

CPIC (2601 HK)

Expect sustainable DPS growth onwards

CPIC reported 13.5% YoY growth in OPAT, translating to 17.3% YoY growth in 2H22. CPIC Life's positive quarterly VNB growth sustained into 4Q22 with 30% YoY growth (vs +2.5% YoY in 3Q22), on the back of stable scale of high-productivity agent team and improving productivity. During the analyst briefing, the management indicated that the positive trends of life business sustained into 2M23. On P&C front, overall combined ratio (CoR) declined by 1.7pts YoY to 97.3%, outperforming the industry average (99.0%) and major peers (97.6% of PICC P&C and 100.3% of Ping An P&C), due to better underwriting (UW) performance of non-auto business. The capital position remained sound under C-ROSS 2.0. Looking into FY23, we expect CPIC to record positive VNB growth for FY23, and believe the turnaround in VNB growth and sustainable growth in DPS will support upward re-rating. Reiterate BUY.

- **Life: Positive VNB growth sustained into 4Q22.** Thanks to the ongoing agency upgrade, CPIC Life saw the headcount of high-productivity agents stabilized in 2022, along with 31.7% YoY growth in the productivity of core agency team in terms of FYP. And first-year commission income of core agents grew 10.3% YoY in FY22. The improving productivity and stable core agency team underpinned 13.5% YoY growth of VNB in 2H22, translating into 30% YoY growth in 4Q22. Looking forward, we expect the positive VNB momentum to sustain in FY23.
- **P&C: Both auto and non-auto segments were UW profitable,** with non-auto CoR at 98.1% (vs. 100.6% of PICC P&C and 110.1% of Ping An P&C) and auto CoR at 96.9% (vs. 95.6% of PICC P&C and 95.8% of Ping An P&C). The outperformance of non-auto segment was primarily driven by improved UW margin and premiums growth of agricultural insurance.
- **Dividend payout ratio rose to 39.9% in FY22.** Following a reduction of dividend payout ratio from 50.9% in FY20 to 35.9% in FY21 due to the implementation of CROSS-2.0, CPIC Group raised the payout ratio in FY22, hence DPS increased 2% YoY to RMB1.02 per share in FY22. We expect the payout ratio may further recover after the issuance of capital replenishment tools, i.e. perpetual bonds.
- **Valuation.** CPIC-H is trading at 0.3x P/EV FY23E and 0.7x P/BV FY23E, with over 6% dividend yield and 12%+ ROE expected. Looking forward, we believe the turnaround in VNB growth and sustainable growth in DPS will support upward re-rating. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (RMB mn)	27,618	25,240	29,871	34,389	37,633
EPS (Reported)(RMB)	2.79	2.56	3.03	3.49	3.81
YoY growth (%)	6.0	(8.2)	18.3	15.1	9.4
Consensus EPS (RMB)	n.a	n.a	2.96	3.42	3.57
Group embedded value / share (RMB)	51.80	54.01	59.23	65.73	72.75
Combined ratio (%)	99.0	97.3	97.3	97.3	97.3
P/B (x)	0.8	0.7	0.7	0.7	0.6
P/Embedded value (x)	0.3	0.3	0.3	0.3	0.2
Dividend yield (%)	5.6	5.8	6.8	7.8	8.6
ROE (%)	12.1	10.8	12.5	13.3	13.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$29.72
(Previous TP	HK\$29.72)
Up/Downside	44.3%
Current Price	HK\$20.60

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Stock Data

Mkt Cap (HK\$ mn)	57,165.0
Avg 3 mths t/o (HK\$ mn)	20.9
52w High/Low (HK\$)	23.05/12.20
Total Issued Shares (mn)	2775.0
Source: FactSet	

Shareholding Structure

China Baowu Steel Group	14.1%
Shenergy (Group)	13.8%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-4.2%	-3.7%
3-mth	18.5%	16.6%
6-mth	33.9%	20.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PwC

Related Reports:

1. CPIC (2601 HK) - Re-energizing agency force ([link](#))
2. CPIC (2601 HK) - VNB growth turned positive in June ([link](#))
3. CPIC (2601 HK) - VNB growth turned positive in 3Q22 ([link](#))

CPIC (2601 HK) - FY22 earnings' key metrics

(RMBmn)	2021	2022	YoY chg	4Q21	4Q22	YoY chg	2H21	2H22	YoY chg
OPAT attribute to shareholders	35,346	40,115	13.5%				17,067	20,019	17.3%
Net profit attribute to shareholders	26,834	24,609	-8.3%	4,148	4,337	4.6%	9,530	11,308	18.7%
Life	18,905	16,479	-12.8%				6,032.0	7,619.0	26.3%
P&C	6,352	8,285	30.4%				2,849.0	3,965.0	39.2%
Group EV	498,309	519,621	4.3%						
Net investment yield (%)	4.5	4.3	(0.2) ppt						
Total investment yield (%)	5.7	4.2	(1.5) ppt						
Comprehensive investment yield (%)	5.2	3.0	(2.1) ppt						
Total investment assets	1,812,069	2,026,283	11.8%	1,812,069	2,026,283	11.8%	1,812,069	2,026,283	11.8%
Total investment income	93,184	76,537	-17.9%	23,656	18,385	-22.3%	43,844	37,987	-13.4%

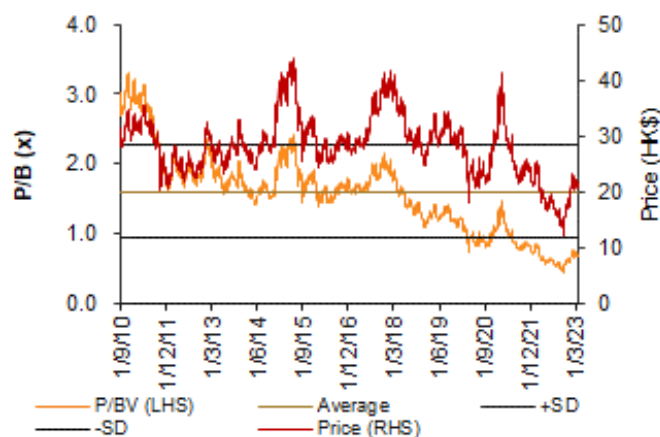
Source: Company data, CMBIGM estimates

CPIC Life	2021	2022	YoY chg	4Q21	4Q22	YoY chg	2H21	2H22	YoY chg
VNB	13,412	9,205	-31.4%	1,277	1,657	29.8%	3,181	3,609	13.5%
VNB margin (FYP)	23.5%	11.6%	(11.8) ppt				18.9%	13.5%	(5.4) ppt
Life EV	376,643	398,191	6%				376,643	398,191	6%
Residual margin	348,272	340,162	-2%				348,272	340,162	-2%
Surrender rate (%)	1.70	1.50		0.43	1.51		0.84	0.71	(0.1) ppt
Monthly avg. # of agents (mn)	0.53	0.28	-47%	0.53	0.28		0.41	0.25	-40%
Activity rate (%)	52.1	63.4	11.3 ppt						
Agent FYC (RMB per month)	4,638	6,844	48%						
Agent productivity (FYP/month/agent)	4,639	6,853	48%				2,706	5,530	104%
Agent productivity (VNB/month/agent)	2,075	2,490	20%				1,231	2,323	89%
Agency FYP	29,227	22,943	-21.5%	2,722	3,278	20.4%	6,640	8,163	22.9%
Agency FYRP	24,761	19,793	-20.1%	2,004	2,706	35.0%	5,050	6,893	36.5%
CPIC P&C	2021	2022	YoY chg	4Q21	4Q22	YoY chg	2H21	2H22	YoY chg
Combined ratio (%)	99.0	97.3	(1.7) ppt						
Expense ratio (%)	29.4	28.8	(0.6) ppt						
Loss ratio (%)	69.6	68.5	(1.1) ppt						
Premium income	152,643	170,377	11.6%	33,649	36,492	8.4%	71,082	78,806	10.9%
Auto	91,799	97,992	6.7%	25,277	26,284	4.0%	47,157	49,823	5.7%
Non-auto	60,844	72,385	19.0%	8,372	10,208	21.9%	23,925	28,983	21.1%
Underwriting profit	1,288	3,884	202%						
Auto combined ratio (%)	98.7	96.9	(1.8) ppt						
Non-auto combined ratio (%)	99.5	98.1	(1.4) ppt						

Source: Company data, CMBIGM estimates

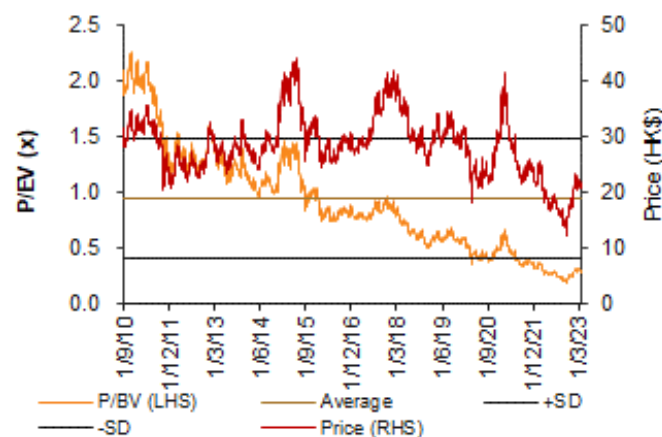
Valuation: 12M forward P/E and P/BV versus historical avg.

Figure 1: CPIC 12M forward P/E below historical avg.



Source: Company data, CMBIGM | Note: the company stock price is quoted by market close at 4:00pm on 27/3/2023.

Figure 2: CPIC 12M forward P/BV below historical avg.



Source: Company data, CMBIGM | Note: the company stock price is quoted by market close at 4:00pm on 27/3/2023.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Total income	418,964	436,331	449,945	468,671	497,280	527,389
Premiums written (gross)	362,064	366,782	398,818	414,673	438,324	466,856
Premiums earned (net)	331,639	339,535	368,878	382,054	403,245	429,035
Investment income	82,740	91,643	75,768	81,129	88,242	92,191
Other operating income	4,585	5,153	5,299	5,488	5,793	6,163
Losses	(390,238)	(406,334)	(425,170)	(439,297)	(463,420)	(490,316)
Selling	0	(42,099)	(45,589)	0	0	0
Underwriting & commissions	0	(30,304)	(27,929)	0	0	0
Other operating expense	(93,479)	(417,919)	(436,671)	(84,125)	(90,683)	(99,441)
Operating income before interest expense	32,070	34,004	29,193	34,325	39,206	42,847
Interest expense	(3,344)	(4,007)	(4,418)	(4,951)	(5,347)	(5,774)
Operating income after interest expense	29,238	30,796	25,176	29,795	34,302	37,537
Pretax income	29,238	30,796	25,176	29,795	34,302	37,537
Income taxes	(3,886)	(3,178)	64	76	87	95
Minority interest	768	784	631	747	860	941
Net income	25,352	27,618	25,240	29,871	34,389	37,633
Net income available to common	24,584	26,834	24,609	29,124	33,529	36,692

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	20,878	32,545	33,134	35,801	38,683	41,796
Investments	685,322	738,116	832,594	899,610	972,020	1,050,258
Total fixed income securities investment	909,358	1,006,651	1,123,327	1,213,744	1,311,439	1,416,997
Total equity securities investment	24,443	26,984	26,103	28,204	32,113	38,648
Real estate assets	27,159	27,656	30,958	8,542	8,508	8,283
Other investments	0	0	0	0	0	0
Premium balance receivables	50,435	57,321	62,094	67,092	72,492	78,327
Deferred tax assets	845	1,998	8,903	9,620	10,394	11,231
Intangible assets	1,357	1,372	1,372	1,372	1,372	1,372
Goodwill	3,323	3,479	6,666	0	0	0
Other assets	47,884	50,042	51,422	55,561	60,033	64,865
Total assets	1,771,004	1,946,164	2,176,299	2,351,470	2,554,826	2,769,185
Liabilities & shareholders' equity						
Insurance policy liabilities						
ST debt & curr. portion LT debt	97,117	112,838	130,028	139,630	150,001	161,201
Long-term debt	3,430	3,105	2,718	2,718	2,718	2,718
Deferred tax liabilities	5,055	3,601	832	0	0	937
Other liabilities	219,391	208,882	250,675	251,878	253,962	256,916
Total liabilities	1,550,169	1,713,759	1,942,171	2,105,235	2,281,644	2,467,384
Total common equity						
Common stock/ordinary capital	9,620	9,620	9,620	9,620	9,620	9,620
Retained earnings	81,533	93,169	105,205	128,362	154,366	181,957
Equity reserves	124,071	123,952	107,253	100,187	100,187	100,187
Total shareholders' equity	215,224	226,741	222,078	238,169	264,173	291,764
Minority interest	5,611	5,664	5,682	8,066	9,009	10,037
Total equity	220,835	232,405	234,128	246,235	273,182	301,801
Total liabilities & shareholders' equity	1,771,004	1,946,164	2,176,299	2,351,470	2,554,826	2,769,185

PER SHARE DATA	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
DPS	1.30	1.00	1.02	1.21	1.39	1.52
EPS (Reported)	2.63	2.79	2.56	3.03	3.49	3.81
Diluted EPS	2.63	2.79	2.56	3.03	3.49	3.81
Group embedded value/share (HK\$)	47.75	51.80	54.01	59.23	65.73	72.75
No. of shares basic	9,620	9,620	9,620	9,620	9,620	9,620
No. of shares diluted	9,353	9,620	9,620	9,620	9,620	9,620
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Return on equity (ROE)	12.5%	12.1%	10.8%	12.5%	13.3%	13.2%
Return on asset (ROA)	1.5%	1.4%	1.2%	1.3%	1.4%	1.4%
Return on life embedded Value	14.8%	8.1%	4.2%	9.2%	10.4%	10.1%
VNB margin (FYP APE basis)	77.9%	53.2%	45.8%	45.6%	46.1%	46.6%
Combined ratio	99.0%	99.0%	97.3%	97.3%	97.3%	97.3%
Loss ratio	61.4%	69.6%	68.5%	68.5%	68.5%	68.5%
Expense ratio	37.6%	29.4%	28.8%	28.8%	28.8%	28.8%
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	8.4	8.1	6.0	6.0	5.2	4.7
P/B	1.0	0.8	0.7	0.7	0.7	0.6
Div yield (%)	5.9	5.6	5.8	6.8	7.8	8.6
Div payout (%)	49.4	35.8	39.8	39.9	39.9	39.9

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

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