

PICC P&C (2328 HK)

Expect FY23E CoR guidance met; underwriting of NEVs and individual A&H to drive new growth

We expect PICC P&C, the P&C forerunner, to meet both auto and non-auto combined ratio (CoR) guidance of 97%/100%, to land at 96.9%/99.8%, based on our forecast. With a benign competitive landscape under tightened regulatory scrutiny and the industry self-discipline convention led by 8 top P&C insurers in Nov 2023, we expect the insurer's auto expense ratio to drop in 2H23, primarily in 4Q23, to 27.5%, flat vs FY22, whereas the loss ratio to rise to 69.4% (vs 68.1% in FY22), affected by increasing natural catastrophic (NAT CAT) claims in 3Q23. In 2024E, we estimate the underwriting profit to rise ~12% YoY, driven by 7% total premium growth and a slight CoR improvement to 98.0% (-0.1pct from FY23E's 98.1%), thanks to an optimized non-auto structure with risk clearance in some loss-making lines, i.e. liability and commercial property. We see a positive outlook for the company ahead given: 1) its appealing NEV market share (~34%) and it being the first-in-sector to achieve a NEV CoR less than 100%; 2) growing household vehicles contributing 70%+ of auto premiums in the past few years, and 3) an improved non-auto structure with expanding individual A&H. Reiterate BUY.

- **Auto: industry front-runner to realize the new-energy vehicle (NEV) CoR <100%.** With tightened regulatory oversight, auto expense ratio peaked in 3Q23 and has been declining since 4Q23, based on our channel check. Yet the claims ratio increased notably given a low base in 2H22, and increasing NAT CAT claims in 3Q23, possibly totalling RMB9.2bn (*CMBI estimate*). Despite increased frequency and higher ticket-size per case, we see little pricing pressure for the insurer as: 1) the claims ratio is still much lower than the actuarial assumption of 75%, and 2) the impact can be partially offset by lower expense ratio given the insurer's operational efficiency. Beyond this, the insurer strived to realize NEV profitability (namely, NEV CoR <100%), from which it could further capitalize on rising NEV penetration. Household vehicles made up 70%+ (1H23: 72%) of auto premiums over the years, implying the insurer's risk mitigation strategy by leaning toward lines of low accident rates.
- **Non-auto: optimal structure with rising focus on individual A&H.** The individual business, mainly Accident & Health (A&H), achieved underwriting profitability by reaching <95% CoR in 2023, from our channel check. The line made up 12% of non-auto premiums by 1H23, and is expected to reach ~20% as of year-end (*CMBI estimate*). Concurrently, the insurer scaled back its loss-making corporate lines, i.e. liability and commercial property, with a continued >100% CoR and lack of visibility to breakeven in the short run. Recent policy support of *Huiminbao* and the government notice on the integration of medical and commercial insurance data provide additional catalysts in A&H, in our view.
- **Valuation: defensive play with a negative beta; absolute DPS likely.** PICC P&C acts as a defensive play against macro headwinds, given its 1) stable earnings to ensure an avg.13% ROE; 2) stable leading position with one-third of total P&C market share and 3) ~40% payout ratio over the years. We recommend BUY, with target price at HK\$11.7 based on P/B-ROE method, implying 1.0x FY24E P/BV (the stock is now trading at 0.8x FY24E P/BV).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (RMB mn)	22,360	26,708	25,719	31,925	35,944
EPS (Reported)(RMB)	1.01	1.20	1.16	1.44	1.62
Consensus EPS (RMB)	n.a	n.a	1.14	1.42	1.57
Premium income (RMB mn)	396,997	425,480	453,140	484,712	524,425
Combined ratio (%)	99.6	97.6	98.1	98.0	97.9
P/B (x)	0.6	0.7	0.9	0.8	0.7
Dividend yield (%)	7.2	7.1	5.2	6.5	7.3
ROE (%)	11.5	12.9	11.8	13.4	13.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$11.70**
 (Previous TP **HK\$11.70**)
Up/Downside **20.9%**
Current Price **HK\$9.68**

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Stock Data

Mkt Cap (HK\$ mn)	215,302.6
Avg 3 mths t/o (HK\$ mn)	245.5
52w High/Low (HK\$)	10.56/6.89
Total Issued Shares (mn)	22242.0
Source: FactSet	

Shareholding Structure

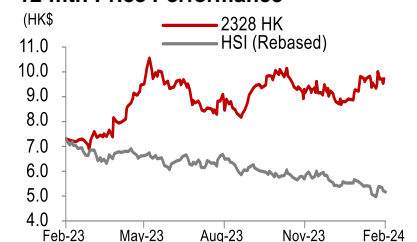
Citigroup Inc.	6.9%
BlackRock, Inc.	5.8%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	5.0%	13.5%
3-mth	5.6%	17.1%
6-mth	14.3%	43.6%

Source: FactSet

12-mth Price Performance



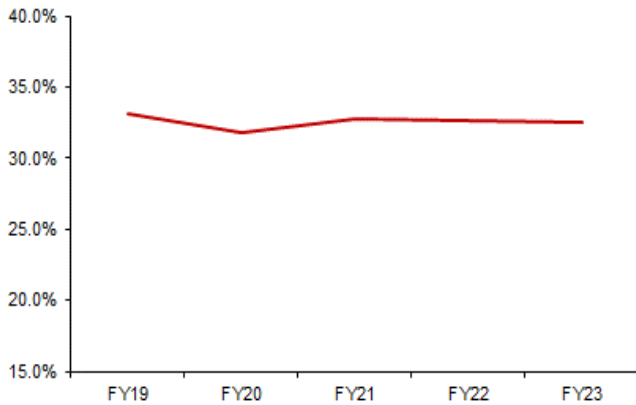
Source: FactSet

Auditor: Deloitte

- **Profitable NEV business to scale up with rising NEV penetration:** In 1H23, the company's NEV premiums rose by 54.7% YoY to RMB12.6bn, amounting to 9.4% of auto premiums. Given a 3-4pct increase in NEV premium as a percentage of auto premiums, we estimate by end-2023, the NEV premiums may have contributed 10-11% of total auto premiums, amounting to RMB32bn.
- **Increasing contribution to underwriting of household vehicles:** We maintain our auto premium growth forecast at ~6% YoY in the long run, driven by new car sales growth, as stated in our 2024 outlook ([link](#)). In 1H23, household vehicles contributed 72% of auto premiums, with the remaining 28% generated from commercial vehicles. Given increased risk awareness of household car owners compared to those who drive for commercial purposes, an optimized structure of 70%+ underwriting from the household side enables the insurer to cut CoR by reducing the claims ratio.
- **A floating dividend policy to ensure absolute DPS likely:** Mgmt. stated preference for a floating dividend policy in 2023, by ways of increasing the payout to above 40%, to ensure the absolute quantity of DPS. Detailed information has not yet been announced as the company would need approval from the Ministry of Finance for any modification in dividend policy. Given a dividend yield stable at 6-7%, we anticipate the floating dividend policy will exert limited impact on the insurer's dividend yield, as it may be partially offset by the increase in share price within the year.

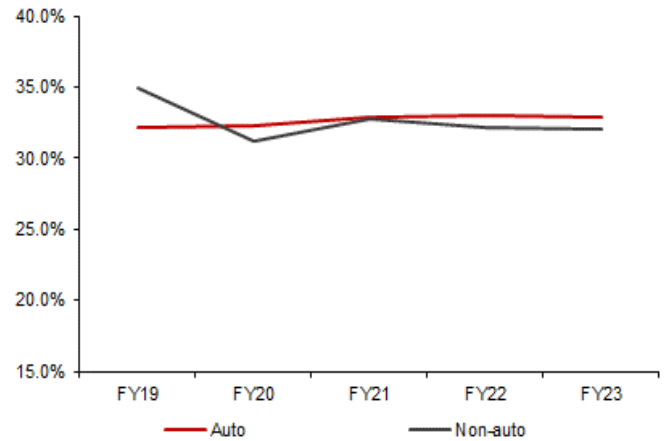
Focus charts

Fig 1: PICC P&C market share by cum. premium income



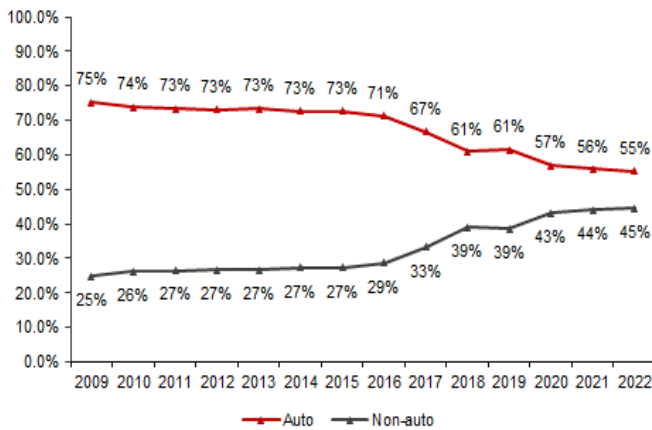
Source: Company data, National Administration of Financial Regulation (NAFR), HKEx, CMBIGM

Fig 2: PICC P&C auto and non-auto market share



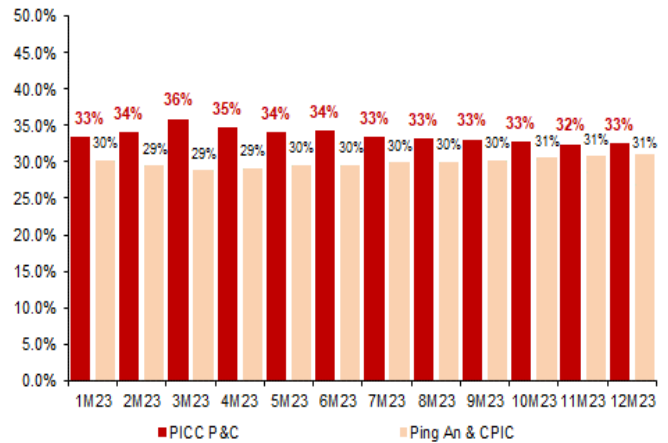
Source: Company data, NAFR, HKEx, CMBIGM

Fig 3: Balanced auto / non-auto structure to 55% / 45%



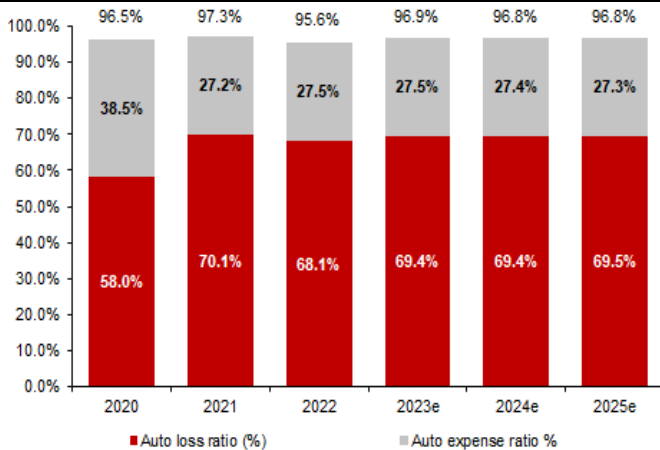
Source: Company data, HKEx, CMBIGM

Fig 4: PICC P&C outweighed the other top 2 insurers



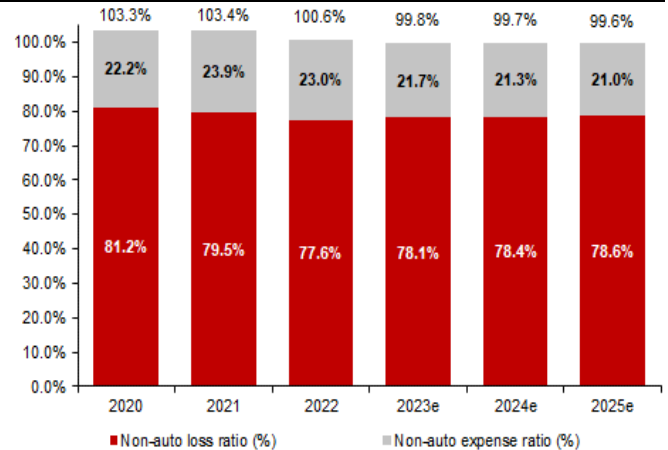
Source: Company data, HKEx, CMBIGM

Fig 5: Auto CoR stabilized with trimmed expense ratio



Source: Company data, CMBIGM estimates

Fig 6: Non-auto CoR <100% since 2023



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Premiums written (gross)	433,187	449,533	487,533	520,691	560,250	606,624
Premiums earned (net)	393,127	396,997	425,480	453,140	484,712	524,425
Investment income	18,805	21,174	15,974	17,270	22,809	25,925
Realized gains (losses)	(2,257)	(1,191)	486	(75)	(57)	(38)
Losses	(388,950)	(395,476)	(415,151)	(444,520)	(474,903)	(513,194)
Selling	(260,320)	(292,588)	(305,634)	(330,152)	(353,852)	(383,898)
Underwriting & commissions	(69,075)	(60,116)	(60,834)	(64,579)	(67,892)	(72,249)
Other operating expense	(59,555)	(42,772)	(48,683)	(49,789)	(53,159)	(57,046)
Equity in affiliates (pretax)	3,951	4,524	4,130	4,295	4,467	4,646
Pretax income	24,676	26,028	30,919	30,110	37,028	41,764
Income taxes	(3,808)	(3,663)	(4,266)	(4,388)	(5,099)	(5,817)
Minority interest	0	5	(55)	4	4	4
Net income	20,868	22,360	26,708	25,719	31,925	35,944
Net income available to common	20,868	22,360	26,708	25,719	31,925	35,944

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	26,192	17,414	21,250	22,310	22,552	24,041
Total fixed income securities investment	307,398	305,063	337,940	357,110	378,473	410,606
Total equity securities investment	110,734	143,804	140,718	148,817	157,723	169,749
Real estate assets	30,328	29,594	32,214	32,470	32,855	33,480
Other investments	0	0	0	20	20	20
Premium balance receivables	83,270	92,934	114,541	120,052	125,840	131,919
Investment in unconsolidated subs.	53,262	56,945	58,143	58,823	63,066	64,425
Deferred tax assets	5,055	7,116	15,054	15,054	15,054	15,054
Other assets	30,562	29,752	32,027	32,181	32,335	32,490
Total assets	646,801	682,622	751,887	786,837	827,917	881,783
Liabilities & shareholders' equity						
Insurance policy liabilities	312,873	338,781	384,879	400,046	411,793	431,797
Other insurance liabilities	22,693	24,346	29,291	27,087	28,380	29,738
ST debt & curr. portion LT debt	1,750	1,748	1,741	1,847	1,960	2,079
Long-term debt	23,297	8,058	8,097	8,097	8,097	8,097
Deferred tax liabilities	0	0	0	0	0	0
Other liabilities	96,157	104,040	115,131	119,706	123,866	132,566
Total liabilities	456,770	476,973	539,139	556,784	574,096	604,277
Common stock/ordinary capital	22,242	22,242	22,242	22,242	22,242	22,242
Equity reserves	165,271	180,645	187,614	204,861	228,570	252,195
Total shareholders' equity	187,513	202,887	209,856	227,103	250,812	274,437
Minority interest	2,518	2,762	2,892	2,950	3,009	3,070
Total equity	190,031	205,649	212,748	230,053	253,821	277,507
Total liabilities & shareholders' equity	646,801	682,622	751,887	786,837	827,917	881,783

PER SHARE DATA	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
DPS	0.38	0.41	0.48	0.46	0.57	0.65
EPS (Reported)	0.94	1.01	1.20	1.16	1.44	1.62
Consensus EPS	na	na	na	1.14	1.42	1.57
No. of shares basic	22,242	22,242	22,242	22,242	22,242	22,242
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Return on equity (ROE)	11.7%	11.5%	12.9%	11.8%	13.4%	13.7%
Return on asset (ROA)	3.4%	3.4%	3.7%	3.3%	4.0%	4.2%
Combined ratio	98.9%	99.6%	97.6%	98.1%	98.0%	97.9%
Loss ratio	66.2%	73.7%	71.8%	72.9%	73.0%	73.2%
Expense ratio	32.7%	25.9%	25.7%	25.2%	25.0%	24.7%
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	6.5	5.6	5.6	7.7	6.2	5.5
P/B	0.7	0.6	0.7	0.9	0.8	0.7
Dividend yield (%)	6.1	7.2	7.1	5.2	6.5	7.3
Dividend payout (%)	40.0	40.5	39.8	40.0	40.0	40.0

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

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