

CPIC (2601 HK)

3Q NBV growth accelerated; expect par sales to outgrow

CPIC released 3Q results with NPAT up 65.5% YoY to RMB38.3bn, at mid-point of announced profit alert ([link](#)) to rise by 60%-70%. 3Q NPAT grew 173.6% YoY to RMB13.2bn, driven by a surge in investment income and net fair value gains on top of a low base in 3Q23. Headline NBV rose 37.9% YoY to RMB14.2bn in 9M24, translating to the 3Q NBV on a like-for-like basis surged 75.3% YoY to RMB5.2bn. In 1Q-3Q24, we see accelerated growth of +30.7%/+13.5%/+75.3% YoY from the insurer's quarterly NBV. The exceptional NBV increase in 3Q was resulted from 1) consistent margin expansions driven by increasing par product sales and channel optimization, where NBV margin grew 6.2pct YoY to 20.1% in 9M24; 2) regular-paid new business sales (FYRP) recovered, with par sales doubled both in terms of NBV and FYRP in 3Q24, per mgmt. P&C CoR stayed flat at 98.7%, dragged by heightened catastrophic losses, which adversely affected commercial property, engineering and agriculture insurance. The mgmt. mentioned in call that 3Q catastrophic losses worsened the CoR by 3.0pct. **We revise up FY24-26E EPS forecasts by 29%/6%/3% to RMB4.45/3.93/4.25 ([table](#)) and raise the 12-month forward TP based on SOTP to HK\$35.5 ([table](#)), implying 0.5x FY24E P/Group EV (prev. 0.4x) and 1.1x FY24E P/BV (prev. 0.9x). We expect headline NBV to rise 37% YoY, and NPAT/OPAT growth at 57%/3% YoY in FY24. Maintain BUY.**

■ **Life NBV growth accelerated in 3Q24.** Headline NBV grew 37.9% YoY to RMB14.2bn in 9M24, with an increase on a like-for-like basis to be even higher. In 3Q, NBV surged 75.3% YoY to RMB5.2bn, driven by both margin expansions (+6.2pct) and rebounded regular-paid new sales (+15.2%). We estimate the NBV margin rose to 23.0% in 3Q24 (vs 9M24: 20.1%), +5.9pct YoY/ +15.0 pct QoQ. We attribute this margin expansion to: 1) elevated sales on floating interest rate products, i.e. participating and universal policies, which were supported by front-loaded demands before the PIR cut in Sep/Oct; and 2) strengthened regular-paid new sales, given evident FYRP increases in both agency (9M24: +12.4%/3Q24: +37%) and bancassurance (9M24: +23.2%). Total FYRP surged 1.38x YoY to RMB18.5bn in 3Q24, leading to a FYP rebound by +15% YoY (vs 2Q24: -29%). We expect full-year NBV to sustain the solid growth trend by +37% YoY (CMBI est), thanks to improved underwriting structure and more efficient channel mix.

■ **Expect strong par sales momentum extending to FY25 jumpstart.** According to mgmt., participating policy sales gained traction in Sep, prior to the settlement rate cut from 2.5% to 2.0% in Oct. Par FYRP doubled to RMB 800mn in 3Q24 (vs 1H24: c.RMB400mn), and increased another c.RMB400mn by end Oct. Per mgmt., we estimate the FYRP from participating product sales amounted to c.RMB1.6bn YTD, representing a substantial rise versus <RMB 100mn in 9M23. Looking ahead, upon completion of par products design for the FY25 jumpstart sales, we expect to see a continued uplift from par NBV and FYRP in 4Q24/FY25.

■ **Investment income boosted by net fair value gains.** The insurer held c.2.0% of total investment assets in insurance funds to FVOCI stocks, lower than that of FVTPL stocks and equity funds, proportioning to 7.1%/2.2% by 1H24. Net/total investment yield landed at 3.9%/6.3% in 9M24 (*annualized*), -0.1pct/+3.1pct YoY driven by 3Q equity market rally. Given a prospect of increasing high-yield stocks under FVOCI, we expect the insurer to benefit from a more stable net investment income. 3Q net fair value gains were RMB21.2bn (vs 3Q23: a net loss of 7.25bn).

■ **Valuation:** The stock is now trading at 0.4x FY24E P/EV and 0.9x FY24E P/BV, +1.7/+1.8STD above 3-year historical avg. **We revise up FY24-26E EPS forecasts by 29%/6%/3% to RMB4.45/3.93/4.25**, given a more certain outlook for full-year profitability and NBV growth, on top of improved underwriting channel and product mix. **Maintain BUY. We raise 12M-forward TP to HK\$35.5 ([table](#)), implying 0.5x FY24E P/EV (prev. 0.4x) and 1.1x FY24E P/BV (prev. 0.9x).**

BUY (Maintain)

Target Price **HK\$35.50**
(Previous TP) **HK\$28.30**
Up/Downside **31.2%**
Current Price **HK\$27.05**

China Insurance

Nika MA
(852) 3900 0805
nikama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	260,230.2
Avg 3 mths t/o (HK\$ mn)	458.9
52w High/Low (HK\$)	33.15/12.92
Total Issued Shares (mn)	9620.3

Source: FactSet

Shareholding Structure

Schroders PLC	8.0%
Shanghai International Group	7.2%

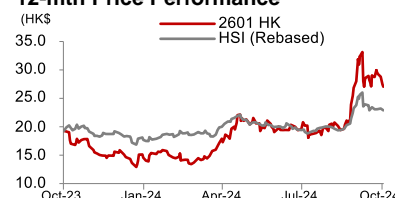
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.4%	0.5%
3-mth	30.0%	11.0%
6-mth	56.5%	36.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PwC

Related reports:

- CPIC (2601 HK) - Steam ahead with doubled 2Q net profit and strong NBV uptrend; revise up TP, Sep 5, 2024 ([link](#))
- CPIC (2601 HK) - VNB growth accelerated; NP turned positive YoY, May 6, 2024 ([link](#))
- PICC P&C (2328 HK) - 3Q CoR miss dragged by non-auto claims, Oct 31, 2024 ([link](#))
- Ping An (2318 HK) - Robust 3Q doubled in NBV and earnings growth, Oct 23, 2024 ([link](#))
- China Insurance - 9M24 Monthly: Life growth normalized with highlights; P&C expected to see better UW profit, Oct 21, 2024 ([link](#))

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	38,222	27,911	43,585	38,479	41,615
EPS (Reported)(RMB)	2.56	2.83	4.45	3.93	4.25
Consensus EPS (RMB)	n.a	n.a	4.35	3.93	4.19
P/B (x)	1.0	1.0	0.9	0.8	0.7
P/Embedded value (x)	0.5	0.5	0.4	0.4	0.4
Dividend yield (%)	4.1	4.1	4.2	4.4	4.5
ROE (%)	12.6	12.2	16.2	13.0	12.9

Source: Company data, Bloomberg, CMBIGM estimates | Note: stock price data quoted by market close on 31/10/2024.

Changes in key forecast

(RMB bn, %)	Current			Previous			Change (% , pct)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
EPS	4.45	3.93	4.25	3.45	3.70	4.11	29.0%	6.3%	3.4%
Group NPAT	42.80	37.81	40.86	33.17	35.58	39.51	29.0%	6.3%	3.4%
NBV	14.99	16.15	17.42	12.83	13.56	14.40	16.8%	19.0%	21.0%
NBV margin (FYP basis)	19.9%	20.0%	20.1%	16.3%	16.2%	16.2%	3.6pct	3.8pct	3.9pct
Group EV	611.43	635.53	656.10	579.57	612.40	647.91	5.5%	3.8%	1.3%
ROE	16.2%	13.0%	12.9%	12.6%	12.2%	12.1%	3.6pct	0.9pct	0.8pct
Operating RoEV	12.3%	11.3%	11.2%	11.6%	10.9%	10.9%	0.7pct	0.4pct	0.3pct
CoR	97.5%	97.4%	97.3%	97.4%	97.4%	97.4%	0.1pct	0.0pct	-0.1pct

Source: CMBIGM estimates

Valuation based on SOTP

Life Operating ROEV (fwd.3-year avg)	11.6%
P&C ROE (fwd.3-year avg)	14.0%
Terminal growth (%)	3.0%
Long-term investment return	4.0%
No. of shares outstanding (mn)	9,620
CNY/HKD assumption	1.09

(RMB mn, %)	Forward EV/BV	Ownership (%)	2601.HK
FY24E L&H Embedded value, unadjusted	472,842		
Adjustment reflecting risk discount rate change	(163,125)		
Adjustment reflecting investment return change	(54,084)		
FY24E L&H Embedded value, adjusted	255,633	98.29%	251,262
PV(Total VNB)			9,366
Target valuation (RMB mn), appraisal value			260,628
Implied P/EV (x)			0.55x
FY24E P&C Shareholders' equity	66,249	100.00%	66,249
Target P/B (x)			0.76x
Target valuation (RMB mn)			50,270
Group Co. and others	36,875	100.00%	36,875
Target P/B (x)			1.00x
Target valuation (RMB mn)			36,875
Total valuation			347,772
Conglomerate discount (%)			10.0%
Target price (HK\$)			35.50
Implied P/BV (x)			1.12x
Implied P/Group EV (x)			0.51x
Implied P/OPAT (x)			7.63x

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		249,745	266,167	279,616	298,338	318,898
Insurance service expenses		(213,988)	(231,023)	(241,112)	(256,709)	(273,423)
Net expenses from reinsurance contracts held		(2,818)	(1,439)	(1,154)	(1,437)	(1,550)
Insurance service results		32,939	33,705	37,350	40,192	43,925
Net finance (expenses)/income from insurance contracts		(58,074)	(46,741)	(99,447)	(72,114)	(79,427)
Net finance (expenses)/income from reinsurance contracts		1,108	1,174	1,036	0	0
Interest income		0	58,262	57,688	59,967	63,150
Net investment income		77,048	(4,273)	63,724	26,615	31,673
Other gains/(losses) from changes in fair value		24	23	1	0	0
Net investment results		20,106	8,445	23,001	14,468	15,395
Other income		3,984	4,129	4,073	4,183	4,375
Other expenses		(16,032)	(14,051)	(16,606)	(14,460)	(15,629)
Foreign exchange gains/losses		1,085	159	26	0	0
Other results		(10,963)	(9,763)	(12,507)	(10,277)	(11,254)
Profit before tax		42,483	32,001	47,162	43,954	47,633
Income taxes		(4,261)	(4,090)	(3,577)	(5,476)	(6,018)
Net profit		38,222	27,911	43,585	38,479	41,615
Net profit attributable to shareholders		37,381	27,257	42,800	37,809	40,856

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions	211,375	219,097	172,606	184,119	203,184	228,511
Investments in associates and joint ventures	26,984	25,829	23,184	23,990	26,474	29,774
Property	19,218	19,756	21,384	21,169	20,955	20,744
Investment property	7,514	11,202	10,667	10,767	11,882	13,363
Insurance contract assets	245	305	335	0	0	0
Reinsurance contract assets	31,983	33,205	39,754	42,913	49,406	56,987
Financial investments:	1,479,035	1,672,821	2,009,336	2,192,963	2,420,031	2,721,698
At amortized cost:	0	0	82,334	69,988	77,234	86,862
At fair value through other comprehensive income:	1,466,682	1,646,261	1,345,400	1,519,947	1,677,328	1,886,414
At fair value through profit or loss:	12,353	26,560	581,602	603,029	665,469	748,422
Other assets	26,674	34,849	32,433	85,436	201,959	392,843
Cash and cash equivalents	45,977	54,272	34,263	66,936	73,867	83,074
Total assets	1,849,005	2,071,336	2,343,962	2,628,293	3,007,757	3,546,994
LIABILITIES						
Customer deposits and payables to brokerage customers	3,695	4,639	5,861	7,585	9,599	12,041
Insurance contract liabilities	1,486,435	1,664,848	1,872,620	2,117,820	2,438,241	2,812,376
Obligations under repurchase agreements	73,441	119,665	115,819	98,766	100,751	102,776
Bonds payable	9,995	9,999	10,285	10,102	10,102	10,102
Other liabilities	75,932	69,704	71,673	87,146	118,124	243,806
Total liabilities	1,650,242	1,869,664	2,076,258	2,321,419	2,676,817	3,181,101
EQUITIES						
Share capital	9,620	9,620	9,620	9,620	9,620	9,620
Reserves	114,932	94,269	118,518	115,311	108,834	111,402
Retained profits	69,046	92,588	121,448	154,280	181,988	211,246
Total shareholders' equity	193,598	196,477	249,586	279,211	300,442	332,268
Non-controlling interests	5,165	5,195	18,118	27,663	30,499	33,625
Total equity	198,763	201,672	267,704	306,874	330,941	365,893
Total liabilities & equity	1,849,005	2,071,336	2,343,962	2,628,293	3,007,757	3,546,994

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	1.00	1.02	1.02	1.05	1.08	1.12
EPS (Reported)	2.79	2.56	2.83	4.45	3.93	4.25
Consensus EPS	n.a	n.a	n.a	4.35	3.93	4.19
No. of shares basic	9,620	9,620	9,620	9,620	9,620	9,620
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Return on equity (ROE)	13.1%	12.6%	12.2%	16.2%	13.0%	12.9%
Combined ratio	99.0%	97.0%	97.7%	97.5%	97.4%	97.3%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)	0.5	0.5	0.5	0.4	0.4	0.4
P/B (x)	1.1	1.0	1.0	0.9	0.8	0.7
Dividend yield (%)	4.0	4.1	4.1	4.2	4.4	4.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: stock price data quoted by market close on 31/10/2024.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.