

COMPANY RESULTS

Prudential (2378 HK)

2022: Results Below Expectations, Better Recovery Ahead

Pru's 2022 results missed our expectations, mainly affected by rising interest rates. In 2M23, Pru recorded double-digit APE growth, with the reopening of the Hong Kong-China border expected to drive Pru's premium growth, resulting in a strong growth in new business value. The Board also suggested a second interim dividend of 13.04 US cents per share. Maintain BUY with target price reduced to HK\$141.90 as we trim our 2023/24 NBP and EV forecasts.

2022 RESULTS

Annual premium equivalent (APE)	2022	2021	yoy change (%)
Hong Kong	522	550	-5.1%
China JV	884	776	13.9%
Indonesia	247	252	-1.9%
Malaysia	359	461	-22.1%
Singapore	770	743	3.6%
Other life insurance markets	1,611	1,412	14.1%
Total Asia	4,393	4,194	4.7%
New business margin (APE %)	2022	2021	
Hong Kong	74%	134%	
China JV	44%	45%	
Indonesia	51%	50%	
Malaysia	44%	50%	
Singapore	65%	70%	
Other life insurance markets	39%	40%	
Total Asia	50%	60%	
New business profit (NBP)	2022	2021	yoy change (%)
Hong Kong	384	736	-47.8%
China JV	387	352	9.9%
Indonesia	125	125	0.0%
Malaysia	159	232	-31.5%
Singapore	499	523	-4.6%
Other life insurance markets	630	558	12.9%
Total Asia	2,184	2,526	-13.5%
Asia Life Insurance	3,846	3,709	3.7%
Eastspring	260	314	-17.2%
Total Asia Profit	4,106	4,023	2.1%
IFRS Profit for the year	1,007	(2,813)	n.a

Source: Prudential, UOB Kay Hian

RESULTS

- New business profitability below expectations.** Prudential's (Pru) 2022 results came in below our expectations, with new business profit (NBP) down 13.5% yoy to US\$2,184m vs our full-year NBP forecast of US\$2,429m. The negative deviation was due to rising interest rates which led to both higher risk discount rates and higher assumed fund earned rates being applied. Nevertheless, Pru's annual premium equivalent (APE) sales still recovered 4.7% yoy to US\$4,393m from 2022 due to a better yoy recovery in some operating countries.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Gross written premiums	24,217	24,701	27,171	29,889	32,877
Net earned premiums	22,373	22,820	25,103	27,613	30,374
Underwriting profit/(loss)	23,014	23,494	25,843	28,427	31,270
Net profit (rep./act.)	(2,813)	1,007	2,066	2,654	3,011
Net profit (adj.)	2,214	1,007	2,066	2,654	3,011
EPS (US\$)	0.8	0.4	0.8	1.0	1.1
PE (x)	16.8	37.8	18.4	14.4	12.7
*P/EV (x)	0.8	0.9	0.9	0.8	0.7
Dividend yield (%)	1.2	1.3	1.1	1.4	0.0
ROE (%)	11.7	5.6	10.5	12.2	12.6
Consensus net profit	-	-	2,612	2,947	3,432
UOBKH/Consensus (x)	-	-	0.79	0.90	0.88

Source: Prudential, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$108.80
Target Price	HK\$141.90
Upside	+30.4%
(Previous TP)	HK\$146.60

COMPANY DESCRIPTION

Prudential is an international company that provides a wide assortment of insurance and investment products and services. Insurance products include life, accident and health, and property and casualty, as well as fixed and variable annuities. Prudential's services include personal and group pension plans, equity plans, mortgage accounts and deposit accounts.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	2378 HK
Shares issued (m):	2,749.7
Market cap (HKDm):	299,164.5
Market cap (US\$m):	38,111.1
3-mth avg daily t'over (US\$m):	3.8

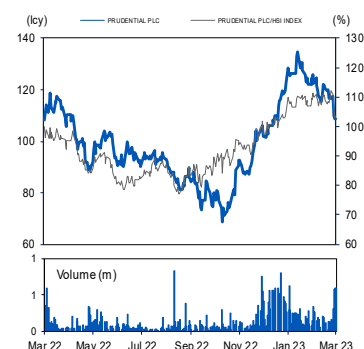
Price Performance (%)

52-week high/low		HKD134.80/HKD68.75		
1mth	3mth	6mth	1yr	YTD
(11.0)	2.6	27.4	4.9	(0.8)

Major Shareholders

	%
BlackRock Inc	8.61
FY23 NAV/Share (USD)	7.52
FY21 Net Debt/Share (HK\$)	-

PRICE CHART



Source: Bloomberg

ANALYST(S)

Sabrina Soh
+603 2147 1913
sabinasoh@uobkayhian.com

- China and Hong Kong.** China's APE and NBP achieved impressive growth of 19% yoy and 9.9% yoy, reaching US\$884m and US\$387m respectively, despite COVID-19-related restrictions. The growth was driven by a diversified distribution strategy leveraging a high-quality agency force and bancassurance, and strong partnerships with banks providing customer-centric protection and savings solutions. In Hong Kong, new business profit declined by 47.8% yoy to HK\$384m due to lower sales volume and margin contraction, with APE declining by 5.1% yoy and new profit margin falling by 60ppt yoy, mainly caused by higher US interest rates impacting new business profitability and channel and product mix lowering margins.
- Other Asian businesses.** Indonesia's new business profit increased by 4% yoy, reflecting higher sales volumes and a small increase in profit margin to 51%. Singapore's new business profit declined by 2% yoy, with the impact from lower profit margins, mainly as a result of adverse economics and the impact of changes in product mix. Meanwhile, Malaysia's new business profit was down 27% yoy, reflecting lower sales volumes and profit margins, which were adversely affected by the lower level of agency sales and higher interest rates.
- Second interim dividend announced.** Management announced the second dividend of 13.04 US cents per share, resulting in a full-year dividend of 18.78 US cents per share, up 9% yoy.

STOCK IMPACT

- More room for growth in Hong Kong.** According to management, Mainland Chinese Visitors (MCV) have been observed coming in as the border reopens, but only at 40-45% of the peak custom level seen in 2018-19. Pru has a total workforce of around 19,000, with 80% joining before the pandemic, and 10,000 agents focused on Mainland Chinese visitors. The first wave of customers tends to be more affluent, with 58% of MCV policyholders being new to Pru as of Feb 23, leading to an increase in demand for savings products. Pru is now focusing on recruitment to replenish its workforce; historically Pru recruited about 6,000 employees per annum in 2018-19. With economic activity on the rise, Pru will continue to drive recruitment efforts to tackle the demand from MCV. Additionally, Pru's recent opening of the Macau branch strengthens operations in the Greater Bay Area (GBA), and the company plans to launch the branch in 2Q23, according to management.
- Positive growth in 2M23.** Management shared that Pru saw a remarkable 15% growth in APE in 2M23, and this momentum is set to continue due to the agency force and bancassurance channel built by management in 2022. In China, Pru is working with 59 banks across 6,687 branches and was able to increase outlets by 11% in 2022. Pru is also building a quality agency force in China, with Million Dollar Round Table (MDRT) agents growing to 1,000 and agency productivity rising by 9%. Pru China's focus for 2023 is on ensuring a relevant customer proposition, primarily in protection and savings, including retirement planning, which aligns with the government's agenda and regulators' focus on long-term savings and protection.
- Pru saw a 9% increase in recruitment in Asia and Africa in 2022, with recruitment drive and activity growth up by 6% thanks to the rise in economic activity and market openings. These efforts are expected to lead to meaningful premium growth, further boosting the demand for insurance products.

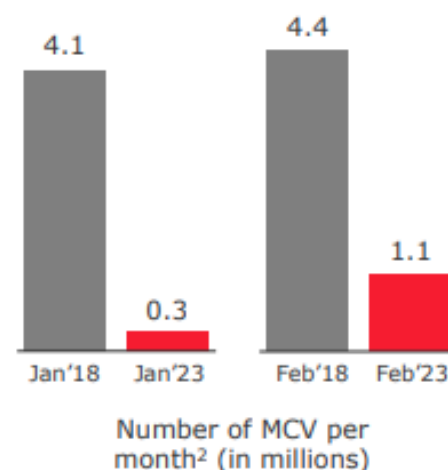
EARNING REVISION/RISK

- Trim our 2023-24 earnings forecasts, and introduce 2025 EV and NBP.** We have trimmed our 2023/24 EV by 6% and 2023/24 NBP by 6% and 8% respectively. Introduce our 2025 EV and NBP of US\$52,283m and US\$3,982m respectively.

VALUATION/RECOMMENDATION

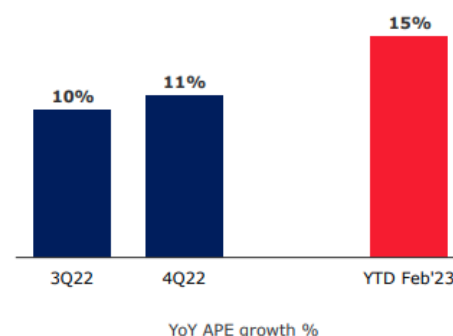
- Maintain BUY but cut target price to HK\$141.90.** We remain positive on Pru's diversified business portfolio in different countries, national wide footprint in China and position as the direct beneficiary of the reopening of the Hong Kong-China border. Hence, we maintain BUY but cut target price to HK\$141.90 based on EV-based SOTP approach and lower 2023 earnings. Our target price implies 2023F 1.15x P/EV and 24.05x 2023F PE.

VISITOR NUMBERS GROWING



Source: Prudential

STRONG APE GROWTH MOMENTUM



Source: Prudential

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Gross written premiums	24,701	27,171	29,889	32,877
Chg in unearned prem reserves	(1,881)	(2,069)	(2,276)	(2,503)
Net earned premiums	22,820	25,103	27,613	30,374
Other exp of insurance opss	673	740	814	896
Underwriting profit/(loss)	23,494	25,843	28,427	31,270
Investment income	3,591	3,950	4,345	4,779
Interest inc. (Banking ops)	(19,857)	(21,842)	(24,026)	(26,429)
Other income	673	740	814	896
Pre-tax profit	1,461	2,475	3,104	3,506
Tax	(454)	(409)	(449)	(494)
Net profit	1,007	2,066	2,654	3,011
Net profit (adj.)	1,007	2,066	2,654	3,011

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Cash	7,887	8,676	9,543	10,498
Loans and advances	2,818	3,100	3,410	3,751
Investments (equity & fixed inc)	67,761	74,537	81,991	90,190
Reinsurers' share of ins liabilities	10,728	11,801	12,981	14,279
Associates & JVs	2,401	2,641	2,906	3,196
Fixed assets (incl prop)	526	578	636	700
Other assets	125,895	138,484	152,333	167,566
Total assets	218,942	240,744	264,726	291,107
Assets sold (repo agreement)	245	270	297	326
Insurance contract liabilities	167,107	183,817	202,199	222,419
Other liabilities	32,600	35,768	39,252	43,085
Total liabilities	199,952	219,855	241,747	265,831
Shareholders' funds	18,797	20,676	22,744	25,019
Minority interest - accumulated	194	213	234	258
Total equity & liabilities	218,942	240,744	264,726	291,107
Net goodwill	926	926	926	927

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital-related				
Shareholders' funds/total assets	8.6	8.6	8.6	8.6
Total Assets/equity (x)	11.6	11.6	11.6	11.6
Liquidity				
Liquid assets/short-term liabilities	1,099.2	1,099.2	1,099.2	1,099.2
Liquid assets/total assets	13.0	13.0	13.1	13.1
Valuation (%)				
P/EV (x)	0.9	0.9	0.8	0.7
NB multiple (x)	0.0	0.0	0.0	0.0
Adjusted P/E (x)	37.8	18.4	14.4	12.7
Dividend Yield	1.3	1.1	1.4	0.0
Payout ratio	50.9	20.0	20.0	n.a.

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Gross premiums, yoy chg	2.0	10.0	10.0	10.0
Net profit, yoy chg	n.a.	105.2	28.5	13.4
Profitability				
Reported ROE	5.6	10.5	12.2	12.6
Adjusted ROE	5.6	10.5	12.2	12.6

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