

Ping An (2318 HK)

VNB growth beat expectation in 1Q23; Profits and book value increased under IFRS 17

Ping An reported 8.8% VNB growth YoY in 1Q23, beating the consensus of low single digit growth. We note that, excluding the negative impact of assumption changes, the VNB growth even reached 21.1% YoY in 1Q23, reflecting robust new business across all channels. During the 1Q23 results briefing, the management highlighted 37% YoY improvement of agent productivity, along with over 130% new business growth in bancassurance channel. Looking into FY23, we expect the ongoing channel reform will further drive sequential improvement in VNB momentum in 2Q-4Q23, and raise VNB forecasts of FY23E-FY25E by 5%. We believe the turnaround in VNB momentum will refuel the growth of contractual service margin (CSM) and underpin sustainable OPAT growth together with a progressive dividend payout in the long run. Reiterate BUY.

- **Life new business growth beat consensus in 1Q23, with positive VNB growth across all distribution channels.** With the continual channel reform, Ping An saw average agent productivity in terms of VNB further enhanced 37% YoY in 1Q23, while the average monthly income of agents grew around 10% YoY. Given the ongoing progress of Ping An's channel reform, we expect to see sequential improvement in new business momentum in 2Q-4Q23. On product front, the penetration of health management and elderly care services continued to rise in 1Q23, reflecting strong synergies across Ping An's ecosystem. We believe the enhancing service capacities will support product sales amid the cut of product guarantee rate which is guided by regulators.
- **Net profit and book value increased due to the adoption of IFRS 17,** because 1) the reserve charges due to the changes in discount rate now go through OCI instead of net profit, 2) for participating and universal portfolios applicable to the VFA (variable fee approach), the reserve variance of other assumption changes will go directly into CSM and to be amortized over the policy duration, 3) Ping An reclassified some financial investments from AC (amortised cost) category to FVOCI, which optimized the asset-liability match, and therefore reduced the volatility of book value.
- **Valuation:** Ping An's A and H shares are now trading at 0.5x P/EV FY23E and 0.8x P/BV FY23E, with a dividend yield of around 6%. Looking forward, we believe the ongoing channel reform will steadily drive the sequential improvement of VNB growth throughout 2023, in which will underpin long-term operating profitability and a solid dividend payout. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (RMB mn)	101,618	83,774	139,421	150,785	162,865
EPS (Reported)(RMB)	5.77	4.80	7.63	8.25	8.91
YoY growth (%)	(28.7)	(16.8)	58.9	8.2	8.0
Consensus EPS (RMB)	n.a	n.a	7.38	8.65	9.54
Group embedded value / share (RMB)	76.34	77.89	82.94	91.78	101.71
Combined ratio (%)	97.6	99.7	99.9	99.9	99.9
P/B (x)	1.0	1.0	0.9	0.8	0.7
P/Embedded value (x)	0.6	0.6	0.5	0.5	0.4
Dividend yield (%)	5.4	5.5	5.9	6.4	6.9
ROE (%)	12.2	9.2	15.4	15.0	14.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$80.30
 (Previous TP) HK\$80.30
Up/Downside 55.8%
Current Price HK\$51.55

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Stock Data

Mkt Cap (HK\$ mn)	383,944.4
Avg 3 mths t/o (HK\$ mn)	1,506.8
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	-0.9%	-0.1%
3-mth	-20.4%	-9.1%
6-mth	53.9%	19.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Recent Reports:

1. Ping An – Agency reform well on track – 21 Mar 2022 ([link](#))
2. Ping An – Stabilizing agency scale – 3 May 2022 ([link](#))
3. Ping An – Channel reform is close to the finish line – 25 Aug 2022 ([link](#))
4. Ping An – 3Q22 results in line – 27 Oct 2022 ([link](#))
5. Ping An – Expect VNB turnaround in 1Q23 and FY23 – 17 Mar 2023 ([link](#))

Focus Charts - 1Q23 key metrics

Figure 1: Ping An Group 1Q23 vs 1Q22 earnings results

Ping An Group:	1Q22	1Q23	YoY chg
Net profit attribute to shareholders	25,758	38,352	48.9%
OPAT attribute to shareholders	42,852	41,385	-3.4%
Life insurance	28,755	28,161	-2.1%
P&C insurance	3,100	4,523	45.9%
Bank	7,448	8,462	13.6%
AMC	2,579	1,305	-49.4%
Technology	2,745	693	-74.8%
Others	(1,776)	(1,759)	-1.0%
Net investment yield (%)	3.3	3.1	(0.2) ppt
Total investment yield (%)	2.3	3.3	1.0 ppt
Total investment income	(26,148)	29,715	N/A
# of individual customers (mn)	223.4	228.6	2%
Avg. # of contracts per customer (mn)	2.94	2.98	1%
# of cross-selling customers (mn)	108.4	91.4	-16%
% of cross-selling customers	48.5	40.0	(8.5) ppt

Source: Company Data, CMBIGM

Figure 2: Ping An Life 1Q23 vs 1Q22 earnings results

Ping An Life:	1Q22	1Q23	YoY chg
VNB	12,589	13,702	8.8%
FYP	51,203	65,514	27.9%
VNB margin (FYP)	24.6%	20.9%	(3.7) ppt
# of agents (mn)	0.54	0.40	-25%
Agent productivity (FYP/month/agent)	29,990	51,444	72%

Source: Company Data, CMBIGM

Figure 3: Ping An P&C 1Q23 vs 1Q22 earnings results

Ping An P&C:	1Q22	1Q23	YoY chg
Combined ratio (%)	96.8	98.7	1.9 ppt
Premium income	73,018	76,958	5.4%
Auto	47,083	50,025	6.2%
Non-auto	25,935	26,933	3.8%

Source: Company Data, CMBIGM

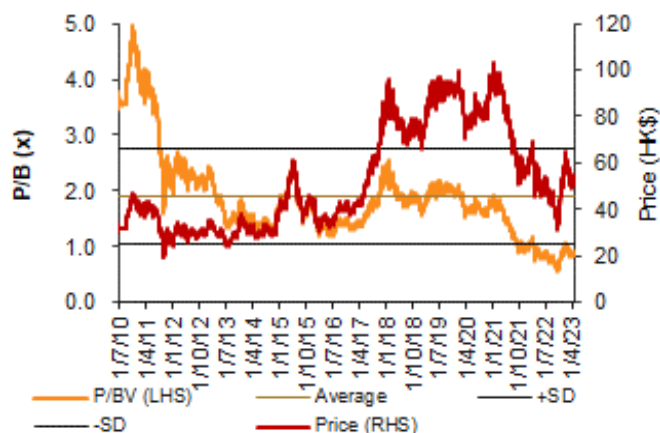
Figure 4: Ping An Bank 1Q23 vs 1Q22 earnings results

Ping An Bank:	1Q22	1Q23	YoY chg
Net interest margin (NIM)	2.80	2.63	(0.17) ppt
Cost to Income ratio	26.2	26.2	(0.0) ppt
NPL ratio	1.02	1.05	0.03 ppt
Special mention ratio	1.41	1.75	0.34 ppt
Broad NPL ratio	2.43	2.80	0.37 ppt
Provision coverage ratio	289.1	290.4	1.3 ppt
Core T1 (>7.75%)	8.64	8.91	0.27 ppt
T1 (>8.75%)	10.54	10.66	0.12 ppt
Capital adequacy ratio (>10.75%)	13.28	13.26	(0.02) ppt

Source: Company Data, CMBIGM

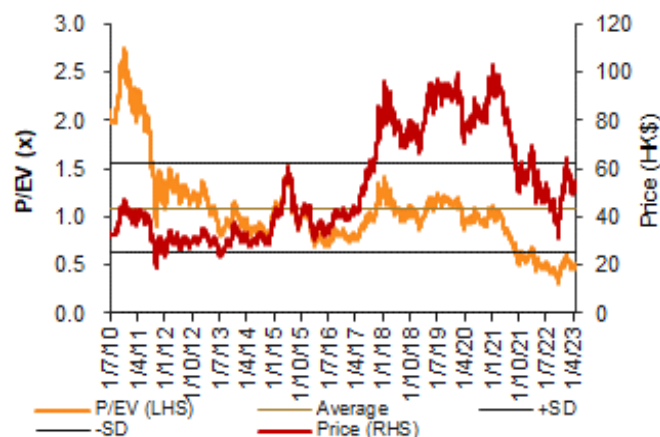
Valuation: 12M forward PBV/ PEV & 2-yr/5-yr historical avg.

Figure 5: Ping An 12M forward P/BV band



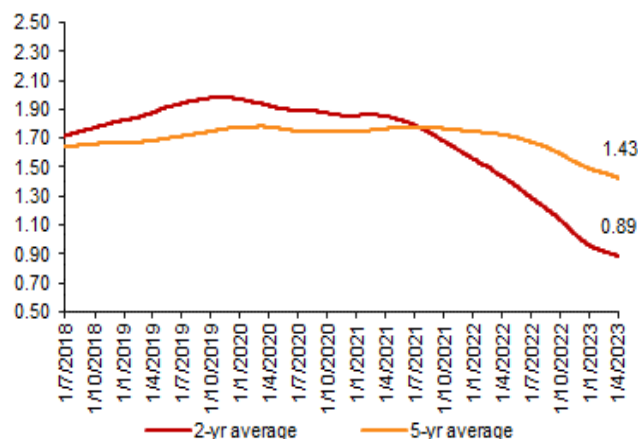
Source: Company data, CMBIGM

Figure 6: Ping An 12M forward P/EV band



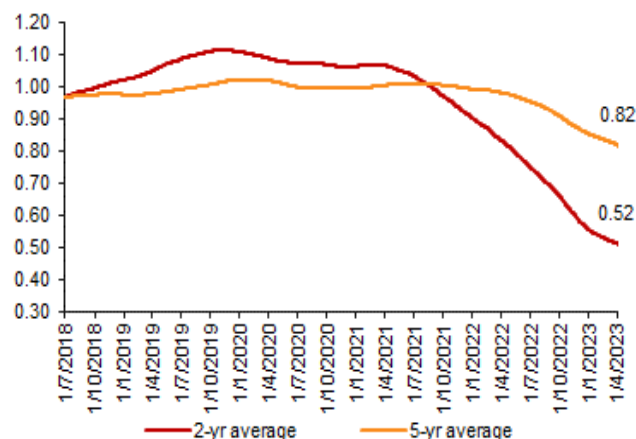
Source: Company data, CMBIGM

Figure 7: Ping An's historical 2-yr and 5-yr avg. P/BV



Source: Company data, CMBIGM | Note: By market close on 26/4/2023, Ping An's P/BV (TTM) recorded as 0.84, lower than its 2-yr/5yr average.

Figure 8: Ping An's historical 2-yr and 5-yr avg. P/EV



Source: Company data, CMBIGM | Note: By market close on 26/4/2023, Ping An's P/EV (TTM) recorded as 0.48, lower than its 2-yr/5yr average

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Total income	1,321,418	1,287,675	1,221,351	1,354,742	1,437,636	1,540,082
Premiums written (gross)	797,880	760,843	769,633	796,496	836,222	890,037
Premiums earned (net)	757,599	739,933	742,418	765,028	802,310	853,238
Investment income	225,046	203,513	127,057	211,630	223,146	234,831
Realized gains (losses)	257,109	270,871	280,916	301,390	328,602	359,782
Other operating income	81,664	73,358	70,960	76,694	83,577	92,232
Losses	(1,133,654)	(1,148,095)	(1,115,536)	(1,144,786)	(1,209,740)	(1,293,039)
Selling	(614,751)	(618,662)	(631,138)	(646,629)	(664,088)	(693,674)
Other selling	(181,166)	(177,061)	(169,840)	(163,674)	(180,247)	(198,498)
Underwriting & commissions	(114,237)	(90,651)	(80,308)	(84,585)	(89,718)	(96,219)
Other operating expense	(223,500)	(261,721)	(234,250)	(249,898)	(275,688)	(304,647)
Operating income before interest expense	187,764	139,580	105,815	209,957	227,895	247,044
Pretax income	187,764	139,580	105,815	209,957	227,895	247,044
Income taxes	(28,405)	(17,778)	1,617	(43,381)	(46,962)	(50,876)
Consolidated net income	159,359	121,802	107,432	166,576	180,933	196,168
Minority interest	(16,260)	(20,184)	(23,658)	(27,155)	(30,148)	(33,303)
Net income	143,099	101,618	83,774	139,421	150,785	162,865
Net income available to common	143,099	101,618	83,774	139,421	150,785	162,865

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	587,391	584,995	770,751	846,102	929,647	1,023,131
Investments	267,819	284,061	280,793	308,872	339,760	373,735
Total fixed income securities investment	4,133,300	4,253,940	4,631,969	4,891,382	5,150,192	5,417,202
Total equity securities investment	795,812	878,204	1,006,163	1,062,513	1,118,732	1,176,733
Real estate assets	89,671	135,799	168,420	177,530	186,759	196,333
Mortgage	37,661	30,957	29,278	29,278	29,278	29,278
Other investments	2,599,510	2,980,975	3,238,054	3,723,762	4,282,326	4,924,675
Premium balance receivables	167,281	142,688	120,342	136,447	154,870	175,954
Net property	292,738	320,954	295,559	312,112	328,626	345,664
Deferred tax assets	61,901	65,360	92,846	97,488	102,363	107,481
Intangible assets	64,290	68,462	99,411	109,352	120,287	132,316
Other assets	430,496	395,631	403,582	464,119	533,737	613,798
Total assets	9,527,870	10,142,026	11,137,168	12,158,957	13,276,578	14,516,300
Liabilities & shareholders' equity						
Insurance policy liabilities	3,040,041	3,334,193	3,641,611	4,000,346	4,349,561	4,714,914
Insurance reserves	1,994,341	2,252,472	2,501,090	2,748,246	2,993,182	3,241,431
Unearned premiums	177,041	170,420	173,742	179,237	185,073	191,340
Policy claims	109,943	118,926	138,393	152,232	167,456	184,201
Other insurance liabilities	754,453	788,220	824,760	916,461	999,054	1,092,428
ST debt & curr. portion LT debt	3,979,189	3,962,221	4,662,451	5,239,311	5,888,986	6,620,781
Deferred tax liabilities	19,267	13,605	14,217	14,928	15,674	16,458
Other liabilities	1,501,468	1,754,284	1,643,591	1,604,978	1,594,804	1,597,430
Total liabilities	8,539,965	9,064,303	9,961,870	10,859,563	11,849,025	12,949,583
Shareholders' equity						
Common stock/ordinary capital	18,280	18,280	18,280	18,280	18,280	18,280
Retained earnings	522,004	569,834	595,661	686,285	784,295	890,157
Equity reserves	222,276	224,291	244,734	251,052	251,052	251,052
Total shareholders' equity	762,560	812,405	858,675	955,617	1,053,627	1,159,489
Minority interest	225,345	265,318	316,623	343,778	373,925	407,228
Total equity	987,905	1,077,723	1,175,298	1,299,395	1,427,553	1,566,718
Total liabilities & shareholders' equity	9,527,870	10,142,026	11,137,168	12,158,957	13,276,578	14,516,300

PER SHARE DATA	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
DPS	2.27	2.45	2.51	2.67	2.89	3.12
EPS (Reported)	8.10	5.77	4.80	7.63	8.25	8.91
Group embedded value/share (HK\$)	72.65	76.34	77.89	82.94	91.78	101.71
VNB/share (HK\$)	2.71	2.07	1.58	1.75	1.93	2.12
No. of shares basic	18,280	18,280	18,280	18,280	18,280	18,280
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Return on equity (ROE)	18.2%	12.2%	9.2%	15.4%	15.0%	14.7%
Return on asset (ROA)	1.5%	1.0%	0.8%	1.1%	1.1%	1.1%
VNB margin (FYP/APE basis)	31.4%	25.3%	20.7%	20.7%	20.9%	21.0%
Combined ratio	99.2%	97.6%	99.7%	99.9%	99.9%	99.9%
Loss ratio	60.5%	67.1%	69.8%	70.1%	70.1%	70.1%
Expense ratio	38.6%	30.5%	29.8%	29.8%	29.8%	29.8%
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/EV	0.6	0.6	0.6	0.5	0.5	0.4
P/B	1.1	1.0	1.0	0.9	0.8	0.7
Div yield (%)	5.0	5.4	5.5	5.9	6.4	6.9
Div payout (%)	28.0	42.4	52.3	35.0	35.0	35.0

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

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