

# CPIC (2601 HK)

## VNB growth turned positive in June

CPIC's OPAT grew 10% YoY in 1H22, driven by 23% YoY growth of P&C OPAT and 6% YoY growth of life OPAT. Net profit declined 23% YoY to RMB13.3bn, representing 58% of our FY22E forecast. Life new business momentum sequentially improved in 2Q22 in spite of headwinds from COVID restrictions, and monthly VNB growth even turned positive in June, as the insurer proactively upgrades its agency force. We expect the recovery of VNB momentum will sustain into 2H22, as the scale and productivity of CPIC's core agent team trended up. On P&C front, both auto and non-auto business reported YoY expansion of underwriting margins in 1H22, along with 12% YoY premium income growth (vs industry average of 9%). Core solvency margins of group/life/P&C arms remained safely above 150% at end-1H22, reflecting sound capital position to support stable dividend payout. We think the recovery of life new business momentum in 2H22 could drive stock re-rating. Maintain BUY rating on CPIC-H.

- **Monthly VNB growth turned positive in June, and we expect the recovery of new business momentum to sustain into 2H22.** VNB decreased 45.3% YoY in 1H22, translating into -39.3% YoY in 2Q22 and -48.6% YoY in 1Q22. 2Q22 new business momentum marginally improved from 1Q22, as agency FYP and FYRP showed narrowed decline to 9%/6% YoY in 2Q22 respectively vs -44%/-44.5% YoY in 1Q22. Management indicated that monthly VNB YoY growth turned positive in June. Although the total agent number shrank in 1H22, we notice positive progress in CPIC's agency reform, as monthly number of high-productivity agents rebounded by +21% HoH, and productivity and first-year commission income of high-productivity agent grew 23.5%/10.8% YoY respectively in 1H22.
- **P&C combined ratio improved by 2.1pts YoY to 97.2%, slightly outperforming industry average (97.3%).** Both auto and non-auto business recorded YoY expansion of underwriting margin, likely thanks to 1) less loss events amid COVID restrictions, 2) pricing hikes of NEV insurance, and 3) more disciplined expense management of agricultural and health insurance.
- **Valuation.** CPIC-H is trading at 0.3x P/EV FY22E and 0.6x P/BV FY22E, at a historical trough valuation. We believe the downside is limited, and expect the turnaround of agency new business momentum in July-Aug 2022 will sustain in the rest of the year. We think the sequential improvement in VNB growth will support share price performance. Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit (RMB mn)	25,352	27,618	23,405	28,081	34,119
EPS (Reported)(RMB)	2.6	2.8	2.4	2.8	3.4
YoY growth (%)	(14.1)	6.1	(15.3)	20.0	21.5
Group embedded value / share (RMB)	47.7	51.8	56.0	61.9	68.4
Combined ratio (%)	99.0	99.0	99.0	99.0	99.0
P/B (x)	1.0	1.0	0.6	0.5	0.5
P/Embedded value (x)	0.3	0.3	0.3	0.2	0.2
Dividend yield (%)	5.9	4.4	5.9	7.1	8.6
ROE (%)	12.5	12.1	9.9	11.3	12.4

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

**Target Price** HK\$25.19  
 (Previous TP HK\$25.19)  
**Up/Downside** 54.4%  
**Current Price** HK\$16.32

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### Stock Data

Mkt Cap (HK\$ mn)	45,510.0
Avg 3 mths t/o (HK\$ mn)	17.5
52w High/Low (HK\$)	25.80/15.54
Total Issued Shares (mn)	2775.0

Source: FactSet

### Shareholding Structure

China Baowu Steel Group	14.1%
Shengry (Group)	13.8%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-5.0%	-1.5%
3-mth	-8.1%	-8.1%
6-mth	-25.1%	-12.2%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Auditor: PwC

### Related reports:

1. CPIC (2601 HK) – Re-energizing agency force – 2 Sep 2021 ([link](#))
2. China Insurance FY21 results preview – 11 Mar 2022 ([link](#))

## CPIC (2601 HK): 1H22 results overview

(RMBmn)	1H21	1H22	YoY chg	2Q21	2Q22	YoY chg.
OPAT attribute to shareholders	18,279	20,096	9.9%			
Net profit attribute to shareholders	17,304	13,301	-23.1%	8,757	7,864	-10.2%
Life	12,873	8,860	-31.2%			
P&C	3,503	4,320	23.3%			
Group EV	474,431	509,078	7.3%			
Net investment yield (%)	4.1	3.9	(0.2) ppt			
Total investment yield (%)	5.0	3.9	(1.1) ppt			
Total investment assets	1,752,116	1,941,167	10.8%	1,752,116	1,941,167	10.8%
Total investment income	49,340	38,550	-21.9%	22,940	21,256	-7.3%
<b>CPIC Life</b>	<b>1H21</b>	<b>1H22</b>	<b>YoY chg</b>	<b>2Q21</b>	<b>2Q22</b>	<b>YoY chg.</b>
VNB	10,231	5,596	-45%	3,607	2,190	-39%
VNB margin (FYP)	25.4%	10.7%	(14.7) ppt			
Life EV	355,407	386,244	9%			
Residual margin	357,713	345,639	-3%			
Surrender rate (%)	0.90	0.80	(0.1) ppt	0.54	0.35	(0.2) ppt
Monthly avg. # of agents (mn)	0.64	0.31	-51%			
Activity rate (%)	50.1	64.0	13.9 ppt			
Agent FYC (RMB per month)	5,918	7,906	34%			
Agent # of long-term life policies per month	1.6	1.3	-16%			
Agent productivity (FYP/month/agent)	5,873	7,895	34%			
Agent productivity (VNB/month/agent)	2,527	2,840	12%			
Agency FYP	22,587	14,780	-34.6%	6,106	5,561	-8.9%
Agency FYRP	19,711	12,900	-34.6%	5,131	4,801	-6.4%
<b>VNB breakdown:</b>						
Traditional	9,589	5,242	-45%			
PAR	264	341	29%			
Others	378	13	-97%			
<b>FYP breakdown</b>						
Traditional	20,485	17,896	-13%			
PAR	1,246	19,554	1469%			
Others	18,568	14,934	-20%			
<b>VNB margin (FYP basis)</b>						
Traditional	46.8	29.3	(17.5) ppt			
PAR	21.2	1.7	(19.4) ppt			
Others	2.0	0.1	(1.9) ppt			
<b>CPIC P&amp;C</b>	<b>1H21</b>	<b>1H22</b>	<b>YoY chg</b>	<b>2Q21</b>	<b>2Q22</b>	<b>YoY chg.</b>
Combined ratio (%)	99.3	97.2	(2.1) ppt			
Expense ratio (%)	29.2	27.5	(1.7) ppt			
Loss ratio (%)	70.1	69.7	(0.4) ppt			
Premium income	81,561	91,571	12.3%	37,814	41,707	10.3%
Auto	44,642	48,169	7.9%	22,775	23,731	4.2%
Non-auto	36,919	43,402	17.6%	15,039	17,976	19.5%
Underwriting profit	443	1,949	340%			
Auto combined ratio (%)	99.0	96.6	(2.4) ppt			
Non-auto combined ratio (%)	99.9	98.3	(1.6) ppt			

Source: Company data, CMBI estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Total income</b>	<b>382,682</b>	<b>418,964</b>	<b>436,331</b>	<b>422,576</b>	<b>446,700</b>	<b>471,515</b>
Premiums written (gross)	347,517	362,064	366,782	383,545	397,652	418,838
Premiums earned (net)	313,246	331,639	339,535	353,899	365,778	384,346
Investment income	65,730	82,740	91,643	63,306	75,371	81,336
Other operating income	3,706	4,585	5,153	5,371	5,551	5,833
<b>Losses</b>	<b>(355,210)</b>	<b>(390,238)</b>	<b>(406,334)</b>	<b>(397,317)</b>	<b>(416,269)</b>	<b>(434,395)</b>
Selling	(38,021)	0	0	0	0	0
Underwriting & commissions	(46,853)	0	0	0	0	0
Other operating expense	(363,903)	(93,479)	(80,473)	(83,071)	(85,203)	(89,383)
<b>Operating income before interest expense</b>	<b>30,477</b>	<b>32,070</b>	<b>34,004</b>	<b>29,772</b>	<b>35,304</b>	<b>42,383</b>
Interest expense	(3,005)	(3,344)	(4,007)	(4,512)	(4,873)	(5,263)
<b>Operating income after interest expense</b>	<b>27,966</b>	<b>29,238</b>	<b>30,796</b>	<b>26,098</b>	<b>31,312</b>	<b>38,045</b>
<b>Pretax income</b>	<b>27,966</b>	<b>29,238</b>	<b>30,796</b>	<b>26,098</b>	<b>31,312</b>	<b>38,045</b>
Income taxes	388	(3,886)	(3,178)	(2,693)	(3,231)	(3,926)
<b>Minority interest</b>	<b>613</b>	<b>768</b>	<b>784</b>	<b>664</b>	<b>797</b>	<b>969</b>
<b>Net income</b>	<b>28,354</b>	<b>25,352</b>	<b>27,618</b>	<b>23,405</b>	<b>28,081</b>	<b>34,119</b>
<b>Net income available to common</b>	<b>27,741</b>	<b>24,584</b>	<b>26,834</b>	<b>22,741</b>	<b>27,284</b>	<b>33,150</b>

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Assets</b>						
Cash & short-term investments	14,872	20,878	32,545	0	0	0
Investments	601,992	685,322	738,116	0	0	0
Total fixed income securities investment	773,674	909,358	1,006,651	0	0	0
Total equity securities investment	20,442	24,443	26,984	0	0	0
Real estate assets	27,648	27,159	27,656	8,567	8,542	8,508
Other investments	0	0	0	0	0	0
Premium balance receivables	42,749	50,435	57,321	0	0	0
Deferred tax assets	860	845	1,998	0	0	0
Intangible assets	1,357	1,357	1,372	1,372	1,372	1,372
Goodwill	2,972	3,323	3,479	0	0	0
Other assets	36,957	47,884	50,042	0	0	0
<b>Total assets</b>	<b>1,528,333</b>	<b>1,771,004</b>	<b>1,946,164</b>	<b>2,126,372</b>	<b>2,295,723</b>	<b>2,471,956</b>
<b>Liabilities &amp; shareholders' equity</b>						
<b>Insurance policy liabilities</b>						
ST debt & curr. portion LT debt	85,564	97,117	112,838	121,060	129,939	139,529
Long-term debt	3,668	3,430	3,105	3,105	3,105	3,105
Deferred tax liabilities	2,911	5,055	3,601	na	0	0
Other liabilities	184,849	219,391	208,882	220,928	235,432	252,936
<b>Total liabilities</b>	<b>1,345,013</b>	<b>1,550,169</b>	<b>1,713,759</b>	<b>1,888,227</b>	<b>2,034,133</b>	<b>2,182,244</b>
<b>Total common equity</b>						
Common stock/ordinary capital	9,062	9,620	9,620	9,620	9,620	9,620
Retained earnings	70,602	81,533	93,169	110,442	133,035	160,130
Equity reserves	98,763	124,071	123,952	110,474	110,474	110,474
<b>Total shareholders' equity</b>	<b>178,427</b>	<b>215,224</b>	<b>226,741</b>	<b>230,536</b>	<b>253,129</b>	<b>280,224</b>
<b>Minority interest</b>	<b>4,893</b>	<b>5,611</b>	<b>5,664</b>	<b>7,609</b>	<b>8,461</b>	<b>9,487</b>
<b>Total equity</b>	<b>183,320</b>	<b>220,835</b>	<b>232,405</b>	<b>238,146</b>	<b>261,589</b>	<b>289,712</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>1,528,333</b>	<b>1,771,004</b>	<b>1,946,164</b>	<b>2,126,372</b>	<b>2,295,723</b>	<b>2,471,956</b>

PER SHARE DATA	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
DPS	1.20	1.30	1.00	0.85	1.02	1.24
EPS (Reported)	3.06	2.63	2.79	2.36	2.84	3.45
Diluted EPS	3.06	2.63	2.79	2.36	2.84	3.45
Group embedded value/share (HK\$)	43.70	47.75	51.80	56.00	61.88	68.44
No. of shares basic	9,062	9,620	9,620	9,620	9,620	9,620
No. of shares diluted	9,062	9,353	9,620	9,620	9,620	9,620
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Return on equity (ROE)	16.9%	12.5%	12.1%	9.9%	11.3%	12.4%
Return on asset (ROA)	1.9%	1.5%	1.4%	1.1%	1.2%	1.4%
Return on life embedded Value	16.3%	14.8%	8.1%	7.8%	10.0%	10.1%
VNB margin (FYP APE basis)	73.1%	77.9%	53.2%	45.7%	45.6%	45.0%
Combined ratio	98.3%	99.0%	99.0%	99.0%	99.0%	99.0%
Loss ratio	60.2%	61.4%	69.6%	69.6%	69.6%	69.6%
Expense ratio	38.1%	37.6%	29.4%	29.4%	29.4%	29.4%
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
P/EV	0.3	0.3	0.3	0.3	0.2	0.2
P/B	0.7	0.6	0.6	0.6	0.5	0.5
Div yield (%)	8.3	9.0	7.0	5.9	7.1	8.6
ROE(%)	16.9	12.5	12.1	9.9	11.3	12.4

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

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