

Ping An (2318 HK)

Resilient DPS despite OPAT decline; EV assumptions change cut VNB more than expected

BUY (Maintain)

Target Price	HK\$52.00
(Previous TP)	HK\$80.30)
Up/Downside	57.6%
Current Price	HK\$33.00

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Stock Data

Mkt Cap (HK\$ mn)	600,930.0
Avg 3 mths t/o (HK\$ mn)	1,381.9
52w High/Low (HK\$)	61.15/29.80
Total Issued Shares (mn)	18210.0

Source: FactSet

Shareholding Structure

Charoen Pokphand Group Company Ltd	14.0%
UBS Group AG	9.1%

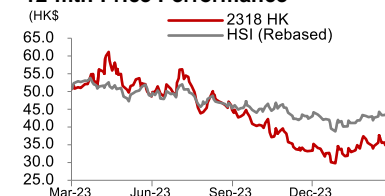
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.8%	-9.7%
3-mth	0.3%	-1.4%
6-mth	-26.3%	-22.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

Recent reports:

1. Ping An (2318 HK) – 1H23 NBV beat consensus; interim dividend up 1.1% YoY reinforcing a long-run growth story - Sep 4, 2023 ([link](#))

Ping An reported FY23 results, with the L&H EV economic assumptions cut by 50bps on long-term investment return from 5.0% to 4.5%, and 150bps on risk discount rate (RDR) from 11% to 9.5%. Both were for the sake of prudence in view of prolonged low interest rate and macro uncertainties. The adjustments were expected as the insurer has recorded at negative investment variances since 2018 which adversely affected the growth of EV. Yet the impacts to VNB and L&H EV outpaced market expectations. **Four points to highlight:** 1) Group OPAT -19.7% to RMB 118.0bn, dragged by a net loss of RMB20.7bn from asset management; 2) L&H VNB amounted to RMB 39.3bn, +36.2% YoY, if subject to end-2022 assumptions on a like-for-like basis, indicating resilient growth driven by stable VNB margin (-0.5pct from 24.1% to 23.7%); 3) economic assumptions change lowered L&H VNB by c.21% to RMB 31.1bn (+7.8% YoY) and L&H EV by c.11% to RMB 831.0bn (-5.0% YoY) vs RMB 930.2bn (+6.4% YoY) on a like-for-like basis; 4) the Group sustained DPS growth to RMB 2.43 per share, implying 37.3% payout on shareholders' OPAT, despite OPAT decline. Concerning investment volatilities and high base since 2Q23, we lower FY24-26E EPS to RMB 6.94/RMB 7.87/RMB 8.62 and revalue the Group based on SOTP ([Fig.4](#)) to reflect underperformed Asset management (AM) and Technology. We adjust L&H EV with new sensitivity assumption. Maintain BUY, with new TP at HK\$52.0.

■ **OPAT missed, dragged by RMB 20.7bn loss in AM.** The Group's OPAT slid by 19.7% YoY due to a net loss of RMB20.7bn in asset management, vs RMB 2.3bn profits in 2022. The restated quarterly decrease enlarged under new assumptions at -6.8%/-10.1%/-24.7%/-54.5% in 1Q/2Q/3Q/4Q23, reflecting tightened regulatory oversight in 2H23. The Group's NPAT slumped by 22.8% to RMB85.7bn (vs 9M23: -5.6%) with the 4Q print turned to a net loss of RMB 1.9bn (vs 2022: RMB18.2bn). Rising credit risks amid market volatilities triggering some assets revaluation caused the AM profitability pressure. CSM release (-7.2% YoY) was tugged by a decreasing CSM beg, balance (-6.7% YoY). Looking ahead, we project the L&H OPAT will be more reliant on investment results (+17.5% in 2023) with the growth of insurance service result approaching to 0%, as the contracted CSM balance is still likely to sustain.

■ **Solid VNB growth driven by stable margin.** L&H VNB +36.2% YoY to RMB39.3bn based on end-2022 assumptions and model, showing resilient VNB growth underpinned by stable margin (-0.5 pct from 24.1% to 23.7%). The restated quarterly prints even implied a sequentially improved trend as of 16.3%/19.5%/19.8%/23.1% in 1Q/2Q/3Q/4Q23, respectively. We regard this a mixture of more savings products sold under strong residential demands and improved margin in bancassurance under lowered expense rate in 2H23. Agency VNB +40.3% YoY to RMB 32.2bn and bancassurance VNB +77.7% YoY to RMB 3.6bn, comprising 91.2% of total L&H VNB by end-2023.

■ **Effects of assumptions chg. outpaced expectation.** L&H VNB amounted to RMB 31.1bn (+7.8% YoY), 20.8% lower than RMB39.3bn (+36.2% YoY) on a like-for-like basis. L&H EV fell by 11% to RMB831bn (-5.0% YoY) and Group EV declined by 6.7% to RMB1.39tn (-2.4% YoY), vs RMB1.49tn (+4.6% YoY) prior to the restatement ([Fig.1](#)). The change on economic assumptions (-5.4%) and negative investment variances (-2.0%) jointly affected the growth of EV.

■ **Valuation:** The stock is now trading at 0.45x FY24E P/EV. We expect the Group's L&H OPAT to be more reliant on investment service results, and the beta trading momentum should benefit the market proxy when sentiment recovers. Maintain BUY with new TP at HK\$52.0, implying 1.0x FY24E P/EV.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	111,008	85,665	123,014	139,361	152,730
EPS (Reported)(RMB)	4.8	4.8	6.9	7.9	8.6
Consensus (RMB)	n.a	n.a	6.8	7.8	8.4
Group EV / share (RMB)	77.9	76.3	79.9	83.1	85.6
P/B (x)	0.9	0.9	0.6	0.5	0.5
P/Embedded value (x)	0.5	0.5	0.4	0.4	0.4
Dividend yield (%)	6.7	6.9	7.7	8.2	8.7
ROE (%)	9.9	9.7	13.3	14.1	14.3

Source: Company data, Bloomberg, CMBIGM estimates

Rerating rationale

- **SOTP for Ping An Group and RoEV vs P/EV for L&H business.** In our previous model, we adopted appraisal value approach to derive the stock's price target (HK\$80.3) for Ping An. Concerning investment uncertainties and continued losses from Asset management and Technology segments, we intend to revalue the stock based on SOTP, from which 1) Ping An's L&H is valued through RoEV vs P/EV based on Gordon Growth, adjusted with new actuarial assumptions; 2) Ping An P&C and Ping An Bank are measured by P/B-ROE and 3) AM, Technology and others are based on 1.0x FY24E book value. ([Fig. 4](#))
- **EV more sensitive to capital market movements.** Economic assumptions change lowered the Group EV, L&H EV and VNB by 6.7%/10.7%/20.8% respectively ([Fig.1](#)), implying the insurer's increasing sensitivity to long-term equity investment return, namely capital market movements, and risk discount rate for future unearned profits. We assume this is due to higher proportions in participating, universal and investment-linked products, 29.7% of total premium income by end-2023, +1.2pct from 28.5% (restated) by end-2022. For new assumptions, we measure the joint effects of lowering 50bps on long-term investment return and 150bps on risk discount rate, shown in [Fig. 2](#), decreasing the Group EV/ L&H EV / VNB by -3.0%/-5.4%/-12.8% respectively.
- **Ping An P&C and PAB's implied P/B based on Gordon Growth.** We adopt Gordon Growth based on assumptions of 1) 2% market risk-free, considering domestic low interest rate environment and 2) a relatively high beta at 1.2x, given Ping An's market proxy role in trading, especially during recent years. The three-year average forward ROE for Ping An P&C and Ping An Bank are 12% and 11%, translating to 0.91x and 0.83x P/B based on our model ([Fig. 3](#)).
- **New TP ends at HK\$52.0, which implies 1.0x FY24E P/EV and 0.9x FY24E P/B, as shown in [Fig. 4](#).** The stock is now trading at 0.45x FY24E P/EV. We expect to see the stock to ride a wave in beta trading momentum when macro sentiment recovers. Maintain BUY.

OPAT and insurance revenue under IFRS

OPAT under IFRS 9 & 17	2023	2022	YoY %	2H23	2H22	YoY %
Insurance revenue:	536,440	525,981	2.0%	267,135	263,854	1.2%
Life & Health	223,600	232,194	-3.7%	109,989	114,260	-3.7%
Non-PAA	193,836	200,368	-3.3%	94,807	98,345	-3.6%
PAA	29,764	31,826	-6.5%	15,182	15,915	-4.6%
P&C	313,458	294,327	6.5%	157,559	149,680	5.3%
Auto	209,538	197,462	6.1%	107,263	100,873	6.3%
Non-auto, excl A&H	82,041	72,650	12.9%	39,318	36,505	7.7%
Accident & Health	21,879	24,110	-9.3%	10,978	12,197	-10.0%
Insurance service expenses:	(440,178)	(422,221)	4.3%	(226,268)	(219,356)	3.2%
Life & Health	(133,978)	(137,256)	-2.4%	(68,487)	(70,353)	-2.7%
Non-PAA	(107,548)	(109,820)	-2.1%	(54,420)	(55,952)	-2.7%
PAA	(26,430)	(27,436)	-3.7%	(14,067)	(14,401)	-2.3%
P&C	(306,390)	(284,978)	7.5%	(158,060)	(148,934)	6.1%
OPAT attribute to shareholders:	117,989	146,895	-19.7%	36,032	60,613	-40.6%
Life & Health insurance	105,070	108,544	-3.2%	47,775	49,475	-3.4%
P&C insurance	8,918	10,066	-11.4%	(324)	1,464	n.a
Bank	26,925	26,380	2.1%	12,211	13,578	-10.1%
AMC	(20,747)	2,292	n.a	(22,159)	(2,108)	951.2%
Technology	1,905	5,458	-65.1%	170	549	-69.0%
Others	(4,083)	(5,845)	-30.1%	(1,642)	(2,346)	-30.0%
NPAT attribute to shareholders:	85,665	111,008	-22.8%	15,824	40,283	-60.7%
Life & Health insurance	72,598	74,501	-2.6%	27,477	30,561	-10.1%
P&C insurance	8,918	10,066	-11.4%	(324)	1,464	n.a
Bank	26,925	26,380	2.1%	12,211	13,578	-10.1%
AMC	(20,747)	2,292	n.a	(22,159)	(2,108)	951.2%
Technology	2,054	3,614	-43.2%	261	(866)	n.a
Others	(4,083)	(5,845)	-30.1%	(1,642)	(2,346)	30.0%

Source: Company data, CMBIGM

Effects of EV economic assumptions change

Figure 1: Economic assumptions change lowered EV and VNB more than expected

EV economic assumptions, (RMB mn)	FY22	FY23	YoY (%)	Chg. (%)
Long-term investment return assumption	5.00%	4.50%		
Risk discount rate	11.00%	9.50%		
Group Embedded value (@ 11%, 5%)	1,423,763	1,489,313	4.6%	
Group Embedded value (@ 9.5%, 4.5%)		1,390,126	-2.4%	-6.7%
L&H Embedded value (@ 11%, 5%)	874,786	930,160	6.3%	
L&H Embedded value (@ 9.5%, 4.5%)		830,974	-5.0%	-10.7%
L&H VNB (@ 11%, 5%)	28,820	39,262	36.2%	
L&H VNB (@ 9.5%, 4.5%)		31,080	7.8%	-20.8%

Source: Company data, CMBIGM estimates

Figure 2: EV Sensitivity assumptions after economic assumptions change

FY23 EV Sensitivity	Group EV	L&H EV	VNB
Base case	1,390,126	830,974	31,080
Assumptions and model used in 2022	1,489,313	930,160	39,262
Investment return -50 bps	1,284,494	725,341	23,574
Risk discount rate -50 bps	1,413,383	854,231	32,633
Investment return -50 bps (%)	-7.6%	-12.7%	-24.2%
Risk discount rate -50 bps (%)	1.7%	2.8%	5.0%
Joint effects (RDR-50bps, INV-150bps)	-3.0%	-5.4%	-12.8%
Stress test: if long-term investment return down to 3%, RDR@9.5%	-21.5%	-36.4%	-71.1%

Source: Company data, CMBIGM estimates

Figure 3: SOTP for Ping An (2318 HK) – key operating segments L&H, P&C and PAB

SOTP Valuation	2024E	2025E	2026E	Average
L&H ROEV	14.2%	13.1%	12.1%	13%
P/EV multiple (x)	1.04x			
P&C ROE	11.9%	11.9%	11.4%	12%
P/B multiple (x)	0.91x			
PAB ROE	11.7%	10.8%	10.2%	11%
Fair value P/B (x)	0.83x			

Source: Company data, CMBIGM estimates

Figure 4: Ping An (2318 HK) SOTP valuation

SOTP Valuation	Forward BV/EV	Ownership	2318.HK
Life insurance			
FY24 L&H embedded value	860.0	99.51%	
Adjusted L&H embedded value	544.3		
RoEV	13%		
P/EV multiple (x)	1.04x		
Target valuation			564.0
P&C insurance			
FY24 shareholders' equity	135.9	99.55%	
P&C ROE	12%		
P/B multiple (x)	0.91x		
Underwriting cycle discount			
Target valuation			124.0
Ping An Bank (PAB)			
FY24 shareholders' equity	149.2	49.56%	
PAB ROE	11%		
Fair value P/B (x)	0.83x		
Target valuation			124
AM, Technology and Others			
FY24 shareholders' equity	157.4		
Target P/B (x)	209.8		1.0x
Target valuation			157.4
			969.7
Conglomerate discount			-10%
Target valuation			872.7
Target price (HK\$)			52.0
Implied P/B (x)			0.91x
Implied P/EV (x)			1.02x

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		525,981	536,440	583,914	587,914	623,918
Insurance service expenses		(422,221)	(440,178)	(485,549)	(484,371)	(534,760)
Net expenses from reinsurance contracts held		(4,314)	(3,731)	(2,920)	4,343	28,008
Insurance service results		99,368	92,301	95,267	107,698	116,970
Net finance (expenses)/income from insurance contracts		(99,933)	(123,959)	(118,870)	(122,877)	(126,387)
Net finance (expenses)/income from reinsurance contracts		564	542	0	0	0
Interest income		115,933	118,503	116,137	119,937	123,304
Net investment income		(2,311)	33,324	31,204	32,410	33,733
Other gains/(losses) from changes in fair value		(17,752)	(16,238)	(34,581)	(37,812)	(40,959)
Net investment results		(3,499)	12,172	(6,110)	(8,342)	(10,309)
Net interest income from banking operations		131,096	118,947	126,316	133,090	137,884
Net interest income/(expenses) from non-banking operations		(22,698)	(24,346)	(23,805)	(23,655)	(25,588)
Loan loss provisions		(64,168)	(62,833)	(59,904)	(62,451)	(64,324)
Other fee and commission income/(expenses)		(9,928)	(8,773)	(9,613)	(9,500)	(9,679)
Other income		60,652	68,804	88,018	107,477	129,930
Other expenses		(107,779)	(123,515)	(136,504)	(152,904)	(173,279)
Foreign exchange gains/losses		3,144	120	62	62	62
Other results		36,301	14,210	29,479	38,783	43,984
Profit before tax		142,335	120,117	119,357	138,853	151,367
Income taxes		(7,518)	(10,843)	(19,718)	(22,407)	(25,229)
Net profit		134,817	109,274	99,639	116,446	126,139
Net profit attributable to shareholders		111,008	85,665	123,014	139,361	152,730

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions		774,841	804,077	925,788	975,500	1,011,327
Balances with central bank and statutory deposits		295,559	285,879	194,999	133,010	90,727
Intangible assets		99,411	99,078	100,019	100,968	101,927
Investments in associates and joint ventures		280,793	258,877	264,080	269,388	274,803
Property		53,657	50,401	48,989	47,617	46,284
Investment property		114,763	121,406	129,596	138,626	146,047
Reinsurance contract assets		20,615	22,215	24,562	26,990	29,674
Loans and advances to customers		3,242,258	3,320,110	3,707,045	3,982,048	4,327,092
Fixed maturity investments		4,729,856	4,976,779	5,320,083	5,706,936	6,029,450
Equity investments		1,073,763	1,130,853	1,133,340	1,212,308	1,277,202
Derivative financial assets		29,278	44,978	46,795	48,686	50,653
Deferred tax assets		89,321	101,337	134,345	178,104	236,116
Other assets		205,825	367,427	311,814	227,362	139,372
Total assets		11,009,940	11,583,417	12,341,456	13,047,543	13,760,672
LIABILITIES						
Due to banks and other financial institutes		923,088	963,718	1,139,718	1,199,145	1,259,103
Customer deposits and payables to brokerage customers		3,431,999	3,534,539	3,745,312	3,970,031	4,130,420
Insurance contract liabilities		3,671,177	4,159,801	4,588,307	5,041,893	5,543,324
Obligations under repurchase agreements		271,737	241,803	197,229	160,872	131,217
Derivative financial instruments		39,738	44,531	45,426	46,339	47,271
Deferred tax liabilities		14,217	14,148	13,116	12,159	11,273
Current tax liabilities		16,076	7,117	8,480	10,104	12,039
Other liabilities		1,455,807	1,388,743	1,299,363	1,215,735	1,137,489
Total liabilities		9,823,944	10,354,453	11,036,952	11,656,279	12,272,136
EQUITIES						
Share capital		18,280	18,210	18,210	18,210	18,210
Reserves		257,728	258,751	239,657	219,250	197,679
Retained profits		593,183	622,050	699,299	788,167	887,745
Total shareholders' equity		869,191	899,011	957,166	1,025,627	1,103,634
Non-controlling interests		316,805	329,953	347,337	365,637	384,901
Total equity		1,185,996	1,228,964	1,304,503	1,391,264	1,488,535
Total liabilities & equity		11,009,940	11,583,417	12,341,456	13,047,543	13,760,672

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS		2.40	2.48	2.75	2.95	3.10
EPS (Reported)		4.80	4.84	6.94	7.87	8.62
Consensus EPS		n.a	n.a	6.78	7.82	8.28
Group embedded value/share (HK\$)		77.89	76.34	79.93	83.06	85.58
VNB/share (HK\$)		1.58	2.16	2.33	2.48	2.68
No. of shares basic		18,280	18,210	18,210	18,210	18,210
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Return on equity (ROE)		9.9%	9.7%	13.3%	14.1%	14.3%
Return on asset (ROA)		0.8%	0.8%	1.0%	1.1%	1.1%
Return on life embedded Value		4.7%	0.7%	8.0%	7.4%	6.6%
VNB margin (FYP APE basis)		20.7%	19.5%	20.2%	20.1%	20.2%
Combined ratio		100.3%	100.7%	98.4%	98.0%	97.8%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)		0.5	0.5	0.4	0.4	0.4
P/B (x)		0.8	0.7	0.7	0.6	0.6
Dividend yield (%)		9.9	9.7	13.3	14.1	14.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: data in 2021 was not restated under IFRS 9 & 17 and thus not included for comparative basis.

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