

PICC Group (1339 HK)

Life and Health progressed well; Mixed P&C results

PICC Group released 1H19 results on 23 Aug. Despite lackluster P&C underwriting performance, PICC Life and PICC Health progressed well. The Group achieved 12.8% YoY growth in GWP to RMB 322.9bn (P&C +15.1% to RMB 236bn; Life +1.3% to RMB 70.8bn; Health +43.8% to RMB 15.2bn). Net profit increased 50.7% YoY to RMB 21.6bn, driven by better equity investment and tax impact. The Company recorded tax credit of RMB 2.31bn, vs. tax expense of RMB 5.06bn in 1H18, thanks to implementation of new tax deduction policies resulting in RMB 4.71bn tax savings.

- Result highlights. 1) Equity investment gains.** Realized gains and fair value gains amounted to RMB 2,529mn, vs. net loss of RMB 415mn in 1H18, mainly due to better investment returns on equity securities, mutual funds and trust schemes. **2) NBV of PICC Life increased with margin improvement.** NBV of PICC Life increased 25.6% YoY to RMB 3,853mn, primarily driven by individual agent channel, which increased 33.3% YoY to RMB 3,393mn. Calculated APE based NBV margin rose 2.3ppt to 22.3%, of which agent channel margin rose 4.5ppt to 39.2%. **3) Channel optimization of PICC Life.** GWP from individual agent channel increased 34% YoY, representing 44% of Life GWP, up 11ppt YoY. Regular premiums across all channels increased 21% YoY, representing 37% of Life FYP, up 9ppt YoY.
- Result negatives. 1) P&C underwriting margin shrank.** Combined ratio rose 1.7ppt YoY to 97.6%. Loss ratio rose 3.6ppt. Due to impacts of natural disasters such as windstorm and rainstorm and epidemics such as African swine fever, loss ratio of agriculture insurance rose 13.1ppt YoY to 75.9%. Expense ratio improved 2.0ppt YoY, of which expense ratio of motor vehicle insurance improved 1.6ppt to 36.5%. **2) Deceleration of motor insurance** in light of slowdown of car sale and deregulation of premium rate of commercial motor insurance.
- Valuation.** We adjust 2019E GWP slightly up by 1.1%, and adjust 2019E net profit up by 71.9% to reflect better equity investment and tax credit. We value the Group's P&C at 1.2x 2019E P/B, its Life and Health business at industry average, which is 0.5x 2019E P/EV, and its other businesses at 1.0x 2019E P/B. Lift TP to HK\$ 4.33. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premiums (RMB mn)	476,447	498,608	556,566	640,957	702,002
Total income (RMB mn)	483,775	498,597	573,517	640,726	694,907
Net profit (RMB mn)	16,099	12,912	24,228	25,621	16,885
EPS (RMB)	0.38	0.30	0.55	0.58	0.38
EPS CHG (%)	13.02	(20.94)	82.62	5.75	(34.10)
PER (x)	7.16	9.06	4.96	4.69	7.12
PBR (x)	0.84	0.79	0.62	0.57	0.57
Yield (%)	1.45	1.68	3.07	3.25	2.14
ROE (%)	12.21	8.89	14.03	12.73	8.03

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$4.33**
 (Previous TP **HK\$4.22**)
Up/Downside **+43.1%**
Current Price **HK\$3.03**

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	362,664
Avg 3 mths t/o (HK\$ mn)	104
52w High/Low (HK\$)	3.87/ 2.88
Total Issued Shares (mn)	8,726 (H)
	35,498 (A)

Source: Bloomberg

Shareholding Structure

Ministry of Finance of the PRC	67.6%
National Council for Social Security Fund	8.6%
H shareholders	19.7%
A shareholders	4.1%

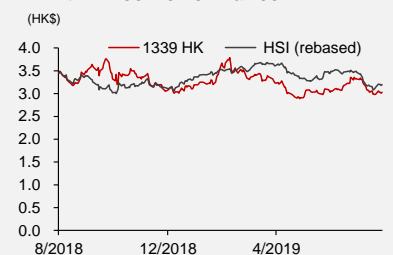
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.7%	-0.6%
3-mth	4.1%	8.8%
6-mth	-13.4%	-4.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- "1Q18 results: GWP +14%, net profit +12%" – 2 May 2019
- "2018 results missed; NBV rebounded in 2H18" – 25 Mar 2019
- "Undervalued integrated insurance financial group" – 11 Jan 2019

Figure 1: 1H19 results

RMB mn	1H19	1H18	YoY
Gross written premiums	322,875	286,162	12.8%
Less: Premiums ceded to reinsurers	(20,232)	(15,459)	30.9%
Net written premiums	302,643	270,703	11.8%
Change in unearned premium reserves	(40,091)	(23,143)	73.2%
Net earned premiums	262,552	247,560	6.1%
Reinsurance commission income	5,626	4,703	19.6%
Investment income	18,370	15,703	17.0%
Other income	1,530	1,707	-10.4%
TOTAL INCOME	288,078	269,673	6.8%
Life insurance death and other benefits paid	(53,085)	(77,326)	-31.3%
Claims incurred	(132,324)	(116,399)	13.7%
Changes in long-term life insurance contract liabilities	(13,896)	11,023	NA
Policyholder dividends	(1,396)	(1,253)	11.4%
Claims and policyholder's benefits	(200,701)	(183,955)	9.1%
Less: claims and policyholders' benefits ceded to reinsurers	8,266	6,161	34.2%
Net claims and policyholders' benefits	(192,435)	(177,794)	8.2%
Handling charges and commissions	(33,715)	(41,897)	-19.5%
Finance costs	(3,143)	(3,378)	-7.0%
Exchange losses/(gains)	0	153	NA
Other operating and administrative expenses	(45,054)	(33,164)	35.9%
TOTAL BENEFITS, CLAIMS AND EXPENSES	(274,347)	(256,080)	7.1%
Share of profits and losses of associates and joint ventures	5,578	5,812	-4.0%
Loss on deemed disposal of an associate	0	0	NA
PROFIT BEFORE TAX	19,309	19,405	-0.5%
Income tax expense	2,313	(5,057)	NA
PROFIT FOR THE YEAR	21,622	14,348	50.7%
Non-controlling interests	(6,144)	(4,303)	42.8%
NET PROFIT	15,478	10,045	54.1%

Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Gross written premiums	556,566	640,957	702,002	550,408	602,410	651,146	1.1%	6.4%	7.8%
PICC P&C	438,085	475,525	509,009	425,098	460,591	492,581	3.1%	3.2%	3.3%
PICC Life	108,526	128,246	146,969	107,838	121,816	136,175	0.6%	5.3%	7.9%
PICC Health	26,589	37,186	46,024	17,472	20,004	22,390	52.2%	85.9%	105.6%
Net written premiums	539,722	655,524	749,146	504,300	552,354	597,498	7.0%	18.7%	25.4%
TOTAL INCOME	573,517	694,674	786,503	555,245	605,903	654,683	3.3%	14.7%	20.1%
PROFIT BEFORE TAX	37,302	39,421	43,015	27,233	28,735	31,744	37.0%	37.2%	35.5%
NET PROFIT	24,228	20,398	22,258	14,092	14,869	16,426	71.9%	37.2%	35.5%

Source: Company data, CMBIS estimates

Figure 3: Valuation summary

PICC P&C	
Fair PBR (x)	1.2
2019E BVPS (68.98% stake, Rmb)	2.7
Value of PICC P&C (Rmb)	3.3
PICC Life	
Fair P/EV multiple (x)	0.5
2019E EVPS (80% stake, Rmb)	1.7
Value of PICC Life (Rmb)	0.8
PICC Health	
Fair P/EV multiple (x)	0.5
2019E EVPS (95.45% stake, Rmb)	0.2
Value of PICC Health (Rmb)	0.1
Others	
Fair PBR (x)	1.0
2018E BVPS (Rmb)	0.3
Value of other businesses (Rmb)	0.3
Total (Rmb)	4.57
Conglomerate discount	15.0%
Target price (Rmb)	3.89
HKDCNY	0.90
Target price	HK\$4.33
Current price	HK\$3.03
Up/downside	43.1%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premiums	476,447	498,608	556,566	640,957	702,002
PICC P&C	350,314	388,769	438,085	475,525	509,009
PICC Life	106,238	93,714	108,526	128,246	146,969
PICC Health	19,250	14,798	26,589	37,186	46,024
Less: Premiums ceded to reinsurers	(27,870)	(29,623)	(33,478)	(36,641)	(39,475)
Net written premiums	448,577	468,985	539,722	604,316	662,527
Change in unearned premium reserves	(13,600)	(13,638)	(14,140)	(15,348)	(16,423)
Net earned premiums	434,977	455,347	525,582	588,969	646,104
Investment income	36,476	29,527	35,599	37,551	41,024
Other income	12,322	13,723	12,335	14,206	7,779
TOTAL INCOME	483,775	498,597	573,517	640,726	694,907
Net claims and policyholders' benefits	(318,841)	(318,625)	(385,583)	(437,145)	(494,190)
Handling charges and commissions	(68,094)	(81,728)	(66,788)	(64,096)	(70,200)
Finance costs	(5,569)	(6,555)	(6,286)	(6,421)	(6,353)
Other expenses	(72,316)	(76,434)	(89,050)	(96,144)	(105,300)
TOTAL EXPENSES	(464,820)	(483,342)	(547,707)	(603,804)	(676,044)
Associates and joint ventures	11,876	11,803	11,493	12,593	13,768
PROFIT BEFORE TAX	30,831	27,058	37,302	49,514	32,631
Income tax expense	(7,780)	(8,343)	(2,185)	(12,379)	(8,158)
Non-controlling interests	(6,952)	(5,803)	(10,889)	(11,515)	(7,588)
NET PROFIT	16,099	12,912	24,228	25,621	16,885

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Investment assets	850,720	891,925	973,990	1,121,675	1,228,504
Other assets	137,186	139,710	193,614	186,675	186,675
TOTAL ASSETS	987,906	1,031,635	1,167,604	1,308,350	1,415,179
Insurance contract liabilities	557,011	559,217	643,100	836,029	919,632
Investment contract liabilities	45,880	41,808	47,471	48,573	49,875
Other liabilities	198,134	224,309	217,661	140,753	161,931
TOTAL LIABILITIES	801,025	825,334	908,232	1,025,356	1,131,438
Issued capital	42,424	44,224	44,224	44,224	44,224
Reserves	95,109	108,829	148,202	165,727	166,281
Shareholders' equity	137,533	153,053	192,426	209,951	210,505
Non-controlling interests	49,348	53,248	66,946	73,043	73,236
TOTAL EQUITY	186,881	206,301	259,372	282,994	283,741

Key ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Group (%)					
Gross written premiums YoY	8.3	4.7	11.6	15.2	9.5
Total income YoY	9.1	3.1	15.0	11.7	8.5
Net profit YoY	13.0	(19.8)	87.6	5.7	(34.1)
Total investment yield	5.9	4.8	5.0	4.8	4.7
Net investment yield	5.5	5.4	4.9	4.7	4.4
PICC P&C (%)					
Gross written premiums YoY	12.6	11.0	12.7	8.5	7.0
Loss ratio	62.3	62.0	64.7	64.7	64.7
Expense ratio	34.9	36.5	32.9	32.9	32.9
Combined ratio	97.2	98.5	97.6	97.6	97.6
Comprehensive solvency	278	275	295	293	296
PICC Life (%)					
Gross written premiums YoY	1.1	(11.8)	15.8	18.2	14.6
New business value (RMB mn)	5,687	5,735	7,779	8,381	8,707
New business value YoY	37.7	0.8	35.6	7.7	3.9
Embedded value (RMB mn)	61,909	70,632	91,942	103,637	116,594
Embedded value YoY	7.6	14.1	30.2	12.7	12.5
PICC Health (%)					
Gross written premiums YoY	(16.4)	(23.1)	79.7	39.9	23.8
New business value (RMB mn)	468	507	2,277	2,502	2,627
New business value YoY	44.0	8.3	349.0	9.9	5.0
Embedded value (RMB mn)	7,831	8,689	11,351	14,444	17,898
Embedded value YoY	10.0	11.0	30.6	27.2	23.9
Returns (%)					
PICC P&C ROE	14.9	11.5	16.5	13.5	13.7
PICC Life ROEV	10.5	10.9	30.2	12.7	12.5
PICC Health ROEV	10.0	11.0	30.6	27.2	23.9
Per share data (RMB)					
EPS	0.38	0.30	0.55	0.58	0.38
DPS	0.04	0.05	0.08	0.09	0.06
BVPS	3.24	3.46	4.35	4.75	4.76
PICC Life EVPS	1.17	1.28	1.66	1.87	2.11
PICC Health EVPS	0.18	0.19	0.25	0.31	0.39

Source: Company data, CMBIS estimates

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