

AIA Group Ltd. (1299 HK)

Pent-up demands to boost HK growth; Raise TP

On Jan 5, the State Council of the PRC officially announced the approval on HK-Mainland border reopening followed by a detailed scheme arranged by the HK government, which enabled 60,000-person daily cap to travel across the border since 8 Jan, including mainland visitors (MCVs) coming to Hong Kong, reaching approx. 40% average daily traffic back to the pre-COVID period in 2019. Buoyed by this positive news, we believe AIA Hong Kong will gain new business momentum to the upside amidst thriving market sentiment driven by the release of MCVs' pent-up demands for US dollar savings and high-end health protections starting in 2023. We raise our VNB growth forecast on AIA in FY23E, and roll over TP to FY24E at HK\$118. Reiterate BUY.

■ **Higher-than-expected border reopening quota.** In phase I of the border reopening scheme starting from 8 Jan, up to 50k MCVs are permitted to enter HK via land ports and additional 10k visitors are allowed to enter via airport, ferries and HK-Zhuhai-Macao Bridge. The daily entrance quota is expected to arrive at approx. 40% of average traffic back to the pre-COVID period in 2019 (153.2k per day). The statistics from C-trip, an online travel agency, showed that the number of domestic flight ticket bookings from Mainland to HK during the Chinese New Year holiday is 18x higher compared to that of 2022, implying a much faster-than-expected resumption of MCV traffic inflows to HK. Our channel check also suggested that HK life agents expected to see strong pent-up demands of Mainland visitors to go for US\$ savings insurance and health protection products.

■ **AIA HK's sufficient agent capacity to capture strong MCV business inflows.** On the agency front, the latest MDRT (Million Dollar Round Table) statistics showed that, as of July 2022, AIA HK & AIA Macau preserved 72% of total MDRT agent forces compared to the pre-COVID period dated back to 2019. AIA HK and AIA Macau jointly held 3,299 MDRT agents ranking as the 2nd largest MDRT teams worldwide in the following of AIA China team. We believe AIA HK will capture the value growth generated from the incoming MCV customers given their sufficient sales capacity and high-quality service provisions. Given this, we expect AIA HK to achieve outstanding growth recovery in VNB since the start of 2023.

■ **Raise TP and roll over to FY24E based on P/EV.** We raise AIA HK's VNB forecast of FY23E-FY24E by 5%, given an early reopening schedule and higher-than-expected entry quota. We roll over our TP from FY23E to FY24E up to HK\$118, implying a 2.2x P/EV FY24E, within the upside of historical avg. plus one standard deviation. The stock now trades at 1.7x P/EV FY24E, below 1.9x historical avg. Looking forward, we expect improved VNB momentum to sustain, and continue to support AIA's share price performance in 2023. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit (US\$ mn)	5,779	7,427	3,418	7,360	8,818
EPS (Reported)(US\$)	0.5	0.6	0.3	0.6	0.7
YoY growth (%)	(3.7)	28.5	(54.0)	115.3	19.8
Consensus EPS (US\$)	n.a	0.6	0.3	0.6	0.7
VNB/share (US\$)	0.3	0.3	0.3	0.3	0.3
Group EV / share (US\$)	6.0	6.2	5.8	6.2	6.7
Premium income (US\$ mn)	33,328	34,444	36,511	43,083	50,837
P/B (x)	2.1	2.2	2.6	2.4	2.2
P/Embedded value (x)	1.9	1.8	2.0	1.8	1.7
Dividend yield (%)	1.5	1.6	0.9	2.0	2.4
ROE (%)	9.8	12.0	6.1	13.7	15.0

Source: Company data, CMBIGM estimates, Bloomberg

BUY (Maintain)

Target Price	HK\$118.00
(Previous TP)	HK\$91.00)
Up/Downside	+33.8%
Current Price	HK\$88.20

China Insurance

Gigi CHEN, CFA

(852) 3916 3739

gigichen@cmbi.com.hk

Nika MA

(852) 3900 0805

nikama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	1,047,198.6
Avg 3 mths t/o (HK\$ mn)	75.0
52w High/Low (HK\$)	91.35/57.95
Total Issued Shares (mn)	11,873.0

Source: FactSet

Shareholding Structure

Bank of New York Mellon	10.2%
JPMorgan Chase & Co	8.7%

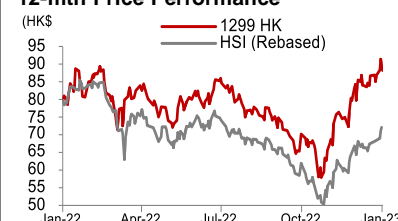
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.8%	-3.0%
3-mth	25.9%	8.0%
6-mth	4.3%	7.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

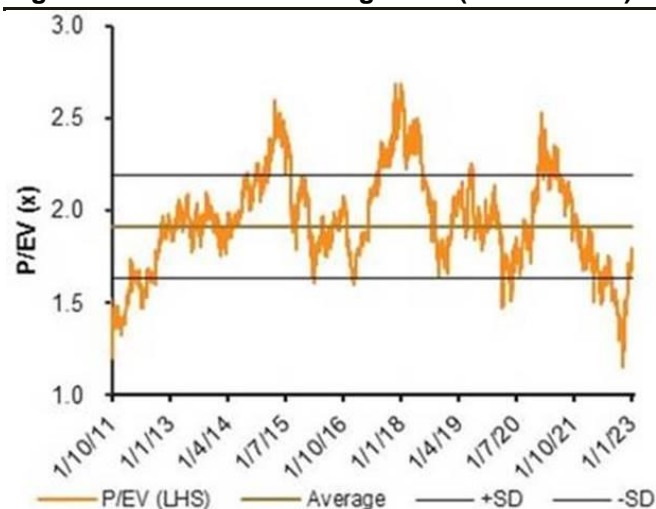
Auditor: PricewaterhouseCoopers

Recent Reports:

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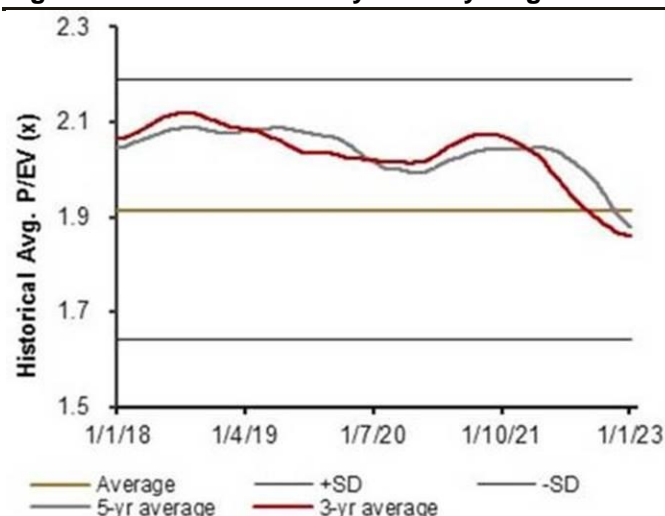
Valuation: Historical avg. P/EV and peers comparison

Figure 1: AIA's historical avg. P/EV (FY11 – FY23)



Source: Company data, CMBIGM | Note: share price ended as of market close on 6 Jan 2023.

Figure 2: AIA's historical 3-yr and 5-yr avg. P/EV



Source: Company data, CMBIGM | Note: share price ended as of market close on 6 Jan 2023.

Valuation comparison with major peers

Figure 3: Pan-Asian life insurers valuation trading comps

Company	Ticker	Price (LC)	Mkt cap (LC bn)	P/BV		P/EV	
				FY23E	FY24E	FY23E	FY24E
Prudential	2378 HK	116.0	319.0	2.1 x	1.9 x	0.9 x	0.8 x
Ping An	2318 HK	56.4	1,031.0	1.1 x	1.0 x	1.0 x	0.9 x
HDFC Life	HDFCLIFE IN	611.7	1,315.0	4.4 x	2.5 x	3.7 x	3.7 x
SBI Life	SBILIFE IN	1,269.1	1,270.0	9.3 x	8.6 x	2.0 x	1.5 x
ICICI Prudential	IPRU IN	473.0	680.6	7.0 x	7.3 x	1.9 x	1.8 x
ICICI Lombard	ICICIGI IN	1,271.7	624.8	5.3 x	4.5 x	n.a.	n.a.
Bajaj Finserv	BJFIN IN	1,430.4	2,278.0	2.9 x	2.6 x	n.a.	n.a.
Max Financial Services	MAXF IN	741.6	255.9	4.4 x	3.6 x	n.a.	n.a.
Average				4.6 x	4.0 x	1.9 x	1.7 x

Source: Company data, Bloomberg, CMBIGM estimates;

Note: trading comps of Prudential (2378 HK) and Ping An (2318 HK) are based on CMBIGM estimates, whereas other international peers' per share multiples are based on Bloomberg consensus. Share price and relevant FX rate are as of market close on 6 Jan 2023.

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Total income	47,242	50,359	47,525	31,739	53,083	64,658
Premiums written (gross)	34,777	35,780	37,123	39,350	46,433	54,791
Premiums earned (net)	32,611	33,328	34,444	36,511	43,083	50,837
Investment income	14,350	16,707	12,748	(5,105)	9,668	13,487
Other operating income	281	324	333	333	333	333
Losses	(40,007)	(43,072)	(39,046)	(27,811)	(44,692)	(54,615)
Selling	(32,128)	(34,739)	(30,055)	(18,854)	(34,257)	(42,439)
Underwriting & commissions	(4,283)	(4,402)	(4,597)	(4,873)	(5,750)	(6,785)
Other operating expense	(2,756)	(3,012)	(3,402)	(3,048)	(3,597)	(4,244)
Non-operating income (expense)	(840)	(919)	(992)	(1,036)	(1,088)	(1,147)
Equity in affiliates (pretax)	(8)	(17)	(11)	0	0	0
Excp'l chrgs - others	(179)	0	0	0	0	0
Pretax income	7,048	7,270	8,468	3,927	8,392	10,043
Income taxes	(1,030)	(1,491)	(991)	(460)	(982)	(1,175)
Minority interest	(39)	0	(50)	(50)	(50)	(50)
Net income	5,979	5,779	7,427	3,418	7,360	8,818
Net income available to common	5,979	5,779	7,427	3,418	7,360	8,818

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Assets						
Cash & short-term investments	3,941	5,619	4,989	4,889	5,378	5,916
Total fixed income securities investment	182,070	211,216	209,391	205,479	226,026	248,629
Total equity securities investment	50,322	59,182	71,017	69,597	76,556	84,212
Real estate assets	7,699	7,361	7,460	7,640	8,404	9,244
Other investments	971	1,069	1,468	1,439	1,583	1,741
Investment in unconsolidated subs.	615	606	679	747	822	904
Intangible assets	2,520	2,634	2,914	3,205	3,526	3,879
Other assets	35,994	38,434	41,956	43,361	44,986	46,870
Total assets	284,132	326,121	339,874	336,356	367,281	401,395
Liabilities & shareholders' equity						
Insurance policy liabilities	204,454	235,952	251,283	257,268	276,340	300,861
ST debt & curr. portion LT debt	1,826	1,664	1,588	1,747	1,921	2,114
Long-term debt	5,757	8,559	9,588	10,067	10,571	11,099
Provision for risks & charges	225	230	194	223	257	295
Deferred tax liabilities	6,214	6,902	5,982	6,580	7,238	7,962
Other liabilities	10,261	9,146	10,305	8,772	14,578	17,084
Total liabilities	228,737	262,453	278,940	284,658	310,905	339,415
Total common equity	54,947	63,200	60,467	51,232	55,909	61,513
Common stock/ordinary capital	14,129	14,155	14,160	14,160	14,160	14,160
Capital surplus	0	0	0	0	0	0
Retained earnings	40,922	44,704	49,984	52,156	56,833	62,437
Equity reserves	(104)	4,341	(3,677)	(15,084)	(15,084)	(15,084)
Revaluation reserves	11,669	15,170	8,407	(3,000)	(3,000)	(3,000)
Other appropriated Reserves	(698)	233	(1,068)	(1,068)	(1,068)	(1,068)
Unappropriated (free) reserves	(11,075)	(11,062)	(11,016)	(11,016)	(11,016)	(11,016)
Total shareholders' equity	54,947	63,200	60,467	51,232	55,909	61,513
Minority interest	448	468	467	467	467	467
Total equity	55,395	63,668	60,934	51,699	56,376	61,980
Total liabilities & shareholders' equity	284,132	326,121	339,874	336,356	367,281	401,395

PER SHARE DATA	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
DPS	1.26	1.28	1.39	0.81	1.75	2.09
EPS (Reported)	3.85	3.71	4.81	2.22	4.79	5.74
Group embedded value/share (HK\$)	40.00	47.18	48.57	45.27	48.57	52.59
VNB/share (HK\$)	2.67	2.18	2.30	2.05	2.30	2.64
No. of shares basic	12,010	12,095	12,097	12,066	12,066	12,066
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Return on equity (ROE)	12.5%	9.8%	12.0%	6.1%	13.7%	15.0%
Return on asset (ROA)	2.3%	1.9%	2.2%	1.0%	2.1%	2.3%
Return on life embedded Value	12.8%	11.2%	7.0%	(4.8%)	7.0%	7.9%
VNB margin (FYP APE basis)	63.1%	53.0%	59.6%	57.1%	56.7%	57.7%
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	2.6	2.7	2.5	5.1	2.4	2.0
P/B	0.3	0.2	0.3	0.3	0.3	0.3
P/Tangible BVPS	0.5	0.4	0.6	0.8	0.7	0.6
Div yield (%)	1.4	1.5	1.6	0.9	2.0	2.4
Div payout (%)	32.7	34.6	28.9	36.5	36.4	36.4

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

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