

SECTOR UPDATE

Insurance – China

1H23 Results Wrap-up: Delivering Impressive NBV Growth As Expected

Both domestic and regional life insurers delivered strong NBV growth in 1H23 after China's reopening. P&C insurers continued their sustained premium growth with a slight increase in CoR. We expect domestic and regional life insurers' NBV growth to diverge in 2H23 due to the suspension of higher-rate products in China and the attractive yield in Hong Kong, which is leading to higher growth in the MCV segment. Maintain OVERWEIGHT. Top picks: PICC P&C and Prudential.

WHAT'S NEW

• **Life insurers regained strong NBV growth momentum after reopening.** As China lifted its pandemic measures in late-22, the pent-up demand for insurance products fuelled the new business value (NBV) growth of both domestic and regional life insurers in 1H23 after three years of sluggish performance.

- **Domestic life insurers:** The total premium income and NBV of domestic life insurers grew by 13% and 28% respectively in 1H23. The robust NBV recovery was underpinned by: a) vast demand of life insurance products with 3.5% rate, b) improving agent productivity after the initial success of life reform, and c) rapid growth of the bancassurance channel.

- **Regional life insurers:** After the removal of cross-border restrictions, Mainland Chinese visitors (MCV) have gradually returned to Hong Kong, leading to a significant increase in life insurance sales to mainlanders, reaching HK\$31.9b in 1H23 – a 59-fold increase from the previous year and surpassing the pre-pandemic level of HK\$26.3b in 1H19. As a result, regional insurers AIA and Prudential reported NBV growth of 111% and 218%, respectively, in Hong Kong. Additionally, these regional insurers have also benefitted from their diversification strategy, with both AIA and Prudential posting double-digit NBV growth in emerging countries such as ASEAN and the India markets.

• **P&C insurers maintain robust premium growth of 9.7% yoy** on commendable non-auto growth (17.3% yoy). Auto premium growth moderated in 1H23 (+5.5% yoy), due to the relatively slow growth in new auto sales on a high-base basis. The property and casualty (P&C) players continue to focus on product structure optimisation while the proportion of non-auto insurance premium expanded by 2.5ppt to 38.2% of total premium.

• **Life insurers' mom premium growth turned negative in August after end of 3.5% rate party.** As per our expectations, the suspension of life products with 3.5% rate in July has significantly hindered life insurance sales in August. Most life insurers experienced a negative double-digit mom growth in premium income, with Ping An Life at -15% mom, New China Life at -29% mom, PICC Life at -11% mom, and CPIC Life at -31% mom. The exception was China Life, which achieved a 2.6% mom premium growth. On a yoy basis, only Ping An Life, PICC Life, and CPIC Life reported positive yoy growth at 2%, 3%, and 71%, respectively.

OVERWEIGHT

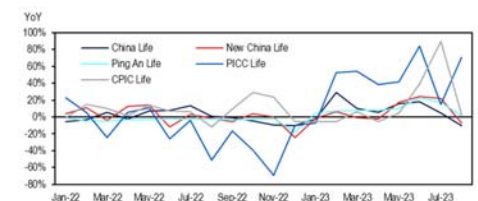
(Maintained)

SECTOR PICKS

| Company | Ticker | Rec | Share Price (lcy) | Target Price (lcy) |
|------------|---------|-----|-------------------|--------------------|
| PICC P&C | 2328 HK | BUY | 9.75 | 11.00 |
| Prudential | 2378 HK | BUY | 89.05 | 150.00 |

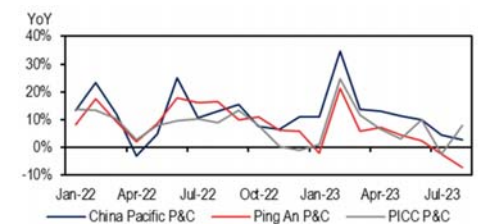
Source: UOB Kay Hian

LIFE INSURER PREMIUM YOY GROWTH



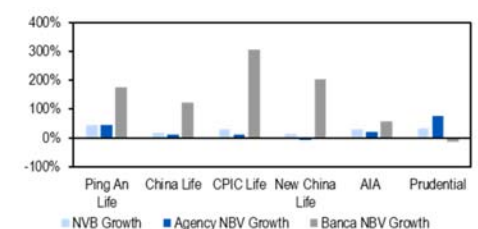
Source: Life Insurers, UOB Kay Hian

P&C INSURER PREMIUM YOY GROWTH



Source: P&C Insurers, UOB Kay Hian

LIFE INSURER NBV GROWTH IN 1H23



Source: Life Insurers, UOB Kay Hian

PEER COMPARISON

| Company | Ticker | Rec | Current Price (lcy) | Target Price (lcy) | Market Cap (lcy m) | Upside/ (Downside) to TP (%) | PE | | P/B | | P/EV | | Yield | | ROE | |
|------------|---------|-----|---------------------|--------------------|--------------------|------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | | | | | | 2023F (x) | 2024F (x) | 2023F (x) | 2024F (x) | 2023F (x) | 2024F (x) | 2023F (%) | 2024F (%) | 2023F (%) | 2024F (%) |
| AIA | 1299 HK | BUY | 65.55 | 95.00 | 754.9 | 44.9 | 12.9 | 12.0 | n.a | n.a | 1.4 | 1.4 | 2.4 | 2.5 | 15.1 | 14.6 |
| Prudential | 2378 HK | BUY | 89.05 | 150.00 | 245.2 | 68.4 | 15.1 | 11.8 | n.a | n.a | 0.7 | 0.7 | 1.3 | 1.7 | 10.5 | 12.2 |
| Ping An | 2318 HK | BUY | 46.20 | 73.00 | 908.2 | 58.0 | 5.4 | 4.8 | n.a | n.a | 0.5 | 0.5 | 6.1 | 6.7 | 14.9 | 14.8 |
| PICC P&C | 2328 HK | BUY | 9.75 | 11.00 | 216.9 | 12.8 | 6.2 | 5.5 | 0.8 | 0.7 | n.a | n.a | 5.7 | 6.4 | 13.6 | 14.1 |

Source: Bloomberg, UOB Kay Hian

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ESSENTIALS

- NBV margin compressed due to changes in product mix.** Life insurers' 1H23 NBV margin slipped by 0.7ppt yoy to 26.9% on average due to a shift in product mix towards low-margin savings products. Regional insurers experienced a more significant margin dilution, with AIA at -4.4 ppt yoy and Prudential at -1.6 ppt yoy, primarily leading to the interest rate gap between Hong Kong and Mainland China, which led many MCVs to rush to Hong Kong to purchase higher-yield savings products. Domestic insurers faced a similar situation but saw a partial offset from margin improvements in the bancassurance channel, driven by an increasing proportion of regular premiums. We anticipate that the NBV margin of life insurers will improve in the coming quarters, driven by: a) the gradual uptick in traditional protection product sales, and b) a reduction in commissions paid to banks in the bancassurance channel.
- We see upside potential in the MCV segment.** Although 1H23 insurance sales to MCVs surpassed the pre-pandemic level, the number of MCV arrivals in 2Q23 was just around 50% of the figures seen in 2019. Additionally, MCV arrivals in July and August reached 70% of the 2019 level and we anticipate this percentage to get higher in September and October due to the Golden Week holiday. Hence, we expect the strong growth momentum from MCVs to prevail for the rest of the year, continuing to boost the NBV growth of regional insurers.
- Expect normalisation in 2H23 for domestic life insurers.** Although the premium income growth of life insurers experienced a significant decline in August on a mom basis due to the suspension of life products with a 3.5% rate, we maintain a cautious optimism regarding the sustained growth momentum of domestic life insurers in 2H23. Our view is supported by the resilient demand for savings insurance products, driven by their relatively higher yields and the guarantee of returns. These factors make savings insurance products more attractive than the alternative options such as fixed deposits and wealth management products, especially in the context of the low interest rate environment and volatile equity market.
- Higher combined ratio after travel demand recovery.** The combined ratio (CoR) of P&C insurers in 1H23 increased by 0.6ppt yoy to 97.3%, mainly due to a 0.5 ppt deterioration in the claim ratio. The underwriting CoR of auto insurance, on average, rose by 1.6 ppt yoy to 97.3% due to an increase in the claim ratio following the economic reopening and the subsequent growth in traffic. However, the market leader, PICC Property & Casualty (PICC P&C) outperformed its peers with just a marginal increase in CoR (+0.1ppt yoy vs Ping An P&C: +0.9ppt yoy, CPIC P&C: +0.6ppt yoy), thanks to its refined risk management and optimised business structure to stabilise its auto claim ratio.

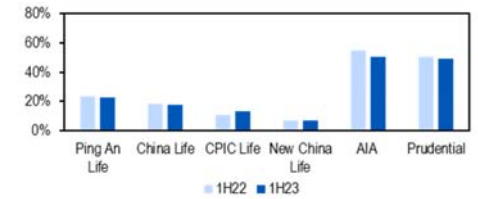
ACTION

- Maintain OVERWEIGHT on the insurance sector.** We prefer P&C players and regional life insurers over the domestic life insurers for now as the NBV growth of domestic life insurers may encounter a bottleneck in 2H23 since some insurance sales demand has been frontloaded into 1H23. Our top picks are PICC P&C and Prudential.

After the recent price correction, the valuation of life insurers is approaching its five-year historical low level as of Oct 22, which we deem very attractive after pencilling in the strong NBV recovery in 1H23.

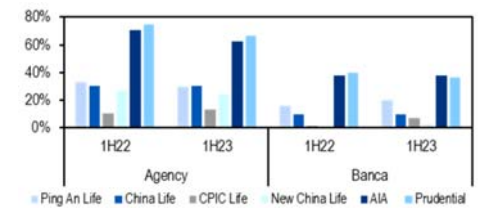
- PICC Property & Casualty (2328 HK/BUY/Target: HK\$11.00).** We prefer PICC among domestic P&C insurers due to: a) its market leading position with 34.3% of market share in China market, and b) it optimising its business structure and strengthening risk control capabilities have led to a more sustainable CoR. Maintain BUY with a higher target price of HK\$11.00, pegging to 0.88x 2024F P/B to reflect robust premium growth in August.
- Prudential PLC (2378 HK/BUY/Target: HK\$150.00).** We like Prudential for: a) its diversified business portfolio in different countries, b) its sustainable margin and balanced product mix due to the strategy chosen, c) the pick-up in MCV arrivals in 3Q23 which continues to boost NBV growth in Hong Kong, and d) its impressive growth in ASEAN and India. Maintain BUY with a higher target price of HK\$150.00, implying 2024F 1.16x P/EV.

LIFE INSURER NBV MARGIN TREND



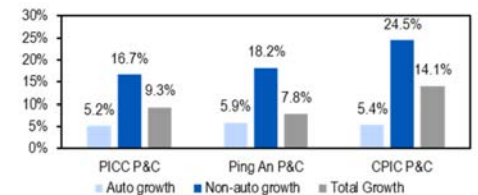
Source: Life insurers, UOB Kay Hian

LIFE INSURER NBV MARGIN BY DISTRIBUTION CHANNEL



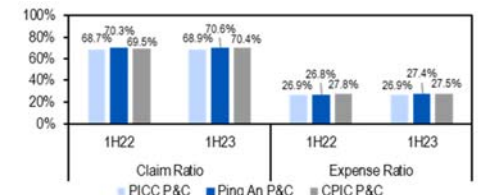
Source: Life insurers, UOB Kay Hian

P&C INSURER INSURANCE REVENUE GROWTH



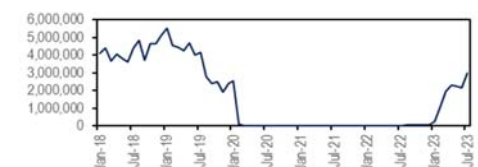
Source: P&C insurers, UOB Kay Hian

P&C INSURER COMBINED RATIO TREND



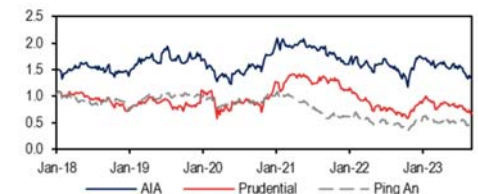
Source: P&C insurers, UOB Kay Hian

MAINLAND CHINA VISITORS TO HONG KONG (MONTHLY)



Source: Hong Kong Immigration Department, UOB Kay Hian

LIFE INSURERS P/EV TREND



Source: Bloomberg, UOB Kay Hian

RISKS

- Investment risks under volatile market and trending down market rate in China.
- Life reform misses expectations in China.
- MCV arrivals slowdown in Hong Kong.
- Natural catastrophe in 3Q causes the surge in CoR.

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