

## COMPANY RESULTS

### AIA Group (1299 HK)

1H23: VONB In Line; Margin Slumps A Concern

AIA's 1H23 VONB came in largely within our estimates, driven by the return of MCV in Hong Kong. The huge margin compression in 1H23 was due to the hot sale of low-margin participating products. AIA continues to gain growth momentum in ASEAN but the company faces slower growth in China. We trim our 2023/24 EV per share forecast by 5% after revising our long-term VONB margin and VONB growth assumptions. Maintain BUY with a lower target price of HK\$95.00.

#### 1H23 RESULTS

Year to 31 Dec (US\$ m)	VONB Margin %			Value of new business (VONB)		
	1H23	1H22	yoy ppt chg	1H23	yoy chg (AER)*	yoy chg (CER)*
Hong Kong	58.5%	69.3%	-10.8 ppt	681	111%	111%
Thailand	91.6%	83.8%	7.8ppt	327	26%	28%
Singapore	64.8%	65.9%	-1.1ppt	173	7%	5%
Malaysia	65.1%	67.2%	-2.1ppt	170	6%	10%
Mainland China	50.3%	67.4%	-17.1ppt	601	7%	14%
Others markets	28.7%	29.1%	-0.4ppt	212	2%	8%
Total VONB	50.8%	55.2%	-4.4ppt	2,029	32%	37%
EV per share (US\$)				5.89	0.5%	
OPAT per share (US\$)				0.28	3.8%	

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

#### RESULTS

- **1H23 VONB in line.** AIA's value of new business (VONB) reached US\$2,029m in 1H23, a 32% yoy increase on AER basis, representing 52% of our full-year VONB forecast of US\$4,197m. The VONB of AIA is in line with our estimates and 5% above consensus'. This is driven by more than double the growth in Hong Kong following the return of mainland China visitors (MCV) and double-digit growth in Mainland China, ASEAN and Tata AIA Life in India.
- **VONB margin shed 4.4ppt yoy to 50.8% in 1H23 and fell below 50% in 2Q23 due to unfavorable change in product mix.** The margin compression was mainly due to the growth of low-margin long-term savings product sales to MCV in Hong Kong and an increase in sales via bancassurance channel and long-term savings products within mainland China. To provide a quantifiable breakdown, 5.1ppt of margin reduction is attributed to changes in product mix and 1.4ppt is due to a shift in channel mix. We expect the product mix changes in coming quarters to continue until the Fed starts cutting rates and reducing the attractiveness of participating products to Chinese customers.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Gross written premiums	37,123	36,519	38,710	41,033	43,495
Net earned premiums	34,444	33,912	35,712	37,525	39,391
Underwriting profit/(loss)	(3,596)	16,287	(2,635)	(3,725)	(4,985)
Net profit (rep./act.)	7,488	352	7,974	8,550	9,195
Net profit (adj.)	7,488	352	7,974	8,550	9,195
EPS (US\$ cent)	62.0	2.9	66.0	70.8	76.1
PE (x)	14.4	306.1	13.5	12.6	11.7
*P/EV (x)	1.5	1.5	1.5	1.5	1.4
Dividend yield (%)	2.1	2.2	2.3	2.4	2.5
Combined ratio (%)	0.0	0.0	0.0	1.0	2.0
ROE (%)	12.1	0.6	15.1	14.6	14.3
Consensus net profit	-	-	6,810	7,650	8,377
UOBKH/Consensus (x)	-	-	1.17	1.12	1.10

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

## BUY

(Maintained)

Share Price	HK\$69.95
Target Price	HK\$95.00
Upside	+35.8%
(Previous TP)	HK\$104.65)

#### 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

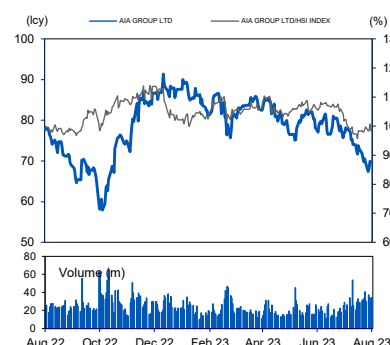
#### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	1299 HK
Shares issued (m):	11,527.3
Market cap (HK\$m):	806,334.4
Market cap (US\$m):	102,827.8
3-mth avg daily t'over (US\$m):	219.6

#### Price Performance (%)

52-week high/low		HK\$91.35/HK\$57.95		
1mth	3mth	6mth	1yr	YTD
(11.0)	(10.7)	(13.7)	(6.8)	(19.4)
Major Shareholders				%
-				-
FY23 NAV/Share (US\$)				4.62
FY23 Solvency Ratio (%)				

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- **Interim dividend of HK\$0.42 per share was declared**, indicating a 5% yoy increase. In addition to regular dividends, AIA's ongoing US\$10b share buy-back programme has to date returned US\$5.5b to shareholders, reducing the outstanding share by 5% since launching in Mar 22.

#### STOCK IMPACT

- **Hong Kong VONB at 70% of pre-pandemic level.** Hong Kong delivered strong results in 1H23 by doubling VONB, mainly driven by increased demand from MCV and double-digit growth from domestic customers. The pent-up demand from MCV was not evident in 1H23 and we only saw moderate recovery as the number of MCVs in 2Q23 was around 50% that seen in 2019. However, some positive signs such as increase in July MCV count to 70% of pre-pandemic level suggest that the trend of MCV returns may persist in 2H23.
- **Growth momentum in China gains traction.** AIA China's performance was below our expectations of 30% growth as we only saw 14%/7% yoy growth in VONB on CER/AER basis. This is because AIA China adopts a more cautious approach in selling whole life insurance products with 3.5% guaranteed rate compared with its domestic life insurer peers. Despite that, we are still optimistic about AIA China's expansion plan and future growth, given few catalysts in place such as: a) launch of new operations in few provinces, b) increasing agent productivity, and c) incremental growth from strategic bancassurance partnerships through PSBC and BEA. Additionally, AIA China may also face less growth pressure after the suspension of 3.5% whole life insurance products.
- **ASEAN market insured company resilience growth in 1H23.** The ASEAN region is a key growth engine for AIA and accounted for one-third of total VONB in 1H23. AIA have delivered aggregate VONB growth of 16%, and continue to rank first in ASEAN by new business sales. AIA Thailand achieved a significant 26% yoy VONB growth, supported by its leading Premier Agency strategy and Financial Adviser Programme. Moving forward, we believe that AIA may continue to lead in this region by leveraging its unrivalled distribution multi-channel strategy.
- **CSM base grew 19% yoy in 1H23** to US\$54,858m before variances and others, exchange rates and release. Like VONB, new business contractual service margin (CSM) grew by 14%, driven by the strong sales growth achieved across AIA's geographical segments. The CSM release rate is slightly higher than last year (9.7% in 1H23 vs 9.5% in 1H22), due to the addition of new businesses in Hong Kong with a higher CSM release rate and upselling activities for in-force business in Mainland China. AIA's new business CSM over VONB ratio remains higher than its comparable peers, representing a prudent EV measurement by the company.
- **Net investment in 1H23.** Net investment after expenses increased by 9% to US\$1.7b, due to higher equity asset balances and increased long-term investment return assumptions. Both investment return and fixed income yield of AIA non-par and surplus asset improved in 1H23, above the long-term return assumption. Although AIA has a wide reach in mainland China, the company's exposure to real estate and LGFV is relatively small with more than 90% of AIA China's fixed income assets invested in treasury bonds.

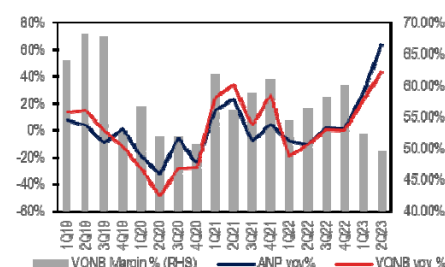
#### EARNINGS REVISION/RISK

- **Reduce our 2023/24 EV per share forecast by 5% to US\$6.23/6.48.** We revise our long-term VONB assumption to 57.0% and reduce our 2023/24 VONB growth forecast by 7ppt/2ppt to 17.7%/12.0% after considering the deterioration of VONB margin and lower growth in mainland China.

#### VALUATION/RECOMMENDATION

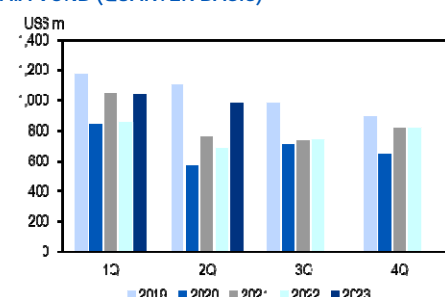
- **Maintain BUY with a lower target price of HK\$95.00**, to factor in lower VONB margin and VONB growth assumptions. We roll over to 2024 valuation and our new target price is pegged to 2024 P/EV 1.88x.

#### AIA VONB MARGIN, ANP AND VONB YOY GROWTH



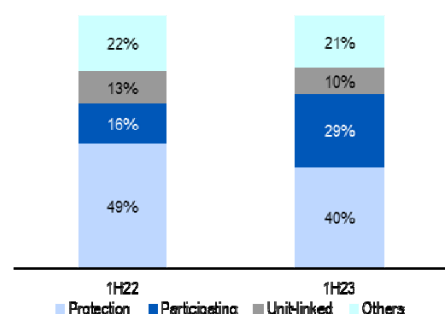
Source: AIA, UOB Kay Hian

#### AIA VONB (QUARTER BASIS)



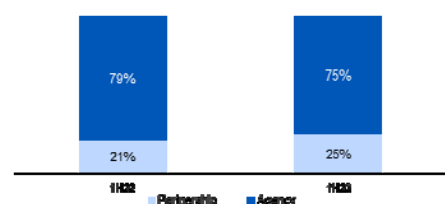
Source: AIA, UOB Kay Hian

#### AIA PRODUCT MIX



Source: AIA, UOB Kay Hian

#### AIA DISTRIBUTION CHANNEL MIX



Source: AIA, UOB Kay Hian

#### AIA AND PEERS CSM INDICATORS COMPARISON

End of 2022	AIA*	Pru	Ping An
CSM Release Rate (%)	9.7	10.0	9.0
New CSM over NBV (x)	1.7	1.0	1.2

\* As disclosed in 1H23 results

Source: Companies, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Gross written premiums	36,519	38,710	41,033	43,495
Premium ceded to reinsurers	(2,607)	(2,998)	(3,508)	(4,104)
<b>Net earned premiums</b>	<b>33,912</b>	<b>35,712</b>	<b>37,525</b>	<b>39,391</b>
Claims and insurance benefits	(9,964)	(30,304)	(32,803)	(35,507)
G&A exp of insurance ops	(7,267)	(7,630)	(8,012)	(8,412)
Other exp of insurance opss	(394)	(414)	(434)	(456)
<b>Underwriting profit/(loss)</b>	<b>16,287</b>	<b>(2,635)</b>	<b>(3,725)</b>	<b>(4,985)</b>
Investment income	(15,156)	11,473	13,194	15,173
Other income	354	310	320	321
<b>Pre-tax profit</b>	<b>523</b>	<b>8,128</b>	<b>8,688</b>	<b>9,320</b>
Tax	(171)	(154)	(139)	(125)
<b>Net profit</b>	<b>352</b>	<b>7,974</b>	<b>8,550</b>	<b>9,195</b>
Net profit (adj.)	352	7,974	8,550	9,195

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Cash	4,490	4,266	3,839	3,455
Loans and advances	9,590	9,878	10,174	10,480
Investments (equity & fixed inc)	259,084	246,361	291,044	345,560
Reinsurers' share of ins liabilities	4,741	5,216	6,207	7,386
Associates & JVs	645	632	638	645
Fixed assets (incl prop)	2,607	2,555	2,580	2,606
Other assets	42,984	41,046	43,219	45,523
<b>Total assets</b>	<b>324,141</b>	<b>309,953</b>	<b>357,702</b>	<b>415,654</b>
Assets sold (repo agreement)	1,509	1,433	1,362	1,293
Insurance contract liabilities	263,610	275,569	302,313	331,708
Other liabilities	8,742	(23,362)	(7,751)	14,915
<b>Total liabilities</b>	<b>273,861</b>	<b>253,640</b>	<b>295,924</b>	<b>347,917</b>
Shareholders' funds	49,804	55,826	61,283	67,232
Minority interest - accumulated	476	486	496	505
<b>Total equity &amp; liabilities</b>	<b>324,141</b>	<b>309,953</b>	<b>357,702</b>	<b>415,654</b>

### OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Capital-related</b>				
Shareholders' funds/total assets	15.4	18.0	17.1	16.2
Total Assets/equity (x)	6.5	5.6	5.8	6.2
<b>Liquidity</b>				
Liquid assets/short-term liabilities	127.2	118.1	108.2	99.2
Liquid assets/total assets	5.2	5.4	4.6	3.9
<b>Valuation (%)</b>				
P/EV (x)	1.5	1.5	1.5	1.4
NB multiple (x)	0.0	0.0	0.0	0.0
Adjusted P/E (x)	306.1	13.5	12.6	11.7
Dividend Yield	2.2	2.3	2.4	2.5
Payout ratio	665.5	30.8	30.2	29.5

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Growth</b>				
Gross premiums, yoy chg	(1.6)	6.0	6.0	6.0
Net profit, yoy chg	(95.3)	2,165.4	7.2	7.5
<b>Profitability</b>				
Loss ratio	0.0	0.0	1.0	2.0
Expense ratio	0.0	0.0	0.0	0.0
Combined ratio	0.0	0.0	1.0	2.0
Reported ROE	0.6	15.1	14.6	14.3
Adjusted ROE	0.6	15.1	14.6	14.3

**Footnotes:** FYP: first year premium; EV: embedded value; NB: new business; NBM: new business margin; APE: annual premium equivalent.

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