

# Ping An (2318 HK)

## Life business reform to continue into 2H

Ping An's 1H20 group operating profit +1.2% YoY to RMB 74.3bn, while net profit decreased 29.7% YoY to RMB 68.7bn, including impact of discount rate change (~RMB 3.7bn) and short-term investment variances (~RMB 2bn). Most business lines suffered from market headwinds in time of COVID-19. Life insurance reform, which the Company embarked on since the end of 2018, also weighed on short run performance. Since the life business reform is about to be completed by year end, next year will likely witness substantial growth.

- Life business continue to be under pressure.** Life business missed expectation. NBV of life and health insurance declined 24.4% YoY, among which agent channel NBV declined 23.5% YoY. NBV margin decreased 8ppt YoY to 36.7% (agent channel NBV margin -3.7ppt). Agent team building also remained challenging. Limited activities of agents in 1H20 also dragged persistency ratio of policies and renewal premium collection.
- Result positives.** **1)** P&C achieved premium growth of 10.5% against market headwinds (auto +3.6%, non-auto +26.4%); **2)** Number of life insurance agents recovered 1.2% QoQ in 2Q to 1,145 thousand., suggesting stabilization of agent team. **3)** Interim dividend increased to RMB 0.8 per share, +6.9% YoY and representing 19.6% of 1H20 attributable operating profit (18.6% in 1H19). This signals the Company's increasing willingness to share returns with shareholders.
- Other result negatives.** **1)** Operating profit posted negative growth in 1H20 for P&C, banking, trust business and etc.; **2)** EV growth less than expected due to lackluster NBV growth, negative investment return variances and fewer operating variances due to decrease in persistency ratio. **3)** Combined ratio of P&C insurance rose to 98.1%, up 1.5ppt YoY.
- Catalysts.** 1) Life insurance business recovery; 2) Future listing of Lufax.
- Risks.** 1) Life insurance reform progress slower than expected; 2) Worsening of P&C underwriting margin.
- Valuation.** We lower major forecasts for NBV, EV, net profit and etc. to reflect weaker-than-expected 1H20 results. We trim TP to HK\$ 92.67 accordingly based on SOTP method. Given expected dividend yield of 3.0% in 2020, potential return is 14.2%. Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	719,556	795,064	822,431	881,893	944,984
YoY growth (%)	18.9%	10.5%	3.4%	7.2%	7.2%
Net profit (RMB mn)	107,404	149,407	135,638	150,238	164,930
EPS (RMB)	6.02	8.41	7.63	8.46	9.28
YoY growth (%)	31.1	39.6	-9.2	10.8	9.8
Consensus EPS (RMB)	n.a.	n.a.	7.47	8.74	10.10
P/E (x)	12.1	8.7	9.8	8.8	8.1
P/B (x)	2.4	2.0	1.7	1.5	1.3
P/EV (x)	1.3	1.1	1.0	0.9	0.8
Yield (%)	2.4%	2.8%	3.0%	3.3%	3.6%
ROE (%)	20.9%	24.3%	18.5%	17.6%	16.7%

Source: Company data, Bloomberg, CMBIS

**BUY (Maintain)**

**Target Price** **HK\$92.67**  
 (Previous TP **HK\$96.06**)  
**Up/Downside** **+11.2%**  
**Current Price** **HK\$83.3**

### China Insurance Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	1,569,586
Avg 3 mths t/o (HK\$ mn)	2,817.60
52w High/Low (HK\$)	99.18/67.76
Total Issued Shares (mn)	<b>7,488 (H)</b> 10,833 (A)

Source: Bloomberg

#### Shareholding Structure

Charoen Pokphand Group	9.04%
Shenzhen Investment Holdings	5.27%

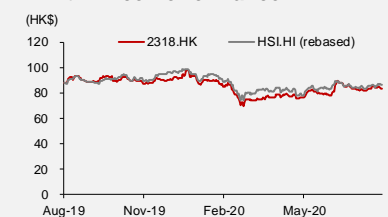
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	0.4%	-2.2%
3-mth	8.9%	-0.9%
6-mth	-2.1%	0.6%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

#### Related Reports

- "Explore the boundless" – 4 Aug 2020 (initiation report)
- "Senior management change" – 28 Oct 2019
- "Steady growth in operating profit" – 19 Aug 2019

## Focus Charts

Figure 1: Results summary

RMB mn			
P&L	1H20	1H19	YoY
Gross written premiums	445,505	446,481	-0.2%
Net earned premiums	415,754	421,432	-1.3%
Reinsurance income	3,400	3,667	-7.3%
Reinsurance commission income	3,400	3,667	-7.3%
Interest income from banking operations	94,669	86,583	9.3%
Fees and commission income from non-insurance operations	29,488	26,861	9.8%
Interest revenue from non-banking operations	56,288	49,402	13.9%
Dividend income, realized & unrealized gains	44,629	61,659	-27.6%
Share of profits from associates and JVs	8,007	12,164	-34.2%
Other income	31,045	28,478	9.0%
<b>Total income</b>	<b>675,273</b>	<b>678,082</b>	<b>-0.4%</b>
Claims and policyholders' benefits	(330,289)	(325,736)	1.4%
Commission expenses on insurance operations	(57,354)	(61,657)	-7.0%
Interest expenses on banking operations	(44,264)	(42,827)	3.4%
Fees and commission expenses on non-insurance operations	(5,650)	(4,850)	16.5%
Net impairment losses on financial assets	(40,526)	(30,003)	35.1%
Other impairment losses on other assets	(1,760)	(979)	79.8%
Foreign exchange gains	140	457	-69.4%
General and administrative expenses	(83,337)	(83,054)	0.3%
Finance costs/Interest expenses on non-banking operations	(12,982)	(9,756)	33.1%
Other expenses	(16,498)	(15,602)	5.7%
<b>Total expenses</b>	<b>(592,520)</b>	<b>(574,007)</b>	<b>3.2%</b>
Pretax profit	90,760	116,239	-21.9%
Income tax	-14,792	-10,501	40.9%
Less: (Minorities)	-7,285	-8,062	-9.6%
<b>Net profit attributable to shareholders</b>	<b>68,683</b>	<b>97,676</b>	<b>-29.7%</b>
<b>Operating profit attributable to shareholders</b>	<b>74,310</b>	<b>73,464</b>	<b>1.2%</b>
<b>B/S</b>			
	<b>1H20</b>	<b>2H19</b>	<b>YoY</b>
Total assets	8,848,631	8,222,929	7.6%
Total liabilities	7,926,460	7,370,559	7.5%
Shareholder equity	701,972	673,161	4.3%
<b>Key metric (during period)</b>			
	<b>1H20</b>	<b>1H19</b>	<b>YoY</b>
New business value of L&H (RMB bn)	31,031	41,052	-24.4%
P&C written premiums (RMB bn)	144,118	130,466	10.5%
- Auto insurance premiums (RMB bn)	95,646	92,338	3.6%
Combined ratio of P&C	98.1%	96.6%	1.5 ppt
Net investment yield of insurance funds	4.1%	4.5%	-0.4 ppt
Total investment yield of insurance funds	4.5%	5.6%	-1.1 ppt

Source: Company data, CMBIS

**Figure 2: Key operating metrics**

RMB mn	New			Old			Diff		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
GWP	822,431	881,893	944,984	857,284	928,157	1,000,866	-4.1%	-5.0%	-5.6%
Net profit	135,638	150,238	164,930	150,257	171,180	192,182	-9.7%	-12.2%	-14.2%
New business value	62,932	68,128	71,652	69,295	75,218	80,075	-9.2%	-9.4%	-10.5%
NBV growth	-17.1%	8.3%	5.2%	-8.8%	8.5%	6.5%	-8.4 ppt	-0.3 ppt	-1.3 ppt
Group EV	1,370,106	1,553,209	1,750,485	1,383,030	1,576,073	1,784,540	-0.9%	-1.5%	-1.9%

Source: Company data, CMBIS estimates

**Figure 3: Breakdown of operating profit**

RMB mn	1H20	1H19	YoY
Life & Health insurance	51,127	47,958	6.6%
P&C insurance	8,234	9,990	-17.6%
Banking	7,927	8,934	-11.3%
Trust	1,651	1,871	-11.8%
Securities	1,509	1,199	25.9%
Other Asset management	2,671	3,913	-31.7%
Fintech & healthtech	3,438	2,802	22.7%
Others and eliminations	-2,247	-3,202	-29.8%
<b>Group total</b>	<b>74,310</b>	<b>73,465</b>	<b>1.2%</b>

Source: Company data, CMBIS

**Figure 4: Valuation table**

<b>Life insurance</b>	
3-year avg. ROEV	18.9%
Terminal growth rate	2%
Cost of equity	16.0%
Fair P/EV (x) for life insurance business	1.21
Life EV per share (at YE20, in RMB)	47.95
<b>Value of Life insurance per share (in RMB)</b>	<b>57.88</b>
<b>P&amp;C insurance</b>	
3-year avg. ROE	20.0%
Fair P/B ratio for P&C business	1.29
P&C BVPS (at YE20, in RMB)	5.62
<b>Value of P&amp;C per share (in RMB)</b>	<b>7.23</b>
<b>Banking</b>	
CMBI target price of PAB (in RMB)	19.8
PAB issued shares (million)	19,406
Ping An's shareholding in PAB	57.94%
<b>Value of PAB per share (in RMB)</b>	<b>12.18</b>
<b>Asset management and others</b>	
Fair P/B ratio	1.00
BVPS (at YE20, in RMB)	6.93
<b>Value of AM business per share (in RMB)</b>	<b>6.93</b>
<b>Technology business</b>	
<b>Value of tech business per share (in RMB)</b>	<b>13.61</b>
Sum of the above business segments (in RMB)	97.84
Conglomerate discount	15%
Target price (in RMB)	83.16
<b>Target price (in HKD)</b>	<b>92.67</b>

Source: Company data, CMBIS estimates

## Financial Summary

Income statement						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
GWP & policy fees	719,556	795,064	857,284	928,157	1,000,866	<b>Group</b>					
Net earned premiums	677,703	748,779	803,549	868,192	934,234	Net investment yield	5.2%	5.2%	5.4%	5.2%	5.2%
Reinsurance income	7,966	7,572	9,036	9,563	10,256	Total investment yield	3.7%	6.9%	6.0%	6.0%	5.8%
Total premium income	685,669	756,351	812,585	877,754	944,489	ROAE	20.9%	24.3%	20.4%	19.6%	18.8%
						ROAA	1.6%	1.9%	1.7%	1.8%	1.8%
Investment income	120,520	201,738	209,819	230,304	252,760	EV growth	21.5%	21.8%	13.3%	14.0%	13.2%
Net inv't income from banking	74,783	90,187	103,227	112,414	123,199	Group comprehensive solvency	216.4%	229.8%	228.4%	225.3%	222.4%
Net fees and commission income	37,191	44,230	61,819	68,870	76,929						
Claims and benefits	(439,596)	(578,313)	(614,286)	(660,793)	(707,796)	<b>Life &amp; Health insurance</b>					
Commission expenses	(130,394)	(114,766)	(124,999)	(136,013)	(147,286)	GWP growth	21.5%	11.5%	6.0%	6.7%	6.2%
G&A expenses	(151,581)	(177,164)	(196,328)	(212,294)	(231,239)	Agency FYRP growth	-3.1%	-7.8%	-3.7%	7.7%	5.0%
Impairment loss	(53,814)	(67,266)	(71,198)	(76,172)	(81,640)	NBV growth	7.3%	5.1%	-8.8%	8.5%	6.5%
Other income and expenses	2,299	6,518	6,356	10,540	13,772	NBV margin of agency channel	57.1%	64.9%	61.8%	61.7%	61.7%
Associates/JVs	18,074	23,224	24,832	26,678	28,291	L&H EV growth	23.5%	23.5%	17.4%	15.9%	14.9%
Pretax profit	163,151	184,739	211,827	241,289	271,480	L&H operating ROEV	30.8%	25.0%	20.3%	19.4%	18.5%
						<b>P&amp;C insurance</b>					
Tax	(42,699)	(20,374)	(44,733)	(50,608)	(56,663)	GWP growth	14.5%	9.5%	10.2%	11.2%	10.7%
Less: minorities	(13,048)	(14,958)	(16,836)	(19,501)	(22,635)	Combined ratio	96.0%	96.4%	95.9%	96.2%	96.3%
<b>Net profit</b>	<b>107,404</b>	<b>149,407</b>	<b>150,257</b>	<b>171,180</b>	<b>192,182</b>						
						<b>Profit breakdown</b>					
						Life & health insurance	62%	66%	67%	65%	64%
						P&C insurance	11%	16%	16%	15%	15%
						Banking	13%	12%	12%	13%	13%
						Others	14%	6%	5%	7%	8%
						<b>Per share data</b>					
						EPS (RMB)	6.02	8.41	8.46	9.63	10.82
						DPS (RMB)	1.72	2.04	2.47	2.81	3.15
						BVPS (RMB)	30.44	36.82	43.84	51.53	60.20
						EVPS (RMB)	54.84	65.67	75.66	86.22	97.62

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Investment assets	4,056,704	4,659,117	5,225,641	5,815,960	6,477,061
Loans to customers	1,929,842	2,240,396	2,457,308	2,727,612	3,027,650
<b>Total assets</b>	<b>7,142,960</b>	<b>8,222,929</b>	<b>9,085,927</b>	<b>10,037,79</b>	<b>11,105,02</b>
Insurance contract liabilities	2,264,634	2,669,673	3,041,297	3,419,217	3,826,357
Customer deposits	2,114,344	2,431,713	2,730,342	3,030,680	3,364,055
<b>Total liabilities</b>	<b>6,459,317</b>	<b>7,370,559</b>	<b>8,071,079</b>	<b>8,845,048</b>	<b>9,711,619</b>
<b>Shareholders' equity</b>	<b>556,508</b>	<b>673,161</b>	<b>801,479</b>	<b>941,975</b>	<b>1,100,447</b>

Source: Company data, CMBIS estimates

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