

Ping An (2318 HK)

Positive progress on digital agency reform

Ping An reported 10% growth of OPAT for 1H21, as the decline of life business was offset by strong growth of P&C and Ping An Bank. Net profit of Ping An Group declined by 15.5% YoY to RMB58bn in 1H21, dragged by (1) a 23% decline in investment income primarily due to RMB35.9bn impairment on China Fortune Land and (2) a RMB3.6bn non-operating loss arising from the revaluation of convertible bonds issued by Lufax to the group. Ping An declared RMB0.88 interim dividend per share, up 10% YoY, as the payout ratio based on OPAT remains unchanged. In addition to the high dividend payout, Ping An announced a plan to buyback RMB5-10bn of A shares in the next 12 months, representing 0.5-1% of the total share base. We trimmed FY21E net profit to factor in the impairment on China Fortune Land, and maintain TP at HK\$97.82. Ping An is trading at 0.7x P/EV FY21E or 1.2x P/BV FY21E with an annualized operating ROE of 21%. Maintain BUY.

■ Positive progress on pilot projects of the digital agency channel reform.

Into the 2nd year of a 3-year agency reform plan for 2020-2022, Ping An achieved some encouraging results from some of its pilot projects. The FYP per outlet in the pilot projects increased by 6% since the beginning of the projects three months ago. If the dilution from turnover were excluded, the FYP per retained agent would increase around 30%, as customer visits would improve by 150% compared to the control group, and long-term policies sold per agent would grow 140%. Under the digitized activity management, agency activity rate was up almost 150%, and agent income increased by 5% after the launch of its customized product packages. The life insurer is expanding the pilot program and aims a 15% growth in agent income for new recruits. The management target a positive VNB growth in 2H21 and guide for a turnaround in agent headcount in 2022.

- ### ■ Prudent provision on investment front.
- The RMB35.9bn impairment booked in 1H21 accounted for 66% of Ping An's total RMB54bn investment exposure to China Fortune Land. The insurance group further disclosed that it held RMB185.5bn investment in real estate in total, accounting for approx. 5% of its insurance investment portfolio. Ping An acquired the Founder Group for synergies in healthcare segment, and will continuously sell off the non-core assets irrelevant to its healthcare or financial businesses.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
GWP (RMB mn)	795,064	797,880	789,020	807,611	837,100
YoY growth (%)	10.5	0.4	(1.1)	2.4	3.7
Net profit (RMB mn)	149,407	143,099	135,176	159,631	171,565
EPS (RMB)	8.4	8.1	7.4	8.7	9.4
YoY growth (%)	39.6	(3.7)	(8.7)	18.1	7.5
Consensus EPS (RMB)	N.A.	8.1	8.4	9.5	10.9
P/E (x)	6.4	6.6	7.2	6.1	5.7
P/B (x)	1.5	1.3	1.2	1.0	0.9
P/EV (x)	0.8	0.7	0.7	0.6	0.5
Yield (%)	3.9	4.2	4.8	5.7	6.1
ROE (%)	20.8	17.7	15.0	15.8	16.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$97.82
Up/Downside +51.7%
Current Price HK\$64.50

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,184,557
Avg 3 mths t/o (HK\$ mn)	2,321.94
52w High/Low (HK\$)	103.6/64.5
Total Issued Shares (mn)	7,448 (H) 10,833 (A)

Source: Bloomberg

Shareholding Structure

Charoen Pokphand Group	7.85%
Shenzhen Investment Holdings	5.27%

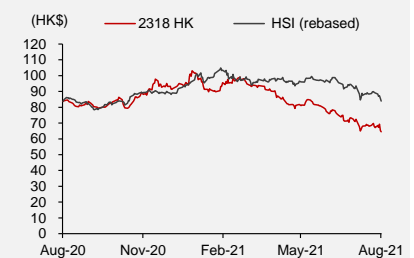
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.7%	2.1%
3-mth	-15.3%	-6.4%
6-mth	-25.7%	-12.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

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

Focus Charts

Figure 1. Ping An: 1H21 Results Summary

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
Net profit attribute to shareholders	68,683	58,005	-15.5%	42,620	30,782	-27.8%	27,223	30,782
Reserve catch-up	(4,421)	(5,892)						
OPAT attribute to shareholders	74,310	81,836	10.1%	38,396	42,716	11.3%	39,120	42,716
Life insurance	51,127	49,495	-3.2%	26,825	24,228	-9.7%	25,267	24,228
P&C insurance	8,234	10,741	30.4%	3,813	5,645	48.0%	5,096	5,645
Bank	7,927	10,191	28.6%	2,973	4,319	45.3%	5,872	4,319
Trust	1,651	1,253	-24.1%	749	1,013	35.2%	240	1,013
Broker	1,509	1,677	11.1%	706	906	28.3%	771	906
Other AMC	2,671	5,078	90.1%	1,919	3,809	98.5%	1,269	3,809
Technology	3,438	6,236	81.4%	2,148	3,903	81.7%	2,333	3,903
Others	(2,247)	(2,835)	26.2%	(737)	(1,107)	50.2%	(1,728)	(1,107)
Operating ROE	21.6	21.0	(0.6) ppt					
Life insurance	39.2	35.0	(4.2) ppt					
P&C insurance	17.2	20.0	2.8 ppt					
Bank	9.3	10.7	1.4 ppt					
AMC	11.6	15.0	3.4 ppt					
Technology	8.2	11.8	3.6 ppt					
Group EV	1,257,092	1,377,953	9.6%					
Net investment yield (%)	4.1	3.8	(0.3) ppt					
Total investment yield (%)	4.5	3.5	(1.0) ppt					
Comprehensive investment yield (%)	5.2	3.6	(1.6) ppt					
Total investment assets	3,442,035	3,787,025	10.0%					
Total investment income	85,899	66,054	-23.1%					
Number of individual customers (mn)	209.6	223.1	6%					
Avg. number of contracts per customer (mn)	2.69	2.76	3%					
Number of cross-selling customers (mn)	78.3	86.3	10%					
Share of cross-selling customers (%)	37.3	38.7	1.3 ppt					

Source: Company data, CMBIS

Figure 2. Ping An: Life Insurance Summary

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
VNB	31,031	27,387	-12%	14,578	8,407	-42%	18,980	8,407
VNB margin (FYP)	36.7%	31.2%	(5.5) ppt	41.2%	31.0%	(10.2) ppt	31.4%	31.0%
VNB margin (FYP APE)	41.7%	37.4%	(4.3) ppt					
Life EV	805,374	863,585	7%					
Residual margin	962,333	968,212	0.6%					
Surrender rate (%)	0.89	1.19	0.3 ppt					
Number of agents (mn)	1.15	0.88	-23%	1.15	0.88	-23%	0.99	0.88
Activity rate (%)	53.0	43.9	(9.1) ppt					
Agent income (RMB per month)	6,189	5,889	-5%					
Reported agent productivity (VNB/agent)	25,003	25,185	1%					
Agent productivity (FYP/month/agent)	8,897	11,345	28%					
Agent productivity (VNB/month/agent)	3,994	4,152	4%					
FYP by distribution:								
Agent	61,713	64,720	5%					
Bancassurance	5,649	4,600	-19%					
Group & Others	27,526	25,878	-6%					
Total FYP	94,888	95,198	0%					
Total FYP APE	64,746	66,123	2%					
VNB breakdown:								
Retail business	30,931	27,081	-12%					
Agency	27,705	23,684	-15%					
Long-term protection	16,999	9,326	-45%					
Protection & Saving hybrid (long-PPP)	4,090	5,965	46%					
Protection & Saving hybrid (short-PPP)	5,003	6,356	27%					
Short-term	1,613	2,036	26%					
Tele, internet and others	2,298	2,475	8%					
Bancassurance	928	923	-1%					
Group business	100	306	206%					
VNB margin (FYP basis)								
Retail business	48.5	41.1	(7.4) ppt					
Agency	55.2	44.9	(10.3) ppt					
Long-term protection	104.4	100.8	(3.6) ppt					
Protection & Saving hybrid (long-PPP)	55.4	55.8	0.4 ppt					
Protection & Saving hybrid (short-PPP)	21.1	21.0	(0.1) ppt					
Short-term	57.5	78.1	20.6 ppt					
Tele, internet and others	28.8	28.4	(0.4) ppt					
Bancassurance	16.7	20.6	3.9 ppt					
Group business	0.5	1.4	0.9 ppt					

Source: Company data, CMBIS

Figure 3. Ping An: Property & Casualty Insurance Summary

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
Combined ratio (%)	98.1	95.9	(2.2) ppt					
Expense ratio (%)	38.1	29.0	(9.1) ppt					
Loss ratio (%)	60.0	66.9	6.9 ppt					
Premium income	144,118	133,313	-7%					
Auto	95,646	89,015	-7%					
Non-auto	48,472	44,298	-9%					
Underwriting profit	2,396	5,210	117%					
Auto combined ratio (%)	94.7	97.4	2.7 ppt					
Non-auto combined ratio (%)	107.4	92.7	(14.7) ppt					

Source: Company data, CMBIS

Figure 4. Ping An Bank Summary

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
NIM	2.87	2.83	(0.04) ppt					
Cost to Income ratio	27.3	27.4	0.1 ppt					
NPL ratio	1.65	1.08	(0.57) ppt					
Special mention ratio	1.86	0.96	(0.90) ppt					
Broad NPL ratio	3.51	2.04	(1.47) ppt					
Credit cost (annualized)	2.67	1.84	(0.83) ppt					
Provision coverage ratio	214.9	259.5	44.6 ppt					
60 days overdue coverage ratio	228.4	306.1	77.7 ppt					
Core T1 (>7.5%)	8.93	8.49	(0.44) ppt					
T1 (>8.5%)	11.35	10.58	(0.77) ppt					
Capital adequacy ratio (>10.5%)	13.96	12.58	(1.38) ppt					

Source: Company data, CMBIS

Financial Summary

Income statement						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
GWP & policy fees	795,064	797,880	789,020	807,611	837,100	Group					
Net earned premiums	748,779	757,599	746,164	762,754	789,927	Net investment yield	5.1%	5.3%	5.0%	5.1%	5.1%
Reinsurance income	7,572	6,356	7,662	7,997	8,394	Total investment yield	6.7%	6.5%	4.5%	5.1%	5.1%
Total premium income	756,351	763,955	753,827	770,751	798,322	ROAE	24.3%	19.9%	16.8%	17.7%	17.0%
						ROAA	1.9%	1.6%	1.4%	1.5%	1.4%
Investment income	201,738	225,046	169,185	205,196	219,751	EV growth	19.8%	10.6%	9.1%	12.8%	13.1%
Net inv't income from banking	90,187	100,404	110,949	122,044	136,398	ROEV	18.0%	10.1%	8.7%	12.0%	12.3%
Net fees and commission income	44,230	51,762	60,988	67,424	74,543						
Claims and benefits	(578,313)	(614,751)	(562,452)	(580,369)	(593,096)	Life & Health insurance					
Commission expenses	(114,766)	(102,021)	(114,326)	(111,731)	(115,646)	GWP growth	11.5%	-2.3%	-2.2%	0.3%	2.2%
G&A expenses	(177,164)	(181,166)	(153,687)	(160,066)	(163,025)	Agency FYRP growth	-7.8%	-28.3%	7.5%	8.0%	10.0%
Impairment loss	(67,266)	(79,458)	(74,015)	(75,646)	(83,555)	VNB growth	5.1%	-34.7%	-5.1%	9.8%	14.5%
Other income and expenses	6,518	7,148	(15,235)	(29,145)	(47,312)	VNB margin (APE basis)	56.0%	47.6%	42.2%	43.0%	45.0%
Associates/JVs	23,224	16,845	15,530	16,135	16,802	L&H EV growth	23.5%	8.9%	6.6%	9.2%	10.8%
Pretax profit	184,739	187,764	190,763	224,593	243,181	L&H operating ROEV	26.1%	14.9%	14.7%	16.0%	17.3%
						P&C insurance					
Tax	(20,374)	(28,405)	(34,462)	(39,739)	(42,159)	GWP growth	9.5%	5.5%	0.0%	6.0%	6.0%
Less: minorities	(14,958)	(16,260)	(21,125)	(25,224)	(29,457)	Combined ratio	96.4%	99.1%	98.0%	98.0%	97.5%
Net profit	149,407	143,099	135,176	159,631	171,565	ROE	10.2%	8.5%	9.8%	10.6%	11.1%
						Profit breakdown:					
						Life & health insurance	69.4%	67.1%	58.4%	63.2%	66.8%
						P&C insurance	15.3%	11.3%	10.6%	10.5%	11.1%
						Banking	10.9%	11.7%	16.1%	16.3%	17.7%
						Others	4.4%	9.9%	14.8%	10.0%	4.4%
						Per share data:					
Total assets	8,222,929	9,527,870	10,472,376	11,526,075	12,690,132	EPS (RMB)	8.41	8.10	7.39	8.73	9.39
Investment assets	4,743,082	5,601,861	6,002,518	6,433,592	6,884,653	DPS (RMB)	2.10	2.27	2.59	3.06	3.28
Loans to customers	2,240,396	2,599,510	2,989,437	3,437,852	3,953,530	BVPS (RMB)	36.82	41.71	46.52	52.20	58.30
Insurance contract liabilities	2,612,184	2,972,460	3,292,849	3,642,213	4,009,035	VNBPS (RMB)	4.15	2.71	2.57	2.83	3.24
Customer deposits	2,431,713	2,693,833	3,017,093	3,379,144	3,784,641	Group EVPS (RMB)	65.67	72.65	79.25	89.35	101.08
Total liabilities	7,370,559	8,539,965	9,375,481	10,300,197	11,323,280						
Total equity	852,370	987,905	1,096,895	1,225,878	1,366,852						
Shareholders' equity	673,161	762,560	850,424	954,184	1,065,702						

Source: Company data, CMBIS estimates

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