

PICC P&C (2328 HK)

Strong beat in 1H22

PICC P&C delivered profit growth of 15% YoY in 1H22, representing 70% of FY22E consensus and translating into 37.5% YoY growth in 2Q22. The strong earnings growth was primarily driven by 53% YoY increase of underwriting profit in 1H22 (+160% YoY in 2Q22). Combined ratio (CoR) improved 1.2pts YoY to 96.0%, outperforming the industry average (97.3%) and major peers. Moreover, loss reserve ratio increased 4.5pts HoH or 4.2pts YoY, reflecting thickened buffer for loss absorption in the future. Looking into 2H22, we expect PICC P&C to deliver double-digit growth in premium income and continual YoY expansion of underwriting margin. Reiterate BUY.

- **Auto: Both loss ratio and expense ratio improved in 1H22.** Auto CoR declined by 1.3pts YoY to 95.4% with loss ratio and expense ratio both down 0.6pts YoY, due to 1) pricing adjustment of NEV insurance and 2) less loss events amid COVID restrictions and 3) higher premiums contribution from proprietary channels. Auto premium income grew 6.7% YoY, driven by 4.7% growth of number of insured cars. Combined ratio of NEV insurance issued in 1H22 was 96.5%, in line with the management guidance in 1Q22.
- **Non-auto: Underwriting margin expanded thanks to more disciplined expense management.** Non-auto business CoR improved by 1.1pts YoY to 96.8%, with 1.5pts YoY reduction in expense ratio. Non-auto growth remained high at 12.7% YoY in 1H22, mainly driven by A&H (+15% YoY), agricultural insurance (+24% YoY) and credit guarantee insurance (+130% YoY). The underwriting margin of credit guarantee insurance improved by 26pts YoY to 36.6% in 1H22.
- **NAT CAT losses YTD remain manageable.** The management indicated natural catastrophe (NAT CAT) losses in 1H22 increased by 7.6% YoY to RMB1.27bn, but July-Aug losses from droughts were significantly lower than those of the rainstorms in July 2021. Hence, the NAT CAT losses YTD are smaller than those of the same period last year.
- **Valuation.** PICC P&C is trading at 6.1x P/E FY22E and 0.7x P/BV FY22E with 7% dividend yield and over 12% ROE. We believe the rebound of premium income growth and continual improvement in underwriting margin will drive stock re-rating. Reiterate BUY rating.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit (RMB mn)	20,868	21,652	25,501	29,253	32,957
EPS (Reported)(RMB)	0.9	1.0	1.1	1.3	1.5
YoY growth (%)	(14.1)	3.8	17.8	14.7	12.7
Consensus EPS (RMB)	0.9	1.1	1.3	1.4	1.5
Premium income (RMB mn)	393,127	396,997	430,931	474,024	521,426
Premium income growth (%)	3.3	1.0	8.5	10.0	10.0
Combined ratio (%)	98.9	99.6	98.6	98.5	98.5
P/B (x)	0.8	0.7	0.7	0.6	0.6
Dividend yield (%)	5.7	6.2	7.3	8.4	9.4
ROE (%)	11.7	11.1	12.1	12.9	13.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$12.62
 (Previous TP) HK\$12.62)
Up/Downside 55.0%
Current Price HK\$8.14

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Stock Data

Mkt Cap (HK\$ mn)	53,536.2
Avg 3 mths t/o (HK\$ mn)	8.0
52w High/Low (HK\$)	8.53/6.21
Total Issued Shares (mn)	6899.0

Source: FactSet

Shareholding Structure

PICC Group	69.0%
Free Float	31.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.4%	-1.9%
3-mth	0.1%	0.1%
6-mth	-4.6%	12.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Deloitte

Recent Reports:

1. China Insurance – P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22 ([link](#))
2. PICC P&C – Expect CoR improvement in FY22 ([link](#))
3. PICC P&C – CoR improvement in 1Q22 ([link](#))

PICC P&C: 1H22 results overview

(RMBmn)	1H21	1H22	YoY chg	2Q21	2Q22	YoY chg.
Net profit attribute to shareholders	16,884	17,850	5.7%	6,850	9,106	32.9%
PICC P&C	16,497	19,041	15.4%	7,555	10,387	37.5%
PICC Life	4,457	3,352	-24.8%	1,167	1,165	-0.2%
PICC Health	259	742	186.5%	118	91	-22.9%
Net investment yield (%)	4.8	4.9	0.1 ppt			
Total investment yield (%)	6.7	5.5	(1.2) ppt			
Comprehensive investment yield (%)	5.7	2.1	(3.6) ppt			
Total investment assets	1,108,126	1,230,807	11.1%			
Total investment income	35,362	32,428	-8.3%	18,088	17,268	-4.5%

PICC P&C: Premium income	1H21	1H22	YoY chg.	2Q21	2Q22	YoY chg.
Auto	120,755	128,808	6.7%	63,252	65,026	2.8%
Non-auto	131,871	148,600	12.7%	53,822	59,912	11.3%
A&H	60,036	68,882	14.7%	16,390	20,138	22.9%
Agro	29,673	36,721	23.8%	17,477	21,017	20.3%
Liability	18,876	19,265	2.1%	9,092	8,272	-9.0%
Credit	1,163	2,674	129.9%	673	1,186	76.2%
Property	10,121	10,252	1.3%	4,855	4,659	-4.0%
Cargo	2,529	2,580	2.0%	1,272	1,200	-5.7%
Others	9,473	8,226	-13.2%	4,063	3,440	-15.3%
P&C total	252,626	277,408	9.8%	117,074	124,938	6.7%

PICC P&C: Combined ratio	1H21	1H22	YoY chg.	2Q21	2Q22	YoY chg.
P&C total						
Combined ratio (%)	97.2	96.0	(1.2) ppt	98.5	96.3	(2.2) ppt
Expense ratio (%)	25.5	24.5	(1.0) ppt	25.5	23.9	(1.7) ppt
Loss ratio (%)	71.7	71.5	(0.2) ppt	73.0	72.4	(0.5) ppt
Auto insurance						
Combined ratio (%)	96.7	95.4	(1.3) ppt	98.7	94.9	(3.9) ppt
Expense ratio (%)	26.3	25.7	(0.6) ppt	27.0		
Loss ratio (%)	70.4	69.7	(0.6) ppt	71.8		
Non-auto insurance						
Combined ratio (%)	97.9	96.8	(1.1) ppt	98.0	98.3	0.3 ppt
Expense ratio (%)	24.0	22.5	(1.5) ppt	23.3		
Loss ratio (%)	73.9	74.3	0.4 ppt	74.8		

Combined ratio by products

Auto	96.7	95.4	(1.3) ppt			
A&H	101.6	100.8	(0.8) ppt			
Agro	96.9	89.3	(7.6) ppt			
Liability	98.4	105.4	7.0 ppt			
Credit	89.6	63.4	(26.2) ppt			
Property	97.9	93.6	(4.3) ppt			
Cargo	82.7	91.4	8.7 ppt			
Others	79.7	83.4	3.7 ppt			

PICC Life	1H21	1H22	YoY chg.	2Q21	2Q22	YoY chg.
FYP	29,095	38,031	31%	6,513	5,177	-21%
FYRP	14,669	14,430	-2%	2,010	2,500	24%
Single	14,426	23,601	64%	4,503	2,677	-41%

Renewal	35,039	34,011	-3%	6,961	7,115	2%
FYP APE	16,112	16,790	4%	2,460	2,768	12%
Total GWP	64,134	72,042	12%	13,474	12,292	-9%
VNB	2,412	1,493	-38%			
VNB margin (FYP)	8.3%	3.9%	(4.4) ppt			
VNB margin (FYP APE)	15.0%	8.9%	(6.1) ppt			
Life EV	109,078	109,568	0%			
No. of agents (mn)	0.25	0.13	-48%			
Reported Agent productivity (FYP)	4,062	5,842	44%			
Agent productivity (VNB basis/month/agent)	1,177	1,282	9%			

PICC Health	1H21	1H22	YoY chg.	2Q21	2Q22	YoY chg.
FYP	19,006	22,892	20%	5,401	6,550	21%
FYRP	3,112	1,864	-40%	1,194	833	-30%
Single	15,894	21,028	32%	4,207	5,717	36%
Renewal	6,564	7,491	14%	2,979	3,347	12%
FYP APE	4,701	3,967	-16%	1,615	1,405	-13%
Total GWP	25,570	30,383	19%	8,380	9,897	18%
VNB	711	854	20%			
VNB margin (FYP)	3.7%	3.7%	(0.0) ppt			
VNB margin (FYP APE)	15.1%	21.5%	6.4 ppt			
Health EV	16,381	20,601	26%			
No. of agents (mn)	0.01	n.a				
Reported Agent productivity (FYP)	2,979	n.a				
Agent productivity (VNB basis/month/agent)	7,803	27,368	251%			

Source: Company data, CMBI estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Total income	398,756	412,267	418,538	451,593	497,060	546,940
Premiums written (gross)	433,175	433,187	449,533	494,486	543,935	598,328
Premiums earned (net)	380,683	393,127	396,997	430,931	474,024	521,426
Investment income	16,986	17,709	17,996	20,906	23,144	25,633
Realized gains (losses)	1,439	4,551	4,562	(146)	0	0
Other operating income	(352)	(3,120)	(1,017)	(98)	(108)	(118)
Losses	(379,223)	(391,542)	(397,747)	(427,206)	(469,373)	(516,225)
Selling	(251,822)	(260,320)	(292,588)	(317,165)	(348,407)	(383,248)
Underwriting & commissions	(77,943)	(69,075)	(60,116)	(61,192)	(67,311)	(74,042)
Other operating expense	(49,458)	(62,147)	(45,043)	(48,849)	(53,654)	(58,935)
Equity in affiliates (pretax)	4,250	3,951	4,524	5,429	6,515	7,817
Pretax income	23,783	24,676	25,315	29,815	34,202	38,532
Income taxes	496	(3,808)	(3,663)	(4,314)	(4,949)	(5,576)
Consolidated net income	24,279	20,868	21,652	25,501	29,253	32,957
Minority interest	3	0	0	0	0	0
Net income	24,282	20,868	21,652	25,501	29,253	32,957

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	96,918	97,135	90,988	100,689	111,508	123,508
Total fixed income securities investment	149,072	168,511	172,851	191,279	211,833	234,630
Total equity securities investment	91,728	110,734	143,804	159,136	176,235	195,201
Real estate assets	22,684	30,328	29,594	32,592	35,900	39,544
Other investments	0	0	0	0	0	0
Premium balance receivables	53,593	50,103	55,399	60,939	67,033	73,736
Investment in unconsolidated subs.	50,477	53,262	56,945	62,640	68,903	75,794
Deferred tax assets	5,121	5,055	7,116	7,472	7,845	8,238
Intangible assets	0	0	0	0	0	0
Other assets	126,488	131,673	125,925	136,641	148,334	161,099
Total assets	596,081	646,801	682,622	751,387	827,591	911,750
Liabilities & shareholders' equity						
Insurance policy liabilities	306,902	314,623	340,529	370,063	402,416	438,004
Insurance reserves	146,627	153,780	169,606	184,018	199,849	217,264
Unearned premiums	158,513	159,093	169,175	184,010	200,328	218,277
Policy claims	0	0	0	0	0	0
Other insurance liabilities	1,762	1,750	1,748	2,035	2,239	2,463
ST debt & curr. portion LT debt	16,759	29,028	37,985	41,784	45,962	50,558
Deferred tax liabilities	0	0	0	0	0	0
Other liabilities	102,466	113,119	98,459	121,814	144,465	169,261
Total liabilities	426,127	456,770	476,973	533,660	592,843	657,823
Total common equity	169,953	187,513	202,887	217,726	234,749	253,927
Common stock/ordinary capital	22,242	22,242	22,242	22,242	22,242	22,242
Capital surplus	11,412	11,412	11,412	11,412	11,412	11,412
Retained earnings	40,998	48,030	58,318	73,157	90,180	109,358
Equity reserves	106,713	117,241	122,327	122,327	122,327	122,327
Revaluation reserves	59,703	61,814	64,100	64,100	64,100	64,100
Other appropriated Reserves	35,598	44,015	46,815	46,815	46,815	46,815
Total shareholders' equity	169,953	187,513	202,887	217,726	234,749	253,927
Minority interest	1	2,518	2,762	0	0	0
Total equity	169,954	190,031	205,649	217,726	234,749	253,927
Total liabilities & shareholders' equity	596,081	646,801	682,622	751,387	827,591	911,750

PER SHARE DATA	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
DPS	0.46	0.38	0.41	0.48	0.55	0.62
EPS (Reported)	1.09	0.94	0.97	1.15	1.32	1.48
Consensus EPS	na	0.90	1.10	1.30	1.40	1.50
No. of shares basic	22,242	22,242	22,242	22,242	22,242	22,242
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Return on equity (ROE)	15.6%	11.7%	11.1%	12.1%	12.9%	13.5%
Return on asset (ROA)	4.2%	3.4%	3.3%	3.6%	3.7%	3.8%
Combined ratio	99.2%	98.9%	99.6%	98.6%	98.5%	98.5%
Loss ratio	66.2%	66.2%	73.7%	73.6%	73.5%	73.5%
Expense ratio	33.0%	32.7%	25.9%	25.0%	25.0%	25.0%
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/B	0.9	0.8	0.7	0.7	0.6	0.6
Div yield (%)	7.0	5.7	6.2	7.3	8.4	9.4
ROE (%)	15.6	11.7	11.1	12.1	12.9	13.5

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

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