

# Ping An (2318 HK)

## Challenging insurance business

Ping An reported RMB 108.7bn operating profit in 9M20, up 4.5% YoY, while net profit decreased 20.5% to reflect impact of discount rate changes, short-term investment variances and last year's tax impact. Insurance business lines of the Group were still inflicted by aftershocks of COVID-19, which made social interaction difficult, dampened household demand for insurance products and may lead to a rise in credit risk.

- Life NBV growth remain muted in 3Q.** In light of COVID-19 and ongoing reform of the Company, NBV declined 27.1% YoY in 9M20 (-24%/-24.9%/-33.5% in 1Q/2Q/3Q, respectively). NBV margin declined 12.4ppt to 35.7% due to 1) weak sales of higher margin products, which were reliant on face-to-face communication, 2) the Company's strategy of promoting short-term but lower margin savings products in 3Q in order to acquire customers and keep interacting with clients. Number of insurance agents was 1.048 million at the end of 3Q, down 8.4% QoQ since less active agents quit the team. The Company attached greater emphasis on kickoff season this year compared to previous years', although we think challenges are likely to last.
- P&C – robust premium growth but worsening underwriting margin.** Ping An P&C achieved 11.5% YoY growth of premium income (Auto +6.0% YoY). However, combined ratio reached 99.1%, up 2.9ppt YoY and 1.0ppt from 1H20, primarily due to rising claims of guarantee insurance. As a result, operating profit of P&C decreased 22.4% YoY in 9M20.
- Result positives.** 1) Customer development yielded satisfactory results. Retail customers increased 7.0% from YE19 to over 214 million, which laid a solid foundation for future business exploration. 2) Steady progress of technology business, of which operating profit increased 13.6% YoY to RMB 4.67bn in 9M20, whereas revenue increased 8.3% YoY to RMB 65.1bn. 3) Operating profit of life business increased 9.2% YoY mainly thanks to contributions from existing business.
- Risks.** 1) Further NBV decline and NBV margin compression; 2) Kickoff season performance missed expectation; 3) Increase of credit risk.
- Valuation.** We keep financial forecast and TP unchanged. Challenges still lie ahead but we think Ping An is well positioned to advance its life insurance reform and embrace opportunities after the COVID-19. 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)	12.3	8.8	9.7	8.7	8.0
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 (%)	2.3%	2.8%	3.0%	3.3%	3.7%
ROE (%)	20.9%	24.3%	18.5%	17.6%	16.7%

Source: Company data, Bloomberg, CMBIS

**BUY (Maintain)**

**Target Price** HK\$92.97  
 (Previous TP HK\$92.97)  
**Up/Downside** +11.0%  
**Current Price** HK\$84.70

### China Insurance Sector

#### Wenjie Ding, PhD

(852) 3900 0856/(86) 755 2367 5597  
dingwenjie@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	1,646,815
Avg 3 mths t/o (HK\$ mn)	2,117.02
52w High/Low (HK\$)	98.11/67.03
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%

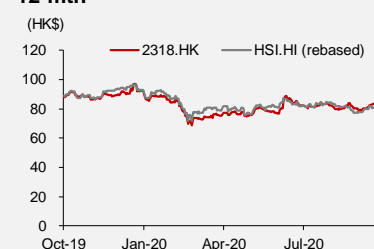
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	5.4%	-1.2%
3-mth	3.0%	2.2%
6-mth	11.7%	9.4%

Source: Bloomberg

#### 12-mth



#### Price Performance

Source: Bloomberg

#### Auditor: PwC

#### Related Reports

- "Life business reform to continue into 2H20" – 31 Aug 2020
- "Explore the boundless" – 4 Aug 2020 (Initiation)
- "Senior management change" – 28 Oct 2019
- "Steady growth in operating profit" – 19 Aug 2019

## Focus Charts

**Figure 1: 9M20/3Q20 result summary**

RMB mn						
P&L	9M20	9M19	YoY	3Q20	3Q19	YoY
Gross written premiums	626,696	615,067	1.9%	181,191	168,586	7.5%
Net earned premiums	588,606	580,666	1.4%	172,852	159,234	8.6%
Reinsurance income	5,007	5,248	-4.6%	1,607	1,581	1.6%
Reinsurance commission income	5,007	5,248	-4.6%	1,607	1,581	1.6%
Interest income from banking operations	140,415	131,078	7.1%	45,746	44,495	2.8%
Fees & commission income from non-insr biz	47,753	40,976	16.5%	18,265	14,115	29.4%
Interest revenue from non-banking	86,467	73,905	17.0%	30,179	24,503	23.2%
Dividend income, realized & unrealized gains	66,955	76,914	-12.9%	22,326	15,255	46.4%
Share of profits from associates and JVs	12,969	17,288	-25.0%	4,962	5,124	-3.2%
Other income	46,950	44,407	5.7%	15,905	15,929	-0.2%
<b>Total income</b>	<b>982,153</b>	<b>953,194</b>	<b>3.0%</b>	<b>306,880</b>	<b>275,112</b>	<b>11.5%</b>
Claims and policyholders' benefits	(464,562)	(436,182)	6.5%	(134,273)	(110,446)	21.6%
Commission expenses on insr operations	(82,129)	(88,503)	-7.2%	(24,775)	(26,846)	-7.7%
Interest expenses on banking operations	(64,583)	(64,664)	-0.1%	(20,319)	(21,837)	-7.0%
Fees & commission expenses on non-insr biz	(9,423)	(7,756)	21.5%	(3,773)	(2,906)	29.8%
Net impairment losses on financial assets	(57,910)	(44,423)	30.4%	(17,384)	(14,420)	20.6%
Other impairment losses on other assets	(2,172)	(1,408)	54.3%	(412)	(429)	-4.0%
Foreign exchange gains	1,222	241	407.1%	1,082	(216)	-600.9%
General and administrative expenses	(134,016)	(126,623)	5.8%	(50,679)	(43,569)	16.3%
Finance costs on non-banking	(19,912)	(14,696)	35.5%	(6,930)	(4,940)	40.3%
Other expenses	(24,264)	(25,567)	-5.1%	(7,766)	(9,965)	-22.1%
<b>Total expenses</b>	<b>(857,749)</b>	<b>(809,581)</b>	<b>5.9%</b>	<b>(265,229)</b>	<b>(235,574)</b>	<b>12.6%</b>
Pretax profit	137,373	160,901	-14.6%	46,613	44,662	4.4%
Income tax	(22,481)	(19,153)	17.4%	(7,689)	(8,652)	-11.1%
Less: (Minorities)	(11,851)	(12,181)	-2.7%	(4,566)	(4,119)	10.9%
<b>Net profit attributable to shareholders</b>	<b>103,041</b>	<b>129,567</b>	<b>-20.5%</b>	<b>34,358</b>	<b>31,891</b>	<b>7.7%</b>
<b>Attributable operating profit</b>	<b>108,692</b>	<b>104,061</b>	<b>4.5%</b>	<b>34,382</b>	<b>30,597</b>	<b>12.4%</b>
<b>B/S</b>						
	<b>3Q20</b>	<b>3Q19</b>	<b>YoY</b>	<b>3Q20</b>	<b>2Q20</b>	<b>QoQ</b>
Total assets	9,138,318	7,786,963	17.4%	9,138,318	8,848,631	3.3%
Total liabilities	8,202,687	6,992,235	17.3%	8,202,687	7,926,460	3.5%
Shareholder equity	709,669	641,197	10.7%	709,669	701,972	1.1%
<b>Key metric (during period)</b>						
	<b>9M20</b>	<b>9M19</b>	<b>YoY</b>	<b>3Q20</b>	<b>3Q19</b>	<b>QoQ</b>
New business value of L&H (RMB bn)	42,844	58,805	-27.1%	11,813	17,753	-33.5%
P&C written premiums (RMB bn)	219,490	196,875	11.5%	75,372	66,409	13.5%
- Auto insurance premiums (RMB bn)	147,072	138,683	6.0%	51,426	46,345	11.0%
Combined ratio of P&C	99.10%	96.2%	+2.9ppt	n/a	n/a	n/a
Net investment yield of insurance funds	4.50%	4.90%	-0.4ppt	n/a	n/a	n/a
Total investment yield of insurance funds	5.20%	6.00%	-0.8ppt	n/a	n/a	n/a

Source: Company data, CMBIS

## 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	822,431	881,893	944,984	<b>Group</b>					
Net earned premiums	677,703	748,779	765,785	819,895	876,586	Net investment yield	5.2%	5.2%	5.3%	5.1%	5.0%
Reinsurance income	7,966	7,572	9,310	9,997	10,888	Total investment yield	3.7%	6.9%	5.1%	5.3%	5.2%
Total premium income	685,669	756,351	775,095	829,891	887,474	ROAE	20.9%	24.3%	18.5%	17.6%	16.7%
						ROAA	1.6%	1.9%	1.6%	1.5%	1.5%
Investment income	120,520	201,738	190,176	197,791	209,845	EV growth	21.5%	21.8%	12.3%	13.4%	12.7%
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	37,191	44,230	61,819	68,870	76,929						
Claims and benefits	(439,596)	(578,313)	(595,828)	(620,920)	(658,968)	<b>Life &amp; Health insurance</b>					
Commission expenses	(130,394)	(114,766)	(116,713)	(126,123)	(135,632)	GWP growth	21.5%	11.5%	-0.8%	5.0%	5.0%
G&A expenses	(151,581)	(177,164)	(190,254)	(211,325)	(229,700)	Agency FYRP growth	-3.1%	-7.8%	-16.7%	7.7%	5.0%
Impairment loss	(53,814)	(67,266)	(71,276)	(76,172)	(81,640)	NBV growth	7.3%	5.1%	-17.1%	8.3%	5.2%
Other income and expenses	2,299	6,518	4,979	12,941	16,652	NBV margin of agency channel	57.1%	64.9%	64.8%	64.7%	64.7%
Associates/JVs	18,074	23,224	20,826	22,316	23,619	L&H EV growth	23.5%	23.5%	15.7%	15.0%	14.1%
Pretax profit	163,151	184,739	182,052	209,684	231,778	L&H operating ROEV	30.8%	25.0%	19.1%	18.4%	17.6%
						<b>P&amp;C insurance</b>					
Tax	(42,699)	(20,374)	(28,786)	(40,322)	(44,660)	GWP growth	14.5%	9.5%	10.6%	11.2%	10.7%
Less: minorities	(13,048)	(14,958)	(17,628)	(19,123)	(22,188)	Combined ratio	96.0%	96.4%	97.5%	97.4%	97.2%
<b>Net profit</b>	<b>107,404</b>	<b>149,407</b>	<b>135,638</b>	<b>150,238</b>	<b>164,930</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	7.63	8.46	9.28
						DPS (RMB)	1.72	2.04	2.23	2.47	2.71
						BVPS (RMB)	30.44	36.82	43.33	50.19	57.79
						EVPS (RMB)	54.84	65.67	74.95	84.97	95.76

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Investment assets	4,056,704	4,659,117	5,326,312	5,923,776	6,592,691
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>9,227,126</b>	<b>10,185,003</b>	<b>11,259,017</b>
Insurance contract liabilities	2,264,634	2,669,673	3,008,120	3,353,926	3,727,507
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>8,224,232</b>	<b>9,023,250</b>	<b>9,921,325</b>
<b>Shareholders' equity</b>	<b>683,643</b>	<b>852,370</b>	<b>1,002,894</b>	<b>1,161,753</b>	<b>1,337,692</b>

Source: Company data, CMBIS estimates

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## CMB International Securities Limited

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

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