PICC P&C (2328 HK)

Auto growth pick up; Non-auto UW to improve

BUY (Maintain)

Target Price	**HK$11.53**
(Prev. Target Price	HK$9.99)
Up/Downside	**+68.3%**
Current Price	**HK$6.85**

In Oct 2021, PICC's auto insurance premium income increased by 6.5% YoY, ending months of auto premiums decline. It has been over 1 year since the launch of the Comprehensive Reform of Auto Insurance on 19 Sep 2020, and the low base effect kicked in. We expect the average auto premiums and auto comprehensive ratio year on year to stabilize starting from 4Q21. Moreover, this recovery of auto premium income growth will ease the competitions in non-auto space, and the top P&C insurers are able to pay more attentions on improving the non-auto underwriting profitability, in our view. We expect PICC P&C to deliver continual outperformance against industry average and improvement in underwriting margin in 2022. The stock is trading at historical trough valuation at 0.6x P/BV FY22E, with over 8% dividend yield. We increased FY22E-FY23E earnings forecast and roll over TP to FY22E at HK$11.53, reiterate Buy.

- **Auto pricing bottoming out, growth pick up.** PICC's auto combined ratio declined by 0.7ppt YoY to 98.8%, reversing the YoY upward trend since the beginning of the Comprehensive Reform of Auto Insurance. 3Q21 auto expense rate declined by 18 ppt YoY, while loss ratio up 17.3 ppt YoY. We believe the premium rate of auto business is bottoming out and auto combined ratio will remain stale into 2H21 and FY22. On growth front, PICC's auto premiums increased by 6.5% YoY in Oct, as the low base effect kicked in. We expect high single digit growth of auto premium income into 4Q21 and FY22.

- **Non-auto underwriting to improve.** In 9M21, industry auto insurance premium income decreased by 9.4% year on year. The decline in auto premiums forced insurers shifting to non-auto space for revenue growth, which further spurred the peers' competition within the non-auto segments. This resulted in increased non-auto competitions and higher combined ratio except for credit insurance of financing business. We expect that with the recovery of auto growth, the competitions for non-auto growth will be eased in 2022, likely contributing to an improvement in non-auto underwritings.

- **Likely benefit from regulatory changes.** We expect the updated solvency regime, C-ROSS 2.0, will be officially launched in 1Q22. We estimate that the haircut on core solvency margin of P&C insurers will be much less compared to life insurers. Meanwhile, the new solvency regime will assign lower risk factors to government-sponsored business, i.e. agricultural insurance and serious disease insurance schemes. This will benefit PICC, as the insurer has largest market shares in these policy-supported segments.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Gross written premiums (RMB mn)	433,175	433,187	437,519	481,271	529,398
Underwriting profit (RMB mn)	3,177	4,177	3,971	5,895	8,337
Net profit (RMB mn)	24,282	20,868	22,072	25,351	29,898
EPS (RMB)	1.1	0.9	1.0	1.1	1.3
EPS CHG (%)	56.8	(14.1)	5.8	14.9	17.9
Consensus EPS (RMB)	N.A	0.9	1.1	1.2	1.3
PER (x)	5.2	6.1	5.7	5.0	4.2
PBR (x)	0.7	0.7	0.6	0.6	0.5
Yield (%)	8.1	6.6	7.0	8.0	9.5
ROE (%)	15.6	11.7	11.4	12.2	13.3

Source: Company data, Bloomberg, CMBIS estimates

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Stock Data

Mkt Cap (HK$ mn)	152,363
Avg 3 mths t/o (HK$ mn)	161.46
52w High/Low (HK$)	7.96/5.61
Total Issued Shares (mn)	6,899 (H)

Source: Bloomberg

Shareholding Structure

PICC Group	68.98%
Free float	31.02%

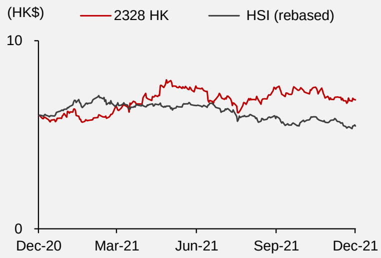
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.7%	0.5%
3-mth	-7.4%	-1.8%
6-mth	-9.5%	7.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Financial Summary

Income Statement						Key ratios					
31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Gross Written Premiums	**433,175**	**433,187**	**437,519**	**481,271**	**529,398**	**YoY growth(%):**					
Auto insurance	262,927	265,651	245,011	259,886	285,875	Gross written premiums	11.4	0.0	1.0	10.0	10.0
Non-auto insurance	170,248	167,536	192,508	221,385	243,523	Motor vehicle insurance	1.6	1.0	(7.8)	6.1	10.0
						Non-auto insurance	31.1	(1.6)	14.9	15.0	10.0
Net earned premiums	380,683	393,127	397,058	421,047	463,152						
Net claims incurred	(251,822)	(260,320)	(285,882)	(302,312)	(330,690)	Net profits	56.8	(14.1)	5.8	14.9	17.9
Net acquisition costs	(77,943)	(69,075)	(47,647)	(49,684)	(54,652)						
G&A expenses	(47,741)	(59,555)	(59,559)	(63,157)	(69,473)						
Underwriting profits	**3,177**	**4,177**	**3,971**	**5,895**	**8,337**	**Underwriting (%):**					
						Loss ratio	66.2	66.2	72.0	71.8	71.4
Investment income	17,719	19,229	20,127	21,319	23,310	Expense ratio	33.0	32.7	27.0	26.8	26.8
Finance costs	(1,424)	(1,547)	(1,624)	(1,706)	(1,791)	Combined ratio	99.2	98.9	99.0	98.6	98.2
Share 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)						
						Solvency (%):		-	-	-	-
Profit before tax	**23,783**	**24,676**	**25,967**	**29,825**	**35,174**	Core solvency margin ratio	251.7	249.9	265.4	258.0	252.5
Income tax expense	496	(3,808)	(3,895)	(4,474)	(5,276)						
Non-controlling interests	3	-	-	-	-						
						Returns (%):					
Net profits	**24,282**	**20,868**	**22,072**	**25,351**	**29,898**	ROE	15.6	11.7	11.4	12.2	13.3
						ROA	4.2	3.4	3.3	3.5	3.8

Balance Sheet											
31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	**Investments (%):**					
Investment assets	342,316	380,983	399,689	436,333	477,795	Investment assets growth	3.7	11.3	4.9	9.2	9.5
Other assets	253,765	265,818	290,489	317,531	347,177	Net investment yield	5.1	4.9	5.1	5.1	5.1
Total assets	**596,081**	**646,801**	**690,178**	**753,864**	**824,972**	Total investment yield	5.3	5.3	5.2	5.1	5.1
Insurance contract liabilities	306,902	314,623	320,424	342,209	366,003						
Other liabilities	119,225	142,147	168,998	195,688	225,063	**Per share data (RMB):**					
Total liabilities	**426,127**	**456,770**	**489,422**	**537,897**	**591,066**	EPS	1.1	0.9	1.0	1.1	1.3
						DPS	0.5	0.4	0.4	0.5	0.5
Total equity	169,954	190,031	200,756	215,967	233,906	BVPS	7.6	8.4	9.0	9.7	10.5
Shareholders' equity	**169,953**	**187,513**	**200,756**	**215,967**	**233,906**						

Source: Company data, CMBIS estimates

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