

COMPANY RESULTS

Ping An Insurance Group (2318 HK)

3Q23: Results In Line; NBV Continuing Its Recovery Path

Ping An's 9M23 results were in line, with NBV growing more than 40% yoy and margins improving. The operating and net profit declined by 9.8% and 5.6% yoy as higher underwriting cost due to natural disasters and weaker investment environments weighed on its P&C and asset management business. We find Ping An's risk-to-reward profile attractive given its strong recovery in life insurance business yet undemanding valuation (-1.6SD). Maintain BUY. Target price: HK\$73.00.

3Q23 RESULTS

Net Profit (Rmbm)	9M23	9M22 (restated)	yoy change
L&H Insurance	59,953	56,086	6.9
P&C Insurance	9,965	10,831	-8.0
Banking	22,972	21,247	8.1
Asset Management	-4,344	5,582	-177.8
Technology	2,314	3,683	-37.2
Group Net Profit	87,575	92,781	-5.6
Group Operating Profit	112,482	124,693	-9.8
New Business Value (NBV)	33,574	23,284	40.9
First-year premium (FYP)	144,764	100,001	44.8
Financial Ratios (%)	9M23	9M22(restated)	yoy change (ppt)
New business margin	23.2	23.8	-0.6
Combined ratio (P&C)	99.3	97.7	+1.6
Net interest margin (Bank)	2.47	2.77	-0.3

Source: Ping An., UOB Kay Hian

RESULTS

- Results in line despite challenging environment.** Ping An Insurance Group's (Ping An) 9M23 and 3Q23 net profit attributable to shareholders declined by 5.6%/19.6% yoy, broadly within our expectations. The earnings drop was primarily dragged by: a) decline of underwriting profit in property and casualty (P&C) insurance business, b) negative profit growth in technology business, and c) loss-making asset management segment due to volatile market and weak investment demand. The three core businesses (life, P&C and banking) delivered a total profit of Rmb117,848m, which was a steady performance with a slight decline (-0.2% yoy) in operating profit attributable to shareholders.
- Life & Health (L&H): NBV grew by 40.9% yoy** on a like-for-like basis to Rmb33.6b in 9M23 while new business value (NBV) margin turned around with a 0.4ppt improvement to 23.2%. Despite a product shift in Aug 23, the first-year premium and NBV in 3Q23 still achieved a commendable 29.3% and 79.1% yoy growth from a lower base, thanks to comprehensive advancement in channels, improved business quality, and diverse products and services.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Insurance revenue	355,327	385,932	395,582	397,501	407,976
Underwriting profit/(loss)	99,883	92,792	98,657	98,980	99,615
Net profit (rep./act.)	143,099	101,618	111,008	132,734	139,230
Net profit (adj.)	143,099	101,618	111,008	132,734	139,230
EPS (Fen)	812.7	582.2	627.0	749.7	786.4
PE (x)	4.7	6.5	6.1	5.1	4.8
P/EV (x)	0.5	0.5	0.5	0.4	0.4
Dividend yield (%)	6.2	6.6	7.1	7.2	7.3
Total investment yield (%)	3.8	2.5	4.1	4.7	4.7
Combined ratio (%)	98.0	99.6	98.5	97.3	96.7
NBV Margin (%)	27.8	24.2	23.1	23.4	23.9
ROE (%)	18.2	12.1	12.1	13.2	12.7
Consensus net profit	-	-	129,362	158,710	173,737
UOBKH/Consensus (x)	-	-	0.86	0.84	0.80

Source: Ping An., Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$40.60
Target Price	HK\$73.00
Upside	+79.8%

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):	821,944.1
Market cap (US\$m):	105,102.6
3-mth avg daily t'over (US\$m):	187.0

Price Performance (%)

52-week high/low HK\$64.75/HK\$31.40

1mth	3mth	6mth	1yr	YTD
(9.7)	(24.4)	(27.8)	20.5	(21.4)

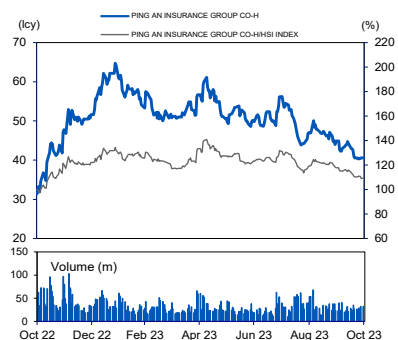
Major Shareholders

	%
-	-
-	-
-	-

FY23 NAV/Share (Rmb) 54.22

FY23 Solvency Ratio (%) 224.09

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **P&C: Rising CoR a concern.** In 9M23, Ping An P&C's insurance revenue growth accelerated to 6.8% yoy in 9M23, driven by robust auto insurance growth (11.5% yoy) but partly offset by negative growth of non-auto insurance (-2.0% yoy). Overall combined ratio (CoR) and auto CoR rose by 1.3ppt/0.3ppt qoq to 99.3%/97.3%, mainly due to natural catastrophes in 3Q23 and travel needs recovery. 9M23 underwriting profit declined by 67.5% yoy as the non-auto CoR hiked to 103.4% (based on our calculations) due to the credit quality deterioration in the guarantee insurance business amid macro headwinds.
- **Banking: Maintained robust business performance.** Banking's 9M23 net profit attributable to group grew by 8.1% yoy to Rmb22.97b on lower credit cost despite a 30bp margin squeeze. Ping An bank's asset quality remained solid while non-performing loan ratio declined slightly by 0.01 ppt ytd to 1.03% and provision coverage ratio decreased by 7.66ppt to 282.62%.

STOCK IMPACT

- **Channel development and "product + service" strategy gaining traction.** Although the agent numbers decreased by 3.7% qoq to 360,000 in 3Q23, Ping An is gradually refining its agent team structure as part of the life reform to increase its productivity. As a result, the NBV per agent surged by 94.4% yoy in 9M23. Ping An is also aggressively expanding its innovative channels including the bancassurance and Community Grid channels, with both channels contributing 15.8% of NBV in 9M23. Additionally, Ping An has established distinctive advantages compared to its competitors by integrating healthcare and elderly care services with its insurance products. Currently, the customers entitled to "+ service" benefits accounted for 68% of Ping An Life's NBV.
- **New "3+2" life insurance profit reform introduced by new co-CEO.** Under the "3+2" framework, the new co-CEO Mr Michael Guo is aiming to increase life insurance profit by improving "NBV + investment yield + persistency ratio" to enhance income sources and optimising "expenses + claim costs" to refine underwriting profit. We are confident that the new strategy will help to maintain a more sustainable premium growth and NBV margin in the long run. Besides life insurance, the management also mentioned that they will focus more on new energy vehicle insurance from sales, pricing and claims perspectives in order to capture the opportunities in this incremental market.
- **Insurance funds investment performance and outlook.** The company's insurance funds investment portfolio grew 7.1% ytd to nearly Rmb4.64t as of 3Q23. Meanwhile, the annualised comprehensive investment yield (CII) and net investment yield for insurance funds investment portfolio achieved 3.7% and 4.0% in 9M23 (vs 4.1% and 3.5% in 1H23). As the 30y treasury yield is trending below 3%, management believes that the lower market rate will benefit the risky asset movement and they will continuously optimise strategic asset allocation across the macroeconomic cycles. In September, the regulator eased the stock market investment rules for insurers by lowering the risk weighting and we believe Ping An may increase its equity investment allocation (1H23: 13.5%) following the eased regulations to achieve its 5% long-run investment return assumption in the low rate environment.

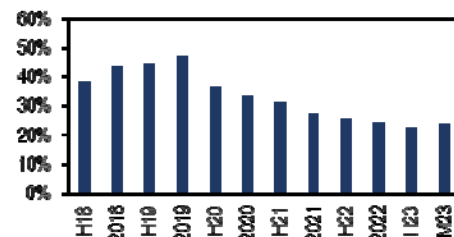
EARNINGS REVISION/RISK

- No change to earnings forecasts.

VALUATION/RECOMMENDATION

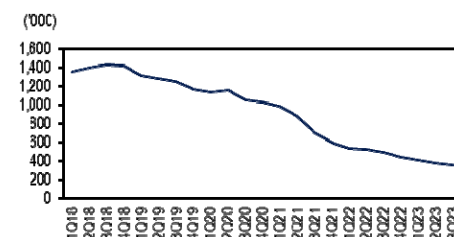
- **Maintain BUY and keep our target price at HK\$73.00.** Our target price is derived from the SOTP valuation method, and it implies 0.78x of 2024F group EV. The share price has plummeted 15% since the release of the 1H23 results and it is currently trading at -1.6SD below its historical mean. We find Ping An's risk-to-reward profile attractive given its strong recovery in the life insurance business with its investment assets also set to recover. Ping An is well-positioned as a capital market recovery proxy due to its high beta characteristics (1.23).

PING AN NBV MARGIN



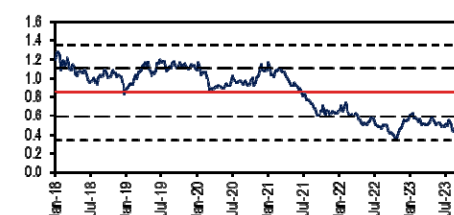
Source: Ping An, UOB Kay Hian

PING AN LIFE INSURANCE AGENT NUMBERS



Source: Ping An, UOB Kay Hian

PING AN P/EV BAND



Source: Bloomberg, UOB Kay Hian

PING AN AND PEERS PERFORMANCE

9M23 (%)	Net Profit Growth	NBV Growth
Ping An	-5.6	+40.9
CPIC	+24.4	+36.8
China Life	-47.8	+14.0
New China Life	-15.5	n.a.

Source: Companies, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
CSM Release (L&H)	80,950	78,328	76,933	75,755
Other adjustments (L&H)	11,120	15,945	13,754	13,363
Premium Income (P&C)	294,222	301,310	306,813	318,858
Insurance Revenue	385,932	395,582	397,501	407,976
Claims and expenses (P&C)	(293,140)	(296,925)	(298,521)	(308,361)
Underwriting profit/(loss)	92,792	98,657	98,980	99,615
Investment income	38,860	51,518	60,785	59,604
Interest inc. (Banking ops)	130,130	130,580	143,645	157,507
Other income	48,547	46,738	49,109	51,600
G&A exp of non-insurance ops	(120,915)	(114,541)	(124,268)	(135,508)
OPAT	152,151	165,657	176,205	178,287
Net profit attrb to shareholders	101,618	111,008	132,734	139,230
Net profit (adj.)	101,618	111,008	132,734	139,230
NB Value	28,820	36,623	41,378	46,613
CSM Base	818,682	791,981	777,881	765,966

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Cash	1,055,956	1,151,026	1,232,076	1,327,844
Loans and advances	3,238,054	3,562,202	3,811,556	4,097,423
Investments (equity & fixed inc)	5,873,883	6,354,382	6,859,185	7,404,462
Reinsurers' share of ins liabilities	20,615	22,677	24,944	27,439
Associates & JVs	280,793	367,839	481,869	631,248
Fixed assets (incl prop)	168,420	172,608	184,521	189,593
Other assets	372,219	409,783	452,072	499,745
Total assets	11,009,940	12,040,517	13,046,223	14,177,754
Assets sold (repo agreement)	271,737	298,911	328,802	361,682
Customer deposits	3,431,999	3,575,088	3,568,025	3,507,663
Insurance payables	105	105	105	106
Insurance contract liabilities	3,671,177	4,038,295	4,361,358	4,710,267
Subordinated debts	931,098	1,182,494	1,501,768	1,907,245
Other liabilities	1,517,828	1,697,780	1,920,314	2,202,484
Total liabilities	9,823,944	10,792,673	11,680,372	12,689,448
Shareholders' funds	869,191	959,880	1,050,654	1,144,851
Minority interest - accumulated	316,805	287,964	315,196	343,455
Total equity & liabilities	11,009,940	12,040,517	13,046,223	14,177,754
L&H EV	874,785	935,976	967,933	1,036,213
Group EV	1,423,762	1,524,452	1,652,954	1,796,217

OPERATING RATIO

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital-related				
Solvency ratio	219.7	224.1	228.6	233.1
Shareholders' funds/total assets	7.9	8.0	8.1	8.1
Total Assets/equity (x)	12.7	12.5	12.4	12.4
Liquidity				
Liquid assets/short-term liabilities	99.0	104.0	110.3	118.9
Liquid assets/total assets	42.6	43.3	43.5	43.9
Valuation (%)				
P/EV (x)	0.5	0.5	0.4	0.4
Adjusted P/E (x)	6.5	6.1	5.1	4.8
Dividend Yield	6.6	7.1	7.2	7.3
Payout ratio	43.1	43.3	36.5	35.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Gross premiums, yoy chg	9.3	1.3	1.1	2.8
FYP, yoy chg	(7.4)	39.9	12.0	10.6
APE, yoy chg	(4.3)	11.5	7.8	8.4
Investment income, yoy chg	(30.4)	68.3	40.2	12.2
Net profit, yoy chg	(29.0)	9.2	19.6	4.9
Profitability				
Combined ratio (P&C)	99.6	98.5	97.3	96.7
Net investment yield	4.6	4.0	4.1	4.2
Total investment yield	2.5	4.1	4.7	4.7
NBM as % of APE	5.3	6.0	6.3	6.6
NBM as % of FYP	24.2	23.1	23.4	23.9
Reported ROE	12.1	12.1	13.2	12.7

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

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