

COMPANY RESULTS

AIA Group (1299 HK)

2023: Delivering Strong VONB Growth

AIA's 2023 VONB came in above our estimates with 30%/33% yoy growth on an AER/CER basis, driven by the stronger-than-expected performance of MCV segments throughout the year and margin improvement in China during 2H23. We lift our 2024-25 VONB forecasts in the light of continued strong business momentum in Hong Kong and Thailand as well as a better margin outlook in China. Maintain BUY with a higher target price of HK\$101.00.

2023 RESULTS

Year to 31 Dec (US\$m)	VONB Margin %			Value of new business (VONB)		
	2023	2022	yoy chg (ppt)	2023	yoy chg % (AER)*	yoy chg % (CER)*
Mainland China	51.3	69.5	-18.2	1,037	13	20
Hong Kong	57.5	69.5	-12.0	1,430	82	82
Thailand	93.3	89.1	4.2	713	22	21
Singapore	67.2	65.7	1.5	394	13	10
Malaysia	67.3	69.9	-2.6	319	4	7
Other market	28.9	30.2	-1.3	406	-3	0
Total VONB	57.0	52.6	-4.4	4,034	30	33
EV				67,447	-2	-2
OPAT				6,213	-3	-1

*AER= actual exchange rate, CER= constant exchange rate
Source: AIA., UOB Kay Hian

RESULTS

- **2023 results above expectations.** AIA Group's (AIA) 2023 value of new business (VONB) grew by 30%/33% yoy on AER/CER basis to US\$4,034m, ahead of our estimates by 4.2% and largely within market consensus of US\$4,017m, boosted by 41.5% yoy growth in annualised new premium (ANP) despite experiencing 4.4ppt margin dilution.
- **Stable 2H23 results on margin improvement.** Although ANP decreased by 8% hoh to US\$3,666m due to slower insurance sales in China, AIA's VONB remains stable at US\$2,005m in 2H23 (-1.1% hoh), driven by 3.8ppt hoh VONB margin expansion (2H23 margin: 54.7% vs 1H23: 50.9%) and stronger-than-expected demand from mainland China visitors (MCV). The more favourable product mix towards protection products and repricing of non-participating products in China supported the margin improvement in 2H23.
- **Final dividend of HK\$0.12 per share was declared,** which brings dividend per share to HK\$1.61, 5% higher despite the 3% drop in OPAT. Meanwhile, US\$3.6b of share buy-backs was conducted in 2023 and AIA has reduced the outstanding shares by 6% since the launch of the US\$10b share buy-back programme in Mar 22.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Insurance revenue	16,319	17,514	17,923	19,786	21,678
Insurance service result	5,466	5,091	6,040	6,664	7,407
Net investment result	551	1,547	2,539	2,165	1,896
Net profit (rep./act.)	3,331	3,764	5,328	5,460	5,767
VONB	3,092	4,034	4,858	5,602	6,281
EPS (US\$ cent)	27.9	32.7	47.4	49.2	52.0
PE (x)	29.7	25.4	16.8	16.2	15.3
*P/EV (x)	1.4	1.4	1.3	1.1	1.0
Dividend yield (%)	2.4	2.5	2.4	2.5	2.7
VONB Margin (%)	57.2	52.7	56.1	56.3	57.5
ROE (%)	6.6	8.8	12.5	11.9	11.8
Consensus VONB	-	-	4,622	5,268	5,804
UOBKH/Consensus (x)	-	-	1.05	1.04	1.08

Source: AIA Group, Bloomberg, UOB Kay Hian
*P/EV: Price/Embedded Value

BUY

(Maintained)

Share Price	HK\$62.25
Target Price	HK\$101.00
Upside	+62.2%
(Previous TP)	HK\$95.00

COMPANY DESCRIPTION

AIA Group limited provides life insurance products and services. The company offers life, medical, and health protection and savings insurance products. AIA Group serves customers worldwide.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	1299 HK
Shares issued (m):	11,293.6
Market cap (HK\$m):	703,028.8
Market cap (US\$m):	89,886.4
3-mth avg daily t'over (US\$m):	210.7

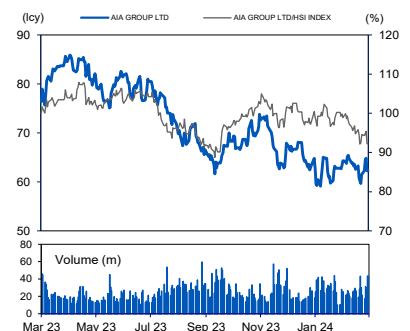
Price Performance (%)

52-week high/low	HK\$85.90/HK\$59.10			
1mth	3mth	6mth	1yr	YTD
(0.7)	(4.7)	(5.0)	(22.0)	(8.5)

Major Shareholders

	%
-	-
-	-
-	-
FY23 NAV/Share (US\$)	3.93
FY23 Solvency Ratio (%)	275

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Hong Kong continues to excel.** AIA Hong Kong delivered VONB growth of 82%/61% yoy in 2023/2H23, bolstered by the strong MCV business recovery and robust domestic demand. While the market is concerned about the sustainability of strong MCV performance following the release of pent-up demand in 1H23, AIA Hong Kong still managed to achieve positive hoh growth in both ANP and VONB during 2H23, as reflected by a strong uptick in the number of MCV policies in 4Q23 and stabilised case size in 2H23. Additionally, management also alluded that the strong momentum has continued into 2M24 given the current interest rate gap level and foreign exchange scenario.
- China's VONB margin is improving, with exciting growth ahead through geographical expansion.** AIA China logged 13% yoy VONB growth on AER basis, thanks to the significant growth in volume (APE: +53%yoy) following the relaxation of pandemic restrictions. The margin concern for AIA China is easing as the margin expanded by 2.4ppt hoh to 52.7% on repricing and favourable product mix shift in 2H23. AIA China also saw substantial margin improvement in its bancassurance channel to more than 30% in Jan 24, thanks to the rationalisation of commission fee after the regulatory intervention. At the same time, AIA China is progressively expanding its footprint in China and now it has access to more than 110m targeted customers in China. In Oct 23, AIA China upgraded its Shijiazhuang branch to a provincial branch and they are also speeding up the within-province expansion in Hubei and Sichuan. Management noted that there is substantial room to grow due to further geographical expansion in future and robust insurance demand from the middle class in the low interest rate environment.
- ASEAN market remains as the main growth engine of AIA.** The ASEAN market registered a 14% yoy VONB growth to US\$1.5b and contributed to 35% of AIA's total VONB. Thailand's VONB grew by 22% yoy, attributed to the strong double-digit growth from agency and partnership channels. VONB margin improved by 4.2ppt to 93.3%, due to the increased sales of critical illness rider products. Singapore and Malaysia achieved 13%/4% yoy VONB growth, benefitting from increased in agent productivity.
- EV slipped 2% yoy to US\$67.4b,** dragged by: a) US\$2.8b in negative investment variance on volatile equity market in China and Thailand and lower government bond yields in China, and b) US\$5.9b of share buy-back and dividend payout. Thus, the embedded value (EV) increased 7% yoy before capital returns and the EV per share inched up by 1% due to the positive effect of share buy-back activities.
- OPAT fell 3% yoy due to one-off US\$400m negative operating variances on higher medical claims.** Management mentioned that it is a temporary adjustment due to medical inflation and increased health awareness after pandemic, while they are lifting the premium rates for their health insurance portfolio, which is expected to support the operating profit after tax (OPAT) growth. Nonetheless, the OPAT per share still grew by 2% due to the share buy-back impact. Contractual service margin (CSM) balance grew by 8.4% yoy to US\$53.1b, thanks to higher new business CSM and higher expected return of 5.1% on in-force business. CSM release rate remains stable at 9.5%.

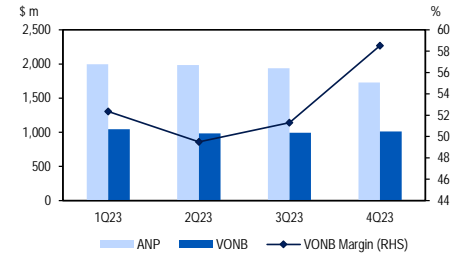
EARNINGS REVISION/RISK

- Raise our 2024-25 VONB forecasts by 7.5%/11.4%** to US\$4,858m/US\$5,602m as we expect AIA to achieve 20.4%/15.3% VONB growth in 2024/25 on the back of continued strong sales momentum in Hong Kong and Thailand. Furthermore, the improving VONB margin outlook in China could further boost AIA's underlying VONB growth.

VALUATION/RECOMMENDATION

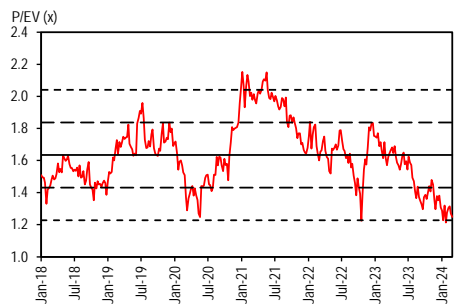
- Maintain BUY with a higher target price of HK\$101.00,** to factor in higher VONB growth assumptions. Our target price is based on the sum of embedded value and total present value of future VONB, translating into 2.0x 2024F EV. The regional life insurer is now trading at -1.8SD, which we see sufficient margin of safety to accumulate at this level. While the market was only expecting 15% VONB growth with 52.7% of margin in 2024, we could see significant valuation re-rating if there is upside surprise from AIA in term of its APE growth or margin performance in 2024.

ANP, VONB AND MARGIN



Source: AIA, UOB Kay Hian

AIA P/EV BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Gross written premiums	17,514	17,923	19,786	21,678
Premium ceded to reinsurers	(12,078)	(11,435)	(12,627)	(13,729)
Chg in unearned prem reserves	(345)	(448)	(495)	(542)
Net earned premiums	5,091	6,040	6,664	7,407
Investment income	1,547	2,539	2,165	1,896
Other income	141	161	183	205
Pre-tax profit	4,564	6,415	6,570	6,943
Tax	(783)	(1,066)	(1,091)	(1,151)
Minorities	(17)	(28)	(26)	(31)
Net profit	3,764	5,328	5,460	5,767
OPAT	6,213	5,969	6,190	6,598
CSM base	53,115	55,455	58,720	62,797
ANP	7,650	8,661	9,959	10,917
VONB	4,034	4,858	5,602	6,281

OPERATING RATIOS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Capital-related				
Shareholders' funds/total assets	14.4	14.6	15.0	15.4
Total Assets/equity (x)	7.0	6.8	6.6	6.5
Liquidity				
Liquid assets/short-term liabilities	110.4	79.2	75.1	72.5
Liquid assets/total assets	6.0	4.4	4.2	4.2
Valuation (%)				
P/EV (x)	1.3	1.3	1.1	1.0
Adjusted P/E (x)	0.0	0.0	0.0	0.0
Dividend Yield	24.4	16.8	16.2	15.3
Payout ratio	2.6	2.4	2.5	2.7

Footnotes: FYP: first year premium; EV: embedded value; VONB: value of new business; ANP: annualised new premium.

BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Cash	11,525	7,234	7,234	7,524
Loans and advances	3,995	4,312	4,471	4,637
Investments (equity & fixed inc)	244,963	261,961	273,320	284,266
Reinsurers' share of ins liabilities	6,047	7,196	8,563	10,190
Policyholder accts (ins & inv)	1,457	1,530	1,606	1,687
Associates & JVs	1,331	1,344	1,358	1,371
Fixed assets (incl prop)	8,562	8,829	8,480	8,695
Other assets	8,439	9,058	9,724	10,442
Total assets	286,319	301,463	314,757	328,812
Assets sold (repo agreement)	3,461	3,288	3,124	2,967
Insurance contract liabilities	212,777	223,232	234,205	245,721
Other liabilities	28,487	30,402	29,614	28,873
Total liabilities	244,725	256,923	266,942	277,561
Shareholders' funds	41,111	44,069	47,338	50,772
Minority interest - accumulated	483	472	477	478
Total equity & liabilities	286,319	301,463	314,757	328,812

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Growth				
Gross premiums, yoy chg	7.3	2.3	10.4	9.6
FYP, yoy chg	50.1	26.9	12.0	10.4
ANP, yoy chg	42.8	25.2	11.8	10.3
Investment income, yoy chg	180.8	64.1	(14.7)	(12.4)
Net profit, yoy chg	13.0	41.6	2.5	5.6
Profitability				
Expense ratio	9.0	9.0	9.0	9.0
Net investment yield	3.7	3.4	3.3	3.2
Total investment yield	4.9	6.2	5.1	4.3
VONB Margin	52.6	56.1	56.3	57.5
Reported ROE	8.8	12.5	11.9	11.8

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