

China Pacific Insurance (2601 HK)

Re-energizing agency force

CPIC recorded 8.9% YoY decline of VNB for 1H21 amid market headwinds (vs 11.7% decline of Ping An, 19% decline of China Life). We notice the agency new business momentum was better than major peers in spite of a decline in agent headcount, as the insurer continued to focus on agency business and regular pay products. The insurer also achieved double-digit growth of health insurance business, outpacing the industry average momentum in 1H21. Looking into 2H21 and 2022, we expect the new initiatives launched at the life arm to improve agent activity and increase top-up sales to existing customers. CPIC-H share is trading at 0.4x P/EV or 0.8x P/BV in FY21E. Maintain BUY.

- Better-than-peers agency performance in 1H21.** Agency FYP grew 18.5% YoY in 1H21, with agency FYRP (first year regular premiums) up 34%, outperforming the major peers (agency FYP -8% for China Life, +5% for Ping An). Agent productivity increased 41.6% YoY on FYP basis or up 8.9% YoY on VNB basis, and average first-year commission income rose 15.1% YoY, while the agency headcount shrank by 16% YoY (vs China Life -32% YoY, Ping An -23% YoY). Agent activity rate declined 12.4ppt YoY to 50.1%, yet still above industry average and major peers.
- Agency reform focusing on activity and productivity.** The management sets the agency activity as the priority for the next 6-12 months, aiming to grow the number of active agents and high-productivity agents via re-energizing the existing experienced agent base. We believe a recovery in agent activity rate will bring improvements in persistency and productivity.
- To generate value via top-up sales and cross-selling.** CPIC achieved positive progress on customer development in 1H21, as the number of customers expanded by 7.3% HoH to 160mn. That said, the number of policies per customer is still low at 2.1, compared to 7-9 policies per customer in some developed markets. The insurer is working to increase the profitability via cross-selling and top-up sales to existing customers.
- P&C: prudent reserving.** 1H21 overall combined ratio increased by 1ppt YoY to 99.3% in 1H21, slightly better than the industry average of 99.6%, but outperformed by major peers (vs Ping An 95.9% and PICC P&C 97.2%). We notice the loss reserve as % NEP ratio was lifted up by 0.6ppt YoY.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
GWP (RMB mn)	347,517	362,064	379,880	404,464	428,514
YoY growth (%)	8.0	4.2	4.9	6.5	5.9
Total income (RMB mn)	382,682	418,964	422,765	451,759	480,925
Net profit (RMB mn)	27,741	24,584	27,441	30,243	32,957
EPS (RMB)	3.1	2.6	2.9	3.2	3.5
YoY Growth (%)	54.0	(14.1)	11.6	10.2	9.0
Consensus EPS (RMB)	n.a.	n.a.	2.9	3.2	3.6
P/B (x)	1.0	0.8	0.8	0.7	0.7
P/EV (x)	0.4	0.4	0.4	0.3	0.3
Yield (%)	6.2	6.7	7.4	8.1	8.9
ROE (%)	16.9	12.5	12.4	12.7	12.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$35.96**
 Up/Downside **+54.7%**
 Current Price **HK\$23.25**

China Insurance Sector

Gigi Chen, CFA
 (852) 3916 3739
 gigichen@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	277,453
Avg 3 mths t/o (HK\$ mn)	318.17
52w High/Low (HK\$)	42.56/20.76
Total Issued Shares (mn)	2,775(H) 6,845(A)

Source: Bloomberg

Shareholding Structure

Shenergy (Group)	13.79%
Hwabao Investment	13.35%
Shanghai State-Owned	5.09%
Assets Operation	

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.5%	6.9%
3-mth	-21.8%	-11.7%
6-mth	-42.2%	-30.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Report

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

Figure 1. CPIC: 1H21 Results Summary

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
OPAT attribute to shareholders	17,428	18,279	4.9%					
Net profit attribute to shareholders	14,239	17,304	21.5%	5,851	8,757	49.7%	8,547	8,757
Life	10,147	12,873	26.9%					
P&C	3,176	3,503	10.3%					
Reserve catch-up	(4,236)	(4,387)						
Group EV	430,420	474,431	10.2%					
Net investment yield (%)	4.4	4.1	(0.3) ppt					
Total investment yield (%)	4.8	5.0	0.2 ppt					
Comprehensive investment yield (%)	-	-	-					
Total investment assets	1,552,866	1,752,116	12.8%					
Total investment income	38,429	49,340	28.4%					

Source: Company data, CMBIS

Figure 2. CPIC: 1H21 Life Insurance Summary

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
VNB	11,228	10,231	-9%					
VNB margin (FYP)	37.0%	25.4%	(11.6) ppt					
Life EV	317,141	355,407	12%					
Residual margin	347,056	357,713	3%					
Surrender rate (%)	0.50	0.90	0.4 ppt	0.29	0.54	0.3 ppt	0.42	0.54
Monthly avg. # of agents (mn)	0.77	0.64	-16%					
Activity rate (%)	62.5	50.1	(12.4) ppt					
Agent FYC (RMB per month)	4,183	5,918	41%					
Agent # of long-term life policies per month	1.8	1.6	-13%					
Agent productivity (FYP/month/agent)	4,148	5,873	42%					
Agent productivity (VNB/month/agent)	2,321	2,527	9%					
Agency FYP	19,065	22,587	18%	7,043	6,251	-11%	16,336	6,251
Agency FYRP	14,741	19,711	34%	5,076	5,263	4%	14,448	5,263
VNB breakdown:								
Traditional	9,596	9,589	0%					
PAR	1,106	264	-76%					
Others	526	378	-28%					
FYP breakdown:								
Traditional	12,035	20,485	70%					
PAR	4,566	1,246	-73%					
Others	13,715	18,568	35%					
VNB margin (FYP basis):								
Traditional	79.7	46.8	(32.9) ppt					
PAR	24.2	21.2	(3.0) ppt					
Others	3.8	2.0	(1.8) ppt					

Source: Company data, CMBIS

Figure 3. CPIC: 1H21 Property & Casualty Insurance Summary

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
Combined ratio (%)	98.3	99.3	1.0 ppt					
Expense ratio (%)	38.5	29.2	(9.3) ppt					
Loss ratio (%)	59.9	70.1	10.2 ppt					
Premium income	76,672	81,561	6.4%	37,628	37,814	0.5%	43,747	37,814
Auto	47,962	44,642	-6.9%	24,438	22,775	-6.8%	21,867	22,775
Non-auto	28,710	36,919	28.6%	13,190	15,039	14.0%	21,880	15,039
Underwriting profit	1,008	443	-56%					
Auto combined ratio (%)	97.8	99.0	1.2 ppt					
Non-auto combined ratio (%)	99.6	99.9	0.3 ppt					

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 premium	347,517	362,064	379,880	404,464	428,514	Group (%)					
Incl: Life GWP	212,514	211,952	222,000	232,640	244,226	Total GWP growth	8.0	4.2	4.9	6.5	5.9
P&C GWP	132,979	147,734	157,880	171,824	184,288	Total income growth	8.4	9.5	0.9	6.9	6.5
Net premiums earned	313,246	331,639	345,016	366,724	388,120	Net profit growth	54.0	(11.4)	11.6	10.2	9.0
Investment income	65,730	82,740	72,979	79,965	87,440	EV growth	17.8	16.0	6.9	9.2	9.1
Total income	382,682	418,964	422,765	451,759	480,925	Net investment yield	4.9	4.7	4.4	4.4	4.4
Insurance claims and reserves	(260,850)	(293,415)	(284,165)	(302,791)	(322,354)	Total investment yield	5.4	5.9	4.6	4.5	4.5
Other operating expenses	(94,360)	(96,823)	(101,407)	(107,948)	(113,848)	Investment assets growth	15.1	16.1	11.3	10.3	9.1
Total expenses	(355,210)	(390,238)	(385,572)	(410,739)	(436,202)	Life (%)					
Associates and JVs	494	512	538	564	593	GWP growth	5.0	(0.3)	4.7	4.8	5.0
Pre-tax profit	27,966	29,238	37,731	41,584	45,316	Agent FYRP growth	(22.4)	(33.4)	25.0	12.0	12.0
Income tax	388	(3,886)	(9,433)	(10,396)	(11,329)	NBV growth	(9.3)	(27.5)	4.0	11.2	14.5
Less: Minority interests	(613)	(768)	(857)	(945)	(1,030)	NBV margin (NBV/agent APE)	73.1	78.7	65.9	65.6	67.2
Net profit	27,741	24,584	27,441	30,243	32,957	Life comprehensive solvency	256.8	242.0	235.6	233.7	233.0
						P&C (%)					
						GWP growth	12.9	11.1	6.9	8.8	7.3
						Auto GWP/total P&C	70.1	64.8	58.8	54.5	51.3
						Loss ratio	60.2	61.4	61.2	61.1	61.0
						Expense ratio	38.1	37.6	37.4	37.3	37.3
						Combined ratio	98.3	99.0	98.6	98.4	98.3
						P&C comprehensive solvency	292.6	275.6	264.8	256.6	247.7
						Returns (%)					
						Life RoEV	23.1	17.2	14.4	14.4	14.5
						P&C ROE	15.4	12.2	12.0	11.7	11.2
						Per share					
						EPS (RMB)	3.06	2.63	2.93	3.23	3.52
						DPS (RMB)	1.20	1.30	1.43	1.57	1.71
						EVPS (RMB)	43.70	47.75	51.03	55.73	60.82
						BVPS (RMB)	19.69	23.01	24.33	26.49	28.74

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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