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China Insurance

P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22

- **Life: expect a slow jumpstart for 2022.** In 10M21, Chinese life insurers H-shares dropped 9%-38%, underperforming the 7.6% fall of HSI, due to: 1) continued decline of VNB, and 2) impairment of real estate investment. Looking into 2022, given 1) a significant decline in # of life agents YTD and 2) late start of 2022 jumpstart pre-sale, we expect the new business momentum will remain slow in 1Q22. That said, as the agency force transformation proceeds, we expect the number of sales agents to bottom around mid-2022. With enhanced agent productivity and low base of 2Q/3Q21, we expect to see sequential improvement in VNB growth starting from 2Q22. Chinese insurers are trading at historical trough valuation; we believe the current valuation already priced in the worst case scenario of slow growth and investment impairment, hence the downside is limited. We roll over our target prices from 2021E to 2022E. Maintain BUY.

- **P&C: auto growth turnaround; non-auto underwriting to improve.** 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. In Oct 2021, auto insurance premium growth rebounded to 2.4% YoY. In 9M21, the decline in auto premiums forced insurers shifting to non-auto space for revenue growth, which 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. We expect PICC P&C will continue to outperform the market in terms of underwriting in 2022.

- **Regulatory overhangs on life business.** We expect the updated solvency regime, C-ROSS 2.0, will be officially launched in 1Q22. We estimate that the core solvency margin of insurers will decline to various degrees after the implementation of C-ROSS 2.0, among which, we expect life insurance companies to experience more significant impacts than P&C peers. Based on our estimates, the core solvency ratio of major insurers will remain above 100% under C-ROSS 2.0, safely above the CBIRC's minimum requirement of 50%. On the other hand, the CBIRC recently circulated a new consultation paper on life insurance sales regulation. The new rule will force life insurers to trim volume-oriented short-term business and build sustainable professional sales force. Meanwhile, the lower cap on first year commission rate may delay the recovery of life insurance agent headcount.

- **750-day CGB yields to flatten, less reserve catch-up for 2022.** Our economists project China's 10-year government bond yields in 2022 to move within the range of 2.7%-3.1%, rising in the first half while trending flat in the second half. Based on this view, we expect the decline of average 750-day government bond yields in 2022 to be 9 bps, lower than 16bps in 2021, leading to less reserve catch-up in 2022 for life insurers.

OUTPERFORM (Maintain)

China Insurance

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Stocks Covered:

Ticker	Rating	Target Price	Upside
2318 HK	Buy	87.02	51%
601318CH	Buy	72.23	41%
2628 HK	Buy	18.41	38%
601628CH	Sell	18.34	-40%
2601 HK	Buy	36.98	61%
601601CH	Buy	36.84	31%
1336 HK	Buy	34.04	59%
601336CH	Sell	28.26	-28%
966 HK	Buy	14.21	29%
1339 HK	Buy	3.57	53%
601319CH	Sell	3.70	-23%
2328 HK	Buy	11.53	68%
6060 HK	Buy	44.27	58%

Source: Company data, CMBIS estimates

Our stock picks: PICC P&C (2328 HK)

12-m Target PO (HK$)	11.53
Up/Downside	+68.3%
Current Price (HK$)	6.85
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: Company data, CMBIS estimates

Recent Report:

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

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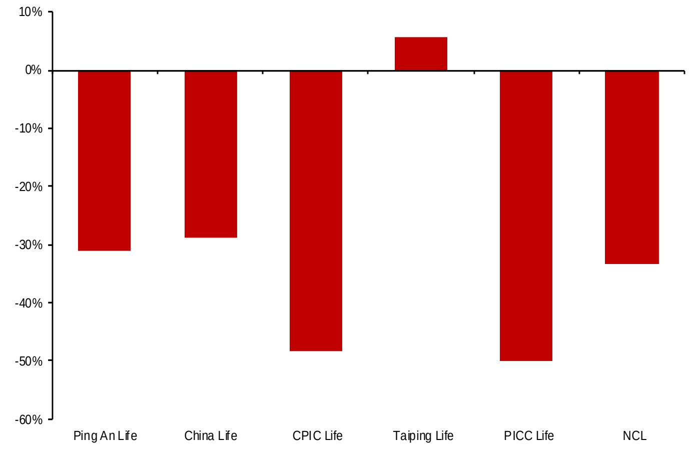
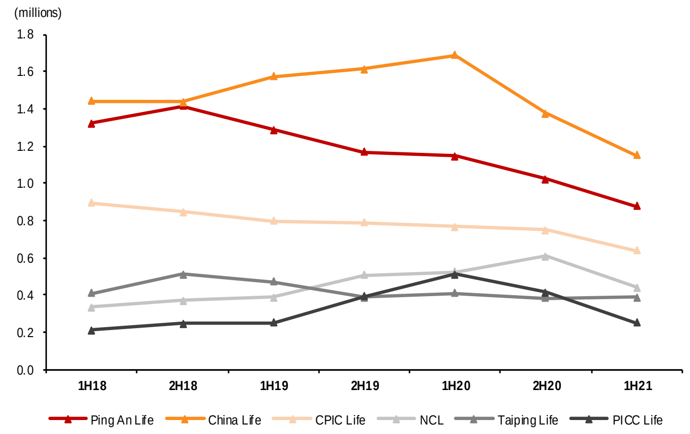


Source: Company data, CMBIS estimates

Figure 2: Life insurers: Agent headcount by company



Source: Company data, CMBIS estimates

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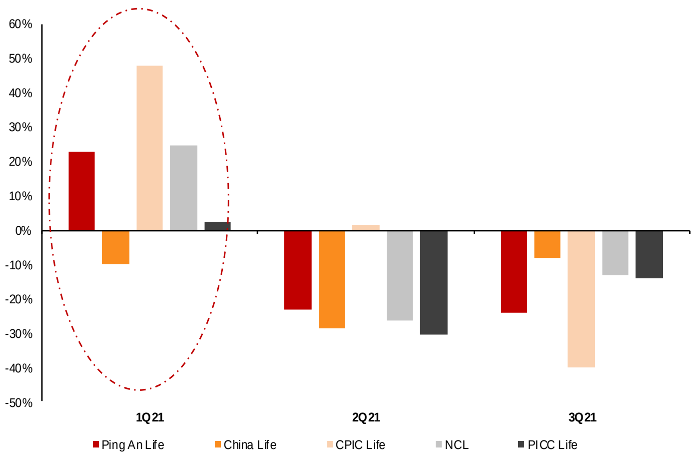

Source: Company data, CMBIS estimates

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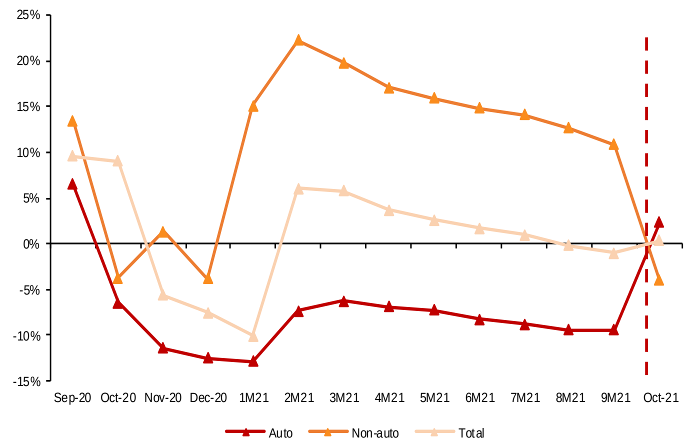

Source: Company data, CMBIS estimates

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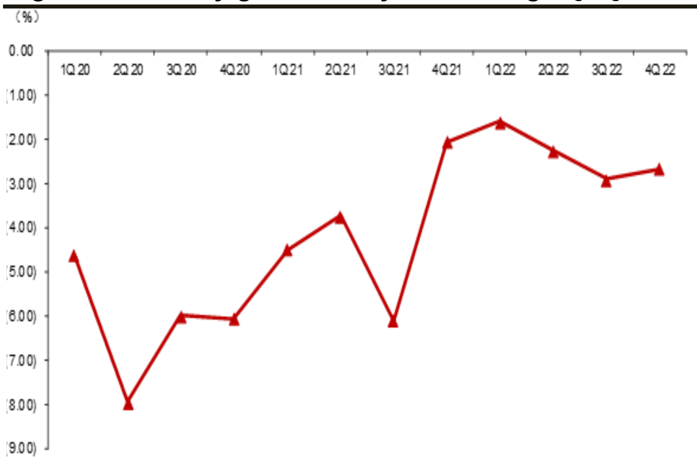

Source: Company data, CMBIS estimates

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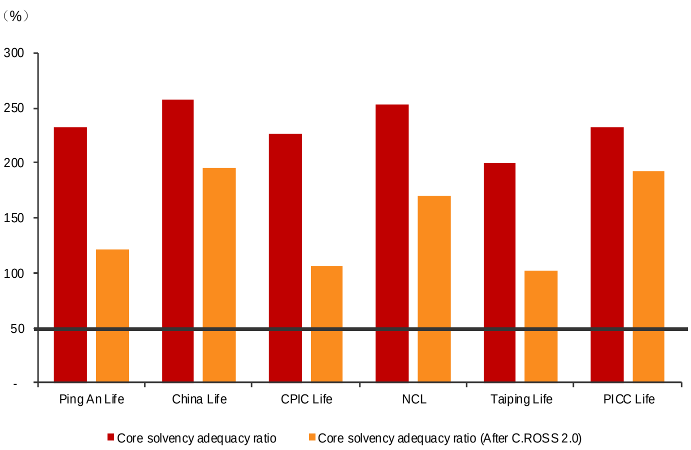


Source: Company data, CMBIS estimates

Life Insurance: Expect a slow jumpstart

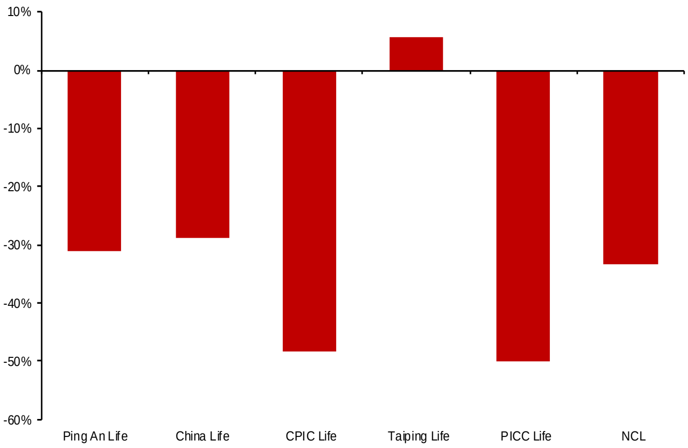
Expect sequential improvement in VNB growth starting from 2Q22

Looking into 2022, we believe the new business momentum of Chinese life insurers will remain slow in 1Q22, mainly owing to: 1) a sharp decline in total number of life insurance agents of listed life insurers, except Taiping, compared to the team scale at the beginning of 2021; 2) late start of 2022 jumpstart pre-sale compared to events organized for 2021 pre-sale. With progressive agent transformation and low-base in 2Q21/3Q21, we expect the value of new business growth in 2022 trending from low to high, with sequential improvement quarter by quarter.

■ **Shrinking size of agents in 2021 reducing effective workforce for life pre-sale**

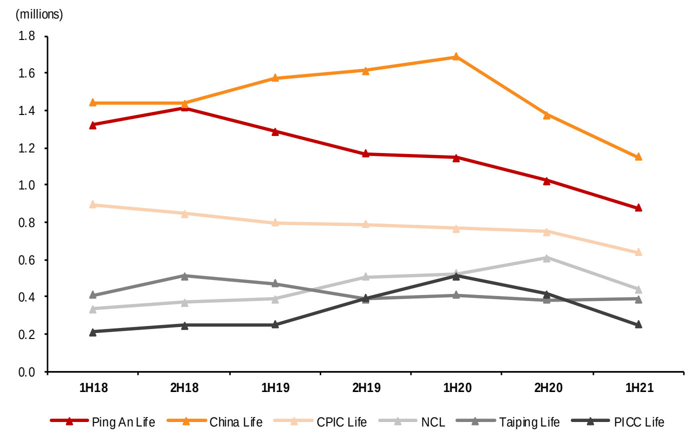
Life insurance companies all experienced a shrinking size of agency force in 9M21. As shown below, among all major companies, Ping An/CPIC/China Life each experienced a drop of 31%/48%/29% in total number of agents, respectively, compared to the size at the beginning of this year. Consequently, this significantly reduced the available workforce who would otherwise prepare for the pre-sale activities for 2022 jumpstart. Although removed agents were those who contributed low sales productivity, a substantial decline in total workforce will still inevitably bring great pressure to overall sales performances in 2022 jumpstart.

Figure 7: Decline in agent headcounts (3Q21 vs 4Q20)



Source: Company data, CMBIS estimates

Figure 8: Agent headcount breakdown by company



Source: Company data, CMBIS estimates

■ **High base and late start for 2022 jumpstart pre-sale**

Compared to the life pre-sale for 2021, the pre-sale activities for 2022 are in face of severe adversities as late start and high base for critical illness insurance offerings.

1) Late pre-sale starting time for one month

Given lower-than-expected new business performances in 2021, most life insurance companies in 4Q21 still strived for achieving the sales targets of the year, which thus cause the delay of life pre-sale for 2022 jumpstart. Major listed life companies started the pre-sale at the end of November or early December 2021, except China Life opening the pre-sale for 2022 in Oct 2021. However, the 2021 pre-sale activities started from October to November in 2020, except China Life launched in Sep 2020, showing one-month delay of pre-sale this year for 2022.

Figure 9: 2022 Jumpstart life products for major life insurance companies

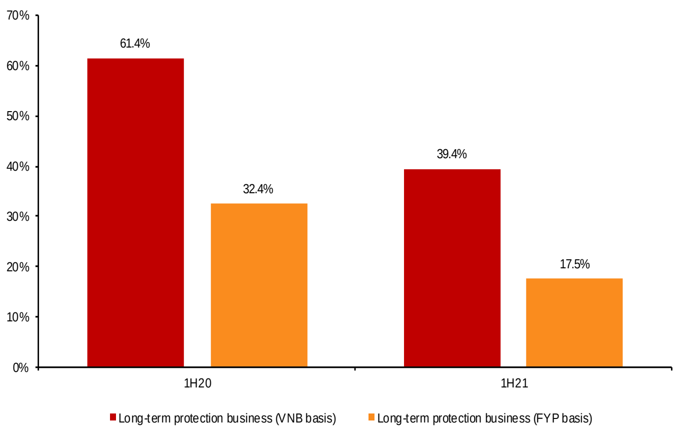
Company	Types	Product Names	Payment	Guaranteed period	Settlement rate	Minimum rate	Issue date
China Life	Annuity	Xinyu Niannian	Single/3 yrs	10 yrs	——	——	Start in mid Oct,2021
	Annuity	Xinyu Zhenxiang	Single/3/5 yrs	10 yrs	——	——	
	Annuity	Xinyu Zunxiang	Single/3/5/8/10yrs	15 yrs	——	——	
	Endowment	Xinyu Jinsheng	Single/3/5 yrs	8/10 yrs	——	——	
	Universal	Xinzunbao Whole Life (A)	——	——	5.00	2.50	
	Universal	Xinyuanbao Whole Life	——	——	4.60	2.50	
	Universal	Xinzunbao Whole Life (C)	Single/3 yrs	10 yrs	3.70	2.50	
Ping An Life	Annuity	Yuxiang Wealth	3yrs/5yrs	8 yrs	——	——	Start in early Nov,2021
	Annuity	Yuxiang Jinrui	Single/3/5/10 yrs	8/15 yrs	——	——	
	Universal	Jucaibao Whole Life (21)	——	——	-	1.75	
	Universal	Jucaibao Pension (21)	——	——	-	1.75	
PICC Life	Endowment	Zhuoyue Jinsheng	3yrs/5 yrs	7 yrs	——	——	Start in Nov.2021
	Universal	Pinzhijin (C)	——	——	-	3.00	
Taiping Life	Annuity	Wealth Manman	Single/3/5 yrs	10 yrs	——	——	Start in end Nov,2021
	Universal	Supreme Rongyao Account Whole Life	——	——	5.00	2.50	
CPIC Life	Endowment	Xinxiang Shicheng (Celebration)	3yrs/5yrs	7 yrs			Start in Nov.2021
	Universal	Chuanshi Qingdian	——	——	5.20	2.50	
NCL Life	Annuity	Huijinxiang Annuity	Single/3/5 yrs	8/10/15 yrs	——	——	Start in early Dec, 2021
	Universal	JInli Youxiang Whole Life	——	——	5.00	2.50	

Source: Company data, CMBIS estimates

2) Declines in critical illness offerings lower the margins of new business sales

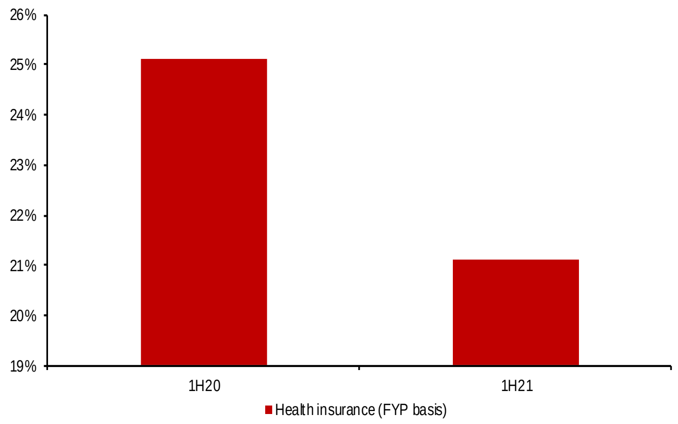
The Insurance Association of China (IAC) issued a new standard for the definition of critical illness on 5 November 2020 and set forth the official implementation date on 1 February 2021. Due to the suspension, critical illness insurance sales accounted for relatively high proportion to total sales during the jumpstart and pre-sale period in 2021. In February 2021, however, with the rapid promotion of "Huiminbao" and the shift to new critical illness standard, the sales of critical illness insurance took a downturn, weighing much less significant in VNB compared to periods before the transfer to new standards. Concerning most critical illness products generate over 70% VNB margin, notably higher compared to the margins of annuity and PAR insurance products, weak sales in critical illness products reduced overall VNB margins of life insurers.

Figure 10: Ping An Long-term Protection Business weighing on VNB and FYP basis (1H20 vs 1H21)



Source: Company data, CMBIS estimates

Figure 11: NCL Health Insurance Business weighing on FYP basis (1H20 vs 1H21)

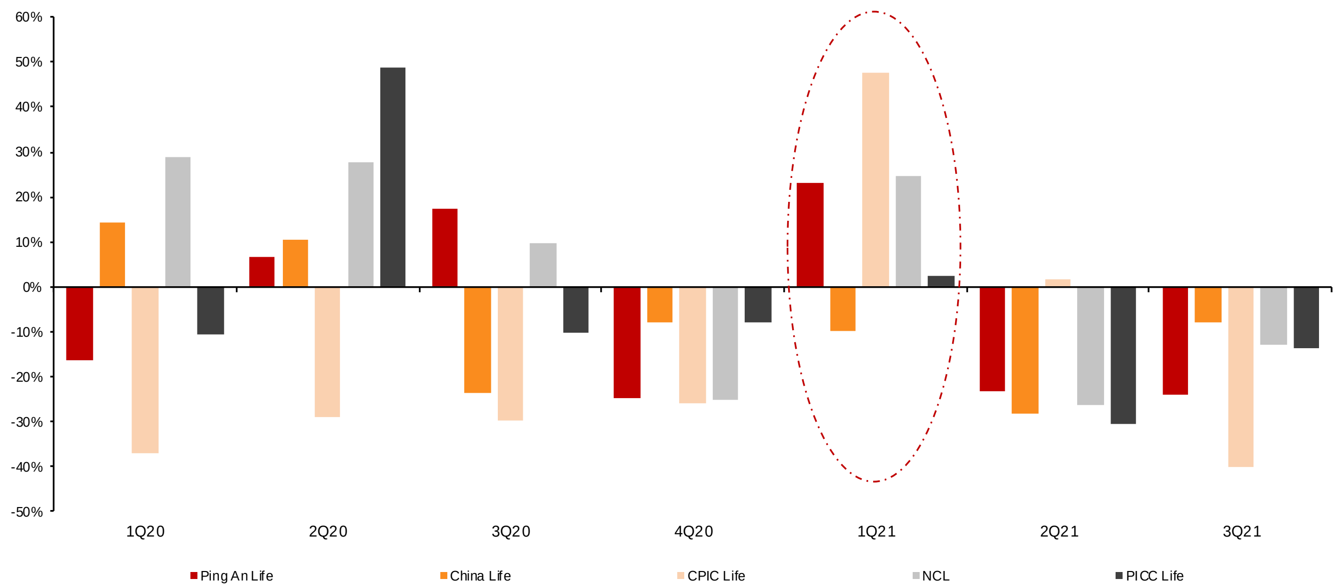


Source: Company data, CMBIS estimates

■ **Low-base effect will kick in starting from 2Q22**

Under the impacts of weak sales in critical illness offerings and a shrinking size of agents, new business for major listed life companies showed in negative growth in 2Q21/3Q21. Therefore, given a low-base result, premiums growth on a like-for-like basis for new business sales will start to benefit since 2Q22. We assume in 2022 the value of new business growth in 2022 trending from low to high, with sequential improvement quarter by quarter.

Figure 12：Life value of new business growth YOY% by company (1Q20-3Q21, quarterly）



Source: Company data, CMBIS estimates

Progressive agent transformation improves productivity

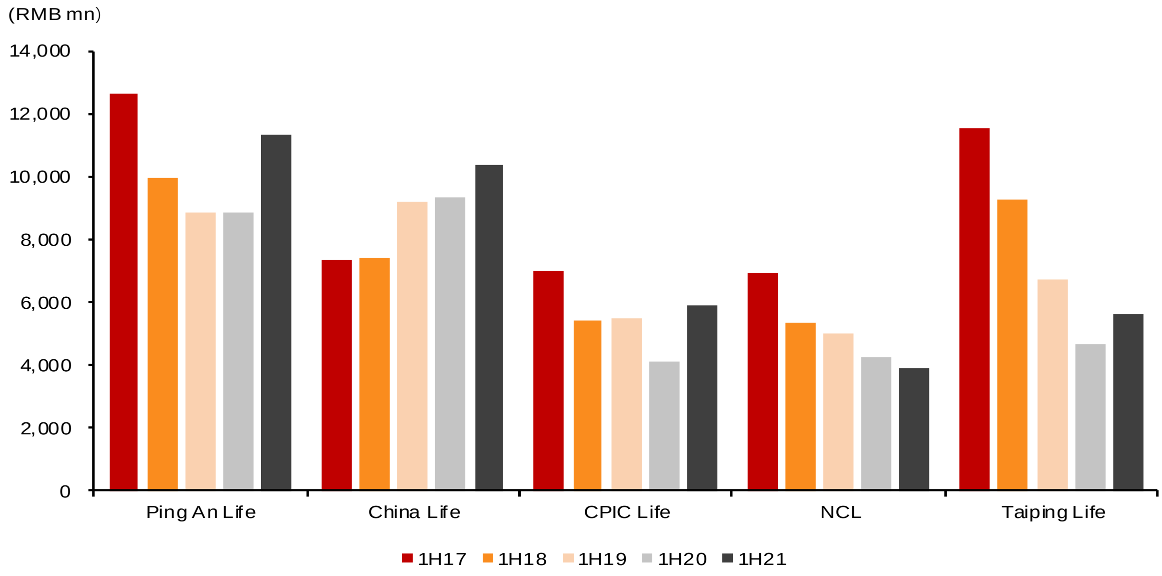
With continuous progress in removal of low-productivity agency force, the average agent productivity for listed insurance companies substantially improved in 2021, except for New China Life. Moreover, in face of the mismatch adversities among sales team skillsets, products and services offerings and customer needs, major life companies have proactively started the transformation so as to empower various agent channels. Among which, Ping An Life promoted digital agent transformation including a "Talent+" seasonal recruitment plan and a new model of bancassurance building a professional new team, namely "Ping An Bankers", to sell insurance products. CPIC Life launched its "Long Voyage Action" to further deepen the professional transformation in agent team and promote sales in match with clients' needs.

Figure 13: Agent transformation plans of Ping An Life and CPIC Life

Agent Transformation	Ticker	Detailed Actions	Time of Official Release
Ping An Life	2318 HK	(1) Launch a "Talent+" recruitment program, layer the agent team into three levels – diamond team, high-potential team and new recruits team (2) Digital transformation empowered by 4 newly-released instruments, including digital operations, digital recruitment, digital activity management, and digital training (3) Create a new model of bancassurance by building a team of "Ping An Bankers" for transitioning to wealth management trajectory	Nationally roll out at the end of 2022
CPIC Life	2601 HK	(1) Release the "New Basic Law"	Officially launch in 1/1/2022
		(2) Develop a Need-Based System (NBS) for insurance sales support	Completed in 10/2021
		(3) Sales activity management through mobile devices	Pilot trial in two subsidiaries since 11/2021, and extend to all branches in 12/2021
		(4) Launch the "Long Voyage Partners" global recruitment program to develop high-caliber agents	Released a global launch of CPIC "Long Voyage Partners" program in 20/11/2021
		(5) Promote an advanced CRM system	Expected to be officially launched in 2022

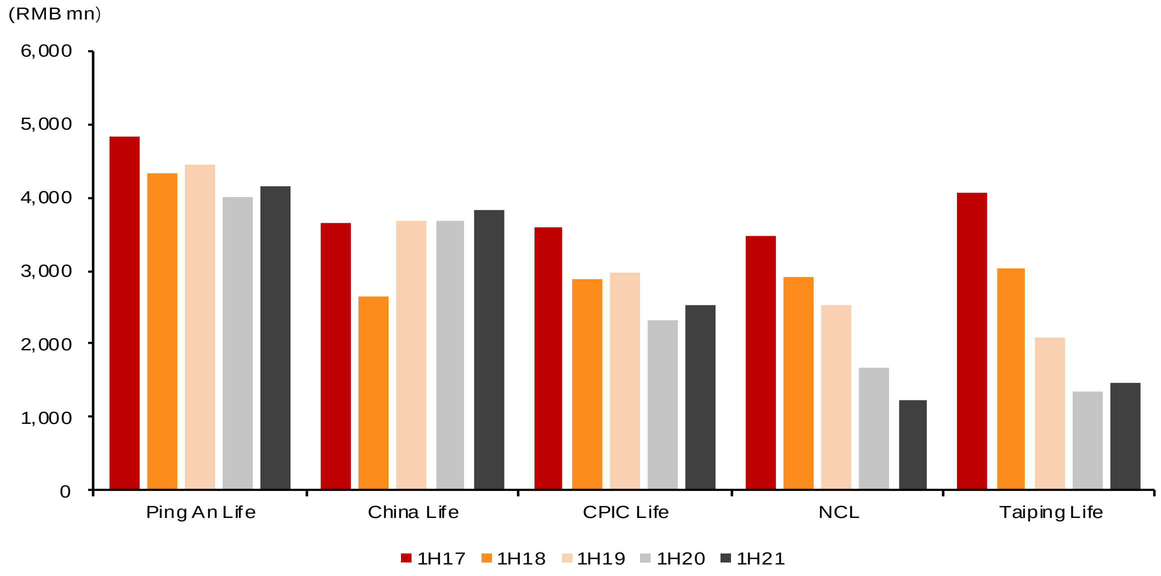
Source: Company data, CMBIS

Figure 14: Life agent productivity on FYP basis (FYP/agent/month) - 1H17 vs 1H18 vs 1H19 vs 1H20 vs 1H21



Source: Company data, CMBIS estimates

Figure 15: Life agent productivity on VNB basis (VNB/agent/month) - 1H17 vs 1H18 vs 1H19 vs 1H20 vs 1H21



Source: Company data, CMBIS estimates

Upcoming strigent regulation over life insurance sales activities

On 25 November 2021, the CBIRC circulated a consultation paper of the "Measures for the Management of Personal Insurance Sales", implying a trend of more stringent supervision on personal insurance sales management. According to the consultation paper, the new rules will be in full coverage of all subjects, all channels and the entire process of life insurance sales and cap the commission rates, especially first-year commissions. The key highlights include:

1) **Hierarchical management of sales personnel and products:** The new rules require insurance companies to categorize product levels into four levels, from Level I to Level IV (details shown as table below), regarding indicators as product complexity, risk level, and payment burden, etc. of the products. Moreover, sales personnel are also subject to hierarchical management based on their education background, years of employment, business quality, assessments, training and testing status, integrity evaluation etc. to be graded into no less than four degrees, with the first degree being the least experienced. Given the results of grading on recruits and products, agents are authorized with differentiated selling rights. Newly recruited first-level agents are only allowed to sell simplest and least risky products, i.e. short-term traditional life and accident insurance. The scope of product sales authorization will gradually expand along as new recruits get promoted to higher degrees.

Figure 16: "Measures for the Management of Personal Insurance Sales (Draft for Solicitation of Comments)" Product grading

Grading Level	Product Complexity	Risk Level	Payment Burden
Low	Traditional life insurance Accident insurance	Traditional life insurance	Products with payment periods less than 1 year
	Categorize to Level I and Level II based on payment periods		
Medium	Innovative life insurance Traditional health insurance Traditional annuity insurance	Innovative insurance Policy-supported insurance	Evaluated by insurance companies regarding payment flexibility, premium levels, etc.
	Level II and above	**Level III and above**	
High	Innovative health insurance Innovative annuity insurance Policy-supported insurance	Unit-linked insurance Policy-supported insurance (with investment accounts and non-guaranteed returns)	Products with payment periods above 6 years
	Level III and above		

Source: Company data, CMBIS

2) **Upper limit of commissions and acquisition fees:** limit upfront fees and extend payment periods for commissions. The new regulation requires insurers to pay insurance intermediaries with the first-year commissions & fees no more than 80% of the first-year premiums. For the first-year commissions paid to sales personnel, the first-year commission shall not be higher than 40% of the total direct commission of the policy, and the renewal commission shall not be paid in less than the shorter of 10 years and the policy payment period.
3) **Restriction on agents' self-purchases and reciprocal-purchases:** life insurers shall not use the purchase of insurance products as conditions for sales personnel's recruitment, onboarding, and promotions, and shall not include agents' self-purchases or reciprocal-purchases of insurance products in any form of performance evaluation and business competition. Insurance companies should carefully evaluate the

commission costs for self-purchases or reciprocal-purchases in order to avoid any arbitrage.

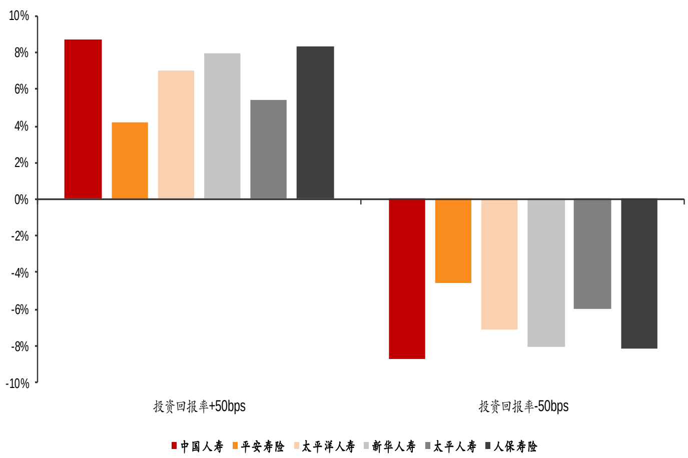
4) **Exclusive bancassurance model:** sales personnel of insurance companies have been first allowed to station in commercial bank branches to sell insurance products since 2010. Banks and life insurers are able to cooperate under an exclusive bancassurance model at branch level, and insurance sales personnel are allowed to station at these exclusive outlets conducting auxiliary consultation or product sales. Under exclusive bancassurance model, each outlet can only develop partnership with only one life insurance company in each year, and cannot distribute products from any other life insurer during the same period.
5) **Sales activities management: T**he new rules prohibit the behaviors of charging ultra-low upfront premiums to produce marketing gimmicks, and cap the net risk premiums as gift to customers at RMB100 per policyholder, excluding the gifted premiums from insurer's premium income. The new regulations also ban third-party commercial institutions from soliciting insurance surrender. In principle, customers' overall payment in life insurance shall not exceed 30% of their annual income, as the consultation states.

Given that over 50% of direct commissions are currently paid as first-year commission for long-term life insurance, we believe that as new regulations will lower agents' income in short term and force out low-productivity agents. Life insurers will have to accelerate their agency force transformation from short-term scale expansion to a more sustainable high-quality business operating model. At the meanwhile, large life insurers and bank-affiliated insurers will benefit from the exclusive bancassurance model and expand their shares.

Marginal easing of real estate policies to support investment

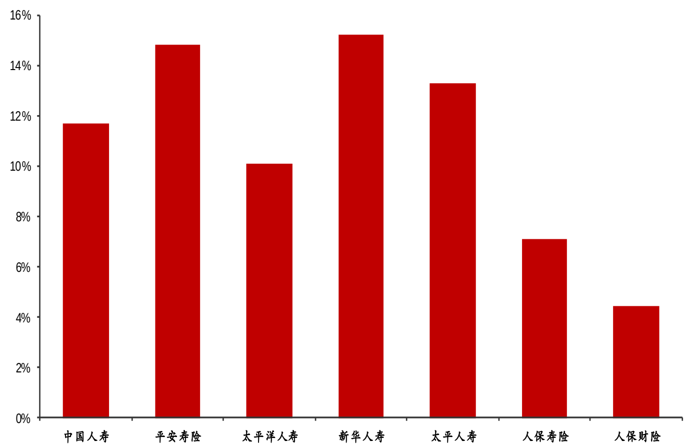
With the marginal easing of policies over real estate industry, the prices of property stocks and bonds began to rise from the bottom. Listed life insurance companies' investments in property sector via equity, bonds and non-standard assets accounted around 5% of their total investment assets. In 2021, the liquidity problems of China real estate sector, i.e. China Fortune Land Development and Evergrande Group defaults, lead to investment write-down or impairment of insurers' investment. Moving into 2022, with marginal relaxation of real estate policies, the liquidity risk faced by real estate companies will be released combined with the recovery of stock prices and bond value. This will help support the investment performance and ease concerns over the asset quality for listed life insurers.

Figure 17: Embedded value sensitivity analysis with investment returns +/-50bps



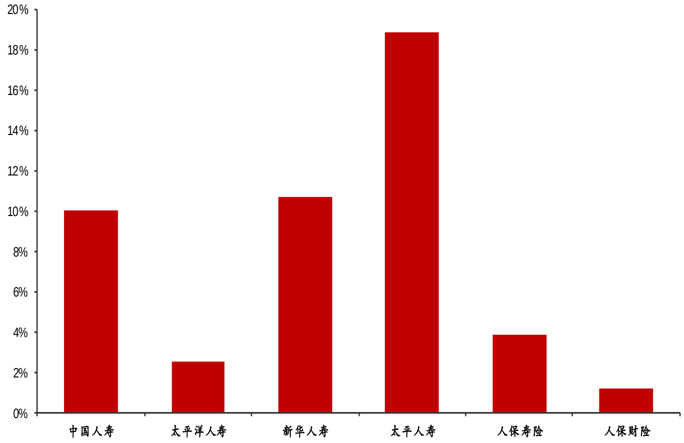
Source: Company data, CMBIS estimates

Figure 18: Shareholders' equity sensitivity analysis with investment in equity yields +10% (FY22E)



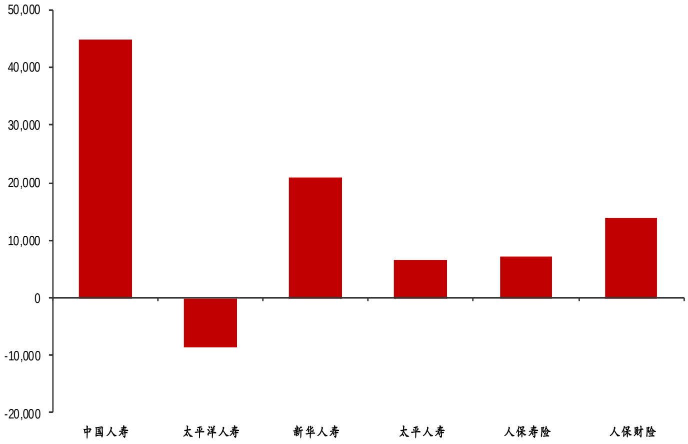
Source: Company data, CMBIS estimates

Figure 19: Shareholders' net profit sensitivity analysis with investment in equity yields +10% (FY22E)



Source: Company data, CMBIS estimates

Figure 20: Available-for-sale reserve balance of each insurance company (1H21)



Source: Company data, CMBIS estimates

P&C: auto growth pick up; non-auto underwriting to improve

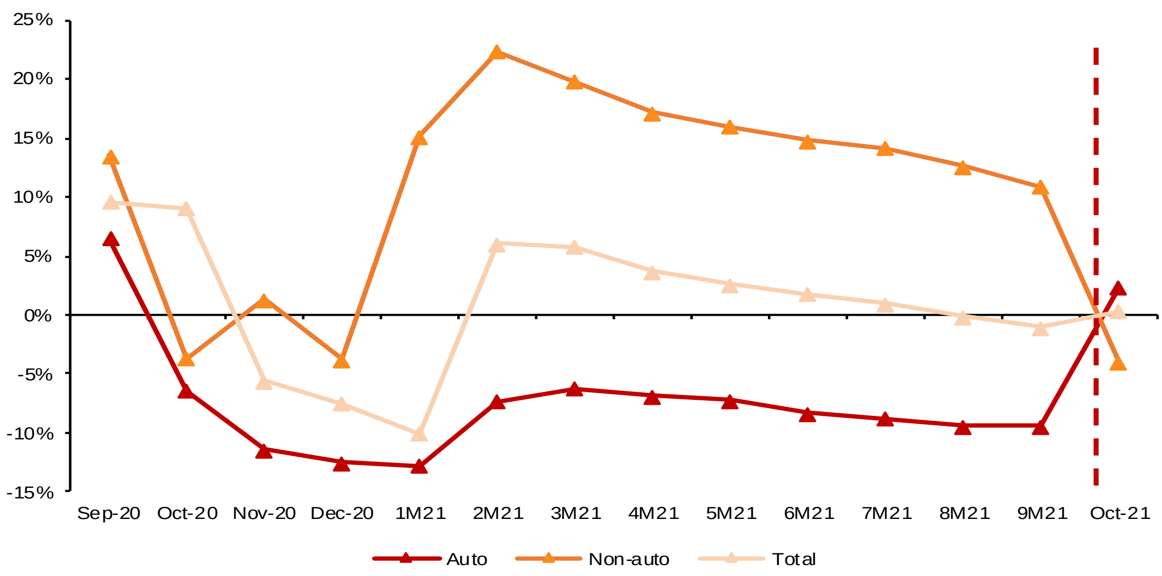
It has been over 1 year since the launch of the Comprehensive Reform of Auto Insurance on 19 Sep 2020, and the low base effect kicked in. We expect the average auto premiums and auto comprehensive ratio year on year to stabilize starting from 4Q21. In Oct 2021, industry auto insurance premium growth rebounded to 2.4% YoY. We believe 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. Looking into 2022, we expect top P&C insurance companies as PICC P&C will continue to outperform the market in regards of underwriting margin.

The spillover effects of Auto Comprehensive Reform

After the launch of the comprehensive auto reform, the average auto premiums dropped by 21%, which resulted in a YoY decline of total auto premiums compared to the figure before the reform, in spite of an increasing commercial auto insurance coverage rate. In 9M21, industry auto insurance premium income declined by 9.4% year on year. Given decreasing auto premiums earned, P&C insurance companies started pursing higher targets on the premium growth of non-auto business, which further spurred the peers' competition within the non-auto segments. This lead to higher non-auto combined ratio in 1H21, except for credit insurance of financing business.

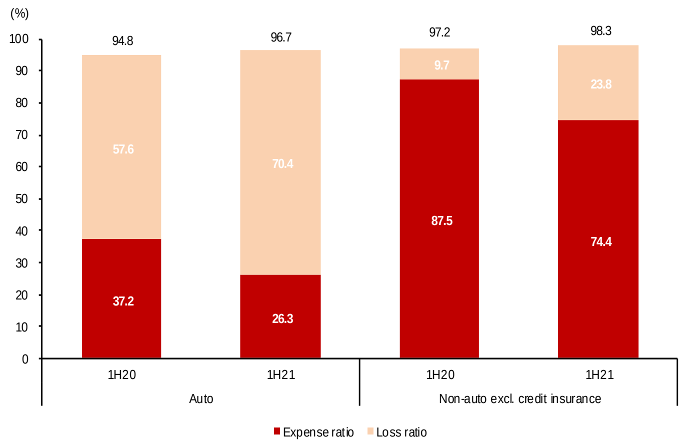
Into October 2021, the comprehensive auto reform has been implemented up to one year, and the low base effect kicked in. We expect that as auto premiums return to positive growth in 4Q12-FY22, the competition pressures in non-auto space will be reduced, contributing to improved combined ratios of non-auto businesses.

Figure 21: Auto & Non-auto premium growth YOY% after the Comprehensive Auto Reform (9M20-9M21)



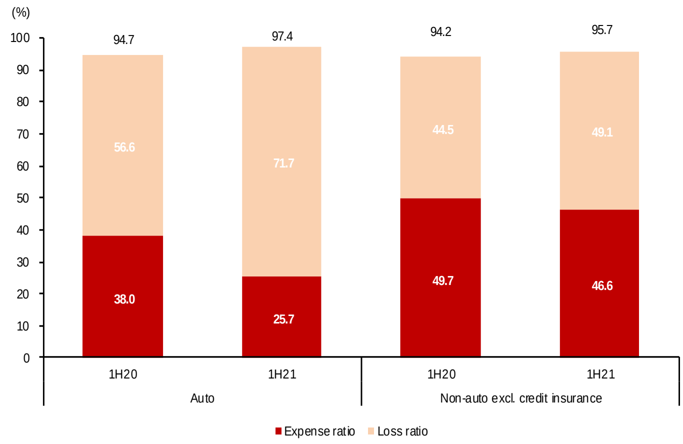
Source: Company data, CMBIS estimates

Figure 22: PICC P&C Auto & Non-auto excl. credit insurance comprehensive ratio



Source: Company data, CMBIS estimates

Figure 23: Ping An P&C Auto & Non-auto excl. credit insurance comprehensive ratio



Source: Company data, CMBIS estimates

C-ROSS 2.0: Greater haircut to life core solvency than P&C

We expect the second phase of China Risk Oriented Solvency System (C-ROSS 2.0) issued by the CBIRC will be officially launched in 1Q22. While the C-ROSS 2.0 will maintain its supportive policy direction to the long-term and protection business, there will be some haircuts on core solvency capital. According to latest internal test of the industry, the C-ROSS 2.0 primarily revises on:

1) Moving part of the residual margin from core capital to supplementary capital. Only the part of residual margin which is generated from policy with remaining duration of over 10 years can be included into insurers' core capital, and the proportion of residual margin to core capital cannot exceed 35% of the total core capital;

2) To measure the credit risks and market risks of all investment vehicles based on the underlying assets. For investment vehicles of which the underlying assets cannot be pinpointed, punitive high-risk factors will be applied. C-ROSS 2.0 also will increase the risk factors of long-term equity investments, and add a new category of the minimum capital requirement for investment concentration risks;

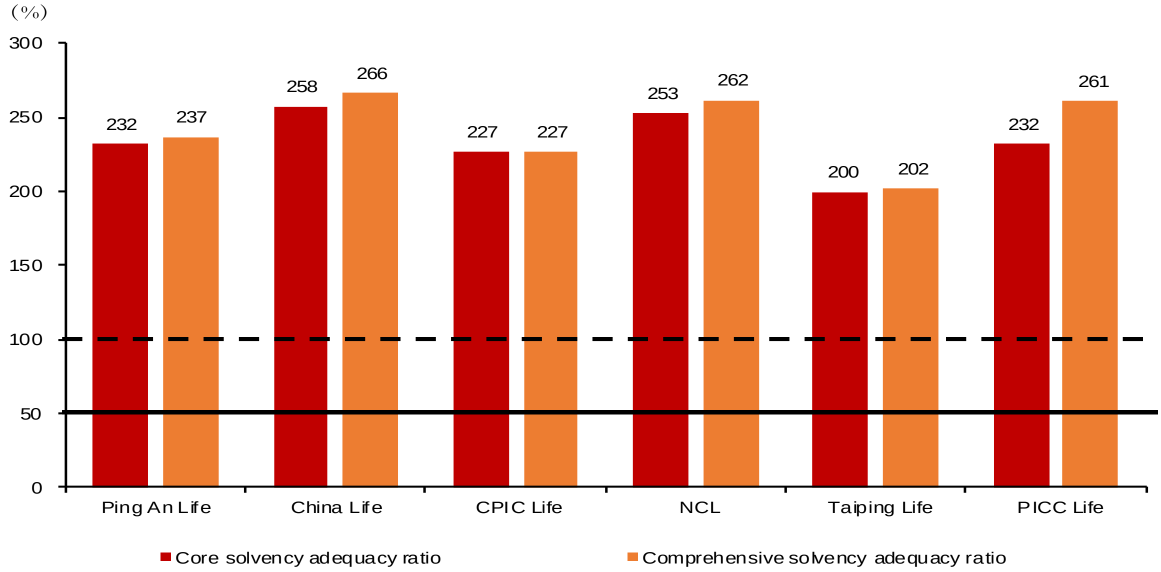
3) Introducing risk factors for morbidity deterioration to critical illness insurance;

4) Changing risk factors of surrender rate from division by scale to division by products and applying lower surrender risk factors to protection products;

5) Improving interest rate risk measurement for life insurance business: The held-to-maturity fixed-income investments can hedge the interest rate exposure on the liability side, which, to most life insurance companies, reduces the minimum capital requirements for exposure to asset-liability mismatch.

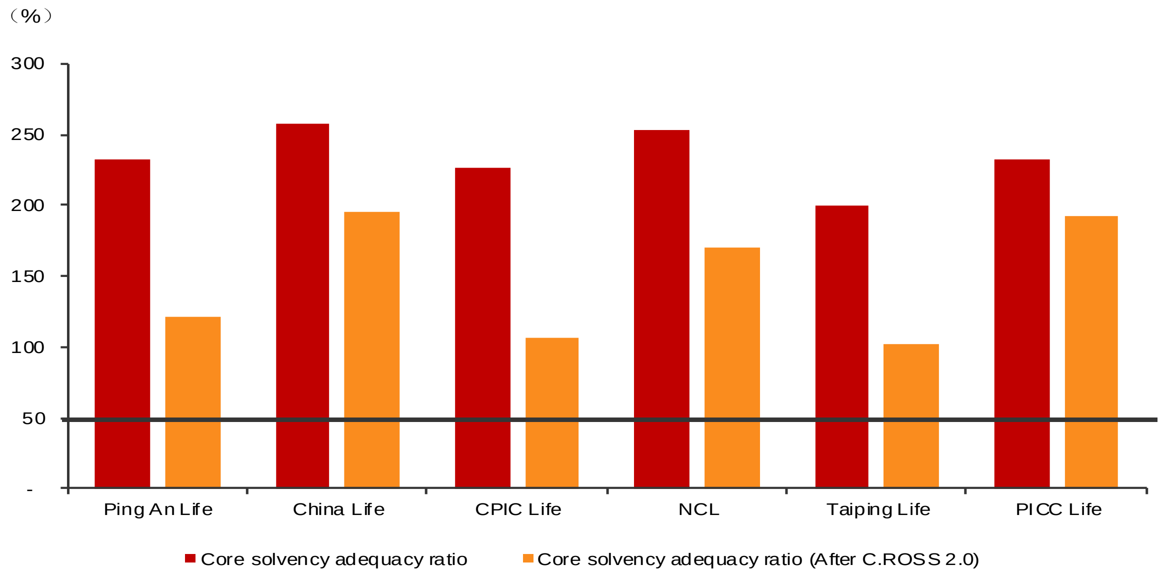
We estimate that upon the implementation of C-ROSS 2.0, the core solvency ratios of most insurance companies will decline to varying extents, and among all, life companies will face bigger haircuts on core solvency margin compared to P&C insurers. That said, based on our calculations, the core solvency margin of listed insurers will stand above 100% (vs the 50% minimum requirement of CBIRC). Hence, the impacts on business operations and dividend policies will be limited.

Figure 24: Core solvency ratios & Comprehensive solvency ratios of major listed life companies in 3Q21



Source: Company data, CMBIS estimates

Figure 25: CMBI forecasts on the core solvency ratios of major listed life companies after the C-ROSS 2.0

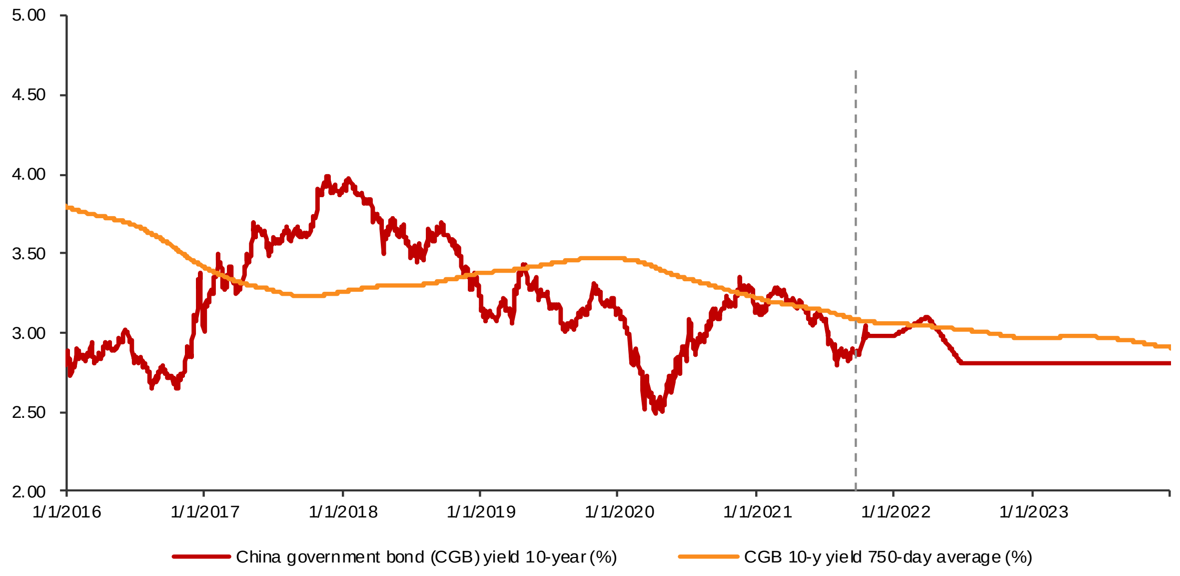


Source: Company data, CMBIS estimates

750-day government bond yields decline trending flat, easing the reserve pressure in 2022

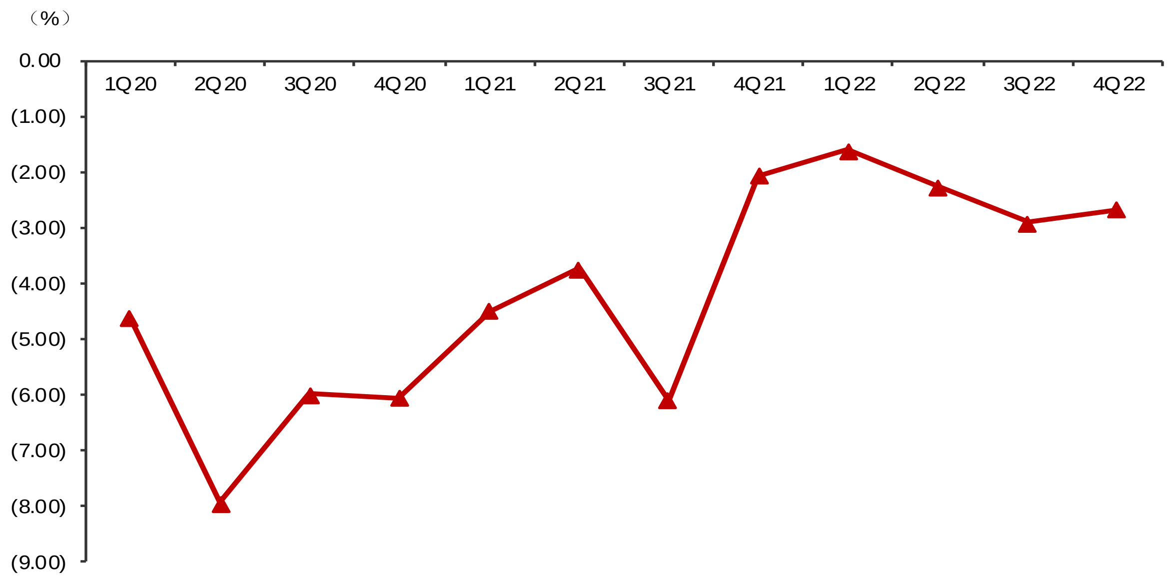
Our macroeconomics team forecast China's 10-year government bond yields in 2022 to move within the range of 2.7%-3.1%, rising in the first half while trending flat in the second half. Based on this, we derive the curve of the 750-day average10-year government bond yields, which is the benchmark of the discount rates of life insurance reserves, shown as below. From the chart, we can see that the 750-day government bond yields will maintain a downward trend in 2022, yet in a narrower decline compared to 2021. We expect the average 750-day government bond yields will decline by 9 bps in 2022, lower than 16bps in 2021. Accordingly, this lead to less reserve catch-up in 2022 compared to those in 2021.

Figure 26: 750-day average 10-year government bond yields (FY16-FY23)



Source: Company data, CMBIS estimates

Figure 27: 750-day average 10-year government bond yields YOY% (1Q20-4Q22, quarterly)



Source: Company data, CMBIS estimates

Valuation

Figure 28: Peers' Valuation

						P/BV				Dividend yield				P/E			
Ticker	Company	Price	Rating	PO	Upside	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
2318 HK	Ping An	57.80	Buy	87.02	51%	1.2 x	1.0 x	0.9 x	0.8 x	4.7%	5.0%	5.7%	6.5%	5.9 x	7.0 x	6.0 x	5.7 x
2628 HK	China Life	13.32	Buy	18.41	38%	0.7 x	0.6 x	0.6 x	0.5 x	5.8%	5.9%	6.7%	7.2%	6.2 x	6.2 x	5.4 x	5.1 x
2601 HK	CPIC	23.00	Buy	36.98	61%	0.8 x	0.8 x	0.7 x	0.7 x	6.8%	7.5%	8.8%	9.7%	7.3 x	6.4 x	5.5 x	5.0 x
1336 HK	NCL	21.35	Buy	34.04	59%	0.5 x	0.5 x	0.4 x	0.4 x	7.8%	8.6%	8.9%	10.2%	3.9 x	3.5 x	3.4 x	3.0 x
966 HK	Taiping	10.98	Buy	14.21	29%	0.4 x	0.4 x	0.4 x	0.3 x	3.6%	5.2%	6.8%	7.6%	6.0 x	4.8 x	4.4 x	4.0 x
1339 HK	PICC Group	2.34	Buy	3.57	53%	0.4 x	0.4 x	0.4 x	0.3 x	8.0%	9.2%	10.5%	12.2%	4.3 x	3.8 x	3.3 x	2.8 x
2328 HK	PICC P&C	6.85	Buy	11.53	68%	0.7 x	0.6 x	0.6 x	0.5 x	6.6%	7.0%	8.0%	9.5%	6.1 x	5.7 x	5.0 x	4.2 x
6060 HK	Zhong An	28.10	Buy	44.27	58%	2.0 x	1.8 x	1.7 x	1.6 x	0.0%	0.0%	0.0%	0.0%	62 x	38.8 x	38.6 x	24.8 x
601318 CH	Ping An	51.22	Buy	72.23	41%	1.2 x	1.1 x	1.0 x	0.9 x	4.4%	4.7%	5.4%	6.1%	6.3 x	7.5 x	6.4 x	6.1 x
601628 CH	China Life	30.40	Sell	18.34	-40%	1.9 x	1.8 x	1.6 x	1.5 x	2.1%	2.1%	2.4%	2.6%	17.2 x	17.1 x	15.0 x	13.9 x
601601 CH	CPIC	28.14	Buy	36.84	31%	1.2 x	1.2 x	1.1 x	1.0 x	4.6%	5.1%	5.9%	6.6%	10.7 x	9.5 x	8.2 x	7.4 x
601336 CH	NCL	39.38	Sell	28.26	-28%	1.2 x	1.1 x	1.0 x	0.9 x	3.5%	3.9%	4.0%	4.6%	8.6 x	7.9 x	7.5 x	6.6 x
601319 CH	PICC Group	4.82	Sell	3.70	-23%	1.1 x	1.0 x	0.9 x	0.8 x	3.2%	3.7%	4.3%	4.9%	10.6 x	9.3 x	8.1 x	7.0 x

		P/EV (Group)				New Business Multiplier				ROE				ROEV			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
2318 HK	Ping An	0.7 x	0.6 x	0.5 x	0.5 x	(9.1) x	(13.9) x	(17.4) x	(19.8) x	19.9%	15.6%	16.4%	15.5%	10.1%	8.2%	11.3%	11.0%
2628 HK	China Life	0.3 x	0.3 x	0.3 x	0.2 x	(13.0) x	(17.7) x	(18.6) x	(18.6) x	11.8%	10.9%	11.4%	11.2%	12.9%	6.5%	6.8%	7.0%
2601 HK	CPIC	0.4 x	0.4 x	0.3 x	0.3 x	(15.0) x	(19.7) x	(20.7) x	(21.0) x	12.5%	12.5%	13.5%	13.7%	14.8%	6.0%	8.1%	7.6%
1336 HK	NCL	0.2 x	0.2 x	0.2 x	0.2 x	(20.2) x	(26.5) x	(28.3) x	(28.2) x	15.4%	14.4%	13.4%	13.9%	16.0%	7.0%	6.2%	6.0%
966 HK	Taiping	0.2 x	0.2 x	0.2 x	0.2 x	(17.2) x	(21.7) x	(22.3) x	(22.7) x	7.8%	8.6%	8.6%	8.8%	19.0%	6.8%	6.6%	6.4%
1339 HK	PICC Group	0.3 x	0.3 x	0.3 x	0.3 x	(41.9) x	(61.0) x	(65.6) x	(69.2) x	10.4%	10.9%	11.5%	12.3%	12.8%	6.0%	7.2%	7.5%
601318 CH	Ping An	0.7 x	0.6 x	0.6 x	0.5 x	(7.9) x	(12.5) x	(16.0) x	(18.5) x	19.9%	15.6%	16.4%	15.5%	10.1%	8.2%	11.3%	11.0%
601628 CH	China Life	0.8 x	0.8 x	0.7 x	0.7 x	(3.6) x	(6.0) x	(7.4) x	(8.4) x	11.8%	10.9%	11.4%	11.2%	12.9%	6.5%	6.8%	7.0%
601601 CH	CPIC	0.6 x	0.6 x	0.5 x	0.5 x	(10.3) x	(14.1) x	(15.5) x	(16.3) x	12.5%	12.5%	13.5%	13.7%	14.8%	6.0%	8.1%	7.6%
601336 CH	NCL	0.5 x	0.5 x	0.4 x	0.4 x	(12.8) x	(17.7) x	(19.6) x	(20.2) x	15.4%	14.4%	13.4%	13.9%	16.0%	7.0%	6.2%	6.0%
601319 CH	PICC Group	0.8 x	0.7 x	0.7 x	0.6 x	(12.6) x	(22.0) x	(27.7) x	(33.1) x	10.4%	10.9%	11.5%	12.3%	12.8%	6.0%	7.2%	7.5%

		P&C premium growth				Combined ratio				Expense ratio				Loss ratio			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
2318 HK	Ping An	5.5%	0.0%	6.0%	6.0%	99.1%	98.0%	98.0%	98.0%	38.6%	36.5%	36.5%	36.5%	60.5%	61.5%	61.5%	61.5%
2601 HK	CPIC	11.1%	3.2%	6.7%	7.1%	99.0%	98.6%	98.6%	98.6%	37.6%	37.4%	37.4%	37.4%	61.4%	61.2%	61.2%	61.2%
966 HK	Taiping	3.5%	0.0%	5.0%	5.0%	103.9%	105.0%	101.0%	100.0%	48.6%	48.0%	45.0%	45.0%	55.3%	57.0%	56.0%	55.0%
2328 HK	PICC P&C	0.0%	1.0%	10.0%	10.0%	98.9%	99.0%	98.6%	98.2%	32.7%	27.0%	26.8%	26.8%	66.2%	72.0%	71.8%	71.4%
6060 HK	Zhong An	0.1%	0.4%	0.2%	0.2%	102.5%	99.9%	99.4%	98.9%	48.4%	51.3%	50.4%	49.6%	54.1%	48.6%	49.0%	49.3%

Source: Company data, CMBIS estimates

Top pick: Buy PICC P&C (2328 HK)

Chinese insurers H shares are currently at historical trough valuation. Life insurance H shares are trading at 0.2x -0.5x P/EV FY22E and 0.4x-0.9x P/BV FY22E, PICC P&C is now trading at 0.6x P/BV FY22E. Looking ahead into 2022, we think the turnaround of P&C business will come ahead of life insurance recovery. We expect to see higher growth and underwriting improve of top P&C insurers, i.e. PICC P&C, in 2022, given the recovery of auto business and less competition pressures in non-auto space. For life insurance business, new business momentum is likely to remain slow in 1Q22, and we expect sequential improvement starting from 2Q22. As the 750-day average government bond yields decline trending flat, there will be less reserve catch-up for life insurers in 2022. On the investment front, insurance companies are likely to benefit from the marginal relaxation on real estate policies. Our top pick is PICC P&C (2328 HK).

PICC P&C (2328 HK) - Financial Analysis

Income Statement

31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Gross Written Premiums	**433,175**	**433,187**	**437,519**	**481,271**	**529,398**
Auto insurance	262,927	265,651	245,011	259,886	285,875
Non-auto insurance	170,248	167,536	192,508	221,385	243,523
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 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**
Investment income	17,719	19,229	20,127	21,319	23,310
Finance costs	(1,424)	(1,547)	(1,624)	(1,706)	(1,791)
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)
Profit before tax	**23,783**	**24,676**	**25,967**	**29,825**	**35,174**
Income tax expense	496	(3,808)	(3,895)	(4,474)	(5,276)
Non-controlling interests	3	-	-	-	-
Net profits	**24,282**	**20,868**	**22,072**	**25,351**	**29,898**

Key ratios

31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth(%):					
Gross written premiums	11.4	0.0	1.0	10.0	10.0
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 profits	56.8	(14.1)	5.8	14.9	17.9
Underwriting (%):					
Loss ratio	66.2	66.2	72.0	71.8	71.4
Expense ratio	33.0	32.7	27.0	26.8	26.8
Combined ratio	99.2	98.9	99.0	98.6	98.2
Solvency (%):		-	-	-	-
Core solvency margin ratio	251.7	249.9	265.4	258.0	252.5
Returns (%):					
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
Investment assets	342,316	380,983	399,689	436,333	477,795
Other assets	253,765	265,818	290,489	317,531	347,177
Total assets	**596,081**	**646,801**	**690,178**	**753,864**	**824,972**
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
Total liabilities	**426,127**	**456,770**	**489,422**	**537,897**	**591,066**
Total equity	169,954	190,031	200,756	215,967	233,906
Shareholders' equity	**169,953**	**187,513**	**200,756**	**215,967**	**233,906**

	FY19A	FY20A	FY21E	FY22E	FY23E
Investments (%):					
Investment assets growth	3.7	11.3	4.9	9.2	9.5
Net investment yield	5.1	4.9	5.1	5.1	5.1
Total investment yield	5.3	5.3	5.2	5.1	5.1
Per share data (RMB):					
EPS	1.1	0.9	1.0	1.1	1.3
DPS	0.5	0.4	0.4	0.5	0.5
BVPS	7.6	8.4	9.0	9.7	10.5

Source: Company data, CMBIS estimates

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