

# PICC P&C (2328 HK)

## Remained UW profitable in 2H22

PICC P&C delivered 579% YoY growth in underwriting (UW) profit in FY22, translating into RMB2.1bn UW gains in 2H22 vs RMB3.9bn UW losses in 2H21. The insurer managed to lower its combined ratio (CoR) by 2.0pts YoY to 97.6% from 99.6% in FY21, outperforming the industry average (99.0%) across major peers. The underwriting (UW) margin continued to improve YoY for the fourth consecutive quarter, leading 2H22 CoR to 99.1% (-2.8pts YoY) and 4Q22 CoR to 100.7% (-0.9pts YoY). Meanwhile, loss reserve ratio remained solid at 41.3% as of end-FY22, up 4.3pts YoY, implying a thickened buffer for potential loss absorptions in future. Looking into FY23, we expect PICC P&C will continue to outpace industry average across major peers in terms of UW margin, given the insurer's persistent focus on quality and efficiency over volume. Reiterate BUY.

■ **Auto: UW profit increased 69.4% YoY in FY22.** Auto CoR declined by 1.7pts YoY to 95.6% in FY22 comprising of a loss ratio down 2.0pts YoY with an expense ratio moderately up 0.3pts YoY. The declining loss ratio was primarily due to 1) improved risk pricing capabilities, and 2) less catastrophic loss events amid COVID restrictions. Both the number of insured cars and average premium per car increased in FY22, on back of a higher purchase rate of commercial auto insurance. Looking into FY23, we expect the insurer's auto loss ratio may edge up given recovery in business activities contributing to higher possibility and frequency in loss events post COVID.

■ **Non-auto: CoR declined by 2.8pts YoY in FY22, equivalent to -4.0pts YoY in 2H22.** Among non-auto segments, A&H, agricultural and commercial property each delivered 2.2pts, 8.7pts and 20.4pts YoY UW margin improvement in FY22, equivalent to 3.3pts, 9.3pts, 42.4pts YoY margin expansion in 2H22, respectively. However, the UW profit increases in above segments were partially offset by higher CoR of liability and credit guarantee insurance, subject to 1) a long-tail effect of in-force business, 2) increased personal injury compensation standards, and 3) the change in formation rate of NEP as a result of shifts in business structure. We noted that the loss ratio of credit guarantee insurance remained low at 45.6%, dropping by 5pts YoY from a year ahead. Looking into FY23, we expect to see a year-over-year improvement in liability insurance as the long-tail effect gradually phasing out.

■ **Valuation.** PICC P&C is trading at 4.9x P/E FY23E and 0.6x P/BV FY23E, below 2-yr/5-yr avg. P/E at 5.1x/6.1x and 2-yr/5-yr avg. P/BV at 0.7x/0.8x, respectively, against above 8% dividend yields and 13.8% ROE expected. We believe the continued strengths of the insurer's UW profitability, driven by its market-leading risk pricing models and cost controls alongside a long-term focus on improving shareholders' interests, will bolster the stock fundamental.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (RMB mn)	22,360	26,708	30,198	34,195	38,657
EPS (Reported)(RMB)	1.01	1.20	1.36	1.54	1.74
YoY growth (%)	7.1	19.4	13.1	13.2	13.0
Consensus EPS (RMB)	na	na	1.36	1.52	1.69
Premium income (RMB mn)	396,997	425,480	459,518	496,280	535,982
Premium income growth (%)	1.0	7.2	8.0	8.0	8.0
Combined ratio (%)	99.6	97.6	98.0	98.0	98.0
P/E (x)	6.6	5.5	4.9	4.3	3.8
P/B (x)	0.7	0.7	0.6	0.6	0.5
Dividend yield (%)	6.1	7.2	8.2	9.2	10.5
ROE (%)	11.5	12.9	13.8	14.3	14.9

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** HK\$12.44

(Previous TP HK\$12.44)

**Up/Downside** 64.3%

**Current Price** HK\$7.57

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### Stock Data

Mkt Cap (HK\$ mn)	52,225.4
Avg 3 mths t/o (HK\$ mn)	7.4
52w High/Low (HK\$)	8.87/6.89
Total Issued Shares (mn)	6899.0

Source: FactSet

### Shareholding Structure

PICC Group	69.0%
Free Float	31.0%

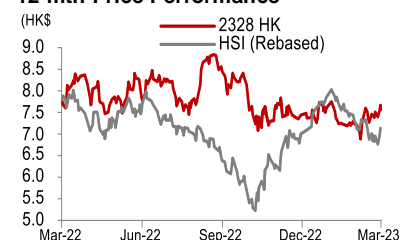
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	5.0%	5.5%
3-mth	1.2%	-0.4%
6-mth	-10.4%	-19.3%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Auditor: Deloitte

### Recent Reports:

1. PICC P&C – 1H21 performance in line ([link](#))
2. PICC P&C – Auto growth pick up; Non-auto UW to improve ([link](#))
3. PICC P&C – Expect CoR improvement in FY22 ([link](#))
4. PICC P&C – CoR improvement in 1Q22 ([link](#))
5. PICC P&C – Strong beat in 1H22 ([link](#))
6. PICC P&C – Continual UW margin improvement ([link](#))

## PICC P&C (2328 HK) - FY22 earnings' key metrics

PICC P&C: Premium income	2021	2022	YoY chg	4Q21	4Q22	YoY chg	2H21	2H22	YoY chg
Auto	255,275	271,160	6.2%	72,271	75,132	4.0%	134,520	142,352	5.8%
Non-auto	194,258	216,373	11.4%	31,466	31,377	-0.3%	62,387	67,773	8.6%
A&H	80,692	88,999	10.3%	10,563	8,630	-18.3%	20,656	20,117	-2.6%
Agro	42,769	52,060	21.7%	5,398	6,136	13.7%	13,096	15,339	17.1%
Liability	33,134	33,772	1.9%	7,059	6,526	-7.6%	14,258	14,507	1.7%
Credit	2,840	5,294	86.4%	1,008	1,123	11.4%	1,677	2,620	56.2%
Property	15,912	16,553	4.0%	3,299	3,631	10.1%	5,791	6,301	8.8%
Cargo	4,814	4,831	0.4%	1,144	1,118	-2.3%	2,285	2,251	-1.5%
Others	14,097	14,864	5.4%	2,995	4,213	40.7%	4,624	6,638	43.6%
<b>P&amp;C total</b>	<b>449,533</b>	<b>487,533</b>	<b>8.5%</b>	<b>103,737</b>	<b>106,509</b>	<b>2.7%</b>	<b>196,907</b>	<b>210,125</b>	<b>6.7%</b>

Source: Company data, CMBIGM estimates

PICC P&C: Combined ratio	2021	2022	YoY chg	4Q21	4Q22	YoY chg	2H21	2H22	YoY chg
<b>P&amp;C total:</b>									
Combined ratio (%)	99.6	97.6	(2.0) ppt	101.6	100.7	(0.9) ppt	101.9	99.1	(2.8) ppt
Expense ratio (%)	25.9	25.8	(0.1) ppt	28.1	29.9	1.7 ppt	26.3	26.9	0.6 ppt
Loss ratio (%)	73.7	71.8	(1.9) ppt	73.4	70.8	(2.6) ppt	75.5	72.1	(3.4) ppt
<b>Auto insurance:</b>									
Combined ratio (%)	97.3	95.6	(1.7) ppt	96.9	96.9	0.1 ppt	97.8	95.8	(2.0) ppt
Expense ratio (%)	27.2	27.5	0.3 ppt	73.4			28.0	29.2	1.2 ppt
Loss ratio (%)	70.1	68.1	(2.0) ppt	67.8			69.8	66.5	(3.3) ppt
<b>Non-auto insurance:</b>									
Combined ratio (%)	103.4	100.6	(2.8) ppt	109.2	107.4	(1.8) ppt	108.0	104.0	(4.1) ppt
Expense ratio (%)	23.9	23.0	(0.9) ppt	26.6			23.7	23.5	(0.2) ppt
Loss ratio (%)	79.5	77.6	(1.9) ppt	82.4			84.2	80.5	(3.8) ppt

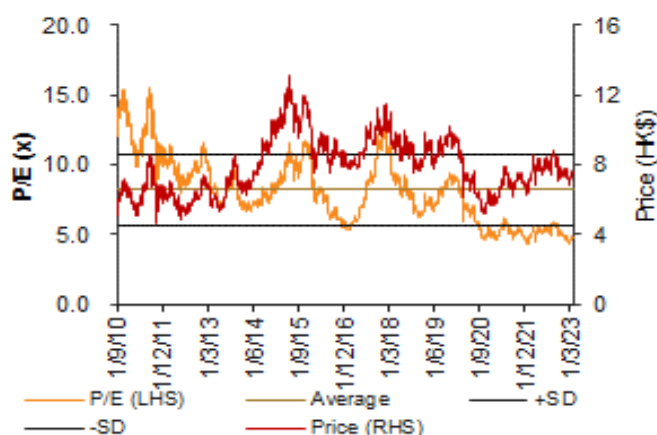
### Combined ratio by products:

Auto	97.3	95.6	(1.7) ppt				97.8	95.8	(2.0) ppt
A&H	102.6	100.4	(2.2) ppt				103.4	100.1	(3.3) ppt
Agro	101.6	92.9	(8.7) ppt				104.5	95.2	(9.3) ppt
Liability	107.4	112.8	5.4 ppt				115.4	119.9	4.6 ppt
Credit	66.7	76.4	9.7 ppt				38.4	88.6	50.2 ppt
Property	130.0	109.6	(20.4) ppt				170.1	127.7	(42.4) ppt
Cargo	91.2	93.3	2.1 ppt				99.0	95.3	(3.6) ppt
Others	108.8	109.0	0.2 ppt				145.6	136.6	(9.0) ppt

Source: Company data, CMBIGM estimates

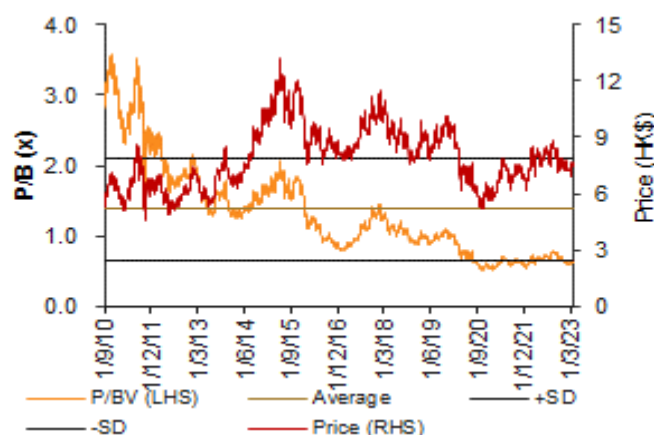
## Valuation: 12M forward P/E and P/BV versus historical avg.

Figure 1: PICC P&amp;C 12M forward P/E below historical avg.



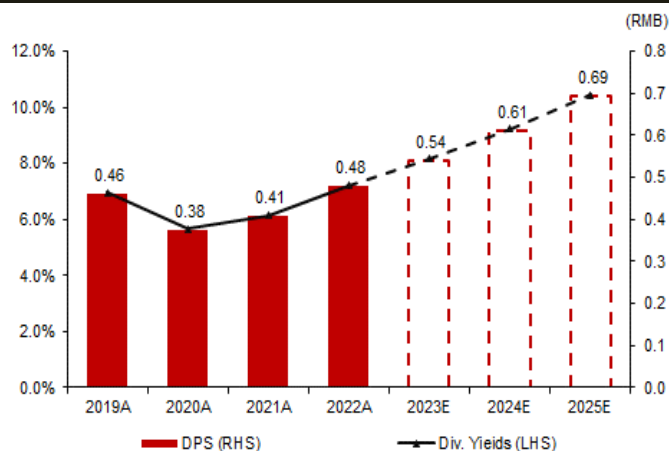
Source: Company data, CMBIGM | Note: the company stock price is quoted by market close at 4:00pm on 24/3/2023.

Figure 2: PICC P&amp;C 12M forward P/BV below historical avg.



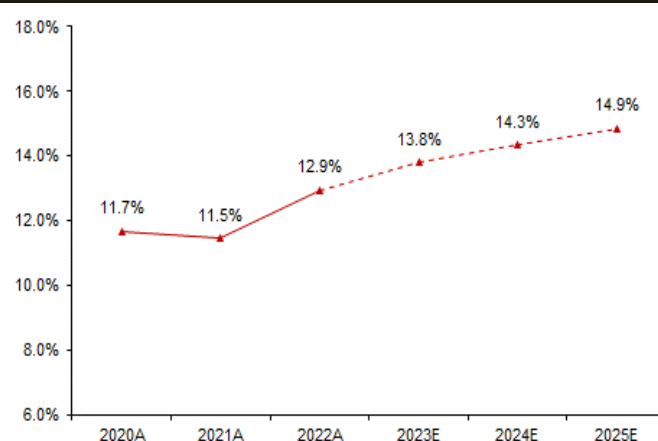
Source: Company data, CMBIGM | Note: the company stock price is quoted by market close at 4:00pm on 24/3/2023.

Figure 3: PICC P&amp;C's growing DPS and Dividend yields (%)



Source: Company data, CMBIGM | Note: the columns and lines in dot plot indicate CMBIGM estimates; the company stock price is quoted by market close at 4:00pm on 24/3/2023.

Figure 4: PICC P&amp;C's increasing ROE (%) and estimates



Source: Company data, CMBIGM | Note: the line in dot plot indicates CMBIGM estimates; the company stock price is quoted by market close at 4:00pm on 24/3/2023.

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Total income</b>	<b>412,267</b>	<b>419,251</b>	<b>442,643</b>	<b>481,730</b>	<b>521,492</b>	<b>564,483</b>
Premiums written (gross)	433,187	449,533	487,533	526,536	568,658	614,151
Premiums earned (net)	393,127	396,997	425,480	459,518	496,280	535,982
Investment income	17,709	17,996	20,180	21,453	24,379	27,584
Realized gains (losses)	4,551	4,562	(3,193)	0	0	0
Other operating income	(3,120)	(304)	176	758	834	917
<b>Losses</b>	<b>(391,542)</b>	<b>(397,747)</b>	<b>(415,854)</b>	<b>(451,233)</b>	<b>(487,294)</b>	<b>(526,237)</b>
Selling	(260,320)	(292,588)	(305,634)	(332,232)	(358,810)	(387,515)
Underwriting & commissions	(69,075)	(60,116)	(60,834)	(65,701)	(70,957)	(76,633)
Other operating expense	(62,147)	(45,043)	(49,386)	(53,301)	(57,526)	(62,088)
Equity in affiliates (pretax)	3,951	4,524	4,130	4,956	5,947	7,137
<b>Pretax income</b>	<b>24,676</b>	<b>26,028</b>	<b>30,919</b>	<b>35,453</b>	<b>40,146</b>	<b>45,383</b>
Income taxes	(3,808)	(3,663)	(4,266)	(5,318)	(6,022)	(6,807)
<b>Consolidated net income</b>	<b>20,868</b>	<b>22,365</b>	<b>26,653</b>	<b>30,135</b>	<b>34,124</b>	<b>38,576</b>
Minority interest	0	(5)	55	63	71	81
<b>Net income</b>	<b>20,868</b>	<b>22,360</b>	<b>26,708</b>	<b>30,198</b>	<b>34,195</b>	<b>38,657</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Assets</b>						
Cash & short-term investments	97,135	90,988	94,907	108,117	122,590	138,448
Total fixed income securities investment	168,511	172,851	192,970	219,828	249,257	281,500
Total equity securities investment	110,734	143,804	140,718	160,304	181,764	205,276
Real estate assets	30,328	29,594	32,214	35,727	39,587	43,827
Other investments	0	0	0	0	0	0
Premium balance receivables	50,103	55,399	70,085	77,094	84,803	93,283
Investment in unconsolidated subs.	53,262	56,945	58,143	63,957	70,353	77,388
Deferred tax assets	5,055	7,116	15,054	15,807	16,597	17,427
Intangible assets	0	0	0	0	0	0
Other assets	131,673	125,925	147,796	160,353	174,054	189,009
<b>Total assets</b>	<b>646,801</b>	<b>682,622</b>	<b>751,887</b>	<b>841,186</b>	<b>939,005</b>	<b>1,046,158</b>
<b>Liabilities &amp; shareholders' equity</b>						
<b>Insurance policy liabilities</b>	<b>314,623</b>	<b>340,529</b>	<b>386,620</b>	<b>429,349</b>	<b>475,419</b>	<b>525,174</b>
Insurance reserves	153,780	169,606	203,083	234,237	267,884	304,222
Unearned premiums	159,093	169,175	181,796	193,154	205,421	218,670
Policy claims	0	0	0	0	0	0
Other insurance liabilities	1,750	1,748	1,741	1,957	2,114	2,283
ST debt & curr. portion LT debt	29,028	37,985	41,690	45,859	50,445	55,489
Deferred tax liabilities	0	0	0	0	0	0
Other liabilities	113,119	98,459	110,829	137,946	164,525	193,610
<b>Total liabilities</b>	<b>456,770</b>	<b>476,973</b>	<b>539,139</b>	<b>613,153</b>	<b>690,389</b>	<b>774,274</b>
<b>Total common equity</b>						
Common stock/ordinary capital	22,242	22,242	22,242	22,242	22,242	22,242
Capital surplus	11,412	11,412	11,347	11,347	11,347	11,347
Retained earnings	48,030	58,318	70,885	89,062	109,645	132,914
Equity reserves	117,241	122,327	116,729	116,729	116,729	116,729
Revaluation reserves	61,814	64,100	66,755	66,755	66,755	66,755
Other appropriated Reserves	44,015	46,815	38,627	38,627	38,627	38,627
<b>Total shareholders' equity</b>	<b>187,513</b>	<b>202,887</b>	<b>209,856</b>	<b>228,033</b>	<b>248,616</b>	<b>271,885</b>
Minority interest	2,518	2,762	2,892	0	0	0
<b>Total equity</b>	<b>190,031</b>	<b>205,649</b>	<b>212,748</b>	<b>228,033</b>	<b>248,616</b>	<b>271,885</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>646,801</b>	<b>682,622</b>	<b>751,887</b>	<b>841,186</b>	<b>939,005</b>	<b>1,046,158</b>

PER SHARE DATA	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
DPS	0.38	0.41	0.48	0.54	0.61	0.69
EPS (Reported)	0.94	1.01	1.20	1.36	1.54	1.74
Consensus EPS	na	na	na	1.36	1.52	1.69
No. of shares basic	22,242	22,242	22,242	22,242	22,242	22,242
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Return on equity (ROE)	11.7%	11.5%	12.9%	13.8%	14.3%	14.9%
Return on asset (ROA)	3.4%	3.4%	3.7%	3.8%	3.8%	3.9%
Combined ratio	98.9%	99.6%	97.6%	98.0%	98.0%	98.0%
Loss ratio	66.2%	73.7%	71.8%	72.3%	72.3%	72.3%
Expense ratio	32.7%	25.9%	25.7%	25.7%	25.7%	25.7%
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E	7.1	6.6	5.5	4.9	4.3	3.8
P/B	0.8	0.7	0.7	0.6	0.6	0.5
Div yield (%)	5.7	6.1	7.2	8.2	9.2	10.5

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

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