

China Pacific Insurance (2601 HK)

Prepared for headwinds

CPIC's performance in 2019 was largely in line. Operating profit (first-time release) increased 13.1% YoY to RMB 27.88bn and group embedded value was up 17.8% YoY. Market environment remains challenging due to COVID-19 wiping out some of the insurance demand and lower interest rate weighing on investment returns. However, we think the Company is well positioned to cope with these challenges via disciplined underwriting quality and active investment asset allocation. Lastly, miserable valuation at below 0.4x FY20E P/EV offers a thick cushion.

- Result highlights.** 1) **Strong momentum in long-term health insurance, of which GWP increased 33% YoY, contributing to 21% of GWP.** 2) **Sound P&C margin.** Combined ratio of P&C improved 0.1ppt to 98.3% against industry and macro headwinds. Specifically, expense ratio declined 4.1ppt to 38.1% offsetting the worsening of loss ratio. Combined ratio of auto insurance improved 0.4ppt to 97.9% thanks primarily to reduction in expense ratio. 3) **Solid investment performance and asset allocation.** NIY/TIY was 4.9%/5.4%, up 0/0.8ppt YoY, respectively. The Company has actively stepped up allocation in equity securities (equity fund and securities ~8.2% of total investment funds) and non-standard assets (~20.7%) as well as lengthening bond duration to prepare for the low interest environment. 4) **third-party AUM** surged 44.3% attributable mainly to Changjiang Pension (+68.9%) whereas fee income derived rose 40.7%.
- Negatives and challenges.** 1) **NBV declined 9.3% YoY** (vs. CMBIS est. -6%) due both to FYRP retreat and margin compression, albeit mild by 0.4ppt from the previous year. 2) **Life insurance agent headcount**, measured by monthly average # of insurance agent was 790,000, a decline of 6.7% YoY. But reassuringly, the decline narrowed in 2H19 (1H19 = 796,000). 3) **Surge in life benefit payment.** Annuity, maturity and surviving benefit payments of CPIC Life rose over 40% as existing policies expanded.
- Risks.** 1) FYRP and NBV growth under pressure due to COVID-19. 2) Lower bond yield denting yield on new money. 3) Equity market volatilities.
- Valuation.** We trimmed TP to HK\$33.93 to reflect revised NBV/EV growth and CoE assumptions. The H-share is now trading at 0.37x FY20E P/EV and over 35% discount to its A-share price (vs. historical avg. at ~20%). We think too much of the negatives have been priced in unfairly at this level. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	321,895	347,517	358,220	378,698	397,616
YoY growth (%)	14.3	8.0	3.1	5.7	5.0
Total income (RMB mn)	353,103	382,682	392,272	413,893	433,226
Net profit (RMB mn)	18,019	27,741	29,546	31,063	32,465
EPS (RMB)	1.99	3.06	3.26	3.43	3.58
Consensus EPS (RMB)	1.99	3.06	2.68	2.97	N/A
YoY Growth (%)	22.90	53.95	6.51	5.13	4.51
P/B (x)	1.06	0.89	0.80	0.72	0.66
P/EV (x)	0.47	0.40	0.37	0.34	0.31
Yield (%)	5.73	6.87	7.32	7.69	8.04
ROE (%)	12.55	16.92	15.69	14.90	14.14

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$33.93
(Previous TP)	HK\$37.12)
Up/Downside	+74.3%
Current Price	HK\$19.46

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	232,662
Avg 3 mths t/o (HK\$ mn)	434
52w High/Low (HK\$)	34.75/17.90
Total Issued Shares (mn)	2,775 (H)
	6,287 (A)

Source: Bloomberg

Shareholding Structure

Shenergy (Group)	14.64%
Fortune Investment	14.17%

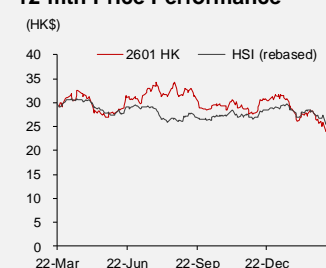
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-31.4%	-14.3%
3-mth	-36.8%	-19.0%
6-mth	-36.8%	-23.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "Margin priority may compensate FYRP decline" – 31 Oct 2019
- "Potential GDR unlocks global access" – 24 Sep 2019
- "Lackluster life but improving P&C" – 26 Aug 2019
- "Result in-line, expect FYRP recovery" – 24 Apr 2019

Figure 1: 2019 results summary

(RMB mn)				
P&L	2018	2019	YoY	Diff. vs. CMBI est.
Gross written premiums	321,895	347,517	8.0%	-0.3%
Net premiums earned	299,724	313,246	4.5%	-3.0%
Investment income	49,999	65,730	31.5%	12.5%
Total income	353,103	382,682	8.4%	-0.5%
Insurance benefits and claim expenses	(226,444)	(260,850)	15.2%	5.5%
Underwriting costs	(56,251)	(46,853)	-16.7%	
G&A expenses	(34,506)	(38,021)	10.2%	
Total expenses	(325,430)	(355,210)	9.2%	0.2%
Associates and JVs	335	494	47.5%	9.5%
Pre-tax profit	28,008	27,966	-0.1%	-9.4%
Income tax	(9,574)	388	-104.1%	
Less: Minority interests	(415)	(613)	47.7%	
Net profit	18,019	27,741	54.0%	-1.5%
B/S	YE18	YE19	YoY	
Total assets	1,335,959	1,528,333	14.4%	1.8%
Insurance contracts liabilities	919,671	1,068,021	16.1%	-4.6%
Total liabilities	1,181,911	1,345,013	13.8%	1.5%
Equity attributable to shareholders	149,576	178,427	19.3%	3.7%
Key indicators	2018	2019	YoY	
Life GWP (RMB mn)	202,414	212,514	5.0%	-2.3%
Life FYRP from agency channel (RMB mn)	42,515	33,000	-22.4%	-13.8%
New business value (RMB mn)	27,120	24,597	-9.3%	-4.1%
P&C GWP (RMB mn)	117,808	132,979	12.9%	1.4%
Auto insurance GWP (RMB mn)	87,976	93,218	6.0%	-0.5%
P&C combined ratio	98.4%	98.3%	-0.1 ppt	-0.1 ppt
Net investment yield	4.9%	4.9%	0 ppt	0.4 ppt
Gross investment yield	4.6%	5.4%	0.8 ppt	0.9 ppt
Key indicators	YE18	YE19	YoY	
Group investment assets (RMB mn)	1,233,222	1,419,263	15.1%	2.2%
Comprehensive solvency ratio - Life	260.8%	256.8%	-4 ppt	-5.6 ppt
Comprehensive solvency ratio - P&C	305.9%	292.6%	-13.4 ppt	-7.1 ppt
Group embedded value (RMB mn)	336,141	395,987	17.8%	5.7%

Source: Company data, 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	358,220	378,698	397,616	Group (%)					
Incl: Life GWP	202,414	212,514	216,357	222,585	227,242	Total GWP growth	14.3	8.0	3.1	5.7	5.0
P&C GWP	117,808	132,979	141,863	156,114	170,374	Total income growth	10.6	8.4	2.5	5.5	4.7
Net premiums earned	299,724	313,246	320,415	337,458	352,926	Net profit growth	22.9	54.0	6.5	5.1	4.5
Investment income	49,999	65,730	68,066	72,442	76,125	EV growth	17.5	17.8	8.3	9.8	-
Total income	353,103	382,682	392,272	413,893	433,226	Net investment yield	4.9	4.9	4.3	4.3	4.2
Insurance claims and reserves	(226,444)	(260,850)	(255,816)	(269,394)	(281,504)	Total investment yield	4.6	5.4	4.6	4.4	4.2
Other operating expenses	(98,986)	(94,360)	(96,166)	(101,552)	(106,526)	Investment assets growth	14.1	15.1	10.8	9.5	8.3
Total expenses	(325,430)	(355,210)	(351,982)	(370,946)	(388,030)	Life (%)					
Associates and JVs	335	494	519	545	572	GWP growth	15.3	5.0	1.8	2.9	2.1
Pre-tax profit	28,008	27,966	40,809	43,492	45,768	Agent FYRP growth	(9.7)	(22.4)	(16.1)	12.9	9.2
Income tax	(9,574)	388	(10,610)	(11,743)	(12,586)	NBV growth	1.5	(9.3)	(8.8)	15.7	11.9
Less: Minority interests	(415)	(613)	(653)	(686)	(717)	NBV margin (NBV/agent APE)	63.2	73.1	78.6	80.3	82.0
Net profit	18,019	27,741	29,546	31,063	32,465	Life comprehensive solvency	260.8	256.8	276.8	275.4	275.2
						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	176.1	161.9	146.6
						Returns (%)					
						Life RoEV	24.7	23.1	14.8	14.8	14.6
						P&C ROE	10.0	16.6	14.9	13.5	12.9
						Per share					
						EPS (RMB)	1.99	3.06	3.26	3.43	3.58
						DPS (RMB)	1.00	1.20	1.28	1.34	1.40
						EVPS (RMB)	37.09	43.70	47.33	51.99	57.00
						BVPS (RMB)	16.51	19.69	21.87	24.15	26.52

Source: Company data, CMBIS estimates

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