

Ping An (2318 HK)

Expect rebound in 2021

Ping An reported +4.9% YoY increase of operating profit in 2020, although net profit decreased 4.2% to RMB 143.1bn amid COVID-19. Insurance business suffered from shocks and aftershocks of COVID-19, but is expected to gradually recover in 2021. We also anticipate further rollout of Ping An Life's reform will begin to bear fruit.

- Life and health NBV decline could be reversed in 2021.** L&H NBV declined 34.7% YoY in 2020 (agent channel NBV down 37.1% YoY and NBV from long-term protection products down 48.5% YoY). Worse-than-expected life & health business performance reflected mainly the impact of COVID-19 as well as the ongoing reform of Ping An life, which brought short term pains. NBV margin went down 14ppt YoY in 2020 largely due to product mix change. Looking ahead, we see high probability of resuming positive NBV growth in 2021 as pandemic impact alleviates and demand for long-term protection products recovers. The Company expects NBV margin to gradually stabilize, lifted by higher margin products although incorporating services into products may temporarily weigh on margin.
- P&C underwriting margin shrank.** P&C premium income rose steadily at 5.5% YoY in 2020 (auto +0.9% and non-auto +14%). However, combined ratio climbed 2.7ppt to 99.1% primarily due to worsening loss ratio of guarantee insurance. Costs of auto insurance also rose when competition became more intense.
- Result positives.** 1) Customer development deepened against the backdrop of COVID-19 hindering offline operations. Number of retail customers exceeded 218 million at YE20, up 9% YoY. 2) Technology business operating profit increased. 3) Net investment yield was 5.1%, edging down by 0.1ppt.
- Risks.** 1) Investment assets exposing to further downside risks. 2) Life business rebound missing expectation. 3) P&C growth and margin under pressure.
- Valuation.** We roll over valuation metrics to YE21, adjust market value of subsidiaries, and modify exchange rate assumption. We lift TP to HK\$ 102.3. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	719,556	795,064	797,880	878,066	937,278
YoY growth (%)	18.9%	10.5%	0.4%	10.0%	6.7%
Net profit (RMB mn)	107,404	149,407	143,099	152,047	167,694
EPS (RMB)	6.02	8.41	8.10	8.60	9.49
YoY growth (%)	31.1	39.6	-3.7	6.3	10.3
Consensus EPS (RMB)	N.A.	N.A.	7.47	8.74	10.10
P/E (x)	12.6	9.1	9.4	8.8	8.0
P/B (x)	2.5	2.1	1.8	1.6	1.3
P/EV (x)	1.4	1.2	1.0	0.9	0.8
Yield (%)	2.3%	2.7%	2.9%	3.1%	3.4%
ROE (%)	20.9%	24.3%	19.9%	18.4%	17.4%

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$102.28
(Previous TP)	HK\$92.97
Up/Downside	+11.5%
Current Price	HK\$91.70

China Insurance Sector

Wenjie Ding, PhD

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

Stock Data

Mkt Cap (HK\$ mn)	1,718,166
Avg 3 mths t/o (HK\$ mn)	3,386.25
52w High/Low (HK\$)	103.6/67.03
Total Issued Shares (mn)	7,488 (H)
	10,833 (A)

Source: Bloomberg

Shareholding Structure

Charoen Pokphand Group	9.04%
Shenzhen Investment Holdings	5.27%

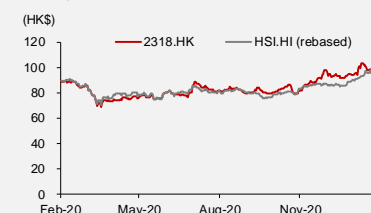
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.7%	-8.2%
3-mth	14.3%	-2.3%
6-mth	11.8%	-4.2%

Source: Bloomberg

12-mth



Price Performance

Source: Bloomberg

Auditor: PwC

Related Reports

- "Challenging insurance business" – 28 Oct 2020
- "Life business reform to continue into 2H20" – 31 Aug 2020
- "Explore the boundless" – 4 Aug 2020 (Initiation)
- "Senior management change" – 28 Oct 2019

Focus Charts

Figure 1: 2020 result summary

RMB mn			
P&L	2019	2020	YoY
Gross written premiums	795,064	797,880	0.4%
Net earned premiums	748,779	757,599	1.2%
Reinsurance income	7,572	6,356	-16.1%
Reinsurance commission income	7,572	6,356	-16.1%
Interest income from banking operations	176,621	186,775	5.7%
Fees & commission income from non-insr biz	54,800	63,978	16.7%
Interest revenue from non-banking	99,991	118,814	18.8%
Dividend income, realized & unrealized gains	101,747	106,232	4.4%
Share of profits from associates and JVs	23,224	16,845	-27.5%
Other income	60,357	64,819	7.4%
Total income	1,273,091	1,321,418	3.8%
Claims and policyholders' benefits	-578,313	-614,751	6.3%
Commission expenses on insr operations	-114,766	-102,021	-11.1%
Interest expenses on banking operations	-86,434	-86,371	-0.1%
Fees & commission expenses on non-insr biz	-10,570	-12,216	15.6%
Net impairment losses on financial assets	-65,270	-77,042	18.0%
Other impairment losses on other assets	-1,996	-2,416	21.0%
Foreign exchange gains	779	2,219	184.9%
General and administrative expenses	-177,164	-181,166	2.3%
Finance costs on non-banking	-20,098	-26,436	31.5%
Other expenses	-34,520	-33,454	-3.1%
Total expenses	-1,088,352	-1,133,654	4.2%
Pretax profit	184,739	187,764	1.6%
Income tax	-20,374	-28,405	39.4%
Less: (Minorities)	-14,958	-16,260	8.7%
Net profit attributable to shareholders	149,407	143,099	-4.2%
Attributable operating profit	132,955	139,470	4.9%
B/S	2019	2020	YoY
Total assets	8,222,929	9,527,870	15.9%
Total liabilities	7,370,559	8,539,965	15.9%
Shareholder equity	673,161	762,560	13.3%
Key metric (during period)	2019	2020	YoY
New business value of L&H (RMB bn)	75.9	49.6	-34.7%
P&C written premiums (RMB bn)	270.9	285.9	5.5%
- Auto insurance premiums (RMB bn)	194.3	196.2	0.9%
Combined ratio of P&C	96.40%	99.10%	2.8%
Net investment yield of insurance funds	5.2%	5.1%	-1.9%
Total investment yield of insurance funds	7.0%	6.2%	-11.4%
Key metrics (end of period)	2019	2020	YoY
Avg number of agents per month (million)	1.20	1.05	-12.5%
# of retail customers, group (million)	200.5	218.4	9.0%
Comprehensive solvency margin ratio - PA Life	231.6%	241.8%	10.2ppt
Comprehensive solvency margin ratio - PA P&C	259.2%	241.4%	-17.8ppt

Source: Company data, CMBIS

Figure 2: Valuation table

Life insurance	
3-year avg. ROEV	17.5%
Terminal growth rate	2%
Cost of equity	16.0%
Fair P/EV (x) for life insurance business	1.11
Life EV per share (at YE21, in RMB)	50.51
Value of Life insurance per share (in RMB)	55.92
P&C insurance	
3-year avg. ROE	20.0%
Fair P/B ratio for P&C business	1.29
P&C BVPS (at YE21, in RMB)	6.25
Value of P&C per share (in RMB)	8.03
Banking	
Current share price of PAB (in RMB)	24.6
PAB issued shares (million)	19,406
Ping An's shareholding in PAB	57.94%
Value of PAB per share (in RMB)	15.13
Asset management and others	
Fair P/B ratio	1.00
BVPS (at YE21, in RMB)	7.80
Value of AM business per share (in RMB)	7.80
Technology business	
Value of tech business per share (in RMB)	12.99
Sum of the above business segments (in RMB)	99.87
Conglomerate discount	15%
Target price (in RMB)	84.89
Target price (in HKD)	102.28

Source: Company data, CMBIS estimates

Figure 3: Forecast revision

RMB mn	New			Old			Diff	
	FY20A	FY21E	FY22E	FY20E	FY21E	FY22E	FY21E	FY22E
GWP	797,880	878,066	937,278	822,431	881,893	944,984	-0.4%	-0.8%
Net profit	143,099	152,047	167,694	135,638	150,238	164,930	1.2%	1.7%
New business value	49,575	54,508	58,794	62,932	68,128	71,652	-20.0%	-17.9%
NBV growth	-34.7%	9.9%	7.9%	-17.1%	8.3%	5.2%	1.7 ppt	2.7 ppt
Group EV	1,328,112	1,478,083	1,641,681	1,370,106	1,553,209	1,750,485	-4.8%	-6.2%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
GWP & policy fees	719,556	795,064	797,880	878,066	937,278
Net earned premiums	677,703	748,779	757,599	815,832	868,616
Reinsurance income	7,966	7,572	6,356	9,997	10,888
Total premium income	685,669	756,351	763,955	825,829	879,504
Investment income	120,520	201,738	225,046	197,791	209,845
Net inv't income from banking	74,783	90,187	100,404	112,414	123,199
Net fees and commission income	37,191	44,230	51,762	68,870	76,929
Claims and benefits	(439,596)	(578,313)	-614,751	-617,005	-651,546
Commission expenses	(130,394)	(114,766)	-102,021	-125,210	-134,011
G&A expenses	(151,581)	(177,164)	-181,166	-210,323	-228,080
Impairment loss	(53,814)	(67,266)	-79,458	-77,595	-83,063
Other income and expenses	2,299	6,518	7,148	13,483	17,492
Associates/JVs	18,074	23,224	16,845	22,316	23,619
Pretax profit	163,151	184,739	187,764	210,571	233,888
Tax	(42,699)	(20,374)	-28,405	-40,809	-45,403
Less: minorities	(13,048)	(14,958)	-16,260	-17,715	-20,791
Net profit	107,404	149,407	143,099	152,047	167,694

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Investment assets	4,056,704	4,659,117	5,448,729	5,960,090	6,630,471
Loans to customers	1,929,842	2,240,396	2,599,510	2,727,612	3,027,650
Total assets	7,142,960	8,222,929	9,527,870	10,259,140	11,335,321
Insurance contract liabilities	2,264,634	2,669,673	3,040,041	3,307,838	3,664,897
Customer deposits	2,114,344	2,431,713	2,693,833	3,030,680	3,364,055
Total liabilities	6,459,317	7,370,559	8,539,965	9,105,050	9,996,254
Shareholders' equity	683,643	852,370	987,905	1,154,089	1,339,066

Source: Company data, CMBIS estimates

Key ratios

YE 31 Dec Group	FY18A	FY19A	FY20A	FY21E	FY22E
Net investment yield	5.2%	5.2%	5.1%	4.9%	4.8%
Total investment yield	3.7%	6.9%	6.2%	5.1%	5.0%
ROAE	20.9%	24.3%	19.9%	18.4%	17.4%
ROAA	1.6%	1.9%	1.6%	1.5%	1.6%
EV growth	21.5%	21.8%	8.8%	11.3%	11.1%
Group comprehensive solvency	216.4%	229.8%	236.4%	229.9%	226.9%
Life & Health insurance					
GWP growth	21.5%	11.5%	-2.3%	5.9%	4.3%
Agency FYRP growth	-3.1%	-7.8%	-28.3%	10.0%	8.0%
NBV growth	7.3%	5.1%	-34.7%	9.9%	7.9%
NBV margin of agency channel	57.1%	64.9%	54.9%	50.0%	50.0%
L&H EV growth	23.5%	23.5%	8.9%	12.0%	11.8%
L&H operating ROEV	30.8%	25.0%	14.5%	16.6%	16.3%
P&C insurance					
GWP growth	14.5%	9.5%	5.5%	16.5%	10.7%
Combined ratio	96.0%	96.4%	99.1%	97.4%	97.2%
Profit breakdown					
Life & health insurance	62%	66%	67%	65%	64%
P&C insurance	11%	16%	16%	15%	15%
Banking					
Banking	13%	12%	12%	13%	13%
Others	14%	6%	5%	7%	8%
Per share data					
EPS (RMB)	6.02	8.41	8.10	8.60	9.49
DPS (RMB)	1.72	2.04	2.20	2.33	2.57
BVPS (RMB)	30.44	36.82	41.71	48.73	56.54
EVPS (RMB)	54.84	65.67	72.65	80.86	89.81

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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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