

Ping An (2318 HK)

Expect VNB turnaround in 1Q23 and FY23

Ping An saw its VNB momentum turn positive in 4Q22 with 11.7% YoY growth, as its channel reform scheme expanded to nationwide. Excluding assumption changes, FY22 VNB declined by 17.5% YoY, narrowing from -18.9% YoY in 9M22 and -20.3% YoY in 1H22. During the FY22 results briefing, the management guided for positive VNB growth in 1Q23 and FY23, and indicated that the new business momentum turned around in Feb 2023 and the positive growth sustained into March, driven by improving productivity across agency and multiple channels, i.e. community grid, private wealth advisers, etc. On P&C front, the overall underwriting margin was dragged to -0.3% in FY22 by a 40pts increase in guarantee insurance combined ratio. Excluding the guarantee business, P&C combined ratio would be 97.2% in FY22. Group OPAT was flattish in FY22, while DPS edged up 1.7% YoY. Looking into 2023, we expect the ongoing channel reform will further drive sequential improvement in VNB momentum and underpin robust OPAT growth together with a progressive dividend payout. Reiterate BUY.

- Life turnaround driven by channel reform and group synergies.** With the continual channel reform, Ping An saw 25%/32% YoY growth in 2022 in the productivity/income of high-potential agents, the bulk of its agency force, reversing the downward trend in 2021. Including the cross-selling commissions, agents' average monthly income reached RMB 8k-9k. On product front, the VNB from customers entitled to health management or eldercare services rose to 55% in FY22, up from 31% in FY21, reflecting strong synergies across Ping An's ecosystem.
- Expect manageable impact from the adoption of IFRS 17.** The management flagged that the adoption of IFRS 17 will have minimal impact on its book value and OPAT. The net profit would appear to be more smooth under IFRS 17, because 1) the reserve charges due to the changes in discount rate will go through OCI, and 2) the reserve variance of other assumption changes will go direct into CSM and to be amortized over the policy duration.
- Valuation:** Ping An's A and H shares are now trading at 0.5x P/EV FY23E and 0.9x P/BV FY23E, with an operating ROE of 15.2%. Looking forward, we believe the ongoing channel reform will steadily drive the turnaround of the life insurer's VNB growth throughout 2023, in which will underpin long-term operating profitability and a solid dividend payout. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22A	FY23E	FY24E
Net profit (RMB mn)	143,099	101,618	83,774	136,912	183,826
EPS (Reported)(RMB)	8.10	5.77	4.80	7.49	10.06
YoY growth (%)	(3.7)	(28.7)	(16.8)	56.0	34.3
Consensus EPS (RMB)	n.a	n.a	4.80	7.41	10.05
Group embedded value / share (RMB)	72.65	76.34	77.89	81.58	89.68
Combined ratio (%)	99.1	98.0	100.3	99.9	99.9
P/B (x)	1.1	1.0	0.9	0.9	0.8
P/Embedded value (x)	0.6	0.6	0.6	0.5	0.5
Dividend yield (%)	5.1	5.5	5.7	6.8	9.1
ROE (%)	18.2	12.2	9.3	15.2	18.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$80.30
(Previous TP)	HK\$80.30)
Up/Downside	59.0%
Current Price	HK\$50.50

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Stock Data

Mkt Cap (HK\$ mn)	376,124.0
Avg 3 mths t/o (HK\$ mn)	56.3
52w High/Low (HK\$)	64.75/31.40
Total Issued Shares (mn)	7448.0

Source: FactSet

Shareholding Structure

Charoen Pokphand Group	6.5%
Shenzhen Investment Holdings	5.3%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.1%	-3.9%
3-mth	-1.0%	0.3%
6-mth	10.4%	7.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Recent Reports:

- Ping An – Agency reform well on track – 21 Mar 2022 ([link](#))
- Ping An – Stabilizing agency scale – 3 May 2022 ([link](#))
- Ping An – Channel reform is close to the finish line – 25 Aug 2022 ([link](#))
- Ping An – 3Q22 results in line – 27 Oct 2022 ([link](#))

Figure 1: Ping An Group FY22 / 2H22 / 4Q22 Earnings Results

(RMBmn)	2021	2022	YoY chg	4Q21	4Q22	YoY chg	2H21	2H22	YoY chg
Net profit attribute to shareholders	101,618	83,774	-17.6%	19,980	7,311	-63.4%	43,613	23,501	-46.1%
Reserve catch-up	(22,566)	(26,813)							
OPAT attribute to shareholders	147,961	148,365	0.3%	29,224	25,078	-14.2%	66,125	63,025	-4.7%
Life insurance	95,906	111,235	16.0%	23,205	26,179	12.8%	46,411	52,837	13.8%
P&C insurance	16,117	8,838	-45.2%	2,896	(1,567)	-154.1%	5,376	495	-90.8%
Bank	21,060	26,380	25.3%	4,173	5,133	23.0%	10,869	13,578	24.9%
AMC	12,221	2,292	-81.2%	10,352	(3,290)	-131.8%	4,213	(2,108)	-150.0%
Technology	7,948	5,458	-31.3%	511	(198)	-138.7%	1,712	549	-67.9%
Others	(5,291)	(5,838)	10.3%	(1,913)	(1,179)	-38.4%	(2,456)	(2,326)	-5.3%
Operating ROE	18.9	17.9	(1.0) ppt						
Life insurance	32.3	32.7	0.4 ppt						
P&C insurance	14.8	7.6	(7.2) ppt						
Bank	10.9	12.4	1.5 ppt						
AMC	11.3	2.4	(8.9) ppt						
Technology	8.0	5.8	(2.2) ppt						
Group EV	1,395,509	1,423,763	2.0%						
Net investment yield (%)	4.6	4.7	0.1 ppt						
Total investment yield (%)	4.0	2.5	(1.5) ppt						
Comprehensive investment yield (%)	3.9	2.5	(1.4) ppt						
Total investment assets	3,916,412	4,368,400	11.5%						
Total investment income	144,086	101,830	-29.3%						
# of individual customers (mn)	221.9	226.6	2%						
Avg. # of contracts per customer (mn)	2.91	2.97	2%						
# of cross-selling customers (mn)	89.3	90.2	1%						
% of cross-selling customers	39.3	39.8	0.5 ppt						

Source: Company Data, CMBIGM

Figure 2: Ping An Life FY22 / 2H22 / 4Q22 Earnings Results

Ping An Life	2021	2022	YoY chg	4Q21	4Q22	YoY chg	2H21	2H22	YoY chg
VNB	37,898	28,820	-24.0%	2,661	2,972	11.7%	10,511	9,247	-12.0%
FYP	136,290	119,336	-12.4%	21,541	19,335	-10.2%	48,649	43,204	-11.2%
VNB margin (FYP)	27.8%	24.2%	(3.7) ppt	12.4%	15.4%	3.0 ppt	21.6%	21.4%	(0.2) ppt
VNB margin (FYP APE)	33.8%	30.1%	(3.7) ppt						
Life EV	876,490	874,786	0%						
Residual margin	940,733	894,413	-4.9%						
Surrender rate (%)	2.23	2.07	(0.2) ppt						
Surrender	52,931	54,102	2.2%	13,319	54,102	306.2%	26,777	25,692	-4.1%
# of agents (mn)	0.60	0.45	-26%	0.60	0.45	-26%	0.60	0.45	-26%
Activity rate (%)	47.0	50.8	3.8 ppt						
Agent income (RMB per month)	5,758	7,051	22%						
Reported agent productivity (VNB/agent)	39,031	47,639	22%						
Agent productivity (FYP/month/agent)	9,596	14,430	50%						
Agent productivity (VNB/month/agent)	3,189	3,656	15%						
FYP by distribution									
Agent	93,509	90,503	-3%						
Bancassurance	9,291	10,989	18%						
Group & Others	47,274	37,502	-21%						
Total FYP	150,074	138,994	-7%						
Total FYP APE	101,745	89,878	-12%						
VNB breakdown									
Retail business	37,330	28,439	-24%						
Agency	31,076	22,932	-26%						
Long-term protection	12,512	6,235	-50%						
Protection & Saving hybrid (long-PPP)	7,560	6,029	-20%						
Protection & Saving hybrid (short-PPP)	7,178	7,079	-1%						
Short-term	3,827	3,589	-6%						
Tele, internet and others	4,485	3,457	-23%						
Bancassurance	1,769	2,050	16%						
Group business	568	380	-33%						
VNB margin (FYP basis)									
Retail business	38.4	32.0	(6.4) ppt						
Agency	43.1	36.3	(6.8) ppt						
Long-term protection	86.7	86.4	(0.3) ppt						
Protection & Saving hybrid (long-PPP)	47.5	44.7	(2.8) ppt						
Protection & Saving hybrid (short-PPP)	19.5	18.8	(0.7) ppt						
Short-term	75.6	76.8	1.2 ppt						
Tele, internet and others	28.2	22.9	(5.3) ppt						
Bancassurance	19.3	19.2	(0.1) ppt						
Group business	1.5	1.2	(0.3) ppt						
Agent productivity (FYP/month/agent)	13,986	19,027	36%						

Source: Company Data, CMBIGM

Figure 3: Ping An P&C FY22 / 2H22 / 4Q22 Earnings Results

Ping An P&C	2021	2022	YoY chg	4Q21	4Q22	YoY chg	2H21	2H22	YoY chg
Combined ratio (%)	98.0	100.3	2.3 ppt				100.1	103.3	3.2 ppt
Expense ratio (%)	31.0	30.4	(0.6) ppt						
Loss ratio (%)	67.0	69.9	2.9 ppt						
Premium income	270,043	298,038	10%	70,700	76,014	8%	136,730	151,246	11%
Auto	188,838	201,298	7%	53,370	55,606	4%	99,823	105,796	6%
Non-auto	81,205	96,740	19%	17,330	20,408	18%	36,907	45,450	23%
Underwriting profit	5,136	(888)	-117%						
Auto combined ratio (%)	98.9	-	(98.9) ppt						
Non-auto combined ratio (%)	96.2	100.3	4.1 ppt						

Source: Company Data, CMBIGM

Figure 4: Ping An Bank FY22 / 2H22 / 4Q22 Earnings Results

Ping An Bank	2021	2022	YoY chg	4Q21	4Q22	YoY chg	2H21	2H22	YoY chg
NIM	2.79	2.75	(0.04) ppt						
Cost to Income ratio	28.3	27.5	(0.9) ppt						
NPL ratio	1.02	1.05	0.03 ppt	1.02	1.05	0.03 ppt	1.02	1.05	0.03 ppt
Special mention ratio	1.42	1.82	0.40 ppt	1.42	1.82	0.40 ppt	1.42	1.82	0.40 ppt
Broad NPL ratio	2.44	2.87	0.43 ppt	2.44	2.87	0.43 ppt	2.44	2.87	0.43 ppt
Credit cost (annualized)	2.08	2.01	(0.07) ppt						
Provision coverage ratio	288.4	290.3	1.9 ppt	288.4	290.3	1.9 ppt	288.4	290.3	1.9 ppt
Core T1 (>7.5%)	8.60	8.64	0.04 ppt	8.60	8.64	0.04 ppt	8.60	8.64	0.04 ppt
T1 (>8.5%)	10.56	10.40	(0.16) ppt	10.56	10.40	(0.16) ppt	10.56	10.40	(0.16) ppt
Capital adequacy ratio (>10.5%)	13.34	13.01	(0.33) ppt	13.34	13.01	(0.33) ppt	13.34	13.01	(0.33) ppt

Source: Company Data, CMBIGM

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Total income	1,273,091	1,321,418	1,287,675	1,221,351	1,342,696	1,420,724
Premiums written (gross)	795,064	797,880	760,843	769,633	787,792	823,134
Premiums earned (net)	748,779	757,599	739,933	742,418	756,490	789,472
Investment income	201,738	225,046	203,513	127,057	208,171	219,147
Realized gains (losses)	238,993	257,109	270,871	280,916	301,340	328,528
Other operating income	83,581	81,664	73,358	70,960	76,694	83,577
Losses	(1,088,352)	(1,133,654)	(1,148,095)	(1,115,536)	(1,136,013)	(1,151,687)
Selling	(578,313)	(614,751)	(618,662)	(631,138)	(638,590)	(607,136)
Other selling	(177,164)	(181,166)	(177,061)	(169,840)	(163,674)	(180,247)
Underwriting & commissions	(125,336)	(114,237)	(90,651)	(80,308)	(83,852)	(88,616)
Other operating expense	(207,539)	(223,500)	(261,721)	(234,250)	(249,898)	(275,688)
Operating income before interest expense	184,739	187,764	139,580	105,815	206,682	269,037
Pretax income	184,739	187,764	139,580	105,815	206,682	269,037
Income taxes	(20,374)	(28,405)	(17,778)	1,617	(42,696)	(55,156)
Consolidated net income	164,365	159,359	121,802	107,432	163,986	213,881
Minority interest	(14,958)	(16,260)	(20,184)	(23,658)	(27,075)	(30,055)
Net income	149,407	143,099	101,618	83,774	136,912	183,826
Net income available to common	149,407	143,099	101,618	83,774	136,912	183,826

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	508,706	587,391	584,995	770,751	845,528	928,624
Investments	204,135	267,819	284,061	280,793	308,872	339,760
Total fixed income securities investment	3,496,829	4,133,300	4,253,940	4,631,969	4,882,083	5,133,608
Total equity securities investment	721,602	795,812	878,204	1,006,163	1,060,493	1,115,130
Real estate assets	86,819	89,671	135,799	168,420	177,300	186,349
Mortgage	18,957	37,661	30,957	29,278	29,278	29,278
Other investments	2,240,396	2,599,510	2,980,975	3,238,054	3,723,762	4,282,326
Premium balance receivables	146,250	167,281	142,688	120,342	136,447	154,870
Net property	259,272	292,738	320,954	295,559	311,518	327,568
Deferred tax assets	50,301	61,901	65,360	92,846	97,488	102,363
Intangible assets	63,333	64,290	68,462	99,411	109,352	120,287
Other assets	426,329	430,496	395,631	403,582	464,119	533,737
Total assets	8,222,929	9,527,870	10,142,026	11,137,168	12,146,240	13,253,899
Liabilities & shareholders' equity						
Insurance policy liabilities						
Insurance reserves	1,718,201	1,994,341	2,252,472	2,501,090	2,743,750	2,956,834
Unearned premiums	158,680	177,041	170,420	173,742	179,190	184,957
Policy claims	98,147	109,943	118,926	138,393	152,232	167,456
Other insurance liabilities	690,277	754,453	788,220	824,760	858,638	926,067
ST debt & curr. portion LT debt	3,456,788	3,979,189	3,962,221	4,662,451	5,239,311	5,888,986
Deferred tax liabilities	22,282	19,267	13,605	14,217	14,928	15,674
Other liabilities	1,221,816	1,501,468	1,754,284	1,643,591	1,669,501	1,684,259
Total liabilities	7,370,559	8,539,965	9,064,303	9,961,870	10,861,721	11,829,029
Common stock/ordinary capital	18,280	18,280	18,280	18,280	18,280	18,280
Retained earnings	433,971	522,004	569,834	595,661	677,808	788,103
Equity reserves	220,910	222,276	224,291	244,734	244,734	244,734
Total shareholders' equity	673,161	762,560	812,405	858,675	940,822	1,051,117
Minority interest	179,209	225,345	265,318	316,623	343,698	373,752
Total equity	852,370	987,905	1,077,723	1,175,298	1,284,520	1,424,870
Total liabilities & shareholders' equity	8,222,929	9,527,870	10,142,026	11,137,168	12,146,240	13,253,899

PER SHARE DATA	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
DPS	2.10	2.27	2.45	2.51	3.00	4.02
EPS (Reported)	8.41	8.10	5.77	4.80	7.49	10.06
Group embedded value/share (HK\$)	65.67	72.65	76.34	77.89	81.58	89.68
VNB/share (HK\$)	4.15	2.71	2.07	1.58	1.67	1.84
No. of shares basic	18,280	18,280	18,280	18,280	18,280	18,280
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Return on equity (ROE)	20.8%	18.2%	12.2%	9.3%	13.0%	16.6%
Return on life embedded Value	76.6%	(7.4%)	(37.2%)	(18.2%)	33.6%	65.9%
VNB margin (FYP APE basis)	56.0%	47.6%	37.2%	32.1%	32.0%	32.0%
Combined ratio	96.4%	99.2%	97.6%	99.7%	99.9%	99.9%
Loss ratio	57.3%	60.5%	67.1%	69.8%	70.1%	70.1%
Expense ratio	39.1%	38.6%	30.5%	29.8%	29.8%	29.8%
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	5.3	5.5	7.7	9.2	5.9	4.4
P/B	1.2	1.1	1.0	0.9	0.9	0.8
Div yield (%)	4.7	5.1	5.5	5.7	6.8	9.1

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

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