	31,332
Investment income	49,555	13,762	3,486	(22,027)	2,696	2,690
Other operating income	700	615	641	443	508	575
Losses	(91,846)	(33,585)	(23,834)	(600)	(27,834)	(30,656)
Selling	(5,222)	(2,880)	(2,976)	(3,317)	(3,590)	(3,994)
Underwriting & commissions	(85,966)	(30,359)	(20,495)	3,102	(23,860)	(26,277)
Other operating expense	(658)	(346)	(363)	(384)	(384)	(384)
Operating income before interest expense	1,890	2,662	2,666	1,993	3,108	3,940
Operating income after interest expense	1,890	2,662	2,666	1,993	3,108	3,940
Equity in affiliates (pretax)	397	517	352	352	352	352
Pretax income	2,287	3,179	3,018	2,345	3,460	4,292
Income taxes	(334)	(711)	(804)	(625)	(922)	(1,144)
Consolidated net income	1,953	2,468	2,214	1,720	2,538	3,149
Minority interest	(9)	(67)	771	(472)	(472)	(472)
Net income	1,944	2,401	2,985	1,249	2,067	2,677
Discontinued operations	(1,161)	(283)	(5,027)	0	0	0
Net income available to common	783	2,118	(2,042)	1,249	2,067	2,677

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Assets						
Cash & short-term investments	6,965	8,018	7,170	7,022	7,965	9,016
Investments	1,500	1,962	2,183	2,401	2,641	2,906
Total fixed income securities investment	153,768	144,299	106,397	104,199	118,192	133,791
Total equity securities investment	247,281	278,635	61,601	60,328	68,430	77,462
Real estate assets	1,090	916	516	563	621	684
Other investments	3,047	4,466	481	471	534	605
Deferred tax assets	4,075	4,858	266	293	322	354
Intangible assets	17,476	20,345	6,858	7,392	7,991	8,653
Goodwill	969	961	907	907	907	907
Other assets	18,043	51,637	12,723	13,995	15,395	16,934
Total assets	454,214	516,097	199,102	197,571	222,998	251,312
Liabilities & shareholders' equity						
Insurance policy liabilities	380,143	436,787	150,755	145,760	167,490	191,409
ST debt & curr. portion LT debt	16,283	15,651	12,208	12,695	13,229	13,808
Long-term debt	8,631	9,559	7,250	7,276	7,305	7,337
Provision for risks & charges	466	350	372	409	450	495
Deferred tax liabilities	5,237	6,075	2,862	3,148	3,463	3,809
Other liabilities	23,785	25,556	8,391	10,587	11,777	13,087
Total liabilities	434,545	493,978	181,838	179,876	203,713	229,945
Common stock/ordinary capital	172	173	182	182	182	182
Capital surplus	2,625	2,637	5,010	5,010	5,010	5,010
Retained earnings	13,575	14,424	10,216	11,121	12,680	14,727
Equity reserves	3,105	3,644	1,680	1,180	1,180	1,180
Revaluation reserves	0	0	0	0	0	0
Total shareholders' equity	19,477	20,878	17,088	17,492	19,051	21,099
Minority interest	192	1,241	176	202	233	268
Total equity	19,669	22,119	17,264	17,695	19,284	21,367
Total liabilities & shareholders' equity	454,214	516,097	199,102	197,571	222,998	251,312

PER SHARE DATA	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
BVPS	7.49	8.00	6.22	6.36	6.93	7.67
DPS	0.47	0.16	0.18	0.13	0.18	0.23
EPS (Reported)	0.30	0.82	(0.78)	0.45	0.75	0.97
Group embedded value/share (HK\$)	21.03	20.70	17.24	14.88	16.32	17.85
VNB/share (HK\$)	1.36	0.85	0.96	0.83	0.97	1.09
No. of shares basic (mn)	2,601	2,609	2,746	2,749	2,749	2,749
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Return on equity (ROE)	3.8%	10.5%	(10.8%)	7.2%	11.3%	13.3%
Return on asset (ROA)	0.1%	0.4%	(0.6%)	0.6%	1.0%	1.1%
Return on life embedded Value	(14.7%)	(1.3%)	(13.1%)	(14.6%)	9.3%	9.0%
VNB margin (FYP APE basis)	59.0%	48.9%	60.2%	50.1%	51.4%	51.0%
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/EV	0.7	0.8	0.9	1.0	1.0	0.9
P/B	2.1	1.9	2.5	2.4	2.2	2.0
Div yield (%)	3.0	1.0	1.1	0.8	1.2	1.5
Div payout (%)	153.6	19.8	(22.8)	27.6	24.6	23.5

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

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