

## COMPANY UPDATE

### AIA Group (1299 HK)

Maintain High VONB Growth In 3Q23; Outperforms Peers

AIA's 3Q23 VONB came in above our estimates with 34.1% yoy growth, driven by the encouraging sales to MCV in Hong Kong and reaccelerated VONB growth in China. The ASEAN and India markets also delivered strong double-digit VONB growth. Margins improved for the first time since 4Q22 by 1.8ppt qoq to 51.3% due to a favourable shift in product mix and improved margins of the bancassurance channel in China. Maintain BUY with an unchanged target price of HK\$95.00.

#### WHAT'S NEW

- AIA Group (AIA) announced its key new business highlights for 3Q23 (as below) on 3 November.

#### 3Q23 NEW BUSINESS HIGHLIGHTS

Year to 31 Dec (US\$m)	3Q23	2Q23	3Q22	yoy % chg	qoq % chg
ANP	1,938	1,986	1,271	52.5	-2.4
VONB	994	983	741	34.1	1.1
VONB margin (%)	51.3	49.5	58.1	-7.0ppt	1.8ppt

*\*The data is based on AER basis*

Source: AIA, UOB Kay Hian

- VONB's strong growth momentum sustained in 3Q23.** AIA's value of new business (VONB) increased significantly by 34.1% yoy on an actual exchange rate (AER) basis, bringing 9M23 VONB growth to 32.8% yoy from 32.1% yoy in 1H23. The performance is above our expectation, mainly due to the robust demand from mainland Chinese visitors (MCV) and reaccelerated VONB growth from AIA China. AIA's annualised new premium (ANP) also increased by 52.5% yoy to US\$1,938m.
- VONB margin bottomed out.** The margin dilution since 4Q22 has eased as we saw a recovery in VONB margin with a 1.8ppt qoq improvement to 51.3% in 3Q23, mainly due to a favourable shift in product mix to high-margin protection products and improved margins of the bancassurance channel in China.

#### STOCK IMPACT

- Resilient performance from AIA Hong Kong.** Despite slower yoy growth in the domestic business from a higher base, AIA Hong Kong still achieved a commendable VONB growth, thanks to the strong sales to MCV which contributed around half of AIA Hong Kong's VONB in 3Q23. As MCV arrivals continued to recover to 66% of 2018's level in 3Q23 (2Q23: 59%) and the figure reached around 70% during Golden Week, we expect another strong performance from AIA Hong Kong in 4Q23, underpinned by robust demand from MCVs. Management also indicated that the protection policies continue to account for more than 50% in the product mix of the MCV segments.

#### 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)	14.1	299.5	13.2	12.3	11.5
P/EV (x)	1.51	1.56	1.56	1.53	1.43
Dividend yield (%)	2.1	2.2	2.3	2.4	2.6
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	-	-	5,760	7,093	7,939
UOBKH/Consensus (x)	-	-	1.38	1.21	1.16

Source: AIA Group, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$70.90
Target Price	HK\$95.00
Upside	+35.8%

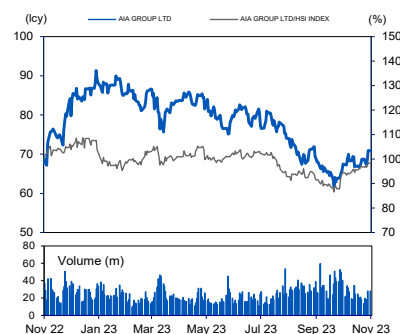
#### COMPANY DESCRIPTION

AIA Group 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):	11,478.8			
Market cap (HK\$m):	813,843.3			
Market cap (US\$m):	103,986.9			
3-mth avg daily t'over (US\$m):	259.2			
<b>Price Performance (%)</b>				
52-week high/low	HK\$91.35/HK\$57.95			
<b>1mth</b>	<b>3mth</b>	<b>1mth</b>	<b>3mth</b>	<b>1mth</b>
10.1	(5.8)	10.1	(5.8)	10.1
<b>Major Shareholders</b>				<b>%</b>
-				-
-				-
-				-
FY23 NAV/Share (US\$)				4.62
FY23 Solvency Ratio (%)				

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- Reigniting excitement for growth in China.** AIA China's VONB growth reaccelerated to over 20% yoy growth from 7% (on AER basis) in 1H23 despite a slowdown among its domestic peers in 3Q23. This is mainly due to the demand of AIA's focused products such as traditional protection product and critical illness (CI) product still remaining strong after the product repricing in Aug 23. Margin also improved progressively, supported by a higher proportion of the traditional protection business and improved VONB margin in bancassurance channel. The outstanding results reflect the strengths of AIA's premier agency force compared with its peers and also its product strategy in China. We believe that the latest results have addressed our concerns regarding the profitability and growth momentum of AIA China.
- Committed to delivering sustainable growth in China.** We saw double-digit growth in the number of active agents and enhanced agent productivity in 3Q23. The VONB contribution from the new geographies increased to more than 5% of agency VONB, partly driven by the launch of a new branch in Henan province in May 23. The AIA expansion in China is also showing good progress as it received approval from regulator to upgrade its Shijiazhuang licence to cover all of Hebei province. We are less concerned on the adverse impact of tightening of regulations on AIA China due to its smaller bancassurance scale and strong financial discipline in cost management to meet regulatory requirement.
- Continues to lead in ASEAN with double-digit VONB growth.** The favourable product mix and double-digit yoy growth in active agent and agent productivity supported robust VONB growth in Thailand. Singapore and Malaysia also continued to report incremental VONB from a higher base. AIA's other market segment also delivered positive VONB growth, benefitting from the rapid growth of Tata AIA Life in India.
- Conservative approach to China investment portfolio.** As end-3Q23, 85% of AIA's investment portfolio relating to non-par and surplus assets was held in fixed income investment and the ratio is relatively higher than AIA's group portfolio. It may reduce the short-term investment return volatility but raised a concern to achieve a sustainable long-term return amid a low interest environment in China moving forward. The investment exposure of AIA China in local government financing vehicles and real estate reduced to US\$1.8b from US\$1.9b in 1H23, accounting for 1.6% of total non-par and surplus investment funds.

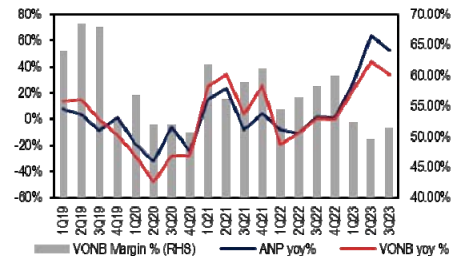
#### EARNINGS REVISION/RISK

- We lifted our 2023-25 VONB growth assumptions to 28.3%/13.9%/11.3% respectively,** (previous: 23.4%/12.9%/11.1%), on the back of improving margin in China and continuous strong demand from MCVs.

#### VALUATION/RECOMMENDATION

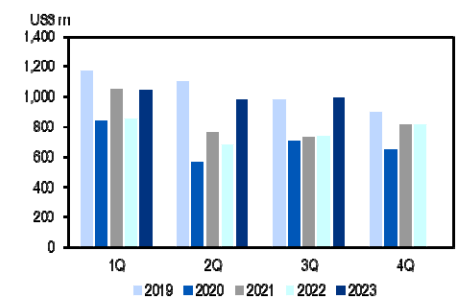
- Maintain BUY with an unchanged target price of HK\$95.00.** Our target price implies 1.9x 2024F P/EV, 1.0SD above its historical mean. We deem the valuation premium reasonable given its high-quality premier agency force with the highest number of Million Dollar Round Table members and its industry-leading margin.

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



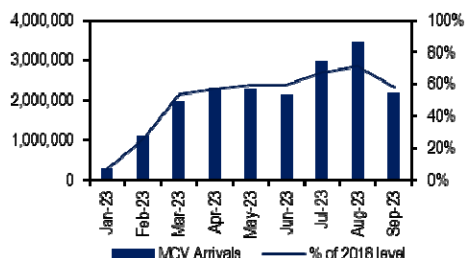
Source: AIA, UOB Kay Hian

#### VONB (QUARTER BASIS)



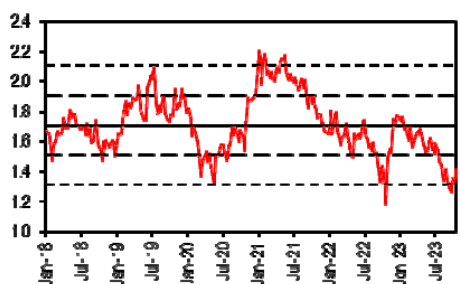
Source: AIA, UOB Kay Hian

#### MCV MONTHLY ARRIVALS AFTER BORDER REOPENS



Source: Hong Kong Immigration Department, UOB Kay Hian

#### P/EV BAND



Source: Bloomberg, 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
ANP	5,407	7,728	8,409	9095
VONB	3,092	3,967	4,519	5,029

### 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)	1.56	1.56	1.53	1.43
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
ANP, yoy chg	(-4.3)	42.9	8.6	8.2
VONB, yoy chg	-7.1%	28.3	13.9	11.3
<b>Profitability</b>				
Reported ROE	0.6	15.1	14.6	14.3
Adjusted ROE	0.6	15.1	14.6	14.3
VONB margin (%)	61.5	51.9	53.8	55.4

**Footnotes:** FYP: first year premium; EV: embedded value; NB: new business; VONB: Value of New Business; ANP: Annualised New Premium (ANP)

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