

# Ping An (2318 HK)

## Robust 2019, challenges ahead

Ping An announced 2019 results on 20 Feb. Operating profit increased 18.1% YoY to RMB 132.9bn, after deducting short-term investment variances, impact of discount rate change and one-off items from profit. Life & health insurance NBV increased 5.1% YoY, while group embedded value increased 19.8% YoY.

- NBV: +5.1% YoY; accelerated in 4Q; margin expansion.** In 2019, NBV of Life & Health insurance increased 5.1% in 2019 to RMB 75.9bn, likely exceeding average of major peers. Growth accelerated to 6.9% YoY in 4Q (6.1%/3.2%/4.1%/6.9% in 1Q/2Q/3Q). Despite the fact that FYP declined 3.0%, NBV margin was up 3.6ppt YoY to 47.5% thanks to prioritization to high-protection, high-value products. Agent channel NBV margin reached 64.9%, up 7.8ppt YoY.
- Other result highlights. 1) Steady increase in operating profit (+18.1% YoY); 2) enhanced investment income** thanks to capital market recoveries. NII held stable at 5.2%, reflecting robust portfolio management under declining interest rate environment, whereas TII climbed 3.2ppt YoY to 6.9%; **3) Steady progress of tech business.** Revenue from technology business increased 27.1% YoY to RMB 82.1bn though operating profit decreased.
- Risks and negatives. 1) Performance of insurance agent team was mixed.** While NBV per agent and agent income rose, activity rate and size of the agent team declined (total # of agents was 1.17 million at YE19, down 18% from YE18). We believe the Company still faces difficulties retaining and cultivating its core agent team this year. **2) Compressing underwriting margin of P&C business,** though still ahead of major peers. The increase in combined ratio was mainly due to rising loss ratio of non-auto underwriting. **3) Asset management business units lagged behind,** posting shrinking operating profit; **4) dividend payout ratio** on basis of net profit declined to 25% (vs. 29.3% in 2018) though on operating profit basis, it was 28.1% (vs. 27.9% in 2018).
- Valuation.** We think the annual result was largely in line with market expectation. While some achievements are encouraging, other trends foreshadow challenges facing the new management team against multiple headwinds. The stock now trades at 1.2 2019A P/EV, much above insurance peers' average.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19A
Gross written premium (RMB mn)	605,035	719,556	795,064
Interest income from banking (RMB mn)	147,386	161,714	176,621
Total income (RMB mn)	974,570	1,082,146	1,273,091
YoY growth (%)	25.8	11.0	17.6
Net profit (RMB mn)	89,088	107,404	149,407
EPS (RMB)	4.99	6.02	8.41
YoY growth (%)	42.6	20.6	39.7
P/E (x)	16.4	13.6	9.8
P/B (x)	3.1	2.6	2.2
P/EV (x)	1.8	1.5	1.2
Yield (%)	1.8%	2.8%	2.5%
ROE (%)	20.8%	20.9%	24.3%

Source: Company data, CMBIS

**NOT RATED**

Current Price

HK\$ 91.60

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#### Stock Data

Mkt Cap (HK\$ mn)	1,681,943
Avg 3 mths t/o (HK\$ mn)	2,481
52w High/Low (HK\$)	101.00/ 78.10
Total Issued Shares (mn)	<b>7,488 (H)</b>
	10,833 (A)

Source: Bloomberg

#### Shareholding Structure

Charoen Pokphand Group	9.04%
Shenzhen Investment Holdings	5.27%

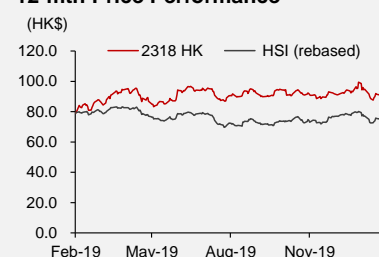
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-7.1%	-3.2%
3-mth	-0.3%	-2.9%
6-mth	1.2%	-3.9%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

#### Related Reports

- "Senior management change" – 28 Oct 2019
- "Steady growth in operating profit" – 19 Aug 2019
- "Looking for the next catalyst" – 14 Mar 2019

## Focus Charts

Figure 1: Results summary

RMB mn			
P&L	2018	2019	YoY
Gross written premiums	719,556	795,064	10.5%
Net earned premiums	677,703	748,779	10.5%
Reinsurance income	7,966	7,572	-4.9%
Reinsurance commission income	7,966	7,572	-4.9%
Interest income from banking operations	161,714	176,621	9.2%
Fees and commission income from non-insurance operations	46,277	54,800	18.4%
Interest revenue from non-banking operations	88,546	99,991	12.9%
Dividend income, realized & unrealized gains	31,974	101,747	218.2%
Share of profits from associates and JVs	18,074	23,224	28.5%
Other income	49,892	60,357	21.0%
<b>Total income</b>	<b>1,082,146</b>	<b>1,273,091</b>	<b>17.6%</b>
Claims and policyholders' benefits	(439,596)	(578,313)	31.6%
Commission expenses on insurance operations	(130,394)	(114,766)	-12.0%
Interest expenses on banking operations	(86,931)	(86,434)	-0.6%
Fees and commission expenses on non-insurance operations	(9,086)	(10,570)	16.3%
Net impairment losses on financial assets	(52,105)	(65,270)	25.3%
Other impairment losses on other assets	(1,709)	(1,996)	16.8%
Foreign exchange gains	(946)	779	-182.3%
General and administrative expenses	(151,581)	(177,164)	16.9%
Finance costs/Interest expenses on non-banking operations	(18,227)	(20,098)	10.3%
Other expenses	(28,420)	(34,520)	21.5%
<b>Total expenses</b>	<b>(918,995)</b>	<b>(1,088,352)</b>	<b>18.4%</b>
Pretax profit	163,151	184,739	13.2%
Income tax	(42,699)	(20,374)	-52.3%
Less: (Minorities)	(13,048)	(14,958)	14.6%
<b>Net profit attributable to shareholders</b>	<b>107,404</b>	<b>149,407</b>	<b>39.1%</b>
<b>Operating profit attributable to shareholders</b>	<b>112,573</b>	<b>132,955</b>	<b>18.1%</b>
<b>B/S</b>			
Total assets	7,142,960	8,222,929	15.1%
Total liabilities	6,459,317	7,370,559	14.1%
Shareholder equity	556,508	673,161	21.0%

Source: Company data, CMBIS

**Figure 2: Key operating metrics**

<b>Key metrics</b>	<b>2018</b>	<b>2019</b>	<b>YoY</b>
FYP used to calculate NBV (RMB bn)	165.4	160.5	-3.0%
New business value of L&H (RMB bn)	72.3	75.9	5.1%
P&C written premiums (RMB bn)	247.4	270.9	9.5%
- Auto insurance premiums (RMB bn)	181.8	194.3	6.9%
Combined ratio of P&C	96.00%	96.40%	+0.4ppt
Net investment yield of insurance funds	5.20%	5.20%	0.0ppt
Total investment yield of insurance funds	3.70%	6.90%	+3.2ppt
<b>Key metrics (end of period)</b>	<b>YE2018</b>	<b>YE2019</b>	<b>YoY</b>
# of life insurance agents ('000)	1,417	1,167	-17.7%
# of retail customers, group (million)	180.2	200.5	11.2%
Comprehensive solvency margin ratio - PA Life	231.6%	218.5%	+13.1ppt
Comprehensive solvency margin ratio - PA P&C	259.2%	223.8%	+35.4ppt

Source: Company data, CMBIS

**Figure 3: Breakdown of operating profit**

RMB mn			
<b>Operating profit</b>	<b>2018</b>	<b>2019</b>	<b>YoY</b>
L&H	70,320	88,054	25.2%
P&C	12,215	20,850	70.7%
Banking	14,394	16,342	13.5%
Asset management	12,871	9,594	-25.5%
Technology	6,770	3,487	-48.5%
Others and elimination	(3,996)	(5,372)	34.4%
<b>Total operating profit</b>	<b>112,574</b>	<b>132,955</b>	<b>18.1%</b>

Source: Company data, CMBIS

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