

COMPANY RESULTS

AIA Group (1299 HK)

1H24: Strong Beat In Results; Eyeing 9-11% Three-year CAGR For OPAT Per Share

AIA delivered strong 1H24 results with VONB growing 25% yoy, ahead of our and market expectations. This was driven by a 17% yoy ANP growth and a 3.3ppt yoy margin expansion. Key financial metrics like OPAT and EV also showed encouraging improvement. We believe management's new guidance on OPAT per share growth targets and better margin performance across the Greater China market could lead to valuation re-rating in the near term. Maintain BUY: Target price: HK\$91.00.

1H24 RESULT

Year to 31 Dec (US\$m)	1H24	1H23	----- yoy % chg -----	
			CER	AER
OPAT	3,386	3,272	7	3
Embedded Value	68,247	67,447	3	1
Annualised new premium (ANP)	4,546	3,984	17	14
VONB margin (%)	53.9	50.8	3.3 ppt	3.1 ppt
VONB	2,455	2,029	25	21
Mainland China	782	601	36	30
Hong Kong	858	681	26	26
Thailand	359	327	16	10
Singapore	219	173	27	27
Malaysia	183	170	14	8
Other market	224	212	9	6

Source: AIA, UOB Kay Hian

RESULTS

• **Strong set of results.** AIA Group's (AIA) reported strong 1H24 results with value of new business (VONB) growing 25%/21% yoy on constant exchange rate (CER)/actual exchange rate (AER) basis to a record high of US\$2,455m, ahead of our/market expectations of +20%/+21% respectively. The strong VONB beat was underpinned by solid sales growth (ANP: +17% yoy) and margin expansion (+3.3ppt yoy) on the back of favourable product mix shift and repricing in Hong Kong and Mainland China. Operating profit after tax (OPAT) grew 7% on a CER basis to US\$3,386m, with OPAT per share up 10%. Operating return on embedded value (EV) also improved by 3.6ppt yoy to 16.5%. Meanwhile, the anchoring point of shareholder returns, net free surplus generation (net FSG) increased 5.6% yoy to US\$2,243m. An interim dividend per share of 44.5 HK cents was declared, up 5.2%. Regarding the share buyback, management noted that the remaining US\$3.1b buyback under the existing programme will be completed by Apr 25.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Gross written premiums	16,319	17,514	19,119	20,956	22,906
Net earned premiums	5,466	5,091	7,046	7,769	8,590
Underwriting profit/(loss)	5,466	5,091	7,046	7,769	8,590
Net profit (rep./act.)	3,331	3,764	6,132	6,345	6,714
OPAT	6,421	6,213	6,798	7,106	7,583
EPS (US\$ cent)	27.9	32.7	55.3	59.0	63.1
OPAT (US\$ cent)	53.8	53.9	61.3	66.1	71.3
PE (x)	25.0	21.4	12.6	11.8	11.1
P/EV (x)	1.2	1.2	1.1	1.0	0.9
Dividend yield (%)	2.8	3.0	3.2	3.4	3.7
ROE (%)	6.6	8.8	14.4	13.8	13.4
Consensus net profit	-	-	6,634	7,038	7,953
UOBKH/Consensus (x)	-	-	0.92	0.90	0.84

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

BUY

(Maintained)

Share Price	HK\$54.45
Target Price	HK\$91.00
Upside	+67.1%
(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):	11,238.0
Market cap (HK\$m):	602,004.9
Market cap (US\$m):	77,215.8
3-mth avg daily t'over (US\$m):	218.1

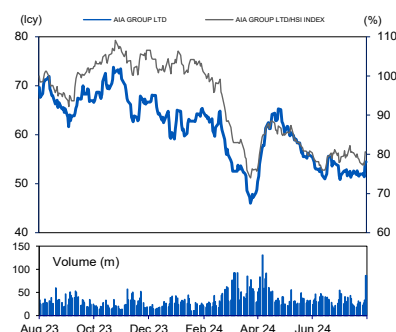
Price Performance (%)

52-week high/low	HK\$91.35/HK\$57.95			
1mth	3mth	6mth	1yr	YTD
1.2	(12.6)	(16.7)	(20.2)	(20.0)

Major Shareholders

-	-
-	-
-	-
FY23 NAV/Share (US\$)	3.99
FY23 Solvency Ratio (%)	269.0

PRICE CHART



Source: Bloomberg

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- AIA China continues to thrive amidst challenging macro.** In mainland China, VONB surged 36% yoy in 1H24, boosted by a 20% growth in agency channel and decent margin improvement (+6.4ppt yoy to 56.6%). The bancassurance channel's margin reached 41.3%, the highest among peers, thanks to the favourable regulatory changes in bancassurance commissions. The high-margin traditional protection products regained traction with double-digit VONB growth, contributing 45% of VONB (vs 39% in 2023). On the supply side, management indicated that total agency manpower rebounded in 1H24, indicating a more stabilised agency force. Management stated that they are in productive discussions with regulators regarding geographical expansion and continued to expect one to two new provincial licences per year.

- Sustains robust momentum in Hong Kong.** Hong Kong VONB yoy growth moderated to 26% in 1H24 (vs 1Q24: 43%) due to a relative high base in 2Q23 after the release of pent-up demand from mainland China visitors (MCV). The growth was primarily driven by 28% and 24% VONB growths in the domestic and MCV segments respectively. It is worth noting that the MCV segment of AIA Hong Kong still achieved double-digit yoy growth in 2Q24 against a higher base. Margin edged up 8.8 ppt yoy to 65.7%, mainly due to new product launches and active product repricing. Apart from continued growth in agency team (new recruits +19% yoy) and productivity, management also highlights that the ageing population in Hong Kong and increasing migrants could be the mid- to long-term key drivers of domestic insurance demand.

- Performance of key ASEAN markets.** Singapore outperformed other markets with 27% yoy VONB growth in 1H24, fuelled by a 57% yoy growth in ANP on the back of strong sales of long-term savings products. Thailand reported a 16% yoy growth in VONB and 1.5ppt yoy margin expansion, driven by the sale of unit-linked products and protection riders. Malaysia and other markets registered 14%/9% yoy VONB growth respectively.

- EV growth resumed with 3% yoy growth,** thanks to: a) strong VONB growth, b) positive operating variances and assumption changes, and c) a turnaround in investment return variances. Regarding the sensitivity of EV to interest rate movements, AIA disclosed that a 50bp drop in Chinese and US bond yields could lead to a 4% decrease in AIA China's EV and a 3% increase in Hong Kong's EV.

STOCK IMPACT

- New OPAT per share growth target.** AIA provided its first OPAT guidance, targeting to grow its OPAT per share at 9-11% of three-year CAGR over 2023-26. Management noted that the new business growth and effective in-force management are the primary drivers of underlying OPAT growth. Given market concerns about AIA's weaker OPAT growth since the implementation of IFRS 17, despite strong VONB growth, a clear guidance on the OPAT outlook could help restore investor confidence in AIA's profitability.

- Navigating macro headwinds and low interest rate in China.** Despite the economic slowdown in China, management mentioned that insurance demand from their targeted customers, the resilient middle class, remains robust. Regarding falling yield in China, AIA pointed out that their investment assets are predominantly in long-term government bonds to meet the liabilities, and that they actively shift the in-force portfolio toward participating products to mitigate the interest rate risks.

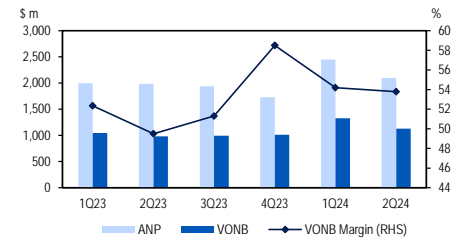
EARNINGS REVISION/RISK

- We revise our 2024-26 VONB growth estimates to 21.4%/15.7%/13.2% respectively,** to factor in better-than-expected sales momentum and margin performance.

VALUATION/RECOMMENDATION

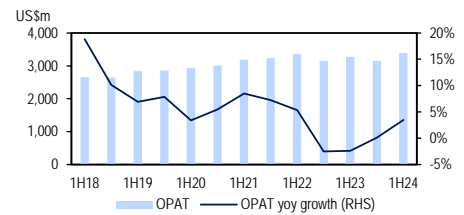
- Maintain BUY with a lower target price of HK\$91.00** as we apply a higher discount rate of 12.2% (vs previously 11.7%) in deriving our appraisal value to reflect the higher market risk premium in Hong Kong market. Our target price implies 1.8x 2024F P/EV, 0.5SD above historical mean. The 1H24 results could mark an inflection point for valuation re-rating as investor concerns related to China have been effectively addressed by the robust sales growth and sequential margin improvement in both China and Hong Kong markets. AIA is now trading at 1.1x 2024F P/EV (-2.5SD) with a shareholder return yield of ~9.%.

ANP, VONB AND VONB MARGIN



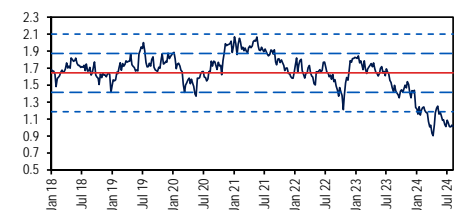
Source: AIA, UOB Kay Hian

OPAT YOY GROWTH



Source: AIA, UOB Kay Hian

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	19,119	20,956	22,906
Premium ceded to reinsurers	(12,078)	(11,595)	(12,663)	(13,744)
Chg in unearned prem reserves	(345)	(478)	(524)	(573)
Net earned premiums	5,091	7,046	7,769	8,590
Claims and insurance benefits	n.a.	n.a.	n.a.	n.a.
G&A exp of insurance ops	n.a.	n.a.	n.a.	n.a.
Underwriting profit/(loss)	5,091	7,046	7,769	8,590
Investment income	1,547	2,539	2,165	1,896
Other income	141	161	183	205
G&A exp of non-insurance ops	n.a.	n.a.	n.a.	n.a.
Pre-tax profit	4,564	7,421	7,675	8,126
Tax	(783)	(1,262)	(1,305)	(1,382)
Minorities	(17)	(28)	(26)	(31)
Net profit	3,764	6,132	6,345	6,714
Net profit (adj.)	3,764	6,132	6,345	6,714
OPAT	6,213	6,798	7,106	7,583
CSM base	53,115	55,928	59,831	64,727
ANP	7,650	8,739	9,746	10,644
VONB	4,034	4,899	5,667	6,413

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	30,199	28,984	27,772
Total liabilities	244,725	256,720	266,313	276,461
Shareholders' funds	41,111	44,271	47,968	51,873
Minority interest - accumulated	483	472	477	478
Total equity & liabilities	286,319	301,463	314,757	328,812

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital-related				
Shareholders' funds/total assets	14.4	14.7	15.2	15.8
Total Assets/equity (x)	7.0	6.8	6.6	6.3
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)	1.2	1.1	1.0	0.9
Adjusted P/E (x)	21.4	12.6	11.8	11.1
Dividend Yield	3.0	3.2	3.4	3.7
Payout ratio	63.2	40.9	40.5	40.9

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Gross premiums, yoy chg	7.3	9.2	9.6	9.3
FYP, yoy chg	50.1	19.3	11.0	9.4
APE, yoy chg	42.8	18.9	10.8	9.3
Investment income, yoy chg	180.8	64.1	(14.7)	(12.4)
Net profit, yoy chg	13.0	62.9	3.5	5.8
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	58.2	60.2
Reported ROE	8.8	14.4	13.8	13.4
Adjusted ROE	8.8	14.4	13.8	13.4

Footnotes: FYP: first year premium; EV: embedded value; NB: new business; VONB: Value of New Business; ANP: Annualised New Premium (ANP)

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