

China Insurance

Transfer of Coverage; 1H21 preview: Worst case already priced in

Chinese insurers are scheduled to report 1H21 results in late Aug. We expect life insurers to report a deterioration in margin and soft agency new business volume due to short-term headwinds. We estimate 5% VNB decline for CPIC in 1H21, 10% decline for Ping An and New China Life, and 15% decline for Taiping and China Life. That said, we believe the current H share prices already factored a worst case scenario of credit risks and growth outlook. We expect to see a recovery in new business momentum in 4Q21-1Q22. On P&C front, we expect PICC to deliver 1ppt YoY improvement in underwriting margin in 1H21, as the insurer consistently prioritized profitability over top line growth. With hereby transfer sector coverage to Gigi Chen from Wenjie Ding, we reiterate Outperform rating on insurance sector. Our top picks are CPIC-H and PICC P&C.

- Weak 1H21 momentum due to multiple short-term -VE factors.** We expect to see soft VNB (value of new business) momentum across life insurance sector, with both VNB margin deterioration and soft agency FYP (first year premiums) volume. The weak performance was primarily owing to headwind against critical illness insurance products, as (1) the promotion of government-sponsored Hui Min Bao (惠民保) temporarily suppressed the demand of long-term protection, and (2) it takes time to train the agency force for the sales of new products after the launch of the new critical illness standards.
- Looking into 2H21 and beyond.** We believe the low protection provided by Hui Min Bao is far from sufficient to replace the long-term critical illness insurance. Hence, the demand for protection coverage is likely to come back in 12-18 months after the mass launch of Hui Min Bao in 2019-2020, as the policyholders gradually realize the insufficiency in healthcare protection. We expect to see a recovery in the sales of critical illness products in 4Q21-1Q22.
- The current H share valuation already priced in a worst case scenario.** We believe the current H share prices already priced in a worst case scenario of growth outlook and asset quality, and the downside risk from here is low. Our POs are based on adjusted appraisal value under the assumptions of (1) 3.0% long-term investment return, (2) 11% risk discount rate and (3) 35% write-down of corporate bonds and non-standard debt investments.

Valuation Table

Name	Ticker	Mkt Cap (US\$ mn)	Price (LC)	P/EV (x)		P/B (x)		ROE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Ping An	2318 HK	157,778	67.70	0.7 x	0.6 x	1.2 x	1.0 x	18.7	17.7
China Life	2628 HK	109,604	13.12	0.3 x	0.2 x	0.6 x	0.6 x	11.8	12.3
CPIC	2601 HK	37,493	22.55	0.4 x	0.3 x	0.8 x	0.7 x	12.4	12.7
NCL	1336 HK	16,711	21.90	0.2 x	0.2 x	0.5 x	0.4 x	14.0	12.9
Taiping	966 HK	5,299	11.46	0.2 x	0.2 x	0.4 x	0.4 x	8.7	8.7
PICC Group	1339 HK	33,762	2.46	0.3 x	0.3 x	0.4 x	0.4 x	10.0	9.9
PICC P&C	2328 HK	18,657	6.52	n.a.	n.a.	0.6 x	0.6 x	11.8	11.6
Zhong An	6060 HK	8,452	44.70	n.a.	n.a.	2.9 x	2.8 x	5.1	6.3
Ping An -A	601318 CH	157,778	54.50	0.7 x	0.6 x	1.1 x	1.0 x	18.7	17.7
China Life-A	601628 CH	109,604	29.45	0.7 x	0.7 x	1.7 x	1.5 x	11.8	12.3
CPIC-A	601601 CH	37,493	27.49	0.5 x	0.5 x	1.1 x	1.0 x	12.4	12.7
NCL-A	601336 CH	16,711	41.92	0.5 x	0.5 x	1.1 x	1.0 x	14.0	12.9
PICC Grp-A	601319 CH	33,762	5.44	0.8 x	0.8 x	1.1 x	1.0 x	10.0	9.9
Average				0.5 x	0.4 x	1.0 x	1.0 x	12.3	12.1

Source: Company data, CMBIS estimates

OUTPERFORM
(Maintain)

China Insurance Sector

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Chinese insurers: 1H21 results reporting schedule

Name	1H21 results release date
PICC Grp	20-Aug after market close
PICC P&C	20-Aug after market close
Taiping	24-Aug after market close
China Life	25-Aug after market close
Zhong An	26-Aug after market close
Ping An	26-Aug after market close
NCL	26-Aug after market close
CPIC	29-Aug afternoon

Source: Company data

Chinese insurers: New ratings and POs

Ticker	Rating	PO	Upside
2318 HK	Buy	97.82	44%
601318 CH	Buy	81.19	49%
2628 HK	Buy	18.29	39%
601628 CH	Sell	18.21	-38%
2601 HK	Buy	35.96	59%
601601 CH	Buy	35.82	30%
1336 HK	Buy	33.02	51%
601336 CH	Sell	27.41	-35%
966 HK	Hold	11.84	3%
1339 HK	Buy	3.06	24%
601319 CH	Sell	3.17	-42%
2328 HK	Buy	9.99	53%
6060 HK	Buy	61.57	38%

Source: CMBIS

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Valuation: Based on a set of most conservative assumptions

We use appraisal value method to derive the fair value of life insurers. To reflect market view on long-term macro outlook, we adjusted EV and VNB to factor in a set of most conservative assumptions: (1) a 200bps reduction from the companies' long-term investment assumptions, (2) a 35% default rate (similar to peak mortgage default rate amid 2008 financial crisis) of investment in corporate bonds and non-standard debt schemes, and (3) aligned the risk discount rate to 11%.

We apply P/B-ROE method based on Gordon Growth Model for PICC P&C, and use P/S multiple to value Zhong An.

Figure 1: Chinese insurers: PO and ratings changes

	Ticker	Previous Rating	Previous PO	New Rating	New PO	Valuation method
Ping An	2318 HK	Buy	96.06	Buy	97.82	Adjusted investment return assumption to 3% and 35% write-down on corporate bonds and non-standard debt investment, risk discount of 11%; Appraisal value method, 15x NB multiplier
	601318 CH	Buy	86.21	Buy	81.19	
China Life	2628 HK	Buy	28.14	Buy	18.29	Adjusted investment return assumption to 3% and 35% write-down on corporate bonds and non-standard debt investment, risk discount of 11%; Appraisal value method, 8x NB multiplier
	601628 CH	Buy	38.04	Sell	18.21	
CPIC	2601 HK	Buy	38.52	Buy	35.96	Adjusted investment return assumption to 3% and 35% write-down on corporate bonds and non-standard debt investment, risk discount of 11%; Appraisal value method, 15x NB multiplier
	601601 CH			Buy	35.82	
NCL	1336 HK	Buy	41.60	Buy	33.02	Adjusted investment return assumption to 3% and 35% write-down on corporate bonds and non-standard debt investment, risk discount of 11%; Appraisal value method, 3x NB multiplier
	601336 CH	Hold	53.51	Sell	27.41	
Taiping	966 HK	Buy	20.54	Hold	11.84	Adjusted investment return assumption to 3% and 35% write-down on corporate bonds and non-standard debt investment, risk discount of 11%; Appraisal value method, 8x NB multiplier
PICC Group	1339 HK	Buy	4.33	Buy	3.06	Adjusted investment return assumption to 3% and 35% write-down on corporate bonds and non-standard debt investment, risk discount of 11%; Appraisal value method, 0x NB multiplier
	601319 CH			Sell	3.17	
PICC P&C	2328 HK	Buy	9.06	Buy	9.99	1.2x P/B FY21, and 35% write-down on corporate bonds and non-standard debt investment
Zhong An	6060 HK	Buy	49.92	Buy	61.57	3.5x P/S FY21

Source: Company data, CMBIS

Figure 2: Chinese insurers: Valuation comparison

Ticker	Company	Price	Rating	PO	Upside	P/BV				Dividend yield			
						FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
2318 HK	Ping An	67.70	Buy	97.82	44%	1.3 x	1.2 x	1.0 x	0.9 x	4.0%	4.2%	4.5%	5.1%
2628 HK	China Life	13.12	Buy	18.29	39%	0.7 x	0.6 x	0.6 x	0.5 x	5.9%	6.5%	7.4%	8.2%
2601 HK	CPIC	22.55	Buy	35.96	59%	0.8 x	0.8 x	0.7 x	0.7 x	6.9%	7.6%	8.4%	9.2%
1336 HK	NCL	21.90	Buy	33.02	51%	0.6 x	0.5 x	0.4 x	0.4 x	7.6%	8.1%	8.4%	9.6%
966 HK	Taiping	11.46	Hold	11.84	3%	0.5 x	0.4 x	0.4 x	0.4 x	3.5%	5.0%	6.6%	7.3%
1339 HK	PICC Group	2.46	Buy	3.06	24%	0.4 x	0.4 x	0.4 x	0.4 x	7.6%	8.0%	8.6%	9.9%
2328 HK	PICC P&C	6.52	Buy	9.99	53%	0.6 x	0.6 x	0.6 x	0.5 x	6.9%	7.6%	8.1%	9.6%
6060 HK	Zhong An	44.70	Buy	61.57	38%	3.1 x	2.9 x	2.8 x	2.5 x	0.0%	0.0%	0.0%	0.0%
601318 CH	Ping An	54.50	Buy	81.19	49%	1.3 x	1.1 x	1.0 x	0.9 x	4.2%	4.3%	4.6%	5.3%
601628 CH	China Life	29.45	Sell	18.21	-38%	1.8 x	1.7 x	1.5 x	1.4 x	2.2%	2.4%	2.7%	3.0%
601601 CH	CPIC	27.49	Buy	35.82	30%	1.2 x	1.1 x	1.0 x	1.0 x	4.7%	5.2%	5.7%	6.2%
601336 CH	NCL	41.92	Sell	27.41	-35%	1.3 x	1.1 x	1.0 x	0.9 x	3.3%	3.5%	3.6%	4.2%
601319 CH	PICC Group	5.44	Sell	3.17	-42%	1.2 x	1.1 x	1.0 x	1.0 x	2.9%	3.0%	3.2%	3.7%

Ticker	Company	P/EV (Group)				New Business Multiplier				ROE			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
2318 HK	Ping An	0.8 x	0.7 x	0.6 x	0.5 x	(6.1) x	(10.1) x	(13.5) x	(16.4) x	19.9%	18.7%	17.7%	17.7%
2628 HK	China Life	0.3 x	0.3 x	0.2 x	0.2 x	(13.1) x	(15.8) x	(16.0) x	(16.6) x	11.8%	11.8%	12.3%	12.4%
2601 HK	CPIC	0.4 x	0.4 x	0.3 x	0.3 x	(15.2) x	(16.3) x	(16.8) x	(16.7) x	12.5%	12.4%	12.7%	12.8%
1336 HK	NCL	0.2 x	0.2 x	0.2 x	0.2 x	(20.0) x	(21.9) x	(22.0) x	(21.8) x	15.4%	14.0%	12.9%	13.5%
966 HK	Taiping	0.2 x	0.2 x	0.2 x	0.2 x	(17.0) x	(20.6) x	(20.4) x	(21.2) x	7.8%	8.7%	8.7%	8.9%
1339 HK	PICC Group	0.3 x	0.3 x	0.3 x	0.3 x	(40.9) x	(55.7) x	(57.7) x	(59.8) x	10.4%	10.0%	9.9%	10.6%
601318 CH	Ping An	0.8 x	0.7 x	0.6 x	0.5 x	(6.7) x	(10.8) x	(14.1) x	(16.9) x	19.9%	18.7%	17.7%	17.7%
601628 CH	China Life	0.8 x	0.7 x	0.7 x	0.6 x	(4.1) x	(6.0) x	(7.0) x	(8.1) x	11.8%	11.8%	12.3%	12.4%
601601 CH	CPIC	0.6 x	0.5 x	0.5 x	0.5 x	(10.6) x	(11.9) x	(12.8) x	(13.2) x	12.5%	12.4%	12.7%	12.8%
601336 CH	NCL	0.5 x	0.5 x	0.5 x	0.4 x	(12.0) x	(13.9) x	(14.6) x	(15.1) x	15.4%	14.0%	12.9%	13.5%
601319 CH	PICC Group	0.9 x	0.8 x	0.8 x	0.7 x	(6.3) x	(12.4) x	(16.9) x	(21.3) x	10.4%	10.0%	9.9%	10.6%

Ticker	Company	P&C premium growth				Combined ratio				Expense ratio			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
2318 HK	Ping An	5.5%	0.0%	6.0%	6.0%	99.1%	99.5%	98.5%	97.5%	38.6%	36.5%	36.5%	36.5%
2601 HK	CPIC	11.1%	6.9%	8.8%	7.3%	99.0%	98.6%	98.4%	98.3%	37.6%	37.4%	37.3%	37.3%
966 HK	Taiping	3.5%	6.0%	5.0%	5.0%	103.9%	105.0%	101.0%	100.0%	48.6%	48.0%	45.0%	45.0%
2328 HK	PICC P&C	0.0%	3.0%	5.0%	10.0%	98.9%	98.7%	98.8%	98.3%	32.7%	27.2%	26.8%	26.8%
6060 HK	Zhong An	14.2%	28.4%	18.4%	22.7%	102.5%	101.3%	100.3%	99.9%	48.4%	49.1%	48.7%	48.3%

Source: Company data, CMBIS

Forecast revision

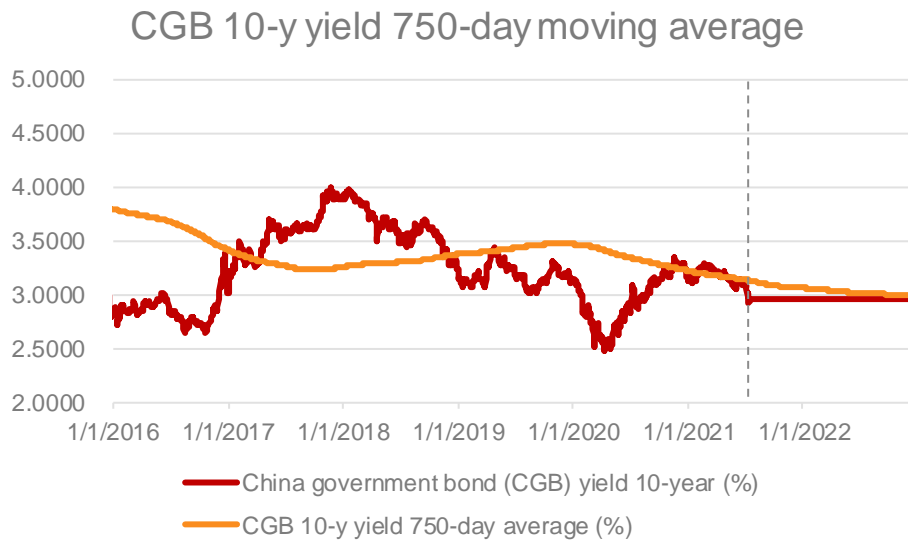
We cut VNB forecasts by 7-16% for FY21-22E to reflect to slow new business momentum on the back of short-term headwinds, and trimmed the earnings forecast to factor in reserve catch-up due to continual downward trend of 10-year China government bond yield 750-day average curve.

Figure 3: Chinese insurers: Forecast revisions

(RMB)		New forecast			Old forecast			Changes		
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Ping An	VNB/share	2.57	2.83	3.24	2.98	3.22	na	-13.8%	-11.9%	na
	EV/share	82.17	94.46	109.20	80.86	89.81	na	1.6%	5.2%	na
	EPS	8.35	9.03	10.27	8.54	9.41	na	-2.2%	-4.0%	na
	BVPS	47.73	54.23	61.62	48.67	56.40	na	-1.9%	-3.8%	na
China Life	VNB/share	1.89	2.05	2.18	2.19	2.33	na	-13.8%	-11.9%	na
	EV/share	40.70	43.78	47.13	41.00	44.41	48.14	-0.7%	-1.4%	-2.1%
	EPS	1.77	1.94	2.21	1.87	2.11	2.34	-5.5%	-8.3%	-5.5%
	BVPS	17.42	19.18	21.13	17.36	19.04	20.92	0.4%	0.7%	1.0%
CPIC	VNB/share	1.98	2.21	2.53	2.11	2.36	2.57	-6.0%	-6.5%	-1.9%
	EV/share	51.03	55.73	60.82	51.22	56.15	61.39	-0.4%	-0.7%	-0.9%
	EPS	2.93	3.23	3.52	2.96	3.27	3.59	-0.7%	-1.2%	-1.8%
	BVPS	24.33	26.49	28.74	24.36	26.54	28.83	-0.1%	-0.2%	-0.3%
NCL	VNB/share	2.97	3.24	3.55	3.23	3.50	3.75	-8.1%	-7.6%	-5.4%
	EV/share	83.20	89.29	95.70	83.46	90.10	96.49	-0.3%	-0.9%	-0.8%
	EPS	4.87	5.01	5.76	4.89	6.08	7.32	-0.4%	-17.7%	-21.3%
	BVPS	37.03	40.56	44.80	37.05	42.71	40.86	-0.1%	-5.0%	9.6%
Taiping	VNB/share	2.20	2.41	2.52	2.62	2.83	2.96	-16.3%	-14.8%	-14.9%
	EV/share	56.73	60.74	64.89	57.06	61.41	65.95	-0.6%	-1.1%	-1.6%
	EPS	2.31	2.52	2.81	2.41	2.17	2.90	-4.2%	16.2%	-3.3%
	BVPS	27.71	30.18	32.71	28.36	31.23	34.81	-2.3%	-3.4%	-6.0%
PICC Group	VNB/share	0.08	0.08	0.09	na	na	na	na	na	na
	EV/share	6.42	6.85	7.32	na	na	na	na	na	na
	EPS	0.48	0.51	0.58	0.38	na	na	25.0%	na	na
	BVPS	4.92	5.29	5.71	4.76	na	na	3.4%	na	na
PICC P&C	EPS	1.03	1.09	1.30	1.35	1.45	na	-24.0%	-24.6%	na
	BVPS	9.05	9.70	10.48	9.11	10.04	na	-0.7%	-3.3%	na
Zhong An	EPS	0.56	0.74	1.09	7.52	8.72	na	-92.6%	-91.5%	na
	BVPS	12.59	13.48	14.75	20.30	30.02	na	-38.0%	-55.1%	na

Source: Bloomberg, CMBIS

Figure 4: 10-year China government bond yield 750-day moving average



Source: Bloomberg, CMBIS

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