

Ping An (2318 HK)

Senior mgmt change is positive to LT development

Ping An announced 9M19 results on 24 Oct. Operating profit after deducting short-term investment variances, impact of discount rate change and one-off items, increased 21.5% YoY. However, NBV growth missed previous guidance by the Company due to restructuring of life insurance business. The Company also announced changes of senior management to lay foundation for long-term development.

- **NBV guidance trimmed.** In 9M19, NBV increased 4.5% YoY to RMB 58.81bn (6.1%/3.2%/4.1% in 1Q/2Q/3Q, respectively). NBV growth fell short of the Company's guidance at interim briefing at >7.3%. Weaker-than-expected NBV growth was due to sluggish first-year premium growth (-7.0% YoY in 9M19), although NBV margin expanded 5.3ppt YoY to 48.1% in 9M19. Restructuring of life business, with respect to product mix upgrade and agent team management has weighed on life premium growth of the Company. As of 30 Sep 2019, agent headcount shrank 12.1%/3.2% from YE18 and 2Q19.
- **Result highlights.** 1) Steady increase of operating profit, which was up 21.5% YoY to RMB 104.1bn in 9M19, primarily driven by life & health insurance and P&C insurance business. 2) Investment of insurance funds achieved annualized net investment yield of 4.9% and total investment yield of 6.0%. Insurance funds increased 8.6% from YE18 to RMB 3.03tn. 3) Satisfactory customer development, with retail customers increasing 9.5% from YE18 to 201.4 million and internet users increasing 10.4% to 594.4 million.
- **Changes of senior management to improve governance structure.** The Company also announced some changes in senior management, particularly the appointment of Mr. Xie Yonglin as the president of the Company. We think the above changes could improve efficiency of decision-making of Ping An and may clear some uncertainties regarding future governance structure of the Company.
- **Valuation.** The stock now trades at 1.36x 1H19A P/EV, above insurance peers' average of 0.52x P/EV. We think stock price may face some pressure in the near term due to weaker NBV growth and management shuffle. However, we believe Ping An's long-term growth story empowered by technology applications remains intact and the Company is likely to deliver stable annual growth in 2019.

Earnings Summary

(YE 31 Dec)	FY16A	FY17A	FY18A
Gross written premium (RMB mn)	469,555	605,035	719,556
Interest income from banking (RMB mn)	131,075	147,386	161,714
Total income (RMB mn)	774,488	974,570	1,082,146
YoY growth (%)	11.7	25.8	11.0
Net profit (RMB mn)	62,394	89,088	107,404
EPS (RMB)	3.50	4.99	6.02
YoY growth (%)	17.4	42.6	20.6
P/E (x)	23.3	16.4	13.6
P/B (x)	3.8	3.1	2.6
P/EV (x)	2.3	1.8	1.5
Yield (%)	0.9%	1.8%	2.8%
ROE (%)	17.4%	20.8%	20.9%

Source: Company data, CMBIS

Not rated

Current Price (H) HK\$ 90.9
Current Price (A) RMB 88.0

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Stock Data

Mkt Cap (HK\$ mn)	1,734,542
Avg 3 mths t/o (HK\$ mn)	2,223.77
52w High/Low (HK\$)	98.00/ 65.95
Total Issued Shares (mn)	7,488 (H)
	10,833 (A)

Source: Bloomberg

Shareholding Structure

Charoen Pokphand Group	9.04%
Shenzhen Investment Holdings	5.27%

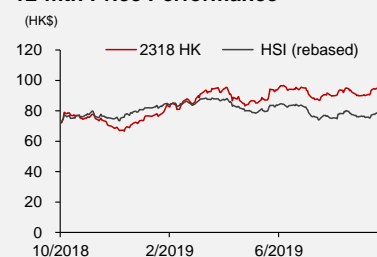
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.2%	-1.5%
3-mth	-4.6%	1.6%
6-mth	-1.4%	9.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. "Steady growth in operating profit" – 19 Aug 2019
2. "Looking for the next catalyst" – 14 Mar 2019

Focus Charts

Figure 1: Result summary

P&L	9M18	9M19	YoY	3Q18	3Q19	YoY
Gross written premiums	561,835	615,067	9.5%	153,641	168,586	9.7%
Net earned premiums	530,265	580,666	9.5%	143,979	159,234	10.6%
Reinsurance income	5,472	5,248	-4.1%	1,662	1,581	-4.9%
Total premium income	535,737	585,914	9.4%	145,641	160,815	10.4%
Claims and benefits	(355,971)	(436,182)	22.5%	(82,043)	(110,446)	34.6%
Insurance commission expenses	(102,931)	(88,503)	-14.0%	(32,608)	(26,846)	-17.7%
G&A expenses	(106,373)	(126,623)	19.0%	(40,249)	(43,569)	8.2%
Underwriting profit	(29,538)	(65,394)	121.4%	(9,259)	(20,046)	116.5%
Investment income						
Net interest income of banking	54,418	66,414	22.0%	17,192	22,658	31.8%
Net fees and commissions	28,212	33,220	17.8%	6,999	11,209	60.2%
Other income and expenses						
Pretax profit	122,411	160,901	31.4%	33,626	44,662	32.8%
Income tax	(32,922)	(19,153)	-41.8%	(10,929)	(8,652)	-20.8%
Less: (Minorities)	(10,092)	(12,181)	20.7%	(3,417)	(4,119)	20.5%
Net profit attributable to shareholders	79,397	129,567	63.2%	19,280	31,891	65.4%
Operating profit attributable to shareholders	85,637	104,061	21.5%	26,298	30,597	16.3%

B/S	3Q18	3Q19	YoY	2Q19	3Q19	QoQ
Total assets	6,910,935	7,786,963	12.7%	7,562,398	7,786,963	3.0%
Total liabilities	6,260,499	6,992,235	11.7%	6,798,426	6,992,235	2.9%
Shareholder equity	527,987	641,197	21.4%	625,327	641,197	2.5%

Key metric (during period)	9M18	9M19	YoY	3Q18	3Q19	YoY
FYP used to calculate NBV	131,541	122,273	-7.0%	30,997	30,365	-2.0%
New business value of L&H (RMB mn)	56,267	58,805	4.5%	17,058	17,753	4.1%
P&C written premiums	181,147	196,875	8.7%	62,269	66,409	6.6%
- Auto insurance premiums	130,485	138,683	6.3%	45,768	46,345	1.3%
Combined ratio of P&C	96.0%	96.2%	+0.2 ppt	n/a	n/a	n/a
Net investment yield of insurance funds	4.7%	4.90%	+0.2 ppt	n/a	n/a	n/a
Total investment yield of insurance funds	4.0%	6.00%	+2 ppt	n/a	n/a	n/a

Key metrics (end of period)	3Q18	3Q19	YoY	2Q19	3Q19	QoQ
# of life insurance agents ('000)	1,430	1,245	-12.9%	1,286	1,245	-3.2%
# of retail customers, group (million)	183.96	201.39	9.5%	196.04	201.39	2.7%
Comprehensive solvency margin ratio - PA Life	227.8%	228.7%	+0.9 ppt	228.0%	228.7%	+0.7 ppt
Comprehensive solvency margin ratio - PA P&C	219.0%	261.9%	+42.9 ppt	255.3%	261.9%	+6.6 ppt

Source: Company data

Figure 2: Operating profit breakdown

RMB mn					
Operating profit	9M18	Share (%)	9M19	Share (%)	YoY
L&H	52,136	60.9	68,394	65.7	31.2%
P&C	8,081	9.4	14,184	13.6	75.5%
Banking	11,864	13.9	13,700	13.2	15.5%
Asset management	10,827	12.6	8,364	8.0	-22.7%
Technology	5,403	6.3	4,110	3.9	-23.9%
Others and elimination	-2,673	(3.1)	-4,692	(4.5)	75.5%
Total operating profit	85,638	100.0	104,060	100.0	21.5%

Source: Company data, CMBIS

Figure 3: Key metrics

<i>RMB mn</i>	1H19/ As at 30 Jun 2019	1H18/ As at YE18	Change (%)
Group			
Total assets	7,562,398	7,142,960	5.9%
Total equity	6,798,426	6,459,317	5.2%
Shareholders' equity	625,327	556,508	12.4%
Embedded value of Group	1,113,181	1,002,456	11.0%
Operating return on EV	11.2%	13.5%	-2.3 ppt
Total investment assets	2,956,795	2,794,620	5.8%
Net investment yield	4.5%	4.2%	0.3 ppt
Total investment yield	5.5%	4.0%	1.5 ppt
Life and health insurance			
New business value	74,138	72,294	2.6%
NBV margin (FYP based)	44.7%	39.0%	5.7 ppt
Individual	58.9%	49.0%	9.9 ppt
Bancassurance	18.7%	14.8%	3.9 ppt
Embedded value of L&H	713,191	613,223	16.3%
Number of individual agents	1,235,000	1,320,000	-6.4%
Persistency ratio - 13 month	90.6%	94.3%	-3.7 ppt
Persistency ratio - 25 month	91.3%	90.9%	0.4 ppt
P&C insurance			
Combined ratio	96.6%	95.8%	0.8 ppt
Loss ratio	59.2%	57.4%	1.8 ppt
Expense ratio	37.4%	38.4%	-1.0 ppt
ROE	12.4%	8.3%	4.1 ppt
Banking business			
Net profit	15,403	13,372	15.2%
Net assets	256,603	240,042	6.9%
Net interest margin	2.62%	2.26%	0.4 ppt
Non-performing loan ratio	1.68%	1.75%	-0.1 ppt
Provision coverage ratio	194.37%	159.45%	34.9 ppt
Capital adequacy ratio	8.89%	8.54%	0.4 ppt
Trust business			
Net profit	1,874	1,694	10.6%
Net assets	19,858	17,738	12.0%
Assets held in trust	504,946	534,124	-5.5%
Securities business			
Net profit	1,252	956	31.0%
Net assets	30,431	29,401	3.5%
Solvency			
Solvency ratio of L&H	228.0%	218.8%	9.2 ppt
Solvency ratio of P&C	255.3%	223.8%	31.5 ppt
Solvency ratio of Group	223.9%	216.4%	7.5 ppt

Source: Company data, CMBIS estimates

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