

Prudential Plc. (2378 HK)

HK NBP more than doubled in 1Q23

Prudential PLC reported 30%/26% YoY growth of NBP (new business profit) in 1Q23 on constant/actual FX (CER/AER) basis, driven by 35%/29% YoY growth of APE (annualized premium equivalent). If excluded the effect of economic assumption changes (i.e. interest rates movement), 1Q23 NBP growth would reach 43%/39% YoY on CER/AER basis. In terms of geographic breakdowns, the insurer recorded double-digit NBP growth across 10 markets in Asia, incl. HK/China, Thailand and the Philippines. Looking forward, we expect strong new business momentum to sustain into 2023, given that: 1) MCV (mainland visitors) business in HK continued to drive growth since China's reopening in Feb 2023, which will enhance the uptick throughout 2Q-4Q23 sequentially in our view; 2) recovery of demands for life insurance in mainland China boosted value creation of local agency; and 3) rebound in ASEAN markets as their local economy recovered post pandemic. We raise VNB forecast of FY23E-25E by 7-10%. Reiterate BUY.

■ Diversified growth drivers in Asia along with strong comeback of MCVs.

Fuelled by the returning traffic boom of mainland visitors, Pru's APE sales in HK rose by 299% YoY in 1Q23, leading the insurer's NBP growth doubled by 106% YoY. In mainland market, CITIC-Prudential Life (CPL), a JV of Pru, recorded positive growth in NBP, given its focus shift to enhanced agency and product mix upgrade. In ASEAN markets, operations in Indonesia, Thailand and the Philippines reported strong NBP growth, as well as in India, ICICI Prudential Life, reported double-digit growth in APE and NBP by 1Q23.

■ Limited exposure to the US/EU banking crisis. We would like to highlight Pru's exposure on corporate debts to the US banking sector amounted to US\$1.1bn by end FY22, equivalent to less than 3% of its total EEV or, in another measure, 6.5% of its total book value. Besides, the exposure to the EU banking sector was even trivial. Traced back to the stock price volatility post banking liquidity crisis in March, we regard the market sell-offs back then concerning the insurer's asset impairments as pretty much an overreaction.

■ Valuation: The stock is now trading at 0.9x P/EV FY24E and 2.0x P/BV FY24E, close to each 2-yr historical average as shown in Fig.1 & 2. We believe the rally in HK MCV business will buttress the base of the insurer's NBP acceleration into 2Q-4Q23. With mass-affluent market opportunities to be further tapped in Asia, we look positive on the tipping points resulted in new business growth, particularly in key operating markets, given their fundamental support to the Company's long-run stock price performance. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (US\$ mn)	2,985	998	3,152	3,966	4,637
EPS (Reported)(US\$)	(0.78)	0.36	1.15	1.44	1.69
Consensus EPS (US\$)	na	na	1.13	1.32	1.47
VNB/share (US\$)	0.96	0.80	1.03	1.24	1.51
Group embedded value / share (US\$)	17.24	15.34	16.41	17.43	18.65
Net Premium Earned (US\$ mn)	22,373	21,401	27,912	32,700	38,387
NPE YoY growth (%)	2.3	(4.3)	30.4	17.2	17.4
P/B (x)	2.4	2.4	2.2	2.0	1.8
P/Embedded value (x)	0.9	1.0	0.9	0.9	0.8
Dividend yield (%)	1.2	1.3	3.9	5.0	5.8
ROE (%)	(10.8)	5.9	17.8	20.4	21.5

Source: Company data, Bloomberg, CMBIGM estimates | Note: the stock price is quoted by market close at 4:00pm on 28/4/2023.

BUY (Maintain)

Target Price **HK\$143.00**

(Previous TP **HK\$143.00**)

Up/Downside **21.5%**

Current Price **HK\$117.70**

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Stock Data

Mkt Cap (HK\$ mn)	323,557.3
Avg 3 mths t/o (HK\$ mn)	21.7
52w High/Low (HK\$)	134.80/68.75
Total Issued Shares (mn)	2749.0

Source: FactSet

Shareholding Structure

BlackRock	8.5%
Vanguard	5.6%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	18.8%	18.2%
3-mth	-12.7%	-0.4%
6-mth	65.7%	23.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

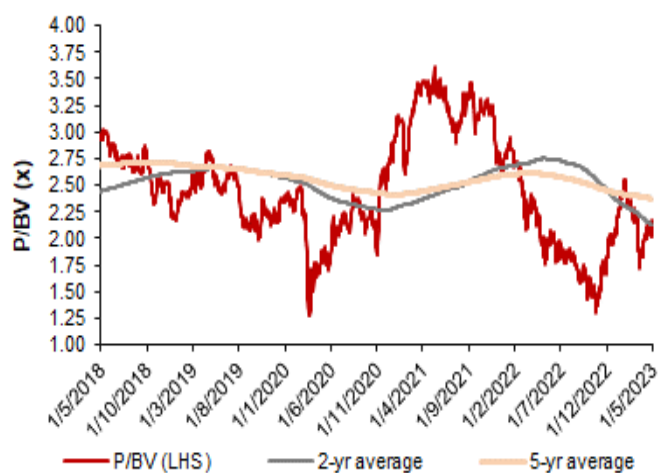
Auditor: KPMG LLP

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1. Prudential PLC(2378 HK) - Asia-focus leading player; border-reopening tailwinds in 2023 ([link](#))
2. Prudential PLC (2378 HK) - Strong new biz momentum from China JV ([link](#))
3. Prudential PLC (2378 HK) - 15% APE growth in 2M23; Minimal exposure to US banking sector ([link](#))

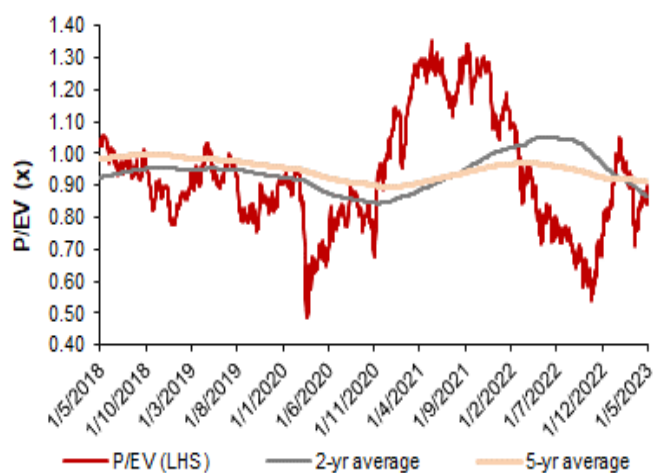
Valuation: 12M forward P/BV and P/EV vs 2-yr / 5-yr historical avg.

Fig. 1: Pru's 12M forward P/BV vs 2-yr / 5-yr historical avg.



Source: Company data, CMBIGM | Note: the company stock price is quoted by market close at 4:00pm on 28/4/2023.

Fig. 2: Pru's 12M forward P/EV vs 2-yr / 5-yr historical avg.



Source: Company data, CMBIGM | Note: the company stock price is quoted by market close at 4:00pm on 28/4/2023.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Total income	36,247	26,500	(8,219)	31,525	36,434	42,618
Premiums written (gross)	23,495	24,217	23,344	30,339	35,544	41,725
Premiums earned (net)	21,870	22,373	21,401	27,912	32,700	38,387
Investment income	13,762	3,486	(30,159)	3,212	3,264	3,680
Other operating income	615	641	539	401	470	551
Losses	(33,585)	(23,834)	9,672	(27,339)	(31,163)	(36,452)
Selling	(2,880)	(2,976)	(2,082)	(7,892)	(9,119)	(10,609)
Underwriting & commissions	(30,359)	(20,495)	11,899	(19,248)	(21,846)	(25,644)
Other operating expense	(346)	(363)	(145)	(199)	(199)	(199)
Operating income before interest expense	2,662	2,666	1,453	4,186	5,271	6,166
Operating income after interest expense	2,662	2,666	1,453	4,186	5,271	6,166
Equity in affiliates (pretax)	517	352	29	29	29	29
Pretax income	3,179	3,018	1,482	4,215	5,300	6,195
Income taxes	(711)	(804)	(475)	(1,054)	(1,325)	(1,549)
Consolidated net income	2,468	2,214	1,007	3,161	3,975	4,646
Minority interest	(67)	771	(9)	(9)	(9)	(9)
Net income	2,401	2,985	998	3,152	3,966	4,637
Discontinued operations	(283)	(5,027)	0	0	0	0
Net income available to common	2,118	(2,042)	998	3,152	3,966	4,637

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Assets						
Cash & short-term Investments	8,018	7,170	5,514	6,186	6,955	7,858
Investments	1,962	2,183	1,915	2,107	2,317	2,549
Total fixed income securities investment	144,299	106,397	85,800	96,256	108,221	122,271
Total equity securities investment	278,635	61,601	57,679	64,708	72,751	82,196
Real estate assets	916	516	456	502	554	610
Other investments	4,466	481	569	638	718	811
Differed tax assets	4,858	266	310	341	375	413
Intangible assets	20,345	6,858	7,155	7,724	8,377	9,142
Goodwill	961	907	890	890	890	890
Other assets	51,637	12,723	5,654	6,219	6,841	7,525
Total assets	516,097	199,102	165,942	185,572	207,999	234,265

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
Liabilities & shareholders' equity						
Insurance policy liabilities	436,787	150,755	121,213	137,960	156,927	179,191
ST debt & current. portion LT debt	15,651	12,208	8,738	9,471	10,308	11,269
Long-term debt	9,559	7,250	6,077	6,177	6,287	6,408
Provision for risks & charges	350	372	348	383	421	463
Deferred tax liabilities	6,075	2,862	2,872	3,159	3,475	3,823
Other liabilities	25,556	8,391	9,567	9,743	9,949	10,198
Total liabilities	493,978	181,838	148,815	166,893	187,368	211,352
Common stock/ordinary capital	173	182	182	182	182	182
Capital surplus	2,637	5,010	5,006	5,006	5,006	5,006
Retained earnings	14,424	10,216	10,810	12,337	14,260	16,509
Equity reserves	3,644	1,680	962	962	962	962
Revaluation reserves	0	0	0	0	0	0
Total shareholders' equity	20,878	17,088	16,960	18,487	20,410	22,659
Minority interest	1,241	176	167	192	221	254
Total equity	22,119	17,264	17,127	18,679	20,631	22,913
Total liabilities & shareholders' equity	516,097	199,102	165,942	185,572	207,999	234,265

PER SHARE DATA	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
DPS	0.16	0.18	0.19	0.59	0.74	0.87
EPS (Reported)	0.82	(0.78)	0.36	1.15	1.44	1.69
Consensus EPS	na	na	na	1.13	1.32	1.47
Group embedded value/share (HK\$)	20.70	17.24	15.34	16.41	17.43	18.65
VNB/share (HK\$)	0.85	0.96	0.80	1.03	1.24	1.51
No. of shares basic	2,609	2,746	2,750	2,750	2,750	2,750
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Return on equity (ROE)	10.5%	(10.8%)	5.9%	17.8%	20.4%	21.5%
Return on asset (ROA)	0.4%	(0.6%)	0.5%	1.8%	2.0%	2.1%
Return on life embedded Value	(1.3%)	(13.1%)	(12.0%)	6.7%	6.0%	6.8%
VNB margin (FYP APE basis)	57.8%	60.2%	49.7%	50.2%	51.5%	53.5%
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/EV	0.7	0.9	1.0	0.9	0.9	0.8
P/B	1.9	2.4	2.4	2.2	2.0	1.8
Dividend yield (%)	1.1	1.2	1.3	3.9	5.0	5.8

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

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