

China Pacific Insurance (2601 HK)

Investor day on P&C achievements

During CPIC's 2020 Investor Day event on 24 Sep, the Company presented transformation achievements of CPIC P/C and outlook on its P&C business development following the comprehensive auto insurance reform.

- Achievements in numbers.** Over the past few years, CPIC P/C has made steady progress in business growth and quality. Premium growth was above industry average, up 12.9%/12.3% in 2019/1H20. Underwriting margin also improved along with business expansion. Combined ratio has been falling since 2015 to 98.3% in 2019 and 1H20. Meanwhile, premium structure has become more balanced as a result of the Company's efforts to develop non-auto business lines. In 2019, non-auto contributed to 29.9% of P&C premium income. Across non-auto business lines, agricultural, guarantee and liability insurance all achieved quality growth in the past few years.
- Technology uplifted underwriting quality.** Wide application of technology has strengthened CPIC P/C's capability in risk management, underwriting approval, claim settlement and other business procedures. Around 40-70% of the decline in claim ratio was attributable to technology assistance.
- Outlook on auto insurance after the comprehensive reform.** Auto insurance premium growth and underwriting profitability may face some pressures, since auto insurance is a primary contributor to both premium and profit. However, the Company may be able to offset auto's slowdown with strong and quality growth of non-auto business lines. It will also explore opportunities to sell non-auto products to its auto insurance clients. Since the reform placed high requirements on insurers' capabilities, CPIC P/C may also enjoy competitive edge over peers in expense control, claim management and services.
- Maintain BUY.** The investor day event exposed us to past success as well as future blueprints of CPIC P/C. We think CPIC P/C will continue to strengthen its footing in P&C insurance market despite challenging market environment posed by the auto insurance reform. CPIC P/C's government business exposure will also contribute to the Group's health ecosystem establishment and service platform development. We maintain BUY with TP at HK\$33.22.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	321,895	347,517	356,778	380,643	403,874
YoY growth (%)	14.3	8.0	2.7	6.7	6.1
Total income (RMB mn)	353,103	382,682	395,351	417,409	441,433
Net profit (RMB mn)	18,019	27,741	28,175	32,364	33,599
EPS (RMB)	1.99	3.06	3.11	3.57	3.71
YoY Growth (%)	22.90	53.95	1.57	14.87	3.81
Consensus EPS (RMB)	N/A	N/A	2.83	3.10	3.47
P/B (x)	1.18	0.99	0.86	0.77	0.70
P/EV (x)	0.53	0.45	0.41	0.37	0.34
Yield (%)	5.12	6.15	6.24	7.17	7.45
ROE (%)	12.55	16.92	14.64	14.87	14.00

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$33.22
(Previous TP)	HK\$33.93
Up/Downside	+52.7%
Current Price	HK\$21.75

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	305,830
Avg 3 mths t/o (HK\$ mn)	395.76
52w High/Low (HK\$)	30.72/16.92
Total Issued Shares (mn)	2,775 (H)
	6,287 (A)

Source: Bloomberg

Shareholding Structure

Shenergy (Group)	14.64%
Fortune Investment	14.17%

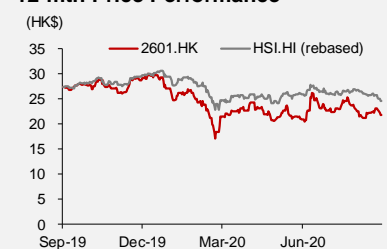
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.1%	2.0%
3-mth	3.1%	9.9%
6-mth	1.1%	2.4%

Source: Bloomberg

12-mth Price Performance



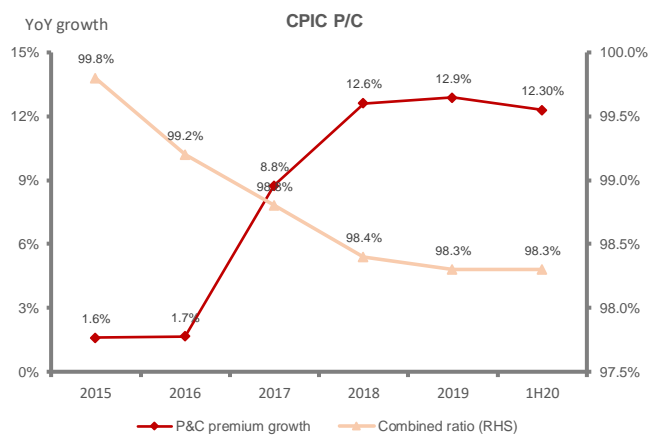
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Auditor: PwC

Related Reports

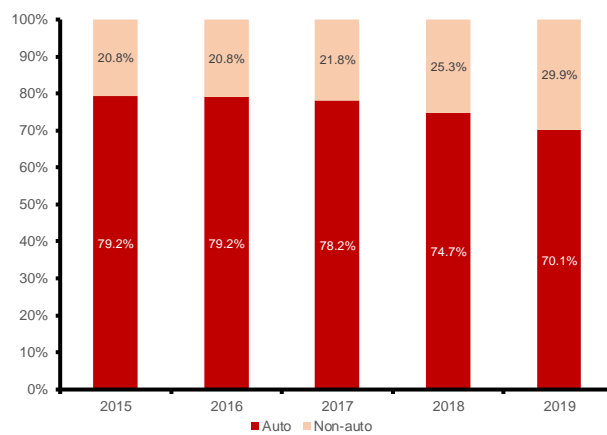
- "Steady increase in operating profit" - 25 Aug 2020
- "Prepared for headwinds" 23 Mar 2020
- "Margin priority may compensate FYRP decline" - 31 Oct 2019
- "Potential GDR unlocks global access" - 24 Sep 2019

Figure 1: CPIC P/C achieved double-digit premium growth in recent years, and combined ratio kept improving



Source: NBS, Wind, CMBIS

Figure 2: Breakdown of P&C premium: non-auto premium accounted for 29.9% of P&C premium income in 2019



Source: NBS, Wind, CMBIS

Financial Summary

Income						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Gross written premium	321,895	347,517	356,778	380,643	403,874	Group (%)					
Incl: Life GWP	202,414	212,514	214,915	224,530	233,501	Total GWP growth	14.3	8.0	2.7	6.7	6.1
P&C GWP	117,808	132,979	141,863	156,114	170,374	Total income growth	10.6	8.4	3.3	5.6	5.8
Net premiums earned	299,724	313,246	319,004	339,362	359,050	Net profit growth	22.9	54.0	1.6	14.9	3.8
Investment income	49,999	65,730	72,573	74,032	78,135	EV growth	17.5	17.8	8.9	9.9	-
Total income	353,103	382,682	395,351	417,409	441,433	Net investment yield	4.9	4.9	4.3	4.2	4.1
Insurance claims and reserves	(226,444)	(260,850)	(264,429)	(271,569)	(287,746)	Total investment yield	4.6	5.4	4.7	4.3	4.1
Other operating expenses	(98,986)	(94,360)	(95,888)	(102,278)	(108,470)	Investment assets growth	14.1	15.1	16.8	10.0	8.7
Total expenses	(325,430)	(355,210)	(360,317)	(373,847)	(396,216)	Life (%)					
Associates and JVs	335	494	519	545	572	GWP growth	15.3	5.0	1.1	4.5	4.0
Pre-tax profit	28,008	27,966	35,553	44,106	45,788	Agent FYRP growth	(9.7)	(22.4)	(23.5)	19.2	13.8
Income tax	(9,574)	388	(6,755)	(11,026)	(11,447)	NBV growth	1.5	(9.3)	(15.7)	20.6	15.3
Less: Minority interests	(415)	(613)	(623)	(715)	(742)	NBV margin (NBV/agent APE)	63.2	73.1	79.6	80.4	81.3
Net profit	18,019	27,741	28,175	32,364	33,599	Life comprehensive solvency	260.8	256.8	282.0	278.4	275.9
						P&C (%)					
						GWP growth	12.6	12.9	6.7	10.0	9.1
						Auto GWP/total P&C	74.7	70.1	66.4	63.3	60.3
						Loss ratio	56.3	60.2	59.5	59.3	59.2
						Expense ratio	42.1	38.1	39.2	39.0	39.0
						Combined ratio	98.4	98.3	98.7	98.3	98.2
						P&C comprehensive solvency	305.9	292.6	271.7	260.0	249.7
						Returns (%)					
						Life RoEV	24.7	23.1	14.2	14.5	14.5
						P&C ROE	10.0	16.6	14.2	14.1	13.3
						Per share					
						EPS (RMB)	1.99	3.06	3.11	3.57	3.71
						DPS (RMB)	1.00	1.20	1.22	1.40	1.45
						EVPS (RMB)	37.09	43.70	47.60	52.30	57.20
						BVPS (RMB)	16.51	19.69	22.77	25.26	27.70

Source: Company data, CMBIS estimates

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