

# PICC P&C (2328 HK)

## 1H21 performance in line

PICC P&C delivered 25% profit growth in 1H21, largely in line with our estimates. 1H21 overall combined ratio improved by 10bps to 97.2% in spite of the challenging market environment, outperforming the industry average of 99.6% combined ratio. Underwriting profit grew by 1.3% YoY to RMB5.4bn, as the decline in underwriting gains of auto business was offset by a margin improvement in credit guarantee insurance. 2Q21 combined ratio was up 1.1ppt YoY to 98.5%. The management guided for continual outperformance against industry average/peers and a recovery of auto insurance growth in 4Q21.

- Auto insurance pricing is bottoming out.** Auto insurance combined ratio deteriorated by 1.9ppt YoY to 96.7% in 1H21 from 94.8% in 1H20, while the industry average combined ratio increased by 4ppt YoY to 99.9%. Auto premium income declined 7.8% YoY owing to lower premium rate, largely in line with industry trend. 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.
- Non-auto business turned underwriting profitable as credit guarantee insurance improved.** On non-auto front, combined ratio improved by 4ppt YoY to 97.9%, along with a premiums growth of 14% YoY in 1H21. Loss ratio improved by 5.7ppt YoY, while expense ratio rose by 1.7ppt YoY. The improvement in underwriting margin was mainly driven by a 49ppt reduction in the combined ratio of credit guarantee business, which translated into a RMB3.2bn boost in underwriting profit. Agricultural insurance saw 75.9% YoY growth in underwriting profit, thanks to 15.8% premium growth and 1.1ppt increase in underwriting margin on the back of lower expense ratio.
- Catastrophe losses manageable.** The estimated NAT CAT losses in 3Q21 amounted to RMB3.6bn, of which around RMB2.8bn 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.
- Looking into 2H21, we expect PICC P&C to maintain underwriting profitable and outperform industry average and 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. Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Gross written premiums (RMB mn)	433,175	433,187	446,183	468,492	515,341
Underwriting profit (RMB mn)	3,177	4,177	5,264	4,918	7,665
Net profit (RMB mn)	24,282	20,868	22,844	24,237	29,015
EPS (RMB)	1.1	0.9	1.0	1.1	1.3
EPS CHG (%)	56.8	(14.1)	9.5	6.1	19.7
Consensus EPS (RMB)	N.A	0.9	1.1	1.1	1.2
PER (x)	5.0	5.8	5.3	5.0	4.2
PBR (x)	0.7	0.6	0.6	0.6	0.5
Yield (%)	8.5	6.9	7.5	8.0	9.6
ROE (%)	15.6	11.7	11.8	11.6	12.9

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$9.99**  
 Up/Downside **+52.1%**  
 Current Price **HK\$6.57**

### China Insurance Sector

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### Stock Data

Mkt Cap (HK\$ mn)	151,918
Avg 3 mths t/o (HK\$ mn)	167.31
52w High/Low (HK\$)	7.96/5.14
Total Issued Shares (mn)	6,899 (H)

Source: Bloomberg

### Shareholding Structure

PICC Group	68.98%
Free float	31.02%

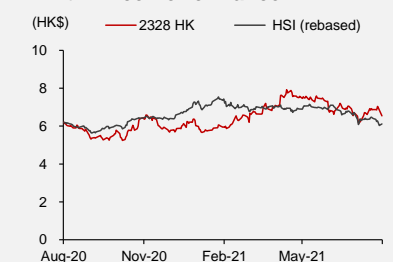
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	0.4%	9.1%
3-mth	-7.7%	4.2%
6-mth	15.5%	39.8%

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 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
<b>P&amp;C total</b>	<b>246,304</b>	<b>252,626</b>	<b>2.6%</b>	<b>118,661</b>	<b>117,074</b>	<b>-1.3%</b>	<b>135,552</b>	<b>117,074</b>

Source: Company data, CMBIS

**Figure 2: 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

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>GROSS WRITTEN PREMIUMS</b>	<b>433,175</b>	<b>433,187</b>	<b>446,183</b>	<b>468,492</b>	<b>515,341</b>
Motor vehicle insurance	262,927	265,651	249,862	252,986	278,284
Non-auto insurance	170,248	167,536	196,320	215,506	237,057
Net earned premiums	380,683	393,127	404,921	409,867	450,854
Net claims incurred	(251,822)	(260,320)	(289,518)	(295,104)	(322,361)
Net policy acquisition costs	(77,943)	(69,075)	(49,400)	(48,364)	(53,201)
General & Administrative expenses	(47,741)	(59,555)	(60,738)	(61,480)	(67,628)
<b>UNDERWRITING PROFIT</b>	<b>3,177</b>	<b>4,177</b>	<b>5,264</b>	<b>4,918</b>	<b>7,665</b>
Total Investment Income	17,719	19,229	19,742	20,984	22,944
Finance costs	(1,424)	(1,547)	(1,624)	(1,706)	(1,791)
Share of profits of associates	4,250	3,951	4,741	5,689	6,827
Other income and expenses	61	(1,134)	(1,247)	(1,372)	(1,509)
<b>PROFIT BEFORE TAX</b>	<b>23,783</b>	<b>24,676</b>	<b>26,876</b>	<b>28,514</b>	<b>34,135</b>
Income tax expense	496	(3,808)	(4,031)	(4,277)	(5,120)
Non-controlling interest	3	3	3	3	-
<b>NET PROFIT</b>	<b>24,282</b>	<b>20,868</b>	<b>22,844</b>	<b>24,237</b>	<b>29,015</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Growth rates (%)</b>					
GROSS WRITTEN PREMIUMS	11.4%	0.0%	3.0%	5.0%	10.0%
Motor vehicle insurance	1.6%	1.0%	-5.9%	1.3%	10.0%
Non-auto insurance	31.1%	-1.6%	17.2%	9.8%	10.0%
NET PROFIT	56.8%	-14.1%	9.5%	6.1%	19.7%
<b>Underwriting (%)</b>					
Loss ratio	66.2%	66.2%	71.5%	72.0%	71.5%
Expense ratio	33.0%	32.7%	27.2%	26.8%	26.8%
Combined ratio	99.2%	98.9%	98.7%	98.8%	98.3%
<b>Solvency (%)</b>					
Core solvency margin ratio	252%	250%	242%	229%	207%
<b>Returns (%)</b>					
ROAE	15.6%	11.7%	11.8%	11.6%	12.9%
ROAA	4.2%	3.4%	3.4%	3.3%	3.7%

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Investment assets	342,316	380,983	401,356	437,991	479,758
Other assets	253,765	265,818	290,489	317,531	347,177
<b>Total Assets</b>	<b>596,081</b>	<b>646,801</b>	<b>691,844</b>	<b>755,522</b>	<b>826,935</b>
Insurance contract liabilities	306,902	314,623	320,526	341,656	364,828
Other liabilities	119,225	142,147	170,099	198,105	228,935
<b>Total Liabilities</b>	<b>426,127</b>	<b>456,770</b>	<b>490,625</b>	<b>539,761</b>	<b>593,764</b>
Total Equity	169,954	190,031	201,220	215,762	233,171
<b>Shareholders' Equity</b>	<b>169,953</b>	<b>187,513</b>	<b>201,220</b>	<b>215,762</b>	<b>233,171</b>

Investment (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Investment assets growth	3.7%	11.3%	5.3%	9.1%	9.5%
Net investment yield	5.1%	4.9%	5.0%	5.0%	5.0%
Total investment yield	5.3%	5.3%	5.0%	5.0%	5.0%
<b>Per share data (RMB)</b>					
EPS	1.09	0.94	1.03	1.09	1.30
DPS	0.46	0.38	0.41	0.44	0.52
BVPS	7.64	8.43	9.05	9.70	10.48

Source: Company data, CMBIS estimates

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