

AIA Group Ltd. (1299 HK)

Expect a moderate decline in 3Q VONB; southbound inflows underpin recent share price

AIA is scheduled to report 3Q earnings on Oct 30 (Fri), pre-market. We expect 3Q26 VONB to decline by 4%/3% YoY (CER/AER), recording the weakest quarterly performance post-pandemic mainly weighed by the high base in AIA HK/China a year earlier. The 9M26 VONB growth could drop to 7%/8% on CER/AER basis (vs. 1H26: +10%/+13%) by our estimate. The slowdown due to the high-base effect could be one-off, in our view, with a recovery expected in 4Q on top of softer comparatives amid intact underlying momentum. On the geographic front, we think mainland market could be the key headwind for 3Q Group VONB growth, dragged by continued intense competition in bancassurance amid tightening regulatory oversight, and front-loaded sales prior to the pricing interest rate (PIR) cut that took effect on Sep 1, 2025. We forecast AIA China's VONB to decline by 20% (CER) in 3Q26. For AIA HK, we expect the seasonal high base to mainly impact annualized new premiums (ANP) while VONB margin could stay broadly stable QoQ. We expect AIA HK's VONB to drop 3% YoY (CER) in 3Q26. Southbound inflows have supported AIA's share price over the past two months, with their holdings relative to total shares outstanding rising above 4.6% as of Oct 15. We fine-tune our FY26-28E VONB growth forecasts to 10%/12%/12% after factoring in the 3Q slowdown, and maintain our price target of HK\$112. Maintain BUY.

■ **3Q VONB slowdown weighed by the high base of AIA China/HK.** We estimate Group VONB to decline 4%/3% YoY (CER/AER) in 3Q26, leading to a 7%/8% YoY (CER/AER) increase for 9M26. The slowdown could be caused by a 3% YoY (CER) decline in ANP alongside a moderate margin slide by 0.5pct YoY to 57% (CMBI est). Geographically, we forecast AIA China's VONB to decline 20% YoY (CER) in 3Q26, weighed by a high base last year. For HK, we expect VONB to slide 3% YoY in 3Q26 (vs. 3Q25: +40%). AIA TH had a relatively high base in 3Q25, given the strong sales from targeted campaigns on a newly launched unit-linked product with critical illness riders; and we estimate AIA TH's VONB to be down by 2% YoY (CER) in 3Q26. AIA SG/MY is expected to maintain the 1H momentum, with VONB expected to rise by 14%/12% YoY (CER) in 3Q26. For Other Markets, TATA AIA (India's JV) is likely to remain the key driver of the segment's VONB growth, partially offset by Australia's weaker retail market sentiment; we estimate the segment's VONB growth to be 11% YoY (CER) in 3Q26.

■ **Southbound inflows underpin the recent share price despite 3Q slowdown.** Southbound inflows have been the major support for the company's share price over the past month, with their holdings as % of total shares outstanding stepping up from 2.97% by end-Aug to 3.93% by end-Sep and further rising to above 4% after China's golden week holiday. As of Oct 15, southbound stock holdings reached 4.63%, a record high (Fig 4). We expect southbound inflows to provide a long-term support for the insurer's share price performance, thanks to the solid underlying momentum, undemanding valuation and consistent OPAT-pegged dividend policy.

■ **Expect manageable impact from the US bond yield hikes.** Recent US long-term bond yields have surged since mid-Sep, with the 10yr/30yr govt. bond yield hitting a peak of 5.36%/5.73% in early Oct (Fig 2), which marked multiyear high levels. Some investors have concerns about the impact of this higher, if not, higher-for-longer US interest rate on AIA's fundamentals. We believe the impact of rising yields could be three-fold: **1) a moderate negative impact on Group EV**, due to a confluence of impacts from risk discount rate (-VE) and reinvestment yield (+VE); **2) a positive effect on VONB**, as the repricing and reinvestment yield will likely more than offset the negatives from discount rate (RDR); and **3) IFRS net profit adversely affected by fair value losses**, but overall sensitivity to shareholders' equity and CSM could be manageable. By FY25, the EV/VONB sensitivity to 50bps increase in interest rate was about -1%/+1%, and the negative impacts on shareholders' allocated equity and CSM were also about 1%. The insurer's OPAT-pegged dividend policy will allow its DPS outlook to be unaffected by IFRS results.

BUY (Maintain)

Target Price HK\$112.00
Up/Downside 54.6%
Current Price HK\$72.45

Regional Insurance

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Stock Data

Mkt Cap (HK\$ mn)	784,778
Avg 3 mths t/o (HK\$ mn)	2,123
52w High/Low (HK\$)	90.95/68.1
Total Issued Shares (mn)	10832

Source: FactSet

Shareholding Structure

JPMorgan Chase & Co.	8.9
The Bank of New York Mellon Corp.	7.2

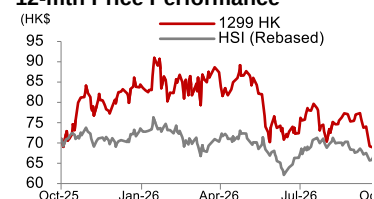
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.7%	-2.3
3-mth	-4.9%	-2.5
6-mth	-13.6%	-6.8

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PwC

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■ **Valuation:** The stock is currently trading at 1.1x FY26E P/EV and 2.2x FY26E P/B, close to its 3yr historical averages. We see the 3Q VONB slowdown more as a result of a high-base seasonal effect and expect to see a recovery in 4Q on top of a softer base and intact underlying momentum. We fine-tune our FY26-28E VONB growth forecasts to 10%/12%/12%% (prev. 12%/13%/12%) to factor in the 3Q performance. Maintain BUY with our TP at HK\$112 (unchanged) on appraisal value, implying 1.7x FY26E P/EV.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Operating EPS (diluted, US\$)	0.60	0.68	0.79	0.88	0.97
Consensus EPS (US\$)	n.a	n.a	0.78	0.86	0.97
P/B (x)	2.5	2.2	2.2	2.2	2.1
P/Embedded value (x)	1.4	1.3	1.1	1.0	0.9
Dividend yield (%)	2.4	2.7	3.0	3.2	3.6
ROE (%)	14.8	15.5	16.4	16.4	16.1

Source: Company data, Bloomberg, CMBIGM estimates

■ **Key risks:** 1) Weaker-than-expected new business sales across operating markets; 2) faster- and stricter-than-expected offshore insurance taxation; 3) heightened cross-border regulatory scrutiny and capital controls; 4) margin deterioration on increasing medical inflation or negative economic shocks; 5) lower-than-expected transfer of distributable earnings from in-force to free surplus; and 6) prolonged low interest yield in mainland China, continued US treasury sell-off, and significant equity market volatilities and forex movements, etc.

■ **Company description:** AIA is the leading pan-Asian life insurance group with a 90-year legacy operating across 18 markets globally. The company is the largest life insurer in some of its key operating markets including Hong Kong (China), Singapore, and Thailand. Mainland China, ASEAN and India (a 49% joint venture TATA AIA) markets are important geographic drivers in delivering robust VONB and earnings outlook. We rate AIA BUY given its 1) Premiere Agency strategy continues leading over peers to drive profitable new business growth; and 2) China growth strategy with a 40% CAGR target for new regions launched after 2019 likely to accelerate the regions' VONB growth with more licenses acquired; 3) solid operating ROE at an average of >17% over FY26-28E; and 4) robust capital management to drive progressive increase in shareholder returns, which leads to our estimate of a ~4% NTM yield.

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3Q26 VONB growth forecasts by operating market

<u>Quarterly VONB YoY%:</u>	3Q25 VONB growth	3Q26 VONB growth
AIA China	27%	-20%
AIA HK	40%	-3%
AIA TH	20%	-2%
AIA SG	-	14%
AIA MY	-	12%
AIA Other Markets	-	11%
Group VONB (CER)	25%	-4%
Group VONB (AER)	27%	-3%
Foreign exchange effect	2pct	1pct

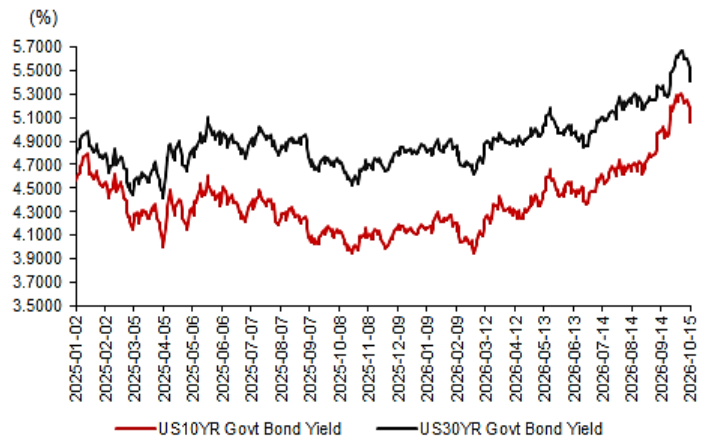
Source: Company data, CMBIGM estimates | Note: 3Q25 VONB growth was based on company disclosure on CER basis, and for AIA SG/MY/Other markets, no specific growth rate was given. CMBI forecasts of 3Q26 VONB growth by operating markets are all on CER basis.

Focus Charts

Fig. 1: Equity index performance by operating markets **Fig. 2: U.S. 10YR/30YR Govt. bond yield (%)**

	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26
CN - CSI 300 Index	-1.2%	1.3%	17.9%	-0.2%	-3.9%	11.9%	-12.5%
HK - HSI Index	15.3%	4.1%	11.6%	-4.6%	-3.3%	-7.7%	7.6%
TH - SET Index	-17.3%	-5.9%	16.9%	-1.1%	15.0%	9.9%	-2.0%
SG - STI Index	4.9%	-0.2%	8.5%	8.0%	5.1%	5.8%	9.8%
MY - KLCI Index	-7.8%	1.3%	5.1%	4.2%	0.6%	-1.6%	-0.8%
Other markets:							
Indonesia - JKSE Index	-8.0%	6.4%	16.4%	7.3%	-18.5%	-19.9%	7.6%
Philippines - PSEI Index	-5.3%	3.0%	-6.5%	1.7%	-1.7%	1.5%	-5.9%
Vietnam - VNI Index	3.2%	5.3%	20.8%	7.4%	-6.2%	11.1%	-4.9%
Australia - ASX200 Index	-3.9%	8.9%	3.9%	-1.4%	-3.1%	3.6%	0.0%
New Zealand - NZX50 Index	-6.4%	2.7%	5.5%	1.9%	-4.7%	5.5%	1.6%
FTSE APAC ex Japan Index	0.3%	11.6%	9.1%	3.4%	-1.1%	22.3%	-0.9%
AIA stock price return (%)	4.1%	20.1%	6.0%	7.0%	6.2%	-15.8%	3.0%

Source: Bloomberg, CMBIGM | Note: area in green shows index return outperformed AIA (1299 HK) share price during the period.



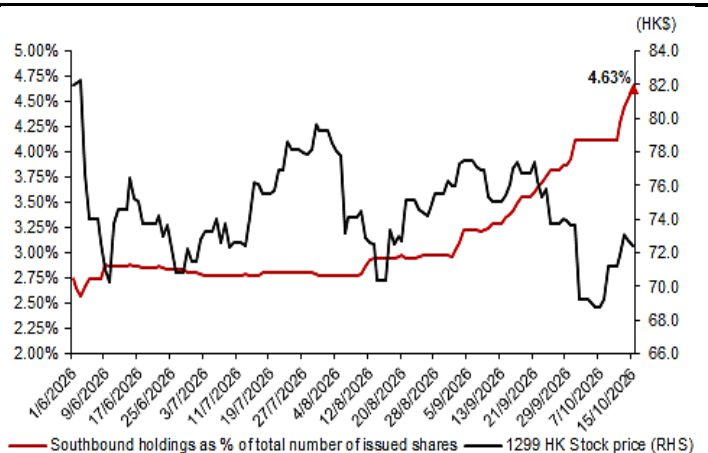
Source: Bloomberg, CMBIGM | Note: data quoted as of market close on Oct 15 (Thu).

Fig. 3: Forex movements by major operating markets

(Local FX per USD)	FY25	1H26	1Q26	2Q26	3Q26 YoY%	3Q26 QoQ%
HK - HKD	0.3%	0.7%	0.7%	0.0%	0.8%	0.0%
TH - THB	-8.0%	5.4%	4.3%	1.0%	3.7%	1.0%
SG - SGD	-5.4%	0.6%	0.3%	0.3%	-1.0%	-1.4%
MY - MYR	-9.3%	0.3%	-0.4%	0.8%	-3.1%	0.2%
CN - CNY	-4.2%	-2.9%	-1.2%	-1.8%	-5.6%	-1.2%
Other markets:						
Indonesia - IDR	3.6%	7.2%	1.9%	5.2%	7.3%	0.0%
Philippines - PHP	1.9%	4.1%	3.1%	1.0%	7.6%	2.1%
Taiwan - TWD	-4.2%	1.4%	1.9%	-0.5%	4.7%	0.3%
South Korea - KRW	-2.2%	7.9%	6.3%	1.6%	-3.6%	-13.0%
Australia - AUD	-7.0%	-2.8%	-2.6%	-0.2%	-5.4%	-1.4%
New Zealand - NZD	-2.8%	1.3%	0.4%	0.9%	2.9%	0.8%

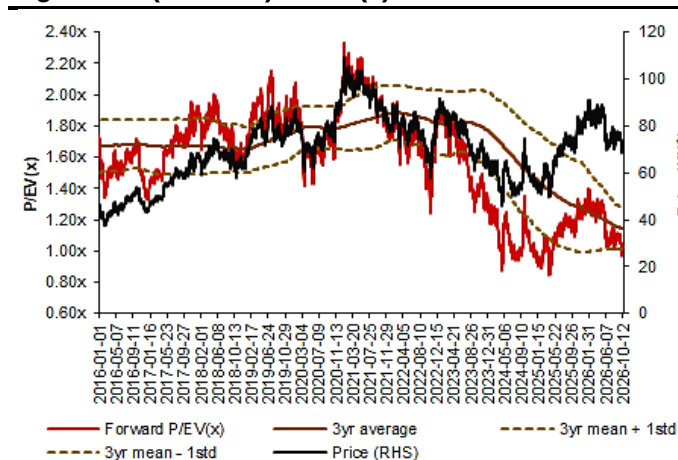
Source: Bloomberg, CMBIGM | Note: area in pink indicates US dollar depreciation against local currencies.

Fig. 4: Southbound holdings as % of shares outstanding



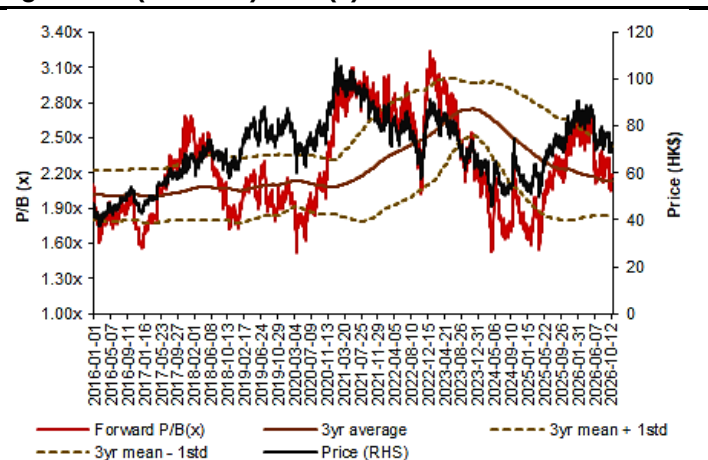
Source: HKEx, Wind, CMBIGM

Fig. 5: AIA (1299 HK) - P/EV(x) valuation band



Source: Bloomberg, Company data, CMBIGM estimates

Fig. 6: AIA (1299 HK) - P/B(x) valuation band



Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US\$ mn)						
Insurance revenue	17,514	19,314	21,618	24,048	26,064	28,349
Contracts not measured under PAA:	15,107	16,361	17,824	19,287	20,351	21,493
Contracts measured under PAA	2,407	2,953	3,794	4,761	5,713	6,856
Insurance service expenses	(12,104)	(13,205)	(14,455)	(15,975)	(17,337)	(18,897)
Contracts not measured under PAA:	(9,775)	(10,256)	(10,699)	(11,424)	(12,089)	(12,600)
Contracts measured under PAA	(2,329)	(2,949)	(3,756)	(4,373)	(5,247)	(6,297)
Net expenses from reinsurance contracts held	(286)	(418)	(391)	(407)	(441)	(480)
Insurance service results	5,124	5,691	6,772	7,666	8,287	8,973
Net finance (expenses)/income from insurance contracts	(10,512)	(6,743)	(15,467)	(21,920)	(23,645)	(25,616)
Net investment results	3,581	3,528	3,342	3,713	4,210	4,452
Other expenses	(1,451)	(1,439)	(1,488)	(1,563)	(1,610)	(1,659)
Other results	(1,472)	(1,455)	(1,560)	(1,667)	(1,716)	(1,768)
Operating profit before tax	7,235	7,751	8,552	9,714	10,781	11,657
Income taxes	(1,007)	(1,119)	(1,381)	(1,475)	(1,641)	(1,775)
Operating profit after tax	6,228	6,632	7,171	8,238	9,140	9,883
Operating profit attributable to shareholders	6,213	6,605	7,136	8,195	9,091	9,830
Net profit	3,781	6,853	6,267	8,896	10,125	10,919
Net profit attributable to shareholders	3,764	6,836	6,234	8,853	10,076	10,866

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US\$ mn)						
ASSETS						
Intangible assets	3,615	3,478	3,680	3,648	3,721	3,796
Investments in associates and joint ventures	1,331	1,710	2,062	2,101	2,186	2,274
Property	4,058	4,447	4,700	4,729	4,824	4,921
Investment property	4,504	4,570	4,508	4,573	4,757	4,950
Insurance contract assets	1,457	972	866	909	955	1,003
Reinsurance contract assets	6,047	5,730	7,893	8,288	8,702	9,137
Financial investments:	248,958	272,151	307,259	335,775	363,362	393,209
At amortized cost:	5,888	6,169	6,973	7,620	8,246	8,924
At fair value through other comprehensive income:	88,612	98,289	106,281	116,145	125,687	136,011
At fair value through profit or loss:	154,458	167,693	194,005	212,010	229,429	248,274
Deferred tax assets	301	549	525	498	508	518
Current tax recoverable	207	219	219	161	164	167
Other assets	4,316	3,527	4,102	4,974	5,074	5,176
Cash and cash equivalents	11,525	8,101	9,609	8,094	8,755	9,469
Assets in disposal group held for sale	0	0	0	0	0	0
Total assets	286,319	305,454	345,423	373,749	403,009	434,620
LIABILITIES						
Insurance contract liabilities	203,271	221,412	256,480	292,913	332,606	375,596
Investment contract liabilities	9,170	6,967	7,560	7,792	8,591	9,471
Borrowings	11,800	13,329	14,245	14,587	16,082	17,730
Obligations under repurchase agreements	3,461	4,616	5,910	7,410	7,710	8,021
Derivative financial instruments	8,035	8,615	5,664	3,844	4,000	4,161
Provisions	174	202	235	233	242	252
Deferred tax liabilities	3,204	4,116	4,647	4,174	4,342	4,518
Current tax liabilities	387	220	404	736	766	797
Other liabilities	4,887	4,909	6,328	(2,274)	(15,813)	(30,679)
Liabilities in disposal group held for sale	0	0	0	0	0	0
Total liabilities	244,725	264,641	301,815	329,860	359,032	390,439
EQUITIES						
Share capital	14,176	14,183	14,218	14,286	14,360	14,441
Retained profits	44,333	44,691	46,223	50,707	56,305	62,441
Total shareholders' equity	41,111	40,490	43,245	43,534	43,656	43,897
Non-controlling interests	483	323	363	355	321	284
Total equity	41,594	40,813	43,608	43,889	43,977	44,181
Total liabilities & equity	286,319	305,454	345,423	373,749	403,009	434,620

PER SHARE DATA	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
DPS (US\$)	0.21	0.22	0.25	0.27	0.30	0.33
Operating EPS, basic (US\$)	0.54	0.60	0.68	0.79	0.88	0.97
Operating EPS, diluted (US\$)	0.54	0.60	0.68	0.79	0.88	0.97
Consensus EPS (US\$)	n.a	n.a	n.a	0.78	0.86	0.97
Group embedded value/share (US\$)	5.92	6.37	7.31	8.28	9.19	10.21
VNB/share (US\$)	0.36	0.44	0.53	0.59	0.67	0.76
No. of shares basic (mn)	11,399	10,832	10,507	10,354	10,232	10,124
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Operating ROE	14.5%	14.8%	15.5%	16.4%	16.4%	16.1%
VNB margin (ANP basis)	52.6%	54.5%	58.5%	57.8%	58.4%	59.1%
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/Embedded value (x)	1.6	1.4	1.3	1.1	1.0	0.9
P/B (x)	2.6	2.5	2.2	2.2	2.2	2.1
P/OPAT (x)	17.1	15.5	13.7	11.7	10.5	9.6
Dividend yield (%)	2.2	2.4	2.7	3.0	3.2	3.6
Dividend payout (%)	38.4	37.7	36.6	34.5	33.9	34.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: stock price data quoted by market close on Oct 15, 2026 (Thu).

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