

PICC P&C (2328 HK)

Mixed underwriting results

The Company released 1H19 results. Overall speaking, result was mixed with disappointing underwriting performance as we've pointed out in previous notes, offset by improving investment income and tax savings. GWP increased 15.1% YoY to RMB 236bn (representing 56% of our full-year forecast), outperforming market growth and nudging the Company's market share to 35.1%. Benefitting from tax credit, net profit increased 39.1% YoY to RMB 16.8bn.

- Result positives. 1) Non-motor insurance surged.** Motor vehicle insurance increased 4.1% YoY to RMB 127bn, in line with our full-year forecast. GWP from non-motor insurance increased 31.4% YoY, higher than our full-year forecast of 20% growth, to 108.5bn. Non-motor insurance accounted for 46% of total GWP, up 5.7ppt YoY. The fastest growing non-motor insurance products include credit and surety insurance (+115% YoY), accidental injury and health insurance (+41% YoY), and liability insurance (+32%).
 2) Equity investment gains. Realized gains and fair value gains was RMB 818mn (vs. net loss of RMB 201mn in 1H18).
 3) Tax credit was RMB 1.65bn (vs. tax expense of RMB 4.77bn in 1H18) due to implementation of new tax-deduction policies.
- Underwriting margin shrank.** Both motor and non-motor insurance experienced underwriting margin pressure. Underwriting profit declined to RMB 4.34bn, from RMB 6.76bn in 1H18. Combined ratio rose 1.7ppt YoY to 97.6%.
 1) Loss ratio rose 3.6ppt. Due to impacts of natural disasters such as windstorm and rainstorm and epidemics such as African swine fever, loss ratio of agriculture insurance rose 13.1ppt YoY to 75.9%.
 2) Expense ratio improved 2.0ppt YoY, of which expense ratio of motor vehicle insurance improved 1.6ppt to 36.5%.
- A&H insurance boosted topline growth...** Benefitting from policy incentives (《关于做好2019年城乡居民基本医疗保障工作的通知》), A&H insurance increased 41.0% YoY to RMB 40.9bn, representing 38% of non-motor insurance business.
 ...but weighed on underwriting performance. Loss ratio of A&H insurance was 88.0%, down 3.1ppt YoY. Expense ratio of A&H insurance was 13.5%, rose 3.3ppt YoY. A&H insurance was 101.5%, leaving it the only major type of products incurring underwriting loss. The Company likely seized opportunities of the critical illness insurance market at the expense of short-term underwriting losses.
- Lift TP to HK\$ 9.64. Maintain HOLD.** We revise 2019E GWP estimate up 3.1% to reflect higher-than-expected non-motor insurance growth, and adjust 2019E net profit up 57.6% to factor in equity investment gains and tax credit. The Company is currently trading at 1.0x 2019E P/B, lower than historical average. Our TP corresponds to 1.1x 2019E P/B, which is 5-year historical average less one standard deviation. Upside potential is 8.57%. Maintain HOLD.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premiums (RMB mn)	350,314	388,769	438,085	475,525	509,009
Underwriting profit (RMB mn)	8,705	5,304	8,434	10,151	10,932
Net profit (RMB mn)	19,807	16,222	28,329	24,803	27,394
EPS (RMB)	1.336	0.729	1.274	1.115	1.232
EPS CHG (%)	9.92	-45.40	74.63	-12.45	10.45
PER (x)	5.96	10.92	6.25	7.14	6.47
PBR (x)	0.89	1.25	1.03	0.96	0.88
Yield (%)	4.24	3.41	5.96	5.22	5.77
ROE (%)	15.69	11.81	18.09	13.93	14.24

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$9.64
(Previous TP)	HK\$9.19)
Up/Downside	+8.57%
Current Price	HK\$8.88

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Stock Data

Mkt Cap (HK\$ mn)	197,516
Avg 3 mths t/o (HK\$ mn)	289
52w High/Low (HK\$)	10.08/7.31
Total Issued Shares (mn)	22,242

Source: Bloomberg

Shareholding Structure

PICC Group	68.98%
Free float	31.02%

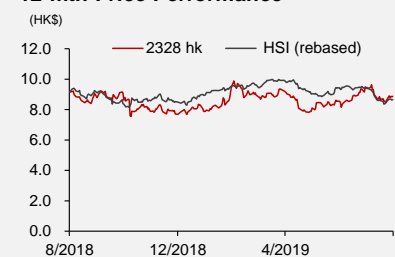
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.5%	1.6%
3-mth	12.7%	17.4%
6-mth	-5.8%	3.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- "2018 results missed; cautious on expense ratio outlook" – 25 Mar 2019
- "Solid underwriting performance; expect auto insurance fee rate to decline" – 28 Aug 2018
- "Undervalued leading P&C insurance company" – 24 May 2018

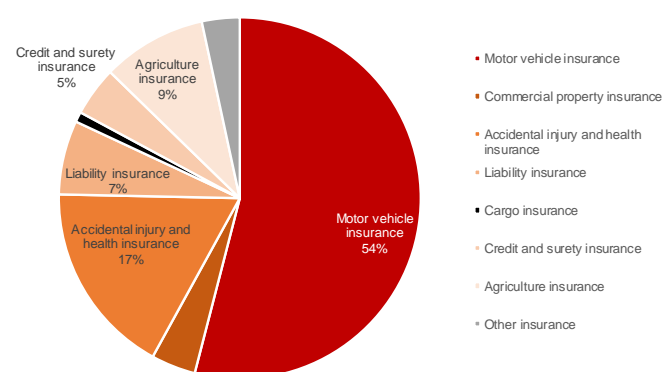
Focus charts

Figure 1: 1H19 results

RMB mn	1H19	1H18	YoY
GROSS WRITTEN PREMIUMS	236,036	205,041	15.1%
Net earned premiums	180,188	168,834	6.7%
Net claims incurred	(116,654)	(103,269)	13.0%
Net policy acquisition costs	(37,594)	(44,508)	-15.5%
Other underwriting expenses	(16,951)	(10,071)	68.3%
Administrative expenses	(4,650)	(4,228)	10.0%
UNDERWRITING PROFIT	4,339	6,758	-35.8%
Investment income	8,728	8,782	-0.6%
Net realised and unrealised gains	818	(201)	NA
Investment related expenses	(162)	(165)	-1.8%
Interest expenses to policyholders	0	(1)	NA
Exchange gains/(losses), net	3	88	-96.6%
Other income, net	325	340	-4.4%
Finance costs	(991)	(1,093)	-9.3%
Share of profits of associates	2,109	2,348	-10.2%
PROFIT BEFORE TAX	15,169	16,856	-10.0%
Income tax credit/(expense)	1,652	(4,765)	NA
PROFIT FOR THE YEAR	16,821	12,091	39.1%
Non-controlling interest	0	(1)	NA
NET PROFIT	16,821	12,090	39.1%

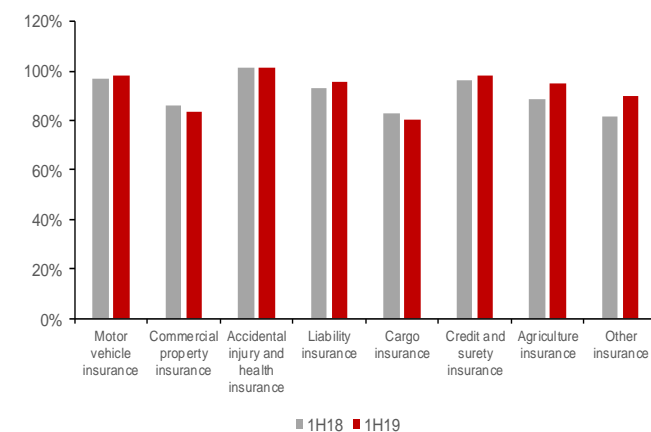
Source: Company data, CMBIS

Figure 2: GWP by products



Source: Company data, CMBIS

Figure 3: Combined ratio by products



Source: Company data, CMBIS

Figure 4: Earnings revision

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Gross written premiums	438,085	475,525	509,009	425,098	460,591	492,581	3.1%	3.2%	3.3%
Net earned premiums	350,255	421,548	453,971	378,643	411,546	442,119	-7.5%	2.4%	2.7%
Net claims incurred	226,756	272,911	293,902	233,186	253,450	272,278	-2.8%	7.7%	7.9%
Total expenses	115,065	138,486	149,138	139,470	151,589	162,851	-17.5%	-8.6%	-8.4%
Net profit	28,329	24,803	27,394	17,976	19,588	20,977	57.6%	26.6%	30.6%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
GROSS WRITTEN PREMIUMS	350,314	388,769	438,085	475,525	509,009
Motor vehicle insurance	249,232	258,904	269,260	281,377	295,446
Non-auto insurance	101,082	129,865	168,825	194,148	213,563
Net earned premiums	309,076	344,124	350,255	421,548	453,971
Net claims incurred	(192,520)	(213,303)	(226,756)	(272,911)	(293,902)
Net policy acquisition costs	(74,348)	(90,508)	(82,971)	(99,860)	(107,540)
Other underwriting expenses	(24,939)	(26,820)	(24,587)	(29,591)	(31,867)
Administrative expenses	(8,564)	(8,189)	(7,507)	(9,035)	(9,730)
UNDERWRITING PROFIT	8,705	5,304	8,434	10,151	10,932
Investment income	15,382	16,635	17,826	19,784	22,282
Net realised and unrealised gains	1,136	(1,226)	1,636	500	500
Finance costs	(1,998)	(2,074)	(2,020)	(1,830)	(1,830)
Share of profits of associates	4,575	3,745	4,537	4,763	5,002
Other income and expenses	(150)	2,195	482	103	42
PROFIT BEFORE TAX	27,161	24,165	30,495	33,072	36,527
Income tax expense	(7,353)	(7,942)	(2,165)	(8,268)	(9,132)
Non-controlling interest	(1)	(1)	(1)	(1)	(1)
NET PROFIT	19,807	16,222	28,329	24,803	27,394

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Growth rates (%)					
GROSS WRITTEN PREMIUMS	12.6	11.0	12.7	8.5	7.0
Motor vehicle insurance	10.5	3.9	4.0	4.5	5.0
Non-auto insurance	18.2	28.5	30.0	15.0	10.0
NET PROFIT	9.9	(18.1)	74.6	(12.4)	10.4
Underwriting (%)					
Loss ratio	62.3	62.0	64.7	64.7	64.7
Expense ratio	34.9	36.5	32.9	32.9	32.9
Combined ratio	97.2	98.5	97.6	97.6	97.6
Solvency (%)					
Core solvency margin ratio	229	229	253	255	260
Comprehensive solvency margin ratio	278	275	295	293	296
Returns (%)					
ROE	14.9	11.5	16.5	13.5	13.7
ROA	4.0	3.0	4.7	3.6	3.7

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Investment assets	415,508	434,222	448,327	531,151	572,003
Other assets	109,058	116,397	198,495	183,681	175,753
TOTAL ASSETS	524,566	550,619	646,822	714,832	747,756
Insurance contract liabilities	264,748	275,781	335,178	355,169	373,620
Other liabilities	126,704	133,335	139,899	175,353	173,563
TOTAL LIABILITIES	391,452	409,116	475,077	530,522	547,184
Issued capital	14,828	22,242	22,242	22,242	22,242
Reserves	118,279	119,253	149,494	162,060	178,322
Shareholders' equity	133,107	141,495	171,736	184,302	200,564
Non-controlling interests	7	8	8	8	8
Capital supplementary bonds	-	-	-	-	-
TOTAL EQUITY	133,114	141,503	171,744	184,310	200,572

Per share data (RMB)

	FY17A	FY18A	FY19E	FY20E	FY21E
EPS	1.34	0.73	1.27	1.12	1.23
DPS	0.34	0.27	0.48	0.42	0.46
BVPS	8.98	6.36	7.72	8.29	9.02

Source: Company data, CMBIS estimates

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