

COMPANY RESULTS

Ping An Insurance Group (2318 HK)

1H24: Inflection Point Is In Sight

Ping An's 1H24 results were in line with the marginal OPAT decline. The life and P&C businesses earnings growth were supported by better investment results and improved CoR. The life business' NBV growth was a miss due to a larger FYP decline against a high base but margin improvement and turnaround in agency headcounts were the bright spots. The continued NBV growth and strong rebound of OPAT in 2H24 could lead to a valuation re-rating. Maintain BUY. Target price: HK\$55.00.

1H24 RESULTS

Year to 31 Dec (Rmbm)	1H24	1H23	yoy change %
L&H insurance	54,657	54,288	0.7
P&C insurance	9,909	9,242	7.2
Banking	14,999	14,714	1.9
Asset management	1,296	1,412	-8.2
Technology	291	1,735	-83.2
Group OPAT attributable	78,482	78,950	-0.6
Group net profit attributable	74,619	69,841	6.8
First-year premium (FYP)	92,218	113,901	(19.0)
New business value (NBV)	22,320	20,112	11.0
Key Ratios (%)	1H24	1H23	yoy change (ppt)
NBV margin	24.2	17.7	6.5
Combined ratio (P&C)	97.8	98.0	-0.2
Net interest margin (Bank)	1.96	2.55	-0.59

Source: Ping An, UOB Kay Hian

RESULTS

- Within expectations.** Ping An Insurance Group (Ping An) delivered largely in-line 1H24 results with operating profit after tax (OPAT) declining 0.6% to Rmb78.5b (vs our estimate of Rmb79b). The OPAT of core businesses (life business, P&C and banking) grew 1.7% yoy to Rmb80.6b while tech and asset management remained key drags with 83%/8% yoy OPAT declines respectively. Net profit increased 6.8% yoy to Rmb74.6b. Interim dividend was flat yoy at Rmb0.93 per share with an unchanged payout ratio of 21%.
- The Life Business NBV growth slid to 11% yoy on a like-for-like basis** in 1H24 from 20.7% in 1Q24, slightly below our forecast of +12% yoy. This is mainly attributed by flattish new business value (NBV) growth against a relatively high base in 2Q23. The first-year premium (FYP) was down 26.3% yoy in 2Q24, but it was cushioned by a 6.5ppt yoy NBV margin improvement to 26.4% due to lower channel expenses, product repricing and better product mix. By channel breakdown, the agency/bancassurance/community grid NBV grew by 10.8%/17.3%/10.9%, respectively. Agent productivity continued to improve with a 32% yoy hike in NBV per head and the long-awaited turnaround in agency headcount was seen in 2Q24(+2.1% qoq to 340,000).

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Insurance revenue (L&H)	91,710	88,587	86,196	83,351	82,665
Insurance revenue (P&C)	385,932	402,045	394,822	402,422	412,559
OPAT	146,895	117,988	141,062	145,869	151,275
Net profit (rep./act.)	111,008	85,665	107,145	112,328	117,498
EPS (Fen)	609.7	470.4	588.4	616.8	645.2
PE (x)	5.0	6.5	5.2	4.9	4.7
P/EV (x)	0.4	0.4	0.4	0.4	0.3
Dividend yield (%)	7.9	8.0	8.9	9.2	9.5
Combined ratio (%)	99.6	100.7	99.1	98.5	98.3
NBM as % of FYP (%)	24.2	23.7	19.3	20.3	21.0
ROE (%)	13.2	9.7	11.5	11.4	11.2
Consensus net profit	-	-	115,124	126,256	135,381
UOBKH/Consensus (x)	-	-	0.93	0.89	0.87

Source: Ping An, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$35.55
Target Price	HK\$55.00
Upside	+54.7%
(Previous TP)	HK\$52.00

COMPANY DESCRIPTION

Ping An Insurance (Group) is one of the largest China Insurance companies. It provides products and services through its L&H Insurance, Property & Casualty Insurance, Banking, Asset Management and Technology segment

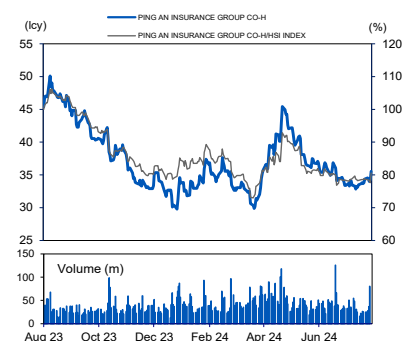
STOCK DATA

GICS sector	Financials
Bloomberg ticker:	2318 HK
Shares issued (m):	7,447.6
Market cap (HK\$m):	745,790.8
Market cap (US\$m):	95,658.3
3-mth avg daily t'over (US\$m):	175.5

Price Performance (%)

52-week high/low	HK\$61.15/HK\$29.80			
1mth	3mth	6mth	1yr	YTD
(1.0)	(22.5)	(6.8)	(22.1)	(3.0)
Major Shareholders				
%				
Shenzhen Investment Holdings Co Ltd	5.3			
Central Huijin Asset Management Ltd.	2.6			
-	-			
FY23 NAV/Share (Rmb)	52.54			
FY23 Solvency Ratio (%)	210.1			

PRICE CHART



Source: Bloomberg

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- Life Business OPAT trended up 1.3% yoy** to Rmb56.3b, underpinned by: a) 12.1% higher investment results, and b) positive operating variances (10.2% yoy), amid a 5.5% decline in contractual service margin (CSM) release. CSM balance inched up 0.8% hoh to Rmb774.4b and release rate remained stable at 9%, but new business CSM dropped 12.6% yoy due to assumption changes at end-23 and the falling interest rate. The new business' CSM surged 7% yoy on a comparable basis. If we include the Rmb24b of cash dividend upstream payment to group in July, the life business embedded value (EV) could rise 7% hoh, mainly due to: a) positive investment and operating variances, b) new business contribution, and c) Rmb13b of market value adjustment.
- P&C results beat on better CoR and investment income.** Underwriting profit jumped 15.7% yoy, driven by: a) a 3.9% increase in insurance revenue, and b) 0.2ppt yoy solid improvement in combined ratio (CoR) to 97.8% on the back of continued effort in scaling down the loss-making guarantee insurance business. Auto CoR deteriorated 1.0ppt yoy to 98.1% due to natural disasters, but it was largely overcome by a 10.9ppt yoy decline in guarantee line CoR. Investment income also increased 6.7% yoy, leading to a 7.2% yoy surge in the OPAT for the property and casualty (P&C) segment.
- Banking: Marginal profit growth.** Ping An Bank reported a 13% yoy revenue decline due to: a) a 59bp margin compression, b) ongoing loan portfolio adjustment, and c) a 20.6% slump in fee income, partly offset by strong other non-interest income (+56.7% yoy) from bond trading. However, Ping An Bank still contributed 1.9% higher OPAT to its parent company following the 28.5% impairment cut. NPL ratio was flat qoq at 1.07% but we are more concerned about the rising special mention loan ratio (+10bp).
- Solid investment income.** Net investment yield fell 0.2ppt yoy to 3.3% due to a lower yield for newly-added debt investments but total investment yield rose 1ppt yoy to 3.5% due to improved performance in equity assets and increasing allocation to fixed income assets held for trading amid bond bulls. Additionally, Ping An deployed more insurance funds to bond (60.7% vs 58.1% in Dec 23) but trimmed their non-standard debt assets and stock market allocations to 7.4% and 8.5% respectively (vs 8.8% and 9.3% in Dec 23). Additionally, real estate exposure also reduced to 4.0% (vs 1Q24: 4.2%).

STOCK IMPACT

- Post 3.0% guaranteed rate era.** The regulator instructed insurers to lower the cap of the guaranteed rate of traditional products again to 2.5% starting September. Management welcomed the regulatory changes as it could lower its liability cost and increase its competitiveness through its "integrated finance + health and elderly care service" business model. Management also noted that its spread risk is manageable as the liability cost of in-force business was below 2.5% and it has narrowed the duration gap to three years by increasing allocation of long-dated low-risk bonds. Additionally, management noted that participating products will be its primary focus, and it expects these products to account for more than 50% of new business sales.

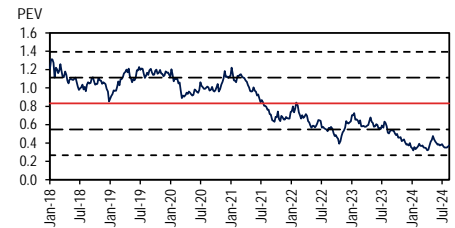
EARNINGS REVISION/RISK

- Lift our 2024-26 earnings forecasts by 2.0%/1.7%/1.0%, respectively** to reflect: a) restored CSM balance growth and better investment service results in the life business, and b) improved underwriting results in the P&C segment, partially offsetting the impact of lower asset growth and margin assumptions in the banking business.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of HK\$55.00.** Our target price is derived from the SOTP valuation method, which implies 0.61x of 2024F group EV. Ping An is trading at depressed valuation 0.4x of 2024F P/EV (-1.5 SD) with a 7.2% dividend yield. We noted that this is a set commendable results for Ping An amid a challenging macro environment in China. Management mentioned that its asset quality in the asset management business is recovering after the one-off impairment in 4Q23 setting the stage for a strong rebound in OPAT in 2H24. Thus, we believe that valuation re-rating is possible, coupled with sustainable NBV growth for the rest of 2024, which is likely given the lower base in 2H24, stronger growth in the bancassurance channel, and the potential buying spree ahead of the upcoming guaranteed rate cut.

P/EV BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Insurance revenue (L&H)	88,587	86,196	83,351	82,665
Insurance revenue (P&C)	313,458	308,626	319,071	329,895
Claims and insurance benefits	(315,541)	(305,952)	(314,440)	(324,140)
Underwriting profit/(loss)	100,304	102,555	101,201	102,206
Investment income	37,905	47,245	52,550	56,311
Interest inc. (Banking ops)	117,991	122,592	132,340	144,146
Other income	45,293	44,557	45,846	47,391
G&A exp of non-insurance ops	(105,263)	(122,444)	(130,924)	(140,361)
OPAT	117,988	141,078	145,905	151,334
Net profit	85,665	107,145	112,328	117,498
NBV	39,261	33,241	38,311	43,372
CSM Base	768,440	745,062	720,609	696,426

OPERATING RATIO

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Capital-related				
Solvency ratio	208.0	210.1	212.2	214.3
Shareholders' funds/total assets	7.8	7.7	7.6	7.5
Total Assets/equity (x)	12.9	13.0	13.1	13.3
Liquidity				
Liquid assets/short-term liabilities	98.1	103.1	108.6	115.4
Liquid assets/total assets	41.1	41.5	41.8	41.9
Valuation (%)				
P/EV (x)	0.4	0.4	0.4	0.3
NB multiple (x)	0.0	0.0	0.0	0.0
Adjusted P/E (x)	6.5	5.2	4.9	4.7
Dividend Yield	8.0	8.9	9.2	9.5
Payout ratio	51.7	46.1	45.5	45.1

Footnotes: FYP: first year premium; EV: embedded value; NB: new business; NBM: new business margin; APE: annual premium equivalent; CSM: contractual service margin

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Cash	1,075,053	1,195,129	1,280,344	1,359,021
Loans and advances	3,318,122	3,577,884	3,864,115	4,173,244
Investments (equity & fixed inc)	6,377,233	6,803,903	7,277,558	7,793,159
Reinsurers' share of ins liabilities	22,218	24,440	26,884	29,572
Associates & JVs	258,877	284,765	313,241	344,565
Fixed assets (incl prop)	171,807	182,209	185,999	194,276
Other assets	360,159	397,362	439,376	486,892
Total assets	11,583,469	12,465,691	13,387,519	14,380,731
Assets sold (repo agreement)	241,803	265,983	292,582	307,211
Customer deposits	3,534,539	3,626,802	3,698,573	3,722,665
Insurance payables	105	105	106	107
Insurance contract liabilities	4,159,801	4,492,585	4,851,992	5,240,151
Subordinated debts	964,007	1,224,289	1,554,847	1,974,656
Other liabilities	1,454,250	1,547,897	1,597,642	1,655,949
Total liabilities	10,354,505	11,157,661	11,995,742	12,900,738
Shareholders' funds	899,011	956,849	1,018,112	1,082,644
Minority interest - accumulated	329,953	351,181	373,665	397,349
Total equity & liabilities	11,583,469	12,465,691	13,387,519	14,380,731
L&H EV	830,974	876,010	932,329	996,222
Group EV	1,390,126	1,466,262	1,556,193	1,655,186

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Growth				
Gross premiums, yoy chg	(3.4)	(2.7)	(3.3)	(0.8)
FYP, yoy chg	44.6	8.7	10.3	10.0
NBV, yoy chg	36.2	(14.9)	15.3	13.3
Investment income, yoy chg	34.5	41.0	40.8	6.9
Net profit, yoy chg	(22.8)	25.1	4.8	4.6
Profitability				
Combined ratio (P&C)	100.7	99.1	98.5	98.3
Net investment yield	4.2	4.0	4.2	4.2
Total investment yield	3.0	4.6	4.7	4.7
NBM as % of APE	6.5	5.1	5.4	5.5
NBM as % of FYP	23.7	19.3	20.3	21.0
Reported ROE	9.7	11.5	11.4	11.2

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