

China Insurance

Underwriting divergence in Jan

A closer look at premium income growth of China insurers finds that divergence in underwriting performance enlarged in Jan for lifers in particular. However, premium growth in Jan did not inform much about the coronavirus impact, since nationwide outbreak did not occur until the commencement of CNY, although it did reflect fewer effective working days this year compared to the last. That said, lifers who achieved positive growth (China Life, NCI, CPIC Life) were noteworthy. Looking forward, we think Feb premium growth shall provide more insights into the impact of COVID-19. Despite short-term pressure, insurance demand will be evoked and may rebound after 1Q.

- **Growth diverged for lifers**, due to differential timing of sales, product strategy, base year effect and undeniably, sales team headcount. **a) China Life: GWP +22.6% YoY** on back of 1) stable sales headcount growth, 2) reform efforts gradually paying off; and 3) product optimization and robust renewal premiums. **b) Ping An Life: GWP -13.9% YoY** and individual FYP -15%, due to 1) some kick-off sales front-loading in Dec (+32.7% YoY), and 2) agent team headcount shrank (-18% at YE19 vs YE18) and rising surrender rate. **c) CPIC Life: GWP +0.6% YoY**. FYP growth is estimated to be similar to that of Ping An Life. **d) NCI Life: GWP +54% YoY** thanks to 1) more competitive products; and 2) earlier preparation for kick-off sales.
- **P&C – auto insurance likely dragged growth**. a) PICC P&C: GWP -3% YoY. Among which we expect flat auto GWP growth and postponement of policy-driven business. b) Ping An P&C: GWP +7.2% and auto GWP +1.3% only. 3) CPIC P/C: GWP +14.8% YoY. 4) Taiping P&C: +9.8% YoY.
- **Feb figures may further be clouded by COVID-19 impact**. Recall that sales of life insurance products to date still rely heavily on face-to-face communication and on-site info sessions, restricted agent activities will significantly weigh on premium growth in Feb and likely the first half of Mar.
- **...yet there're opportunities coming out of debris**. Insurance awareness will be evoked. There has been evidence that demand is surging for online products and short-term health insurance products (GWP of Zhong An was up 62.3% YoY in Jan). We think that with high probability, postponed demand due to COVID-19 will rebound in the rest of the year. Negative impact of coronavirus on underwriting business seems largely under control.
- **We maintain CPIC (2601 HK) as sector top pick**. We also think better-than-expected premium growth and potential listing of parent group may be positive catalysts for China Life (2628 HK).

Valuation Table

Name	Ticker	Price (LC)	TP (HK\$)	Rating	P/EV (x)		P/B (x)		Div. yield (%)	
					FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
China Life	2628 HK	18.28	28.26	BUY	0.49	0.45	1.13	1.04	3.7	4.0
CPIC	2601 HK	26.50	37.12	BUY	0.53	0.49	1.15	1.05	6.0	6.6
NCI	1336 HK	30.20	42.59	BUY	0.41	0.39	0.94	0.84	4.1	4.5
CN Taiping	966 HK	16.48	26.14	BUY	0.34	0.31	0.67	0.59	1.5	1.9
PICC Group	1339 HK	2.81	4.33	BUY	-	-	0.56	0.53	3.8	4.5
PICC P&C	2328 HK	8.36	9.64	HOLD	-	-	0.91	0.83	5.4	5.8
Average					0.44	0.41	1.03	0.92		

Source: Company data, CMBIS estimates

OUTPERFORM
(Maintain)

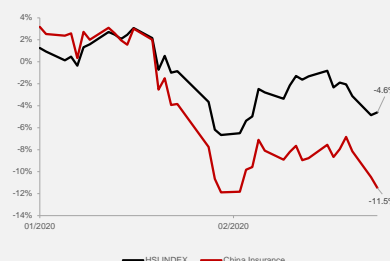
China Insurance Sector

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Source: Bloomberg

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Focus Charts

Figure 1: Monthly premium income growth of major listed lifers



Source: Company data, CMBIS

Figure 2: Monthly premium income growth of major listed P&C insurers



Source: Company data, CMBIS

Figure 3: Valuation table

H-shares													
Company	Ticker	Price (HKD)	TP (HKD)	Upside	Rating	P/B (x)		P/EV (x)		TP/EV (x)		Div. yield (%)	
						FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
CHINA LIFE-H	2628 HK	18.58	28.26	52.1%	BUY	1.13	1.04	0.49	0.45	0.74	0.68	3.7	4.0
PING AN	2318 HK	88.70	-	-	NR	1.82	1.56	-	-	-	-	3.0	3.4
CHINA PACIFIC-H	2601 HK	26.50	37.12	40.1%	BUY	1.15	1.05	0.53	0.49	0.74	0.68	6.0	6.6
NEW CHINA LIFE-H	1336 HK	30.20	42.59	41.0%	BUY	0.94	0.84	0.41	0.39	0.57	0.54	4.1	4.5
CHINA TAIPING IN	966 HK	16.48	26.14	58.6%	BUY	0.67	0.59	0.34	0.31	0.54	0.50	1.5	1.9
PICC GROUP-H	1339 HK	2.81	4.33	54.1%	BUY	0.56	0.53	-	-	-	-	3.8	4.5
PICC P&C-H	2328 HK	8.36	9.64	15.3%	HOLD	0.91	0.83	-	-	-	-	5.4	5.8
ZHONGAN ONLINE-H	6060 HK	31.75	28.18	-11.2%	HOLD	2.66	2.51	-	-	-	-	0.0	0.0
Average(excl. Zhong An)						1.03	0.92	0.44	0.41	0.65	0.60	3.91	4.39

A-shares													
Company	Ticker	Price (RMB)	TP (RMB)	Upside	Rating	P/B (x)		P/EV (x)		TP/EV (x)		Div. yield (%)	
						FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
CHINA LIFE INS-A	601628 CH	31.05	38.04	22.5%	BUY	2.08	1.93	0.90	0.83	1.10	1.02	2.0	2.2
PING AN INSURA-A	601318 CH	80.19	-	-	NR	1.86	1.57	-	-	-	-	3.0	3.4
CHINA PACIFIC-A	601601 CH	33.38	-	-	NR	1.59	1.43	0.74	0.68	-	-	4.3	4.6
NEW CHINA LIFE-A	601336 CH	46.46	53.51	15.2%	HOLD	1.64	1.45	0.70	0.66	0.80	0.76	2.4	2.6
PICC HOLDING C-A	601319 CH	7.21	-	-	NR	1.62	1.47	-	-	-	-	1.5	1.7
Average						1.76	1.57	0.78	0.73	0.95	0.89	2.62	2.90

Source: Bloomberg, CMBIS estimates

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