

PICC Group (1339 HK)

1H21: continual outperformance of P&C arm

The net earnings of PICC Group grew 33.7% YoY to RMB16.9bn for 1H21, translating into 23% YoY growth for 2Q21, in line with our estimates. The strong earnings growth was driven by (1) higher investment income on the back of 1.2ppt YoY increase in annualized investment return; and (2) 1.3% growth of underwriting profit from P&C business owing to 10bps improvement in combined ratio and 2.6% growth of premium income. PICC Group declared an interim dividend of RMB0.017 per share, implying 4.5% payout ratio for 1H21. The management guided for over 30% payout ratio for full year.

- P&C: Auto insurance pricing bottoming out; Catastrophe losses manageable.** PICC P&C delivered 97.2% combined ratio in 1H21, while the industry combined ratio is close to 100%. Auto insurance combined ratio deteriorated by 1.9ppt YoY to 96.7%, while non-auto business turned underwriting profitable with 4ppt YoY improvement in underwriting margin, as the insurer scaled back financing credit guarantee insurance. In the analyst briefing, the management pointed out that the combined ratio of new policies written in 2021 is below 98%, for both household vehicles and commercial vehicles. And the insurer notices the premium rate of new business is bottoming out. The estimated NAT CAT losses in 3Q21 amounted to RMB3.6bn, of which around RMB2.8 net losses were from the Henan floods. The losses were primarily recorded on auto insurance and home insurance lines. The NAT CAT losses YTD is still manageable and not substantially higher than historical average, according to the management.
- Life & Health: VNB of PICC Life declined by 25%, in line with our estimates.** The agent headcount shrank by over 50% YoY or around 40% HoH amid market headwinds. That said, the insurer saw the YoY decline of first year regular premiums (FYRP) narrowed month by month in 2Q21, and the number of monthly active agents also picked up MoM. The management guided for a gradual recovery of life and health business going forward, but warned the resurgence of COVID-19 may hinder the process.
- Looking into 2H21, we believe P&C business will remain underwriting profitable and outperform industry average/major peers, as the insurer continues to prioritize profitability over scale.** We expect the underwriting margin of non-auto business to improve on a YoY basis in 2H21, as the credit guarantee insurance turns profitable. For life and health business, we think the YoY decline of VNB is likely to narrow in 2H21 due to lower base. Maintain BUY rating on PICC Group-H.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Gross written premiums (RMB mn)	555,251	563,608	573,653	591,404	637,375
Total income (RMB mn)	551,212	581,605	592,497	612,268	659,147
Net profit (RMB mn)	22,135	20,036	24,132	25,492	28,913
EPS (RMB)	0.5	0.5	0.5	0.5	0.6
EPS CHG (%)	65.0	(9.5)	5.4	6.4	15.2
PER (x)	3.9	4.4	4.1	3.9	3.4
PBR (x)	0.5	0.4	0.4	0.4	0.3
Yield (%)	5.9	7.9	8.3	8.9	10.2
ROE (%)	12.5	12.1	10.9	11.0	10.4

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$3.06**
 Up/Downside **+28.6%**
 Current Price **HK\$2.38**

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	237,039
Avg 3 mths t/o (HK\$ mn)	79.70
52w High/Low (HK\$)	2.95/ 2.26
Total Issued Shares (mn)	8,726 (H) 35,498 (A)

Source: Bloomberg

Shareholding Structure

Ministry of Finance of the PRC	60.84%
NCSSF	14.46%

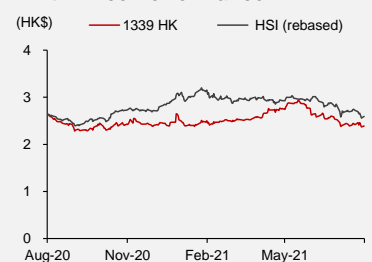
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.0%	1.4%
3-mth	-13.0%	-1.7%
6-mth	-3.2%	17.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

"Transfer of Coverage; 1H21 preview: Worst case already priced in" – 27 Jul 2021

Figure 1: PICC Group: 1H21 Results Summary

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
Net profit attribute to shareholders	12,606	16,855	33.7%	5,545	6,821	23.0%	10,034	6,821
PICC P&C	13,179	16,497	25.2%	6,823	7,555	10.7%	8,942	7,555
PICC Life	3,805	4,457	17.1%	960	1,167	21.6%	3,290	1,167
PICC Health	108	259	139.8%	18	118	555.6%	141	118
Net investment yield (%)	4.9	4.8	(0.1) ppt					
Total investment yield (%)	5.5	6.7	1.2 ppt					
Comprehensive investment yield (%)	5.3	5.7	0.4 ppt					
Total investment assets	1,088,851	1,108,126	1.8%					
Total investment income	26,210	35,362	34.9%					

Source: Company data, CMBIS

Figure 2: PICC P&C: Premium Income

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
Auto	131,019	120,755	-7.8%	69,359	63,252	-8.8%	57,503	63,252
Non-auto	115,285	131,871	14.4%	49,302	53,822	9.2%	78,049	53,822
A&H	49,691	60,036	20.8%	14,886	16,390	10.1%	43,646	16,390
Agro	25,695	29,673	15.5%	15,929	17,477	9.7%	12,196	17,477
Liability	15,934	18,876	18.5%	7,721	9,092	17.8%	9,784	9,092
Credit	4,318	1,163	-73.1%	1,821	673	-63.0%	490	673
Property	9,411	10,121	7.5%	4,552	4,855	6.7%	5,266	4,855
Cargo	2,020	2,529	25.2%	981	1,272	29.7%	1,257	1,272
Others	8,216	9,473	15.3%	3,412	4,063	19.1%	5,410	4,063
P&C total	246,304	252,626	2.6%	118,661	117,074	-1.3%	135,552	117,074

Source: Company data, CMBIS

Figure 3: PICC P&C: Combined Ratio

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
Combined ratio (%)	97.3	97.2	(0.1) ppt	97.4	98.5	1.1 ppt	95.7	98.5
Expense ratio (%)	32.0	25.5	(6.5) ppt	33.1	25.5	(7.6) ppt	25.4	25.5
Loss ratio (%)	65.3	71.7	6.4 ppt	64.3	73.0	8.7 ppt	70.3	73.0
Auto insurance								
Combined ratio (%)	94.8	96.7	1.9 ppt		98.7		94.6	98.7
Expense ratio (%)	37.2	26.3	(10.8) ppt		27.0		25.7	27.0
Loss ratio (%)	57.6	70.4	12.7 ppt		71.8		68.9	71.8
Non-auto insurance								
Combined ratio (%)	101.9	97.9	(4.0) ppt		98.0		97.8	98.0
Expense ratio (%)	22.3	24.0	1.7 ppt		23.3		24.9	23.3
Loss ratio (%)	79.6	73.9	(5.7) ppt		74.8		72.8	74.8

Combined ratio by products	1H20	1H21	YoY
Auto	94.8	96.7	1.9 ppt
A&H	101.6	101.6	-
Agro	98.0	96.9	(1.1) ppt
Liability	96.6	98.4	1.8 ppt
Credit	138.6	89.6	(49.0) ppt
Property	86.8	97.9	11.1 ppt
Cargo	83.2	82.7	(0.5) ppt
Others	79.4	79.7	0.3 ppt

Source: Company data, CMBIS

Figure 4: PICC Life: 1H21 Results Summary

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
FYP	34,166	29,095	-15%	7,046	6,513	-7.6%	22,582	6,513
FYRP	14,951	14,669	-2%	3,154	2,010	-36.3%	12,659	2,010
Single	19,215	14,426	-25%	3,892	4,503	15.7%	9,923	4,503
Renewal	33,072	35,039	6%	6,613	6,961	5.3%	28,078	6,961
FYP APE	16,873	16,112	-5%	3,543	2,460	-30.6%	13,651	2,460
Total GWP	67,238	64,134	-5%	13,659	13,474	-1.4%	50,660	13,474
VNB	4,076	2,412	-41%					
VNB margin (FYP)	11.9%	8.3%	(3.6) ppt					
VNB margin (FYP APE)	24.2%	15.0%	(9.2) ppt					
Life EV	102,297	109,078	7%					
Surrender rate (%)	11.00	3.20	(7.8) ppt					
# of agents (mn)	0.51	0.25	-51%					
Reported Agent productivity (FYP)	2,968	4,062	37%					
Agent productivity (VNB basis/month/agent)	1,171	1,177	0%					

Source: Company data, CMBIS

Figure 5: PICC Health: 1H21 Results Summary

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
FYP	18,463	19,006	3%	7,919	5,401	-31.8%	13,605	5,401
FYRP	4,326	3,112	-28%	1,939	1,194	-38.4%	1,918	1,194
Single	14,137	15,894	12%	5,980	4,207	-29.6%	11,687	4,207
Renewal	3,710	6,564	77%	1,706	2,979	74.6%	3,585	2,979
FYP APE	5,740	4,701	-18%	2,537	1,615	-36.4%	3,087	1,615
Total GWP	22,173	25,570	15%	9,625	8,380	-12.9%	17,190	8,380
VNB	329	711	116%					
VNB margin (FYP)	1.8%	3.7%	2%					
VNB margin (FYP APE)	5.7%	15.1%	9%					
Health EV	14,947	16,381	10%					
Surrender rate (%)	1.20	0.80	(0.4) ppt					
# of agents (mn)	0.02	0.01	-56%					
Reported Agent productivity (FYP)	3,020	2,979	-1%					
Agent productivity (VNB basis/month/agent)	1,722	7,803	353%					

Source: Company data, CMBIS

Financial Summary

Income statement

Key ratios

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Gross written premiums	555,251	563,608	573,653	591,404	637,375	Group (%)					
PICC P&C	431,724	432,019	444,980	467,229	513,951	Gross written premiums YoY	11.4%	1.5%	1.8%	3.1%	7.8%
PICC Life	98,115	96,186	91,578	81,516	74,364	Total income YoY	10.6%	5.5%	1.9%	3.3%	7.7%
PICC Health	22,420	32,257	37,096	42,660	49,059	Net profit YoY	71.4%	-9.5%	20.4%	5.6%	13.4%
Less: Premiums ceded to reinsurers	(35,342)	(44,436)	(45,305)	(46,637)	(50,313)	Total investment yield	4.5%	5.0%	4.5%	4.4%	4.4%
Net written premiums	519,909	519,172	528,348	544,767	587,061	Net investment yield	4.3%	4.1%	4.4%	4.4%	4.4%
Change in unearned premium reserves	(18,401)	1,409	(2,188)	(2,483)	(2,838)						
Net earned premiums	501,508	520,581	526,159	542,284	584,223	PICC P&C (%)					
Investment income	36,629	45,328	43,950	45,635	47,819	Gross written premiums YoY	11.3%	0.1%	3.0%	5.0%	10.0%
Other income	13,075	15,696	22,388	24,349	27,105	Loss ratio	66.2%	66.2%	71.5%	72.0%	71.5%
TOTAL INCOME	551,212	581,605	592,497	612,268	659,147	Expense ratio	32.9%	32.6%	27.1%	26.8%	26.8%
						Combined ratio	99.1%	98.8%	98.6%	98.8%	98.3%
Net claims and policyholders' benefits	(366,128)	(384,285)	(407,648)	(419,352)	(446,199)						
Handling charges and commissions	(66,448)	(62,489)	(44,480)	(43,781)	(46,411)	PICC Life (%)					
Finance costs	(4,257)	(4,241)	(4,545)	(4,901)	(5,292)	Gross written premiums YoY	4.7%	-2.0%	-4.8%	-11.0%	-8.8%
Other expenses	(97,798)	(110,393)	(103,234)	(109,066)	(119,958)	FYP growth YoY	-0.2%	-9.9%	-13.8%	-3.7%	-2.5%
TOTAL EXPENSES	(534,631)	(561,408)	(559,907)	(577,099)	(617,861)	VNB growth YoY	-10.3%	5.6%	-20.0%	6.0%	6.0%
						VNB margin (FYP APE basis)	22.7%	25.0%	40.5%	43.4%	46.0%
Associates and joint ventures	12,566	11,413	12,161	12,982	13,871						
PROFIT BEFORE TAX	29,147	31,610	44,751	48,151	55,157	PICC Health (%)					
Income tax expense	2,134	(3,377)	(10,986)	(12,504)	(14,617)	Gross written premiums YoY	51.5%	43.9%	15.0%	15.0%	15.0%
Non-controlling interests	(9,146)	(8,197)	(9,633)	(10,155)	(11,626)	VNB growth YoY	-11.5%	56.6%	15.0%	15.0%	5.0%
NET PROFIT	22,135	20,036	24,132	25,492	28,913						
						Returns (%)					
						PICC P&C ROE	16.5%	12.5%	12.1%	10.9%	11.0%
						PICC Life ROEV	23.1%	13.8%	4.3%	7.7%	8.1%
						PICC Health ROEV	27.3%	26.6%	17.5%	17.3%	16.4%
						Group ROE	13.2%	10.4%	10.0%	9.9%	10.6%
						Group ROA	2.0%	1.7%	1.6%	1.6%	1.8%
						Per share data (RMB)					
						EPS	0.5	0.5	0.5	0.5	0.6
						DPS	0.12	0.16	0.16	0.17	0.20
						BVPS	4.15	4.58	4.92	5.29	5.71
						Group EVPS	5.33	6.06	6.42	6.85	7.32
						P&C BVPS	2.77	3.11	3.51	3.92	4.37
						PICC Life EVPS	1.53	1.85	1.93	2.09	2.26
						PICC Health EVPS	0.24	0.32	0.38	0.45	0.53
						PICC Life VNBPS	0.09	0.10	0.08	0.08	0.09
						PICC Health VNBPS	0.01	0.02	0.02	0.02	0.02

Source: Company data, CMBIS estimates

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