

China Financials Weekly

Life slow jumpstart; Limited impact from new rules on overseas loans

Life insurers have seen a YoY decline in protection new business in Jan 2022, according to our channel check, which likely leads to a margin contraction and decrease of VNB in 1Q22. We continue to prefer P&C over life and maintain PICC P&C (2328 HK) as our top pick for insurance space. We also like Ping An and CPIC H share for the proactive agency upgrade. On banking front, FY21 financial statistics indicates a slightly improvement in Dec 2021 which will be positive for banking sector valuation. In addition, based on our estimates, new rules on overseas loan has limited impacts on banks fundamentals. Maintain PSBC (1658 HK) as top pick in banking sector and lift its target price to HK\$7.70.

- **Life insurers face a slow jumpstart; P&C premium growth pick up.** Our channel check suggests that the protection new business remained sluggish in Jan 2022, owing to a high base of rush orders before the shift of critical illness standards in Feb 2020. Some of the life insurers even lower the product margins to chase volume. We think this will likely lead to a margin contraction and VNB decline in 1Q22. On the bright note, P&C insurers saw acceleration of premiums growth to +13.2% in Dec 2021 (vs 0.3% in Oct and 5.6% in Nov 2021), according to the CBIRC. Auto premium growth picked up to 7.4% in Dec (vs 2.4% in Oct and 6.6% in Nov). PICC continued to outperform peers with 30% total premium growth and 10% auto premium growth.
- **New rules on overseas loan has limited impacts on banks' lending strategy.** PBOC recently highlighted that overseas loan cannot be used for security investment and repay debt from “内保外贷” and cannot be transferred to domestic through lending or investment. As at the end of 2021, total overseas loan balance is RMB 4.26tn, only as 2.2% of total loan balance. In our view, PBOC releases the new rules to 1) encourage banks to issue more RMB overseas loan instead of foreign currency overseas loan; and 2) prevent speculations on cross-border financial system. Among the overseas loan, RMB and foreign currency loan account for 17% and 83% respectively. Most of the overseas loan is foreign currency loan. Since issuing foreign currency loan will require more tier-1 capital than issuing RMB loan, banks have incentive to try their best to convince clients to borrow RMB loan.
- **FY21 financial statistics supports our view on easing credit and liquidity injection.** M2 balance +9% YoY in FY21 (10.1% YoY in FY20 and 8.5% YoY in 11M21). Although M2 growth in FY21 was still weaker than FY20, we note an acceleration in 4Q21. Total loan grew 11.3% YoY and RMB loan increased 11.6% YoY in FY21. Corporate loan was still the loan growth driver, 60% of increased loan went to corporate borrowers. In terms of duration, 76.7% of increased loan was mid and long term loan. In FY21 RMB deposit balance grew 9.3% YoY. 50.3% of the increased RMB deposit came from household, while non-banking financial institutions, non-financial corporate deposit and government related deposit contributed 20.3%, 19.1% and 2.8%, respectively.
- Because released FY21 financial statistics is better than consensus, we lift TP of PSBC (1658 HK) from HK\$7.20 to HK\$7.70. Our TP implies 0.92x 2021E and 0.85x 2022E P/B. During last three years, PSBC (H) was trading at 0.72x FY22E P/B, while currently it is trading at 0.73x P/B, almost equivalent to historical mean (0.72x P/B). We also lift TP of CCB (601939 CH) from RMB 7.0 to RMB 7.50, implying 0.76x 2021E and 0.7x 2022E P/B.

OUTPERFORM
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Stocks Covered:

Ticker	Rating	Target Price	Upside
2318 HK	Buy	87.02	33%
601318 CH	Buy	72.23	36%
2628 HK	Buy	18.41	29%
601628 CH	Sell	18.34	-36%
2601 HK	Buy	36.98	50%
601601 CH	Buy	36.84	35%
1336 HK	Buy	34.04	44%
601336 CH	Sell	28.26	-27%
966 HK	Buy	14.21	21%
1339 HK	Buy	3.57	38%
601319 CH	Sell	3.70	-22%
2328 HK	Buy	11.53	43%
6060 HK	Buy	44.27	51%
1658 HK	Buy	7.70	16%
939 HK	Buy	7.10	15%
600000 CH	Hold	9.34	8%
601229 CH	Buy	9.04	25%
3618 HK	Hold	2.80	-6%
601577 CH	Hold	8.32	2%
601658 SH	Buy	7.07	20%
601939 SH	Buy	7.50	19%
601077 SH	Hold	3.60	-10%

Source: Company data, CMBIS estimates

Recent Reports:

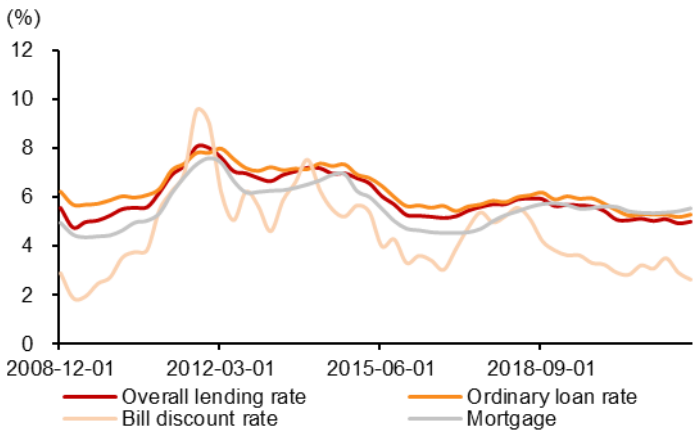
- China Banking Sector – Implications of Jan LPR drop – 20 Jan 2022 ([link](#))
- China Insurance – P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22 – 10 Dec 2021 ([link](#))
- PICC P&C (2328 HK) – Auto growth pick up; Non-auto UW to improve – 10 Dec 2021 ([link](#))
- China Banking Sector – Looking for the safe harbour – 9 Dec 2021 ([link](#))

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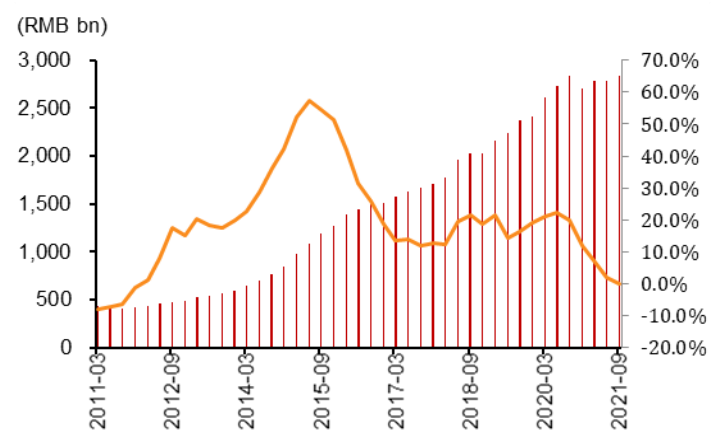
Banking Focus Charts

Figure 1: Market lending rate



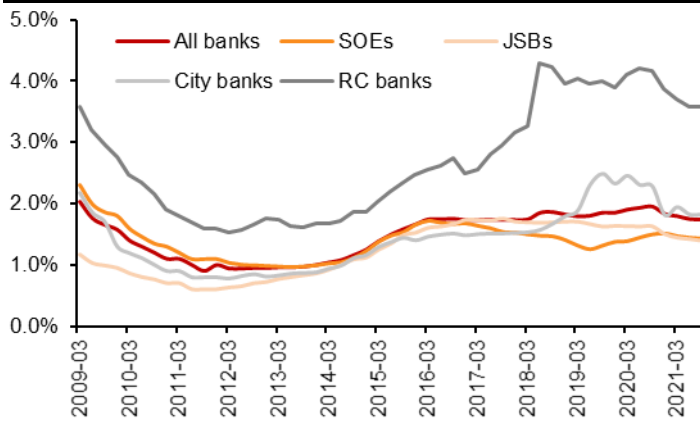
Source: Company data, CMBIS estimates

Figure 2: Sector NPL balance and growth



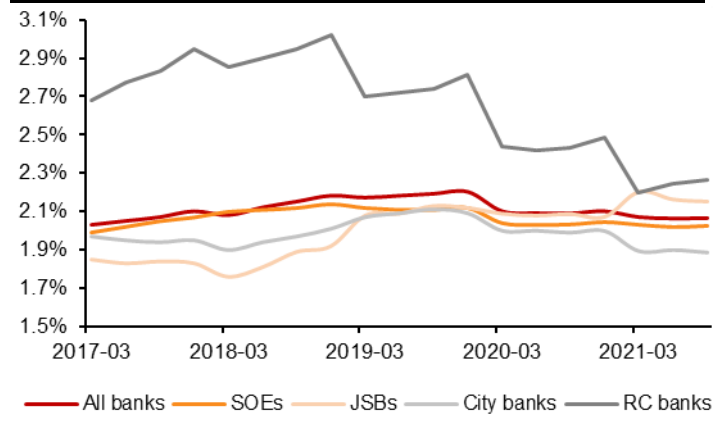
Source: Company data, CMBIS estimates

Figure 3: Sub-sector NPL ratio



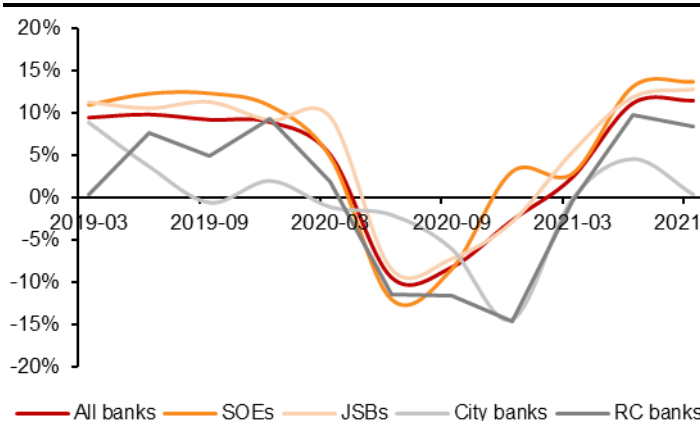
Source: Company data, CMBIS estimates

Figure 4: Sub-sector NIM



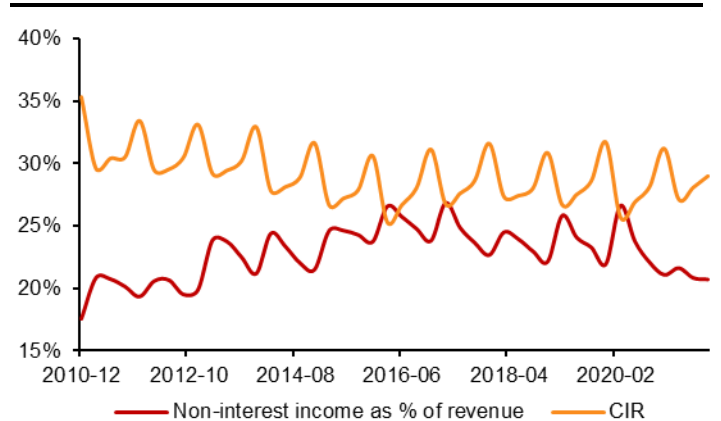
Source: Company data, CMBIS estimates

Figure 5: Sub-sector earnings growth



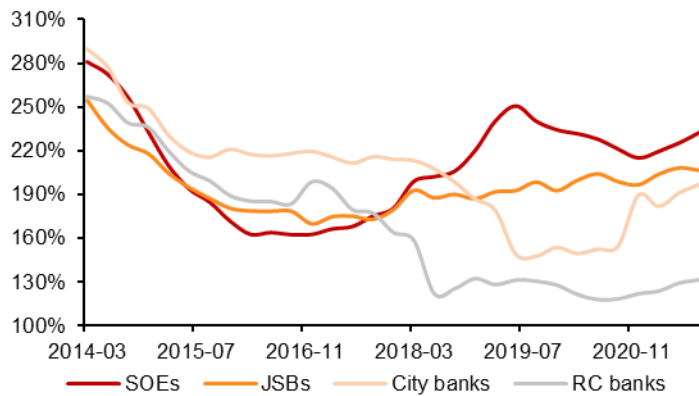
Source: Company data, CMBIS estimates

Figure 6: CIR and non-interest income as % of revenue



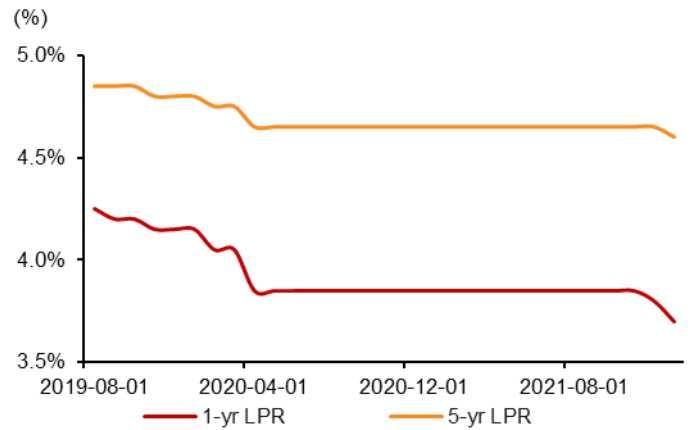
Source: Company data, CMBIS estimates

Figure 7: Sub sector provision coverage ratio changes



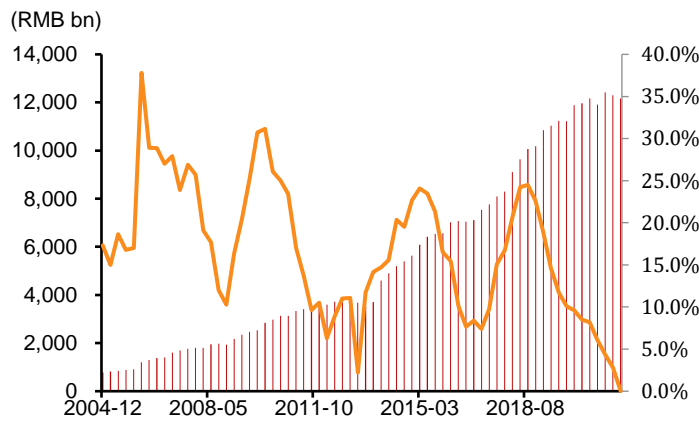
Source: Company data, CMBIS estimates

Figure 8: Loan Prime Rate (LPR) changes



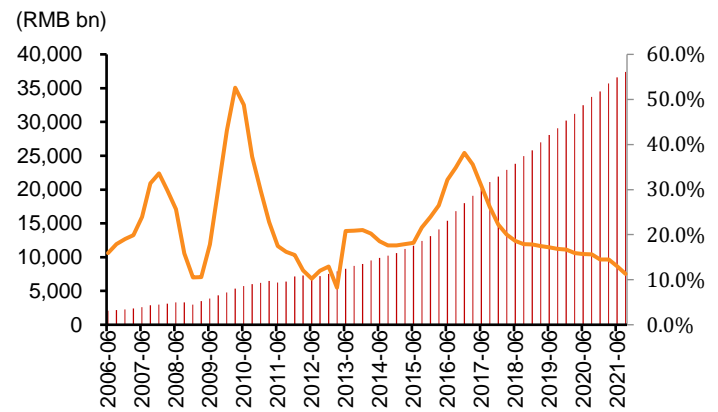
Source: Company data, CMBIS estimates

Figure 9: Development loan balance and growth



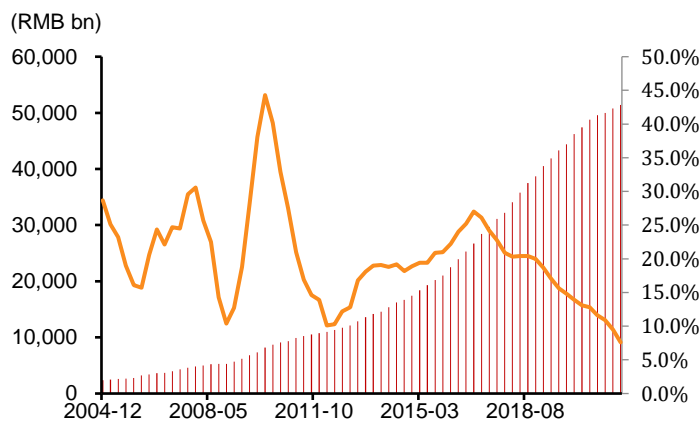
Source: Company data, CMBIS estimates

Figure 10: Mortgage balance and growth



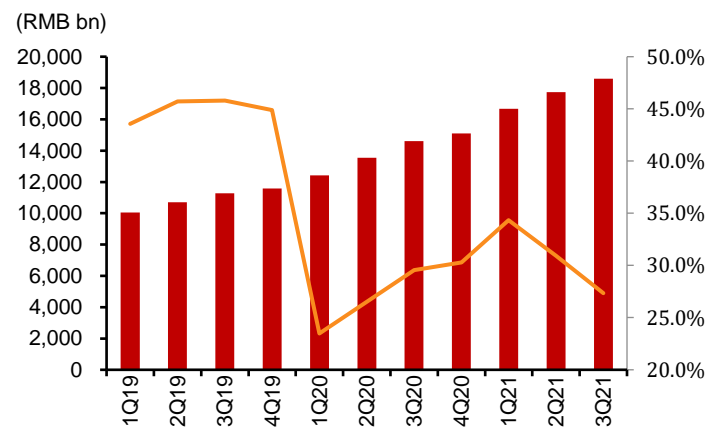
Source: Company data, CMBIS estimates

Figure 11: All property loan changes



Source: Company data, CMBIS estimates

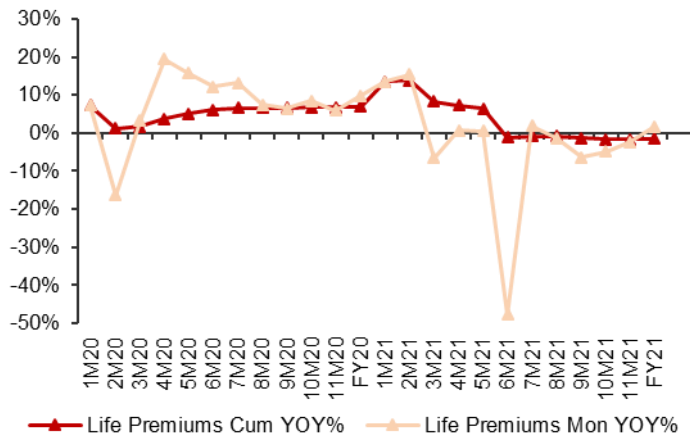
Figure 12: Sector SME loan balance changes



Source: Company data, CMBIS estimates

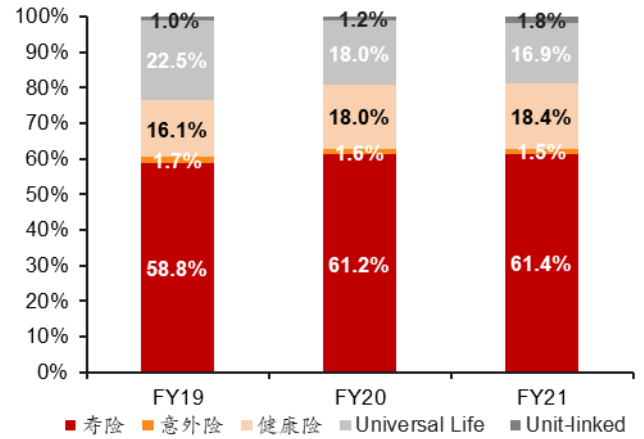
Insurance Focus Charts

Figure 1: Life Premiums Accumulative & Monthly YOY%



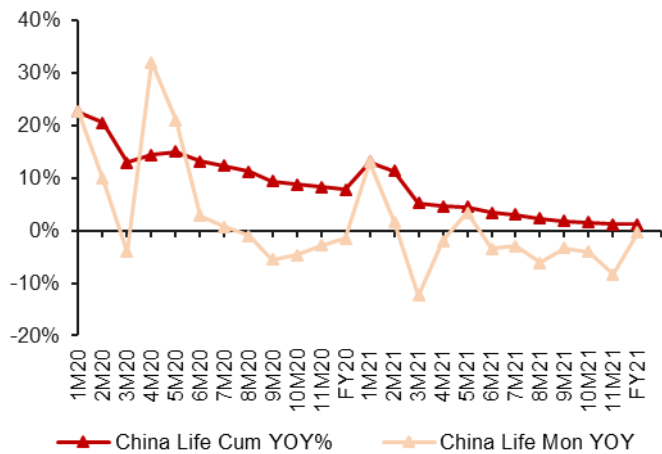
Source: Company data, CMBIS

Figure 2: Life Premiums Mix % (FY19-FY21)



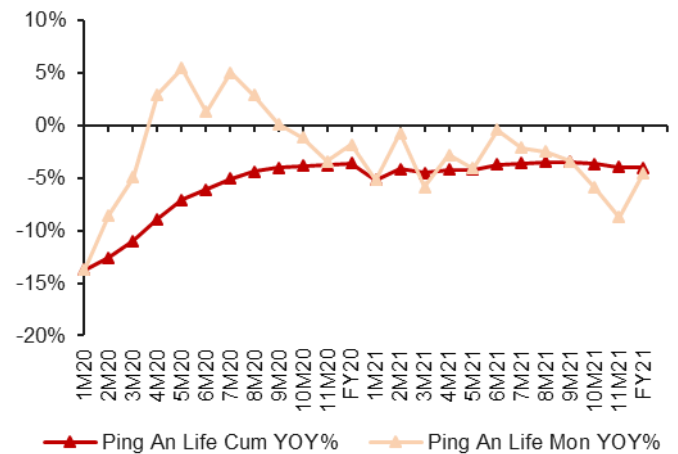
Source: Company data, CMBIS

Figure 3: China Life(2628 HK) Premiums Cum.& Mon YOY%



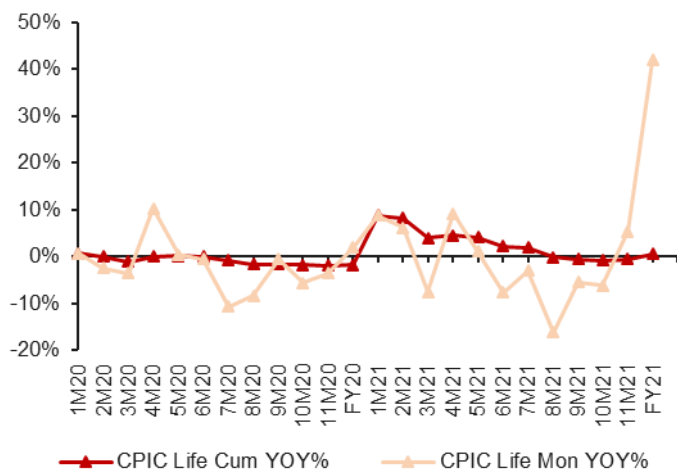
Source: Company data, CMBIS

Figure 4: Ping An(2318 HK) Life Premiums Cum.& Mon YOY%



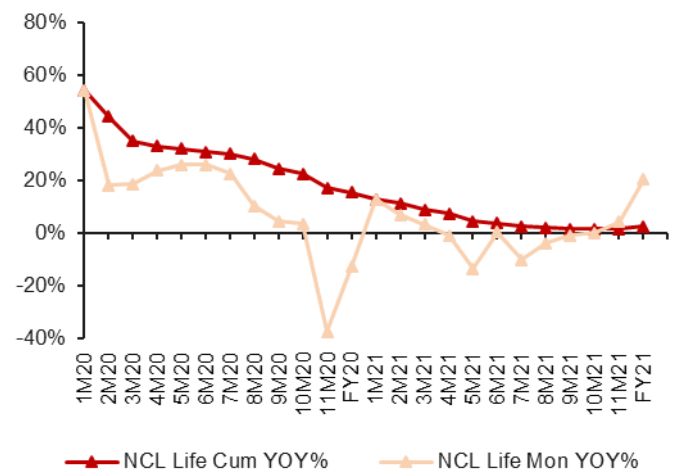
Source: Company data, CMBIS

Figure 5: CPIC(2601 HK) Life Premiums Cum.& Mon YOY%



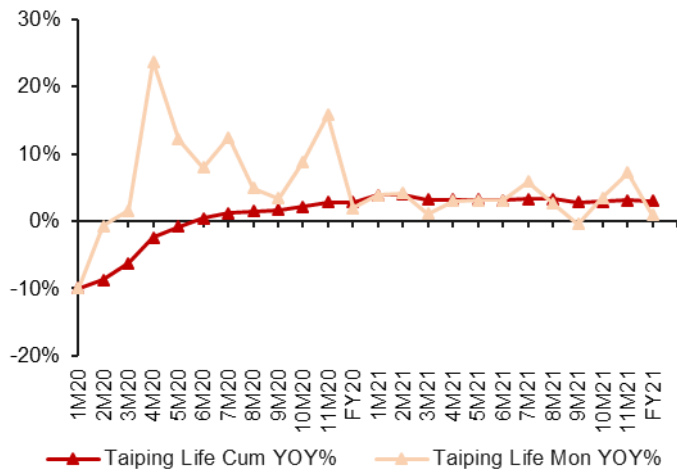
Source: Company data, CMBIS

Figure 6: NCL (1336 HK) Life Premiums Cum.& Mon YOY%



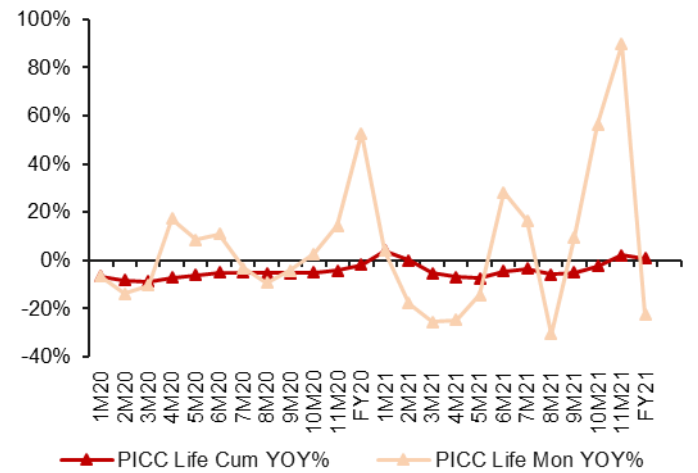
Source: Company data, CMBIS

Figure 7: Taiping(966 HK) Life Premiums Cum.&Mon YOY%



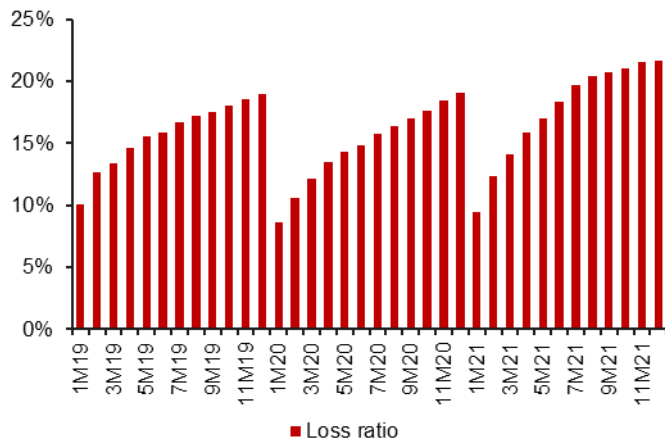
Source: Company data, CMBIS

Figure 8: PICC Life (1339 HK) Premiums Cum.&Mon YOY%



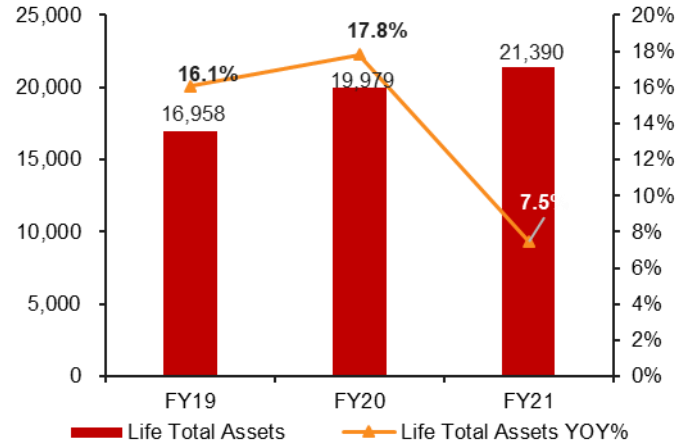
Source: Company data, CMBIS

Figure 9: Life Industry Loss Ratio (1M19 – 12M21)



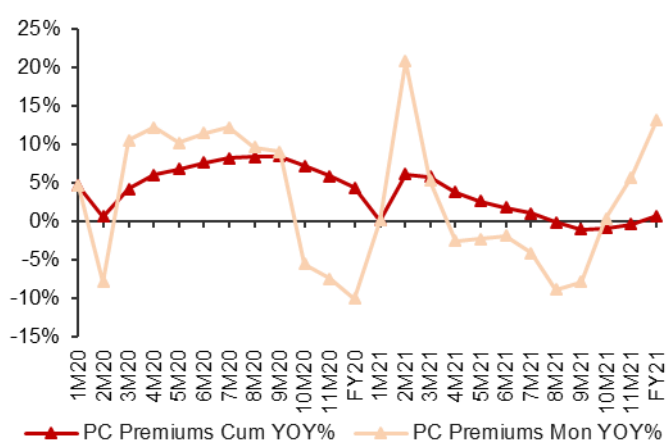
Source: Company data, CMBIS

Figure 10: Life Industry Total Assets & YOY%



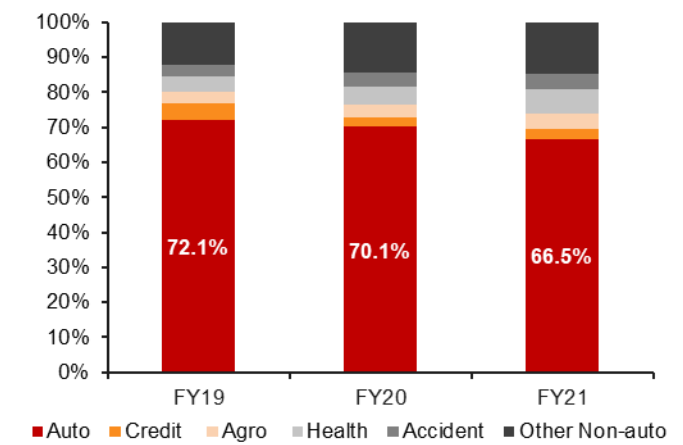
Source: Company data, CMBIS

Figure 11: P&C Premiums Accumulative & Monthly YOY%



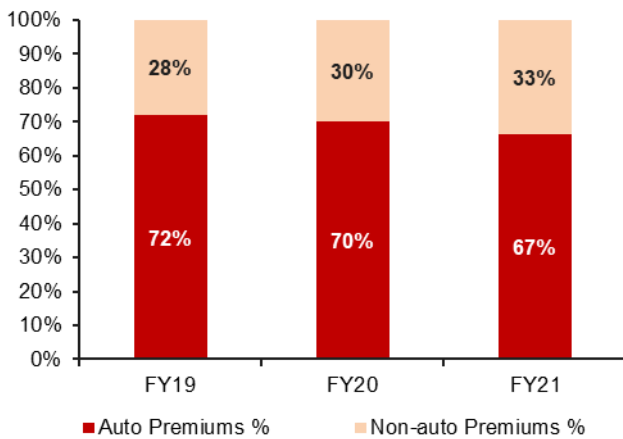
Source: Company data, CMBIS

Figure 12: P&C Insurance Premiums Mix (%) (FY19-FY21)



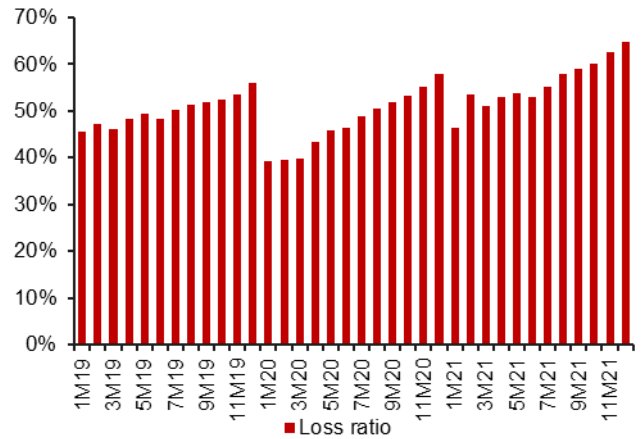
Source: Company data, CMBIS

Figure 13: P&C Auto VS Non-auto Premiums Mix (%)



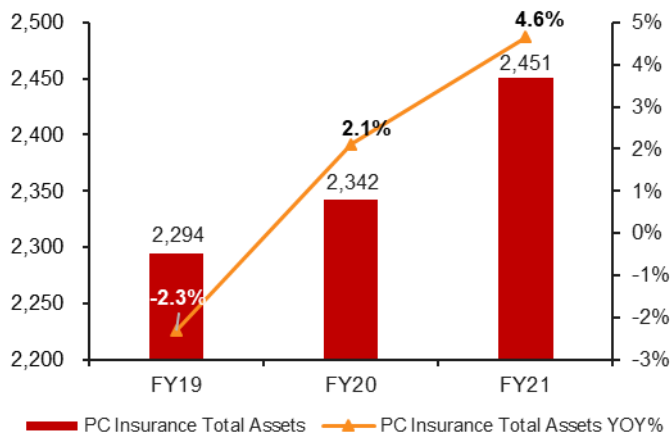
Source: Company data, CMBIS

Figure 14: P&C Industry Loss Ratio



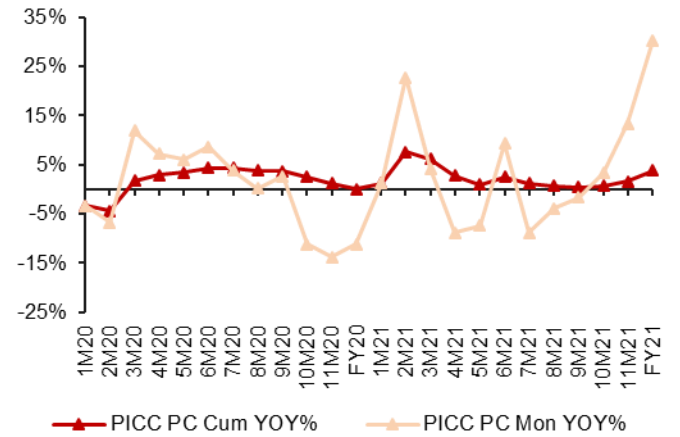
Source: Company data, CMBIS

Figure 15: P&C Industry Total Assets and YOY% growth



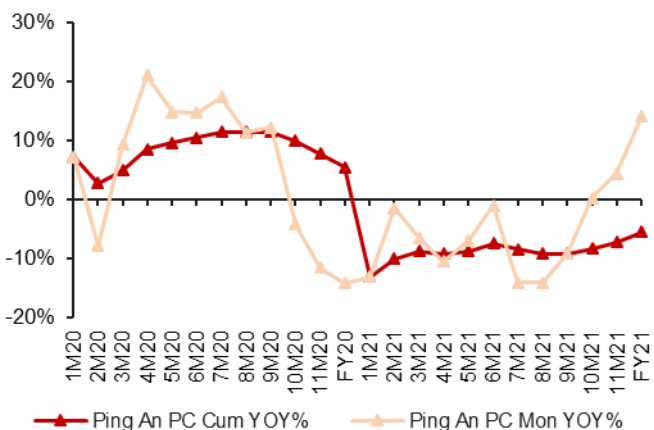
Source: Company data, CMBIS

Figure 16: PICC PC(2328 HK) Premiums Cum.&Mon YOY%



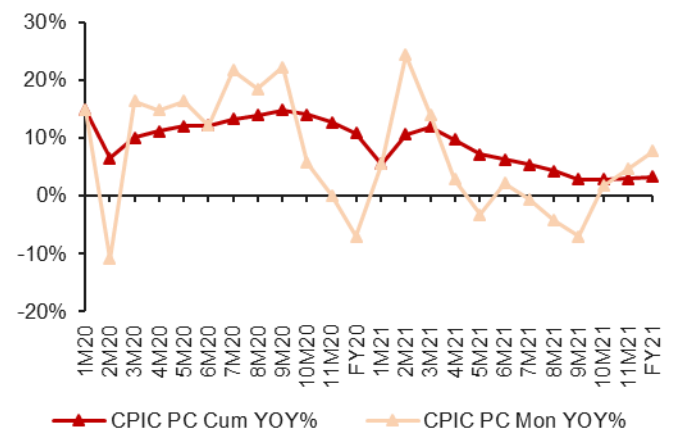
Source: Company data, CMBIS

Fig 17: Ping An(2318 HK)PC Premiums Cum.& Mon YOY%



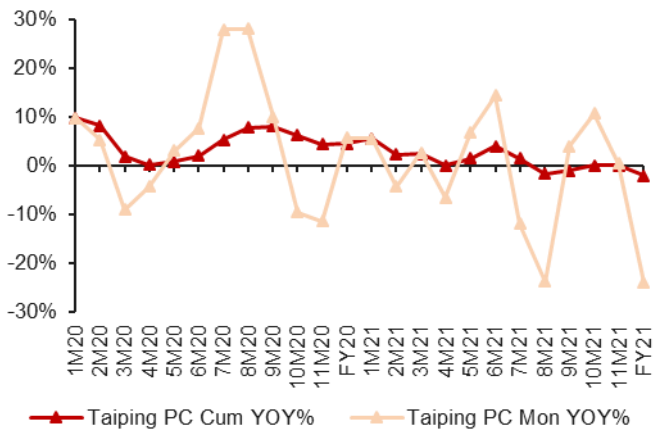
Source: Company data, CMBIS

Figure 18: CPIC(2601 HK)PC Premiums Cum.& Mon YOY%



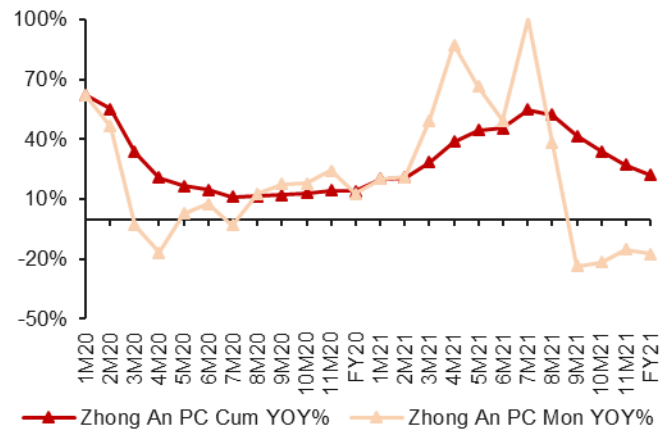
Source: Company data, CMBIS

Figure 19: Taiping(966 HK) PC Premiums Cum.&Mon YOY%



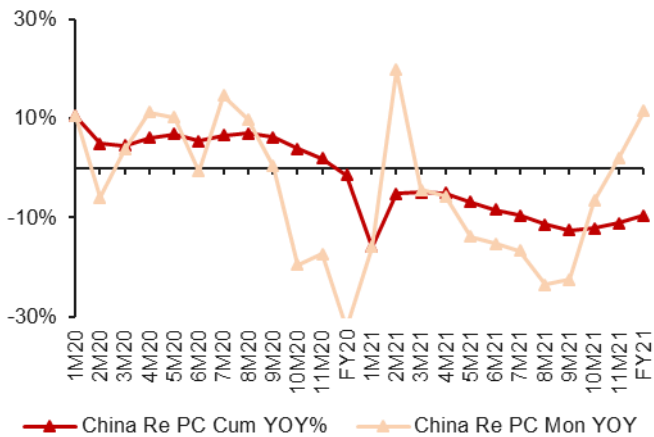
Source: Company data, CMBIS

Figure 20: Zhong An(6060 HK) PC Premium Cum.&Mon YOY%



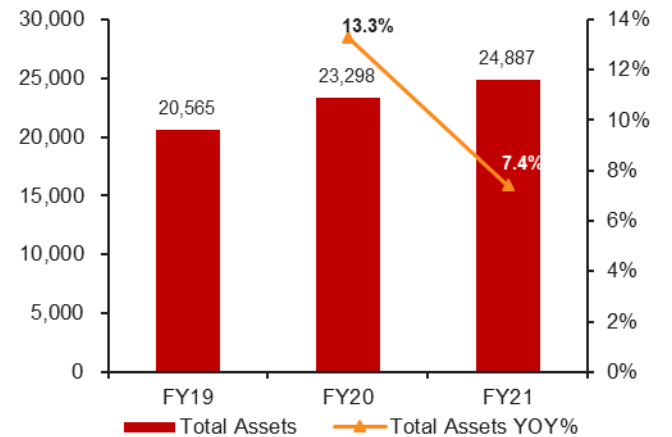
Source: Company data, CMBIS

Figure 21: China Re(1508 HK) PC Premiums Cum.&Mon YOY%



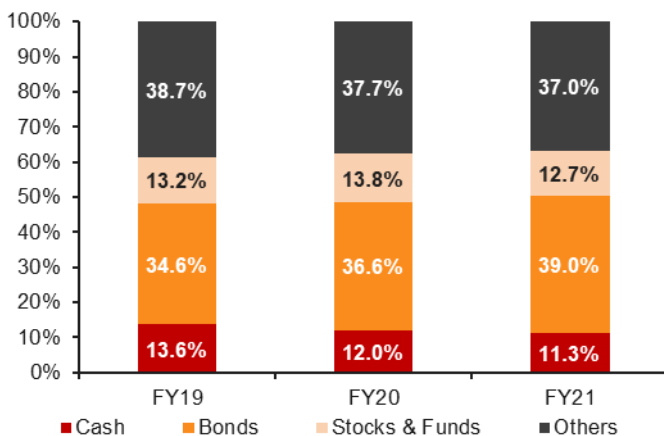
Source: Company data, CMBIS

Figure 22: Industry – Total Assets & YOY% (FY19-FY21)



Source: Company data, CMBIS

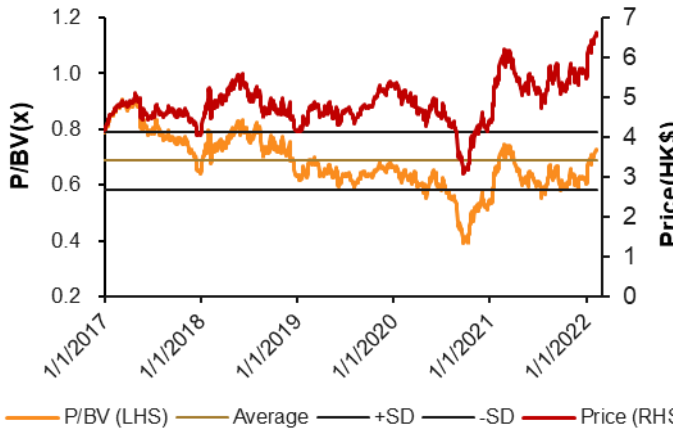
Figure 23: Industry – Investment Assets Mix (%) (FY19-FY21)



Source: Company data, CMBIS

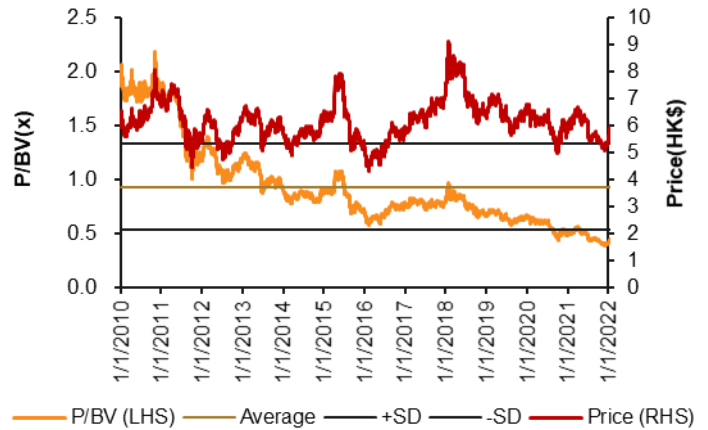
Trading Bands of PBV by banks

Fig.1: Postal Savings-H (1658 HK) 12-month forward P/B



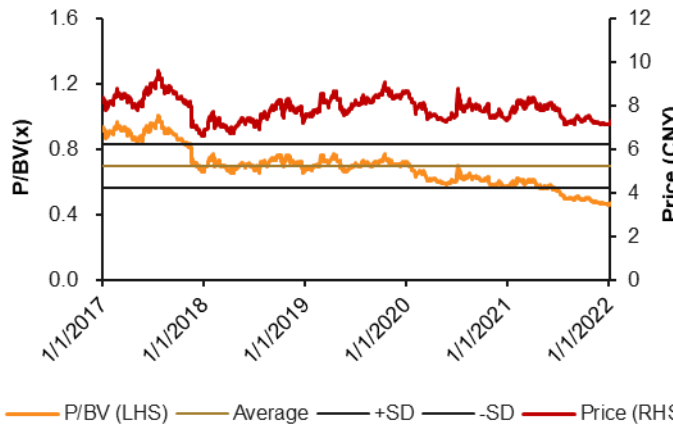
Source: Company data, CMBIS

Fig.2: CCB-H (0939 HK) 12-month forward P/B



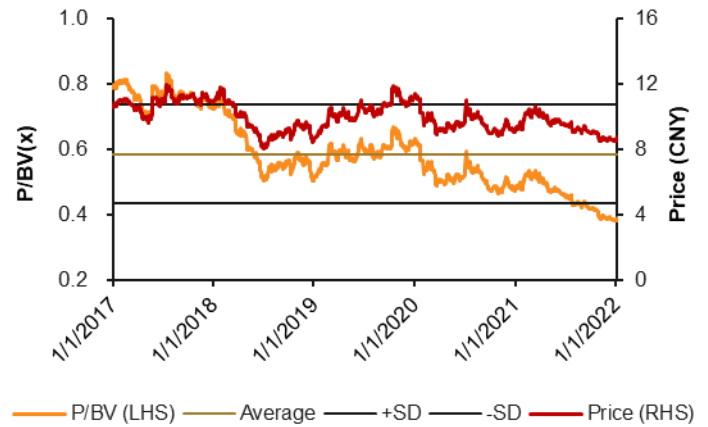
Source: Company data, CMBIS

Fig.3: Bank of Shanghai (601229 CH) 12-month forward P/B



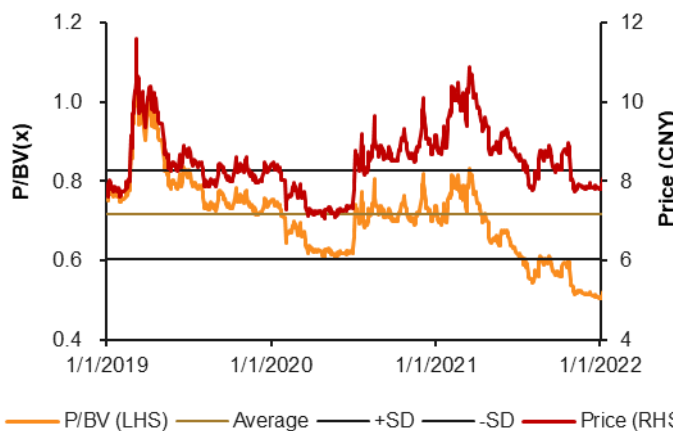
Source: Company data, CMBIS

Fig.4: SPDB-CH (600000 CH) 12-month forward P/B



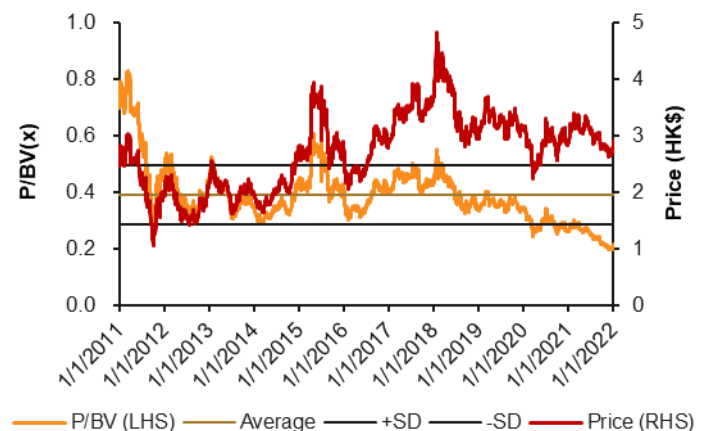
Source: Company data, CMBIS

Fig.5: Bank of Changsha (601577 CH) 12-month forward P/B



Source: Company data, CMBIS

Fig.6: CQRC-H (3618 HK) 12-month forward P/B



Source: Company data, CMBIS

Fig.7: CM BANK-H (3968 HK) 12-month forward P/B

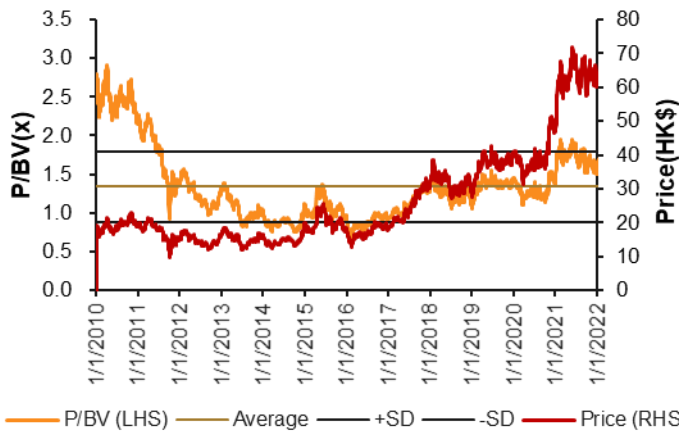
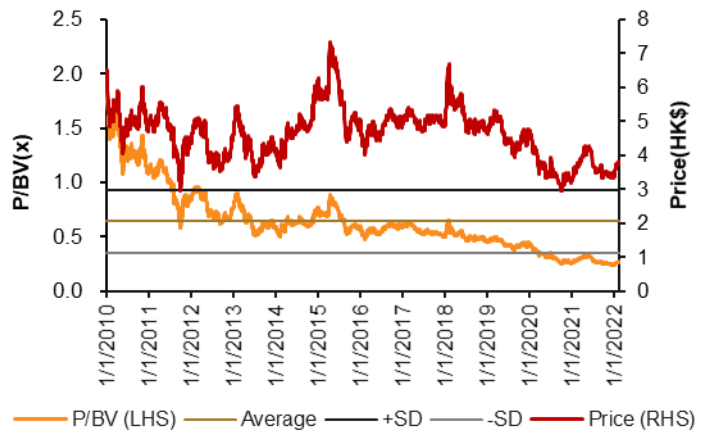


Fig.8: CITIC BANK-H (0998 HK) 12-month forward P/B



Source: Company data, CMBIS

Source: Company data, CMBIS

Fig.9: ICBC-H (1398 HK) 12-month forward P/B

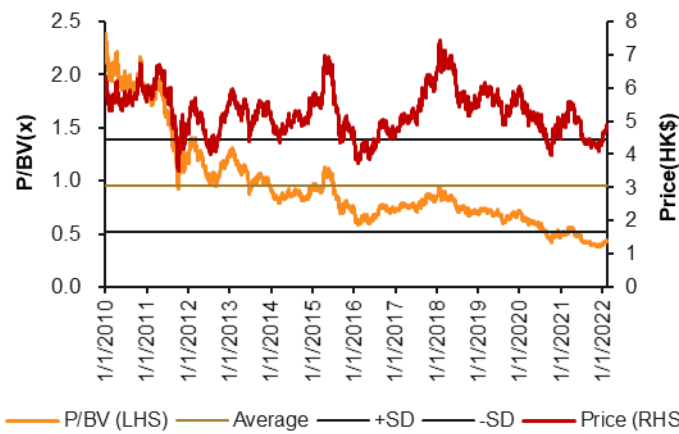


Fig.10: BANKCOMM-H (3328 HK) 12-month forward P/B



Source: Company data, CMBIS

Source: Company data, CMBIS

Fig.11: CEB BANK-H (6818 HK) 12-month forward P/B

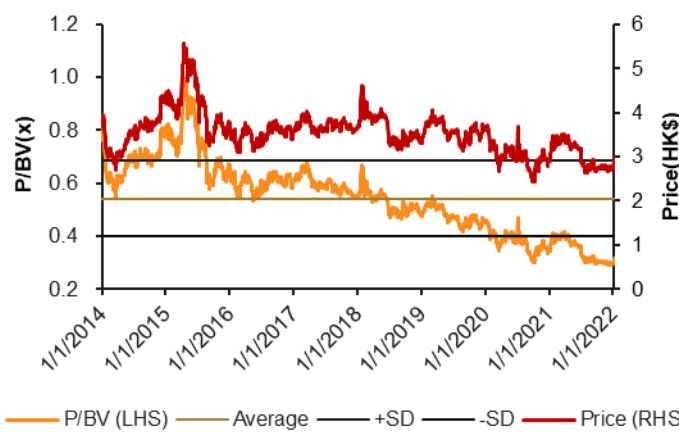
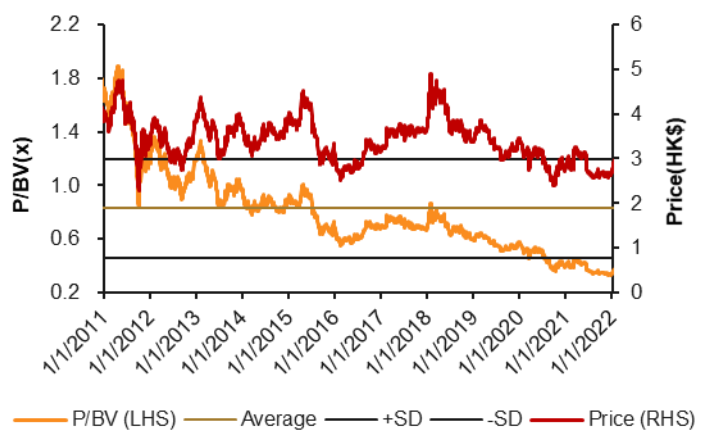


Fig.12: ABC-H (1288 HK) 12-month forward P/B

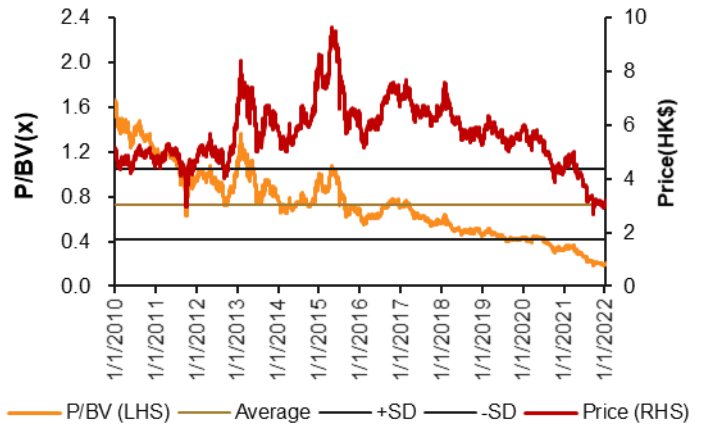
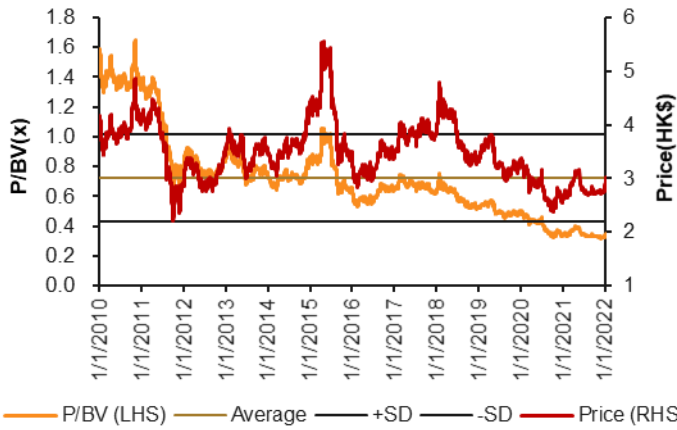


Source: Company data, CMBIS

Source: Company data, CMBIS

Fig.13: Bank of China-H (3988 HK) 12-month forward P/B

Fig.14: China Minsheng-H (1988 HK) 12-month forward P/B

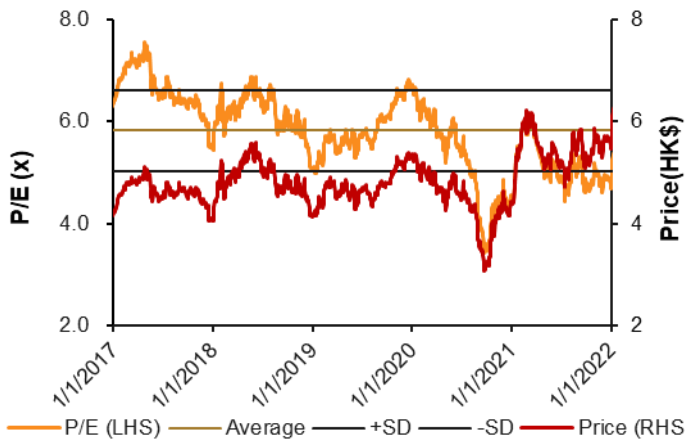


Source: Company data, CMBIS

Source: Company data, CMBIS

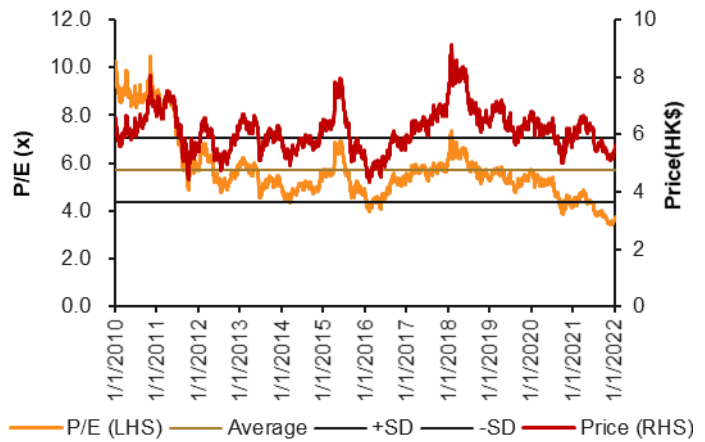
Trading Bands of PER by banks

Fig.1: Postal Savings-H (1658 HK) 12-month forward P/E



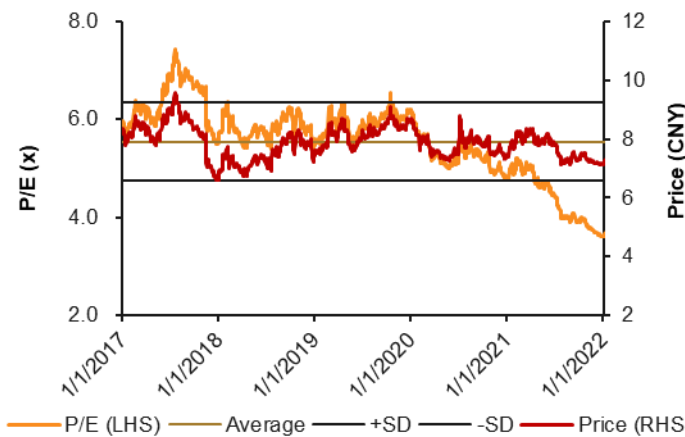
Source: Company data, CMBIS

Fig.2: CCB-H (0939 HK) 12-month forward P/E



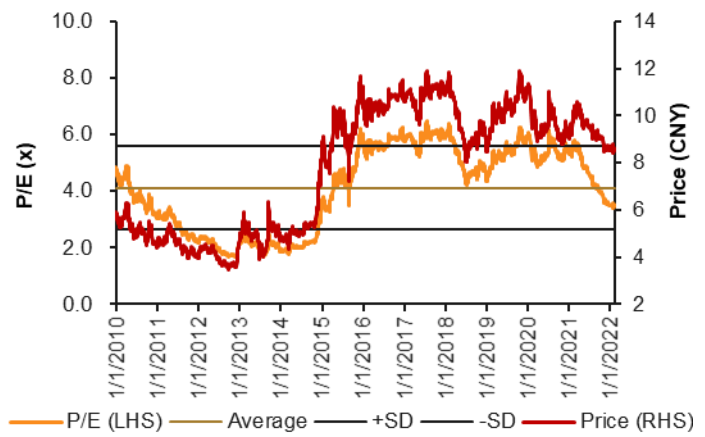
Source: Company data, CMBIS

Fig.3: Bank of Shanghai (601229 CH) 12-month forward P/E



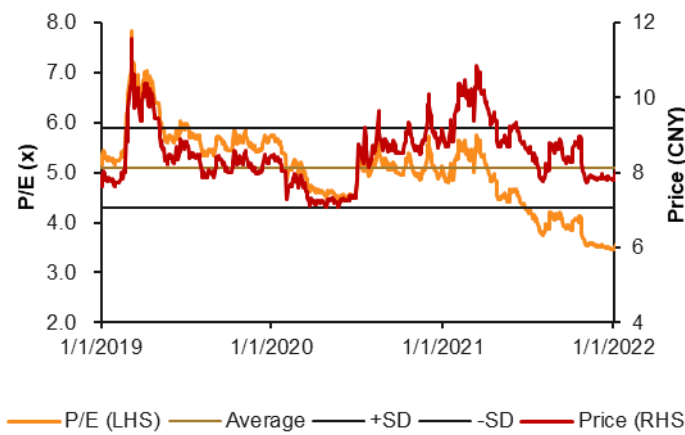
Source: Company data, CMBIS

Fig.4: SPDB-CH (600000 CH) 12-month forward P/E



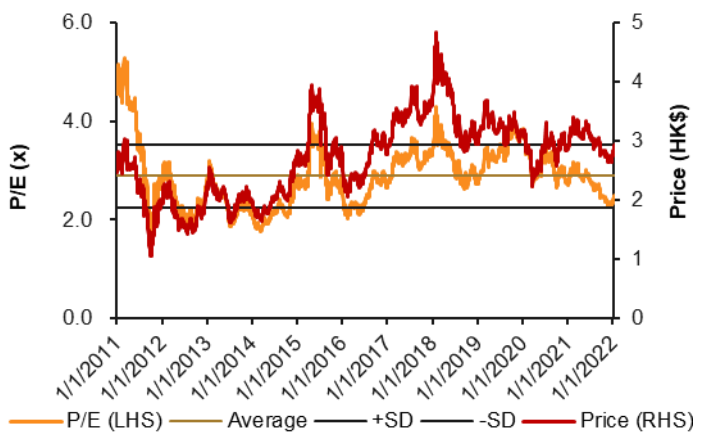
Source: Company data, CMBIS

Fig.5: Bank of Changsha (601577 CH) 12-month forward P/E



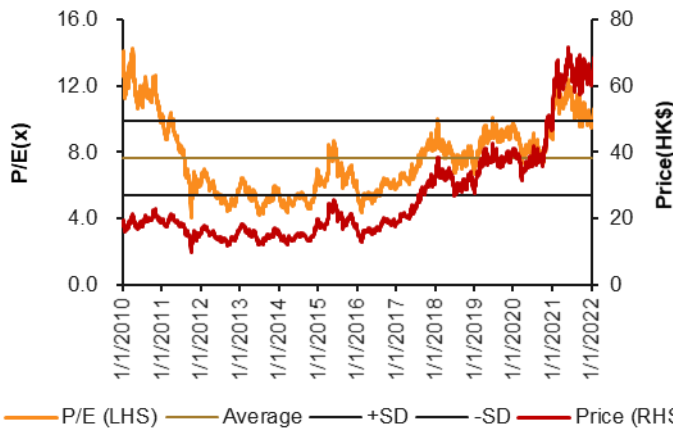
Source: Company data, CMBIS

Fig.6: CQRC-H (3618 HK) 12-month forward P/E



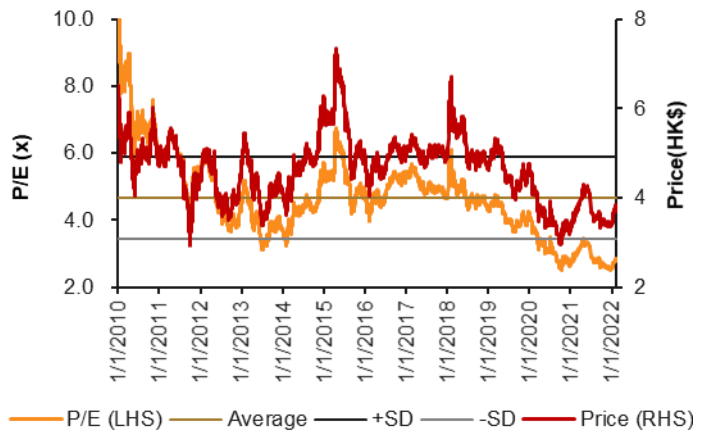
Source: Company data, CMBIS

Fig.7: CM BANK-H (3968 HK) 12-month forward P/E



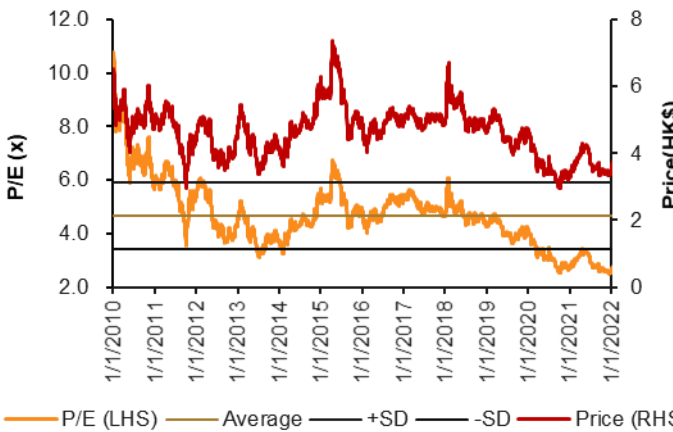
Source: Company data, CMBIS

Fig.8: CITIC BANK-H (0998 HK) 12-month forward P/E



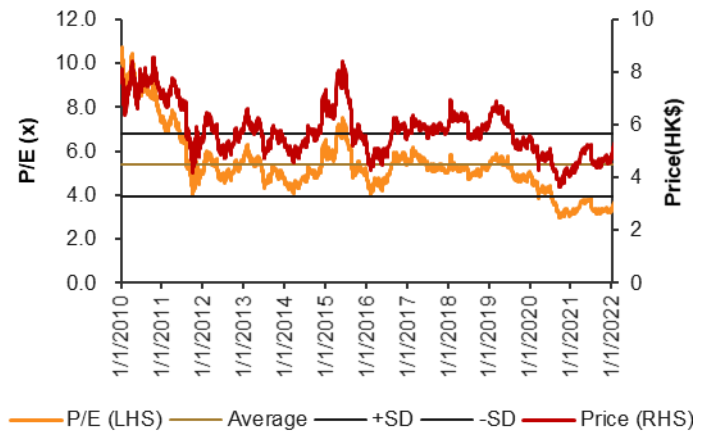
Source: Company data, CMBIS

Fig.9: ICBC-H (1398 HK) 12-month forward P/E



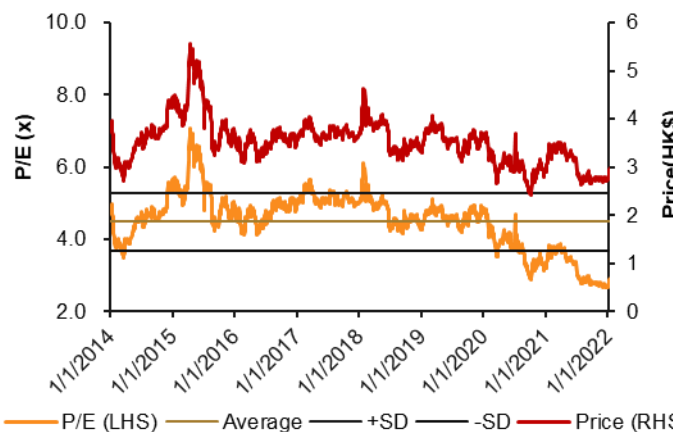
Source: Company data, CMBIS

Fig.10: BANKCOMM-H (3328 HK) 12-month forward P/E



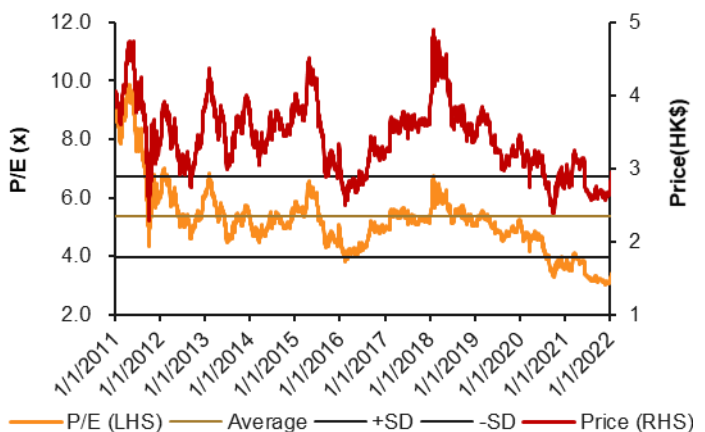
Source: Company data, CMBIS

Fig.11: CEB BANK-H (6818 HK) 12-month forward P/E



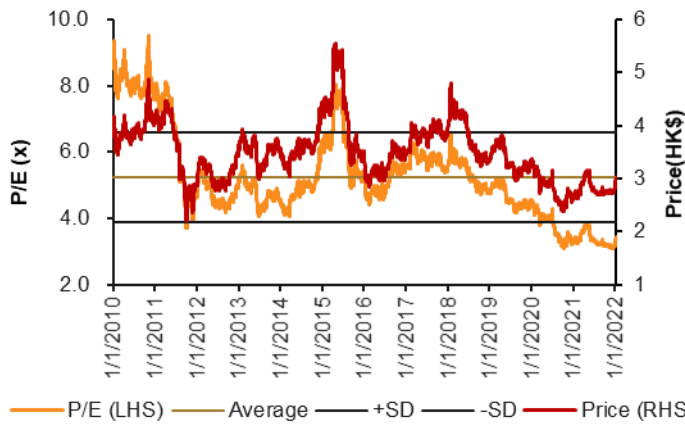
Source: Company data, CMBIS

Fig.12: ABC-H (1288 HK) 12-month forward P/E



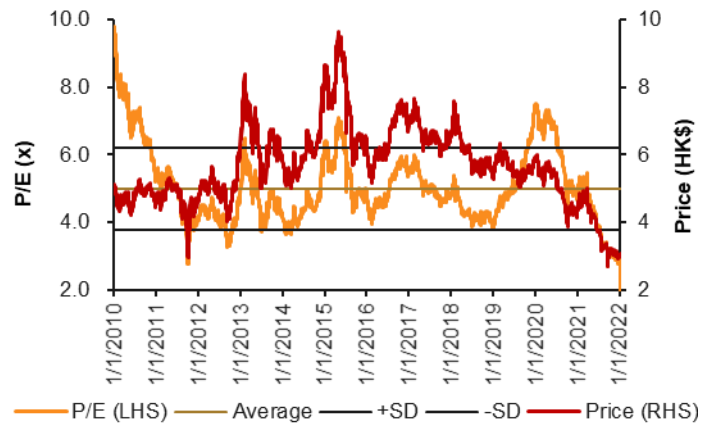
Source: Company data, CMBIS

Fig.13: Bank of China-H (3988 HK) 12-month forward P/E



Source: Company data, CMBIS

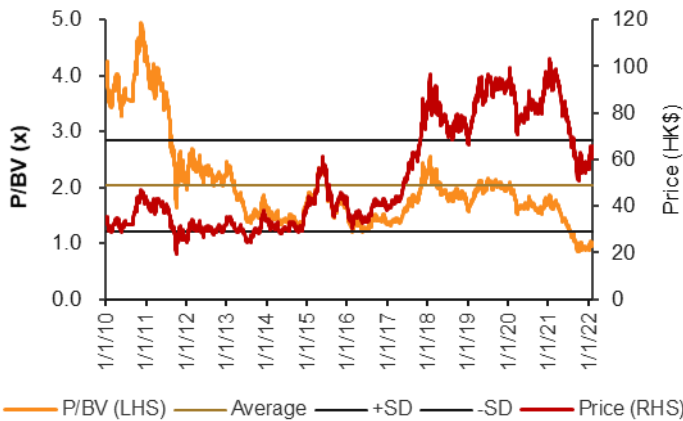
Fig.14: China Minsheng-H (1988 HK) 12-month forward P/E



Source: Company data, CMBIS

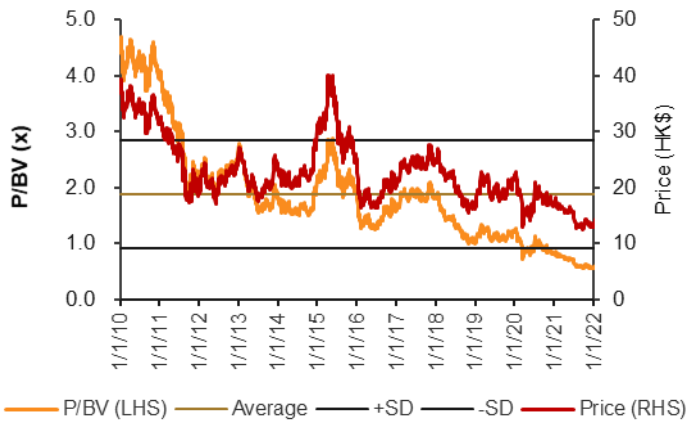
Trading Bands of PBV by insurers

Fig.1: Ping An-H (2318 HK) 12-month forward P/B



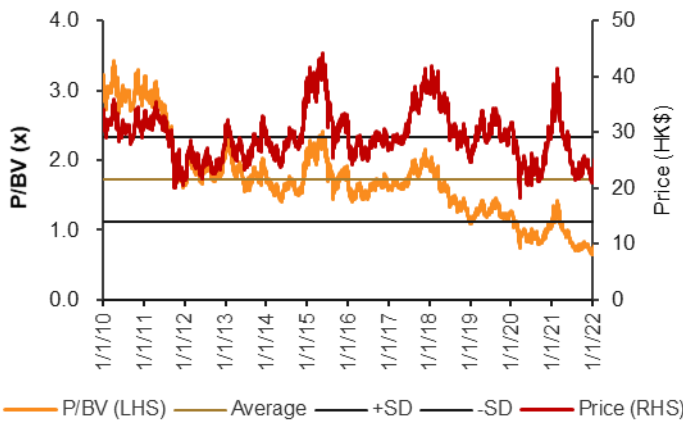
Source: Company data, CMBIS

Fig.2: China Life-H (2628 HK) 12-month forward P/B



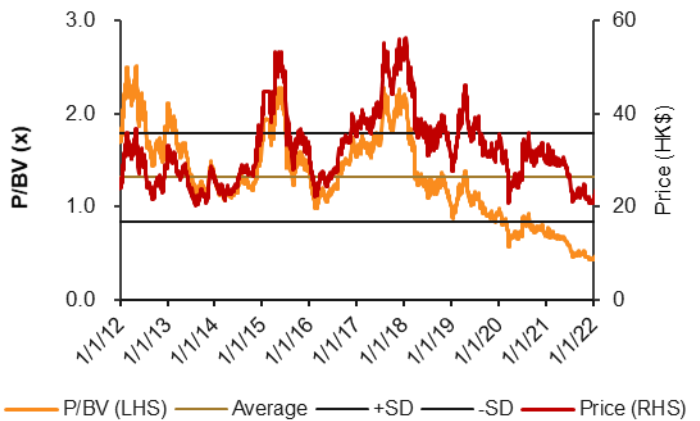
Source: Company data, CMBIS

Fig.3: CPIC-H (2601 HK) 12-month forward P/B



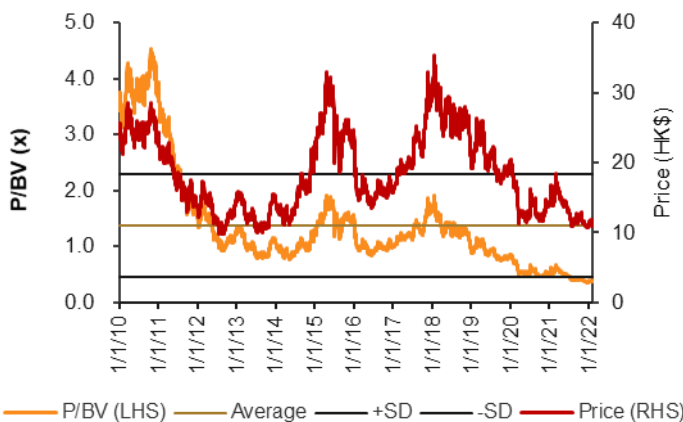
Source: Company data, CMBIS

Fig.4: New China Life-H (1336 CH) 12-month forward P/B



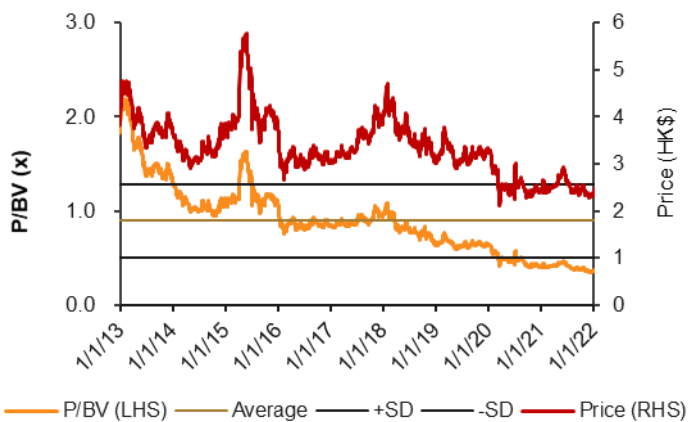
Source: Company data, CMBIS

Fig.5: China Taiping-H (966 HK) 12-month forward P/B



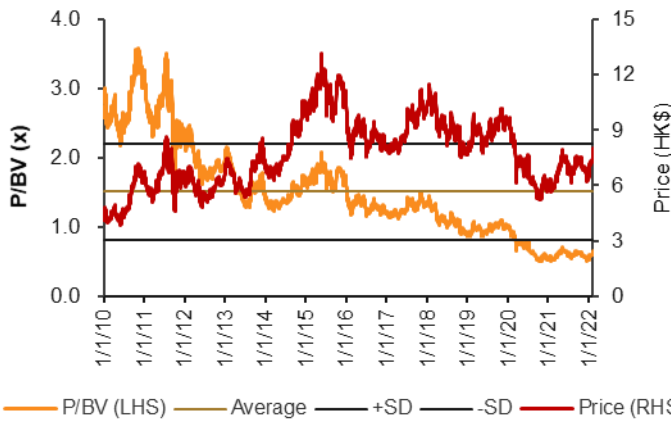
Source: Company data, CMBIS

Fig.6: PICC Group-H (1339 HK) 12-month forward P/B



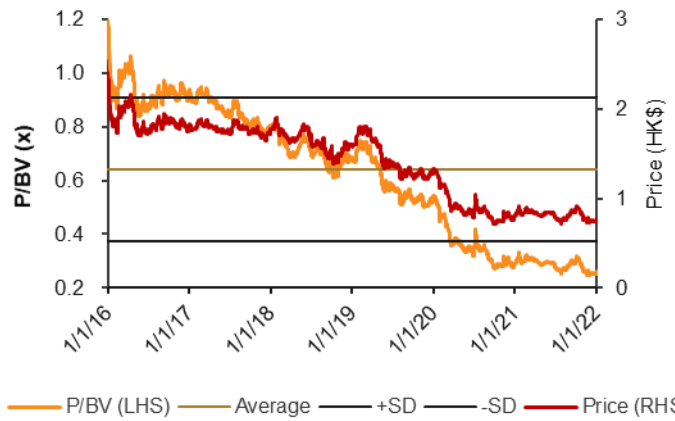
Source: Company data, CMBIS

Fig.7: PICC P&C-H (2328 HK) 12-month forward P/B



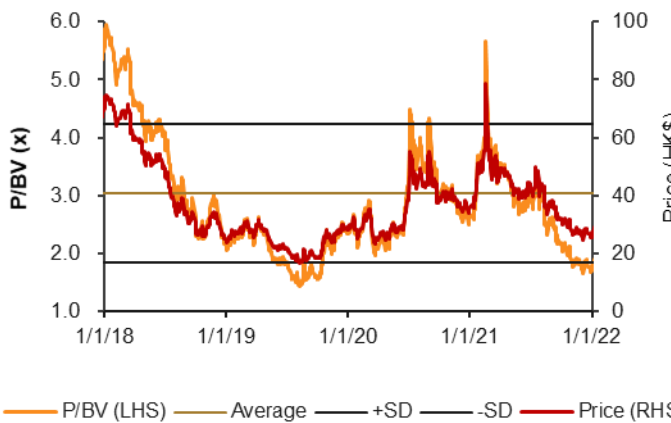
Source: Company data, CMBIS

Fig.8: China Re-H (1508 HK) 12-month forward P/B



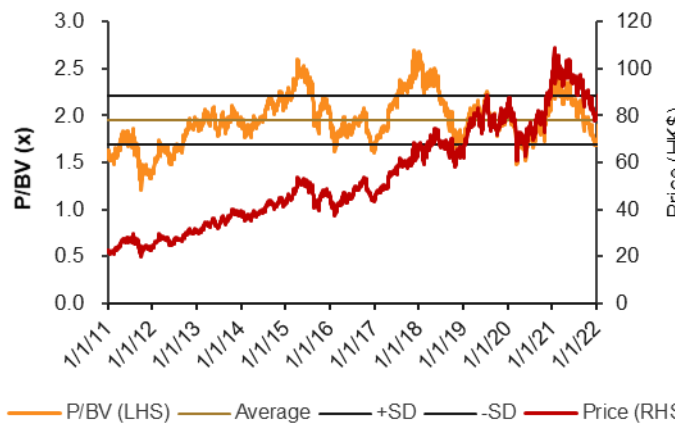
Source: Company data, CMBIS

Fig.9: Zhong An-H (6060 HK) 12-month forward P/B



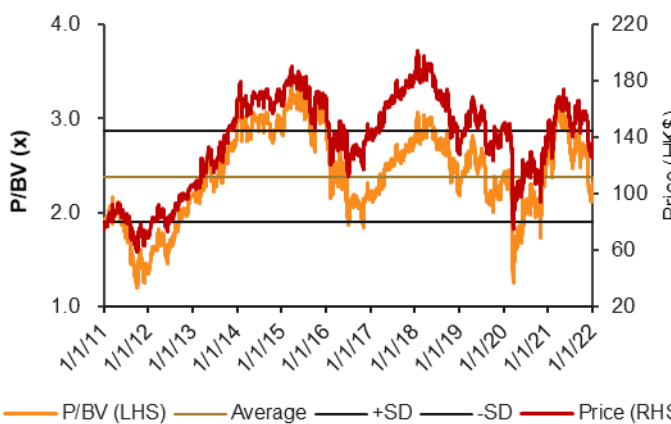
Source: Company data, CMBIS

Fig.10: AIA-H (1299 HK) 12-month forward P/B



Source: Company data, CMBIS

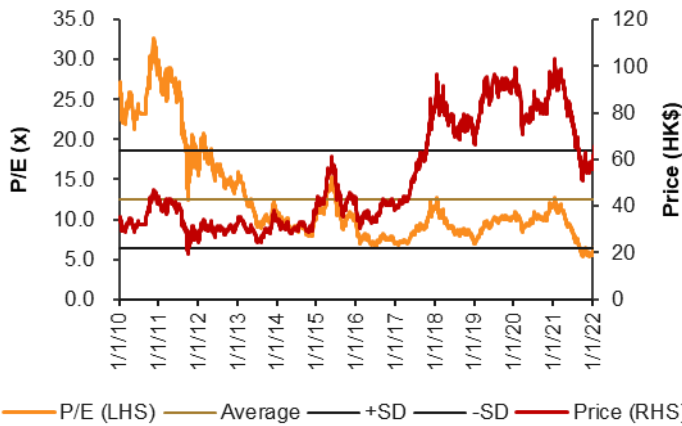
Fig.11: Prudential-H (2378 HK) 12-month forward P/B



Source: Company data, CMBIS

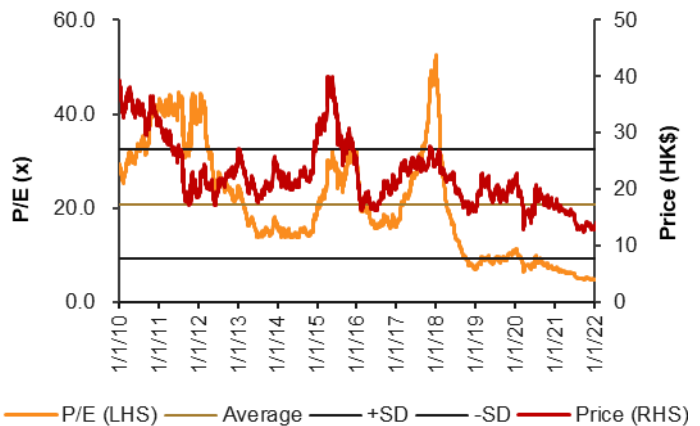
Trading Bands of PER by insurers

Fig.1: Ping An-H (2318 HK) 12-month forward P/E



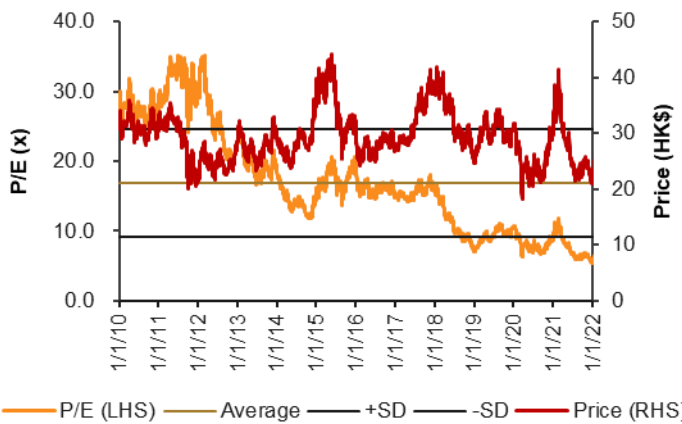
Source: Company data, CMBIS

Fig.2: China Life-H (2628 HK) 12-month forward P/E



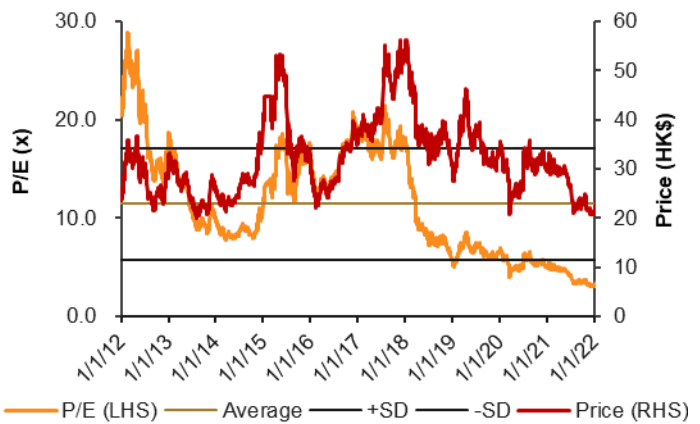
Source: Company data, CMBIS

Fig.3: CPIC-H (2601 HK) 12-month forward P/E



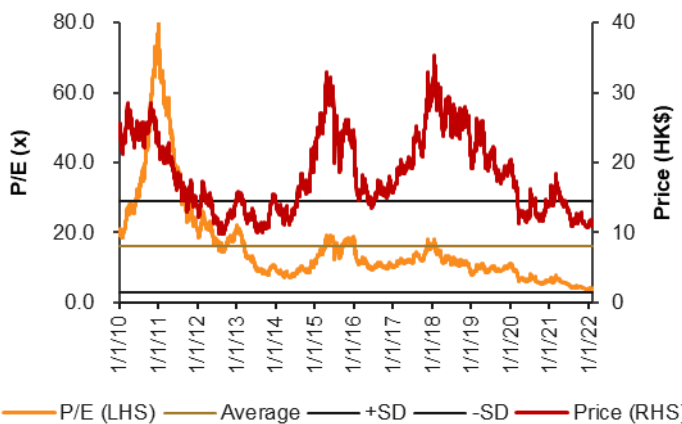
Source: Company data, CMBIS

Fig.4: New China Life-H (1336 CH) 12-month forward P/E



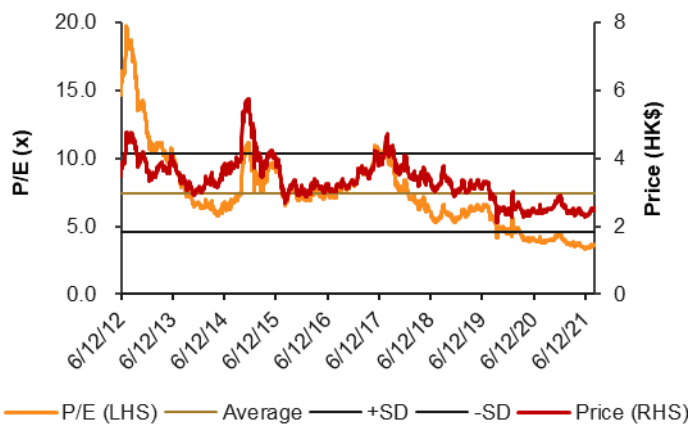
Source: Company data, CMBIS

Fig.5: China Taiping-H (966 HK) 12-month forward P/E



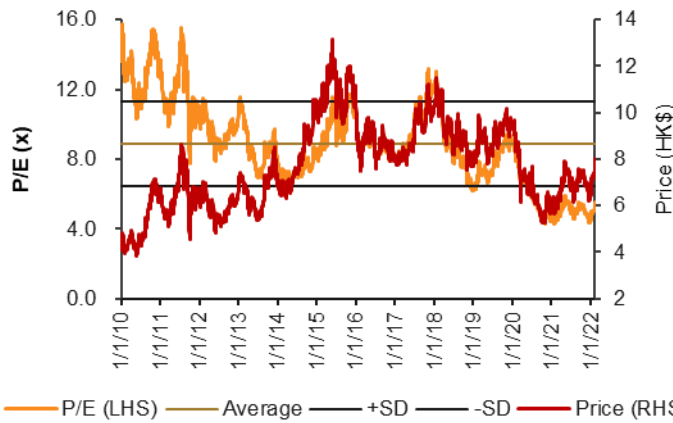
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Fig.6: PICC Group-H (1339 HK) 12-month forward P/E



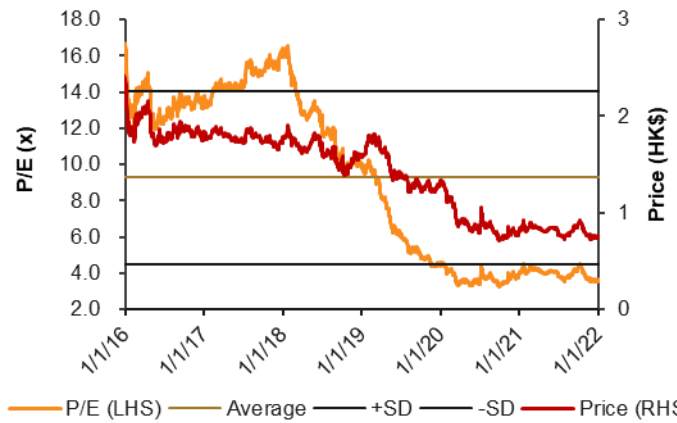
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Fig.7: PICC P&C-H (2328 HK) 12-month forward P/E



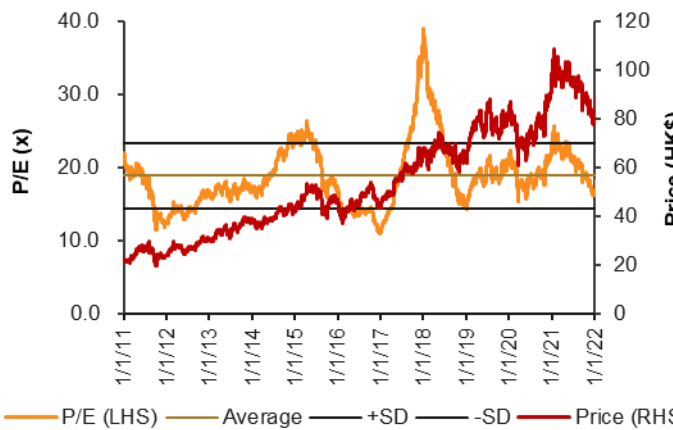
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Fig.8: China Re-H (1508 HK) 12-month forward P/E



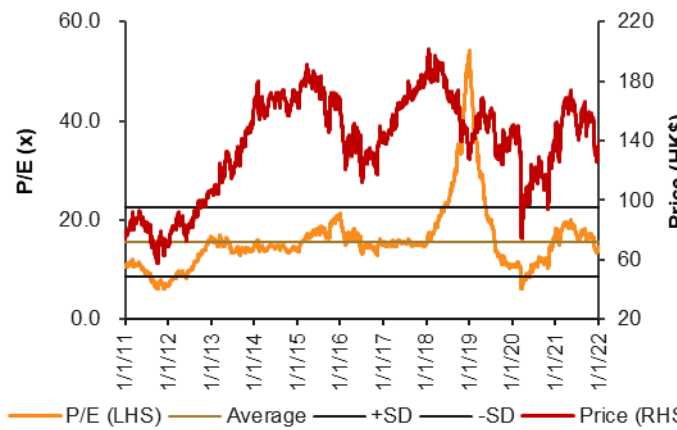
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Fig.9: AIA-H (1299 HK) 12-month forward P/E



Source: Company data, CMBIS

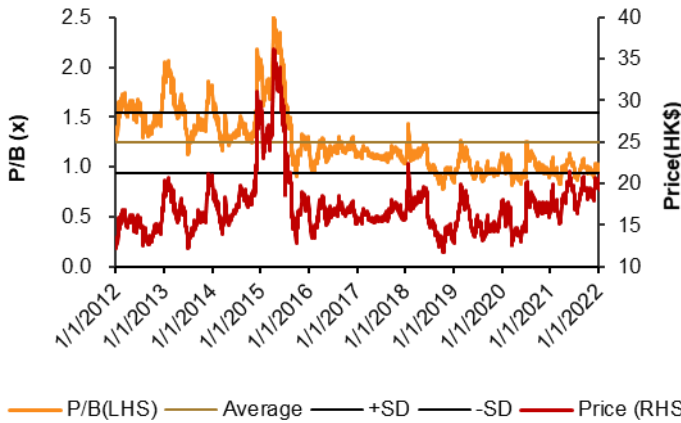
Fig.10: Prudential-H (2378 HK) 12-month forward P/E



Source: Company data, CMBIS

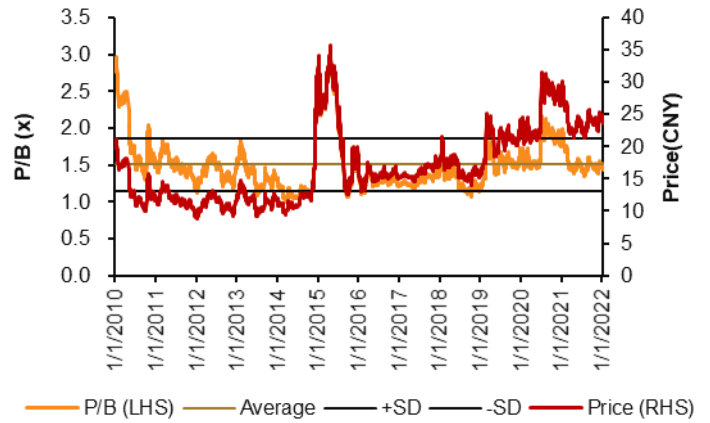
Trading Bands of PBV by brokers

Fig.1: CITIC SEC-H (6030 HK) 12-month forward P/B



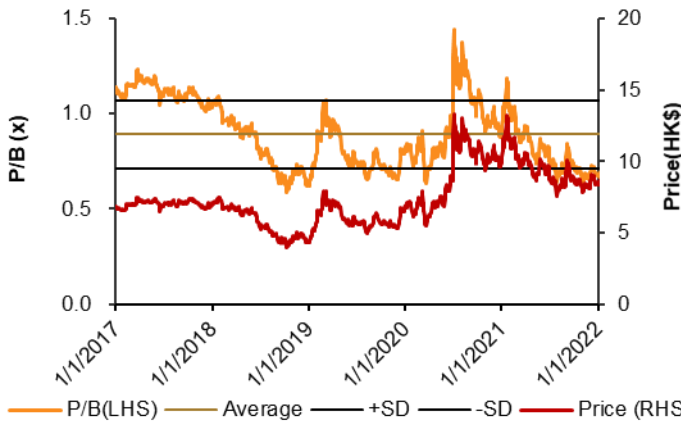
Source: Company data, CMBIS

Fig.2: CITIC-CH (60030 CH) 12-month forward P/B



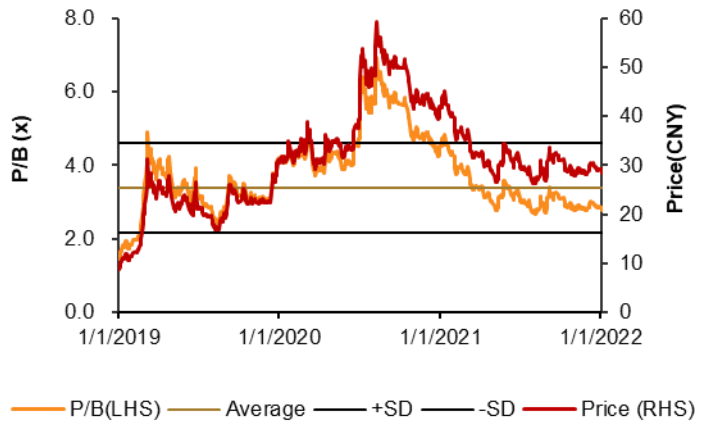
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Fig.3: CICC-H (3908 HK) 12-month forward P/B



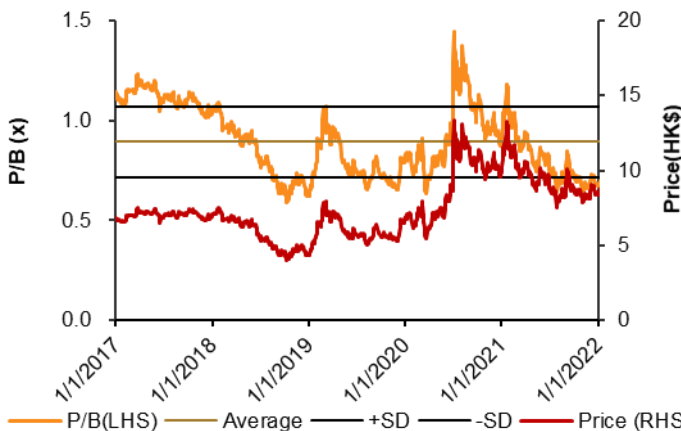
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Fig.4: CICC-CH (601995 CH) 12-month forward P/B



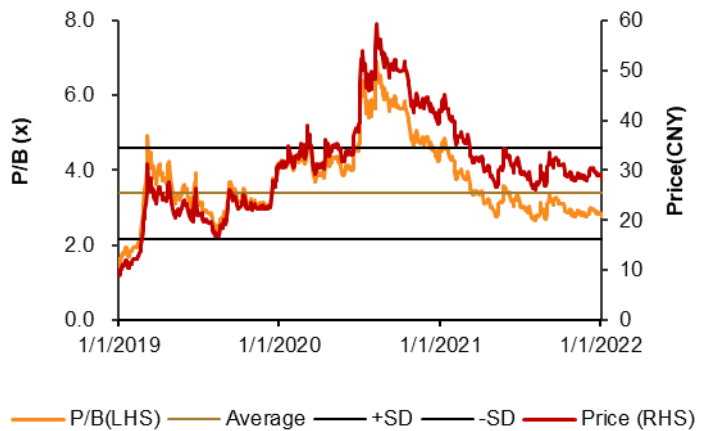
Source: Company data, CMBIS

Fig.5: CSC-H (6066 HK) 12-month forward P/B



Source: Company data, CMBIS

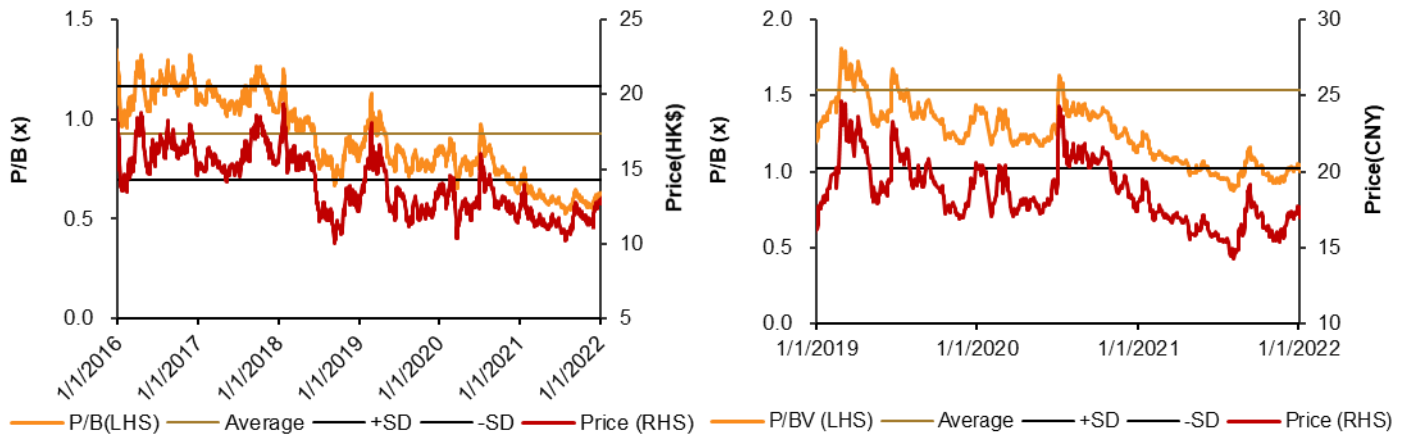
Fig.6: CSC-CH (601066 HK) 12-month forward P/B



Source: Company data, CMBIS

Fig.7: HUATAI SEC-H (6886 HK) 12-month forward P/B

Fig.8: HUATAI SEC-CH (601688 CH) 12-month forward P/B



Source: Company data, CMBIS

Source: Company data, CMBIS

Trading Bands of PER by brokers

Fig.1: CITIC SEC-H (6030 HK) 12-month forward P/E

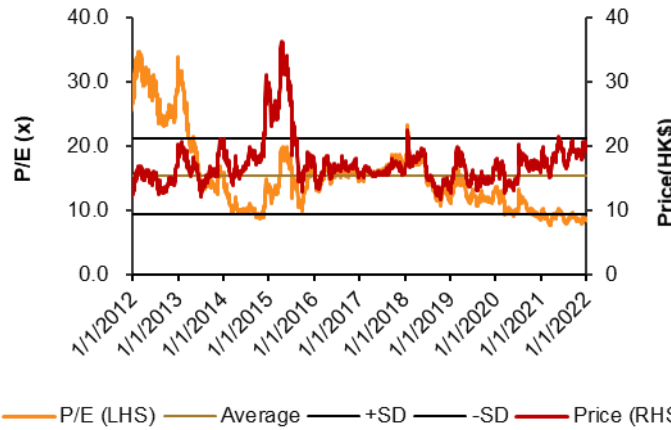
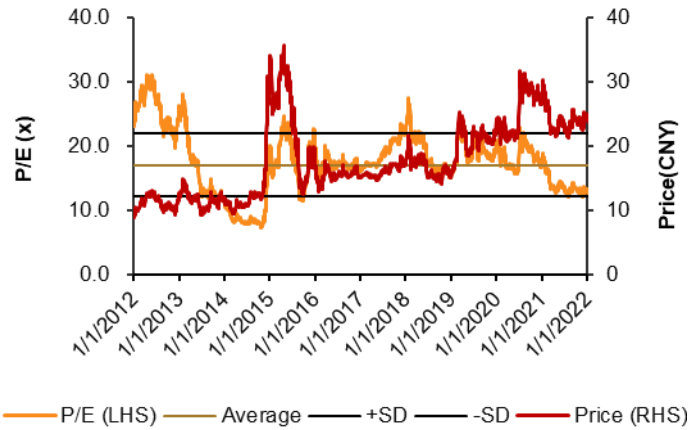


Fig.2: CITIC-CH (60030 CH) 12-month forward P/E



Source: Company data, CMBIS

Source: Company data, CMBIS

Fig.3: CICC-H (3908 HK) 12-month forward P/E

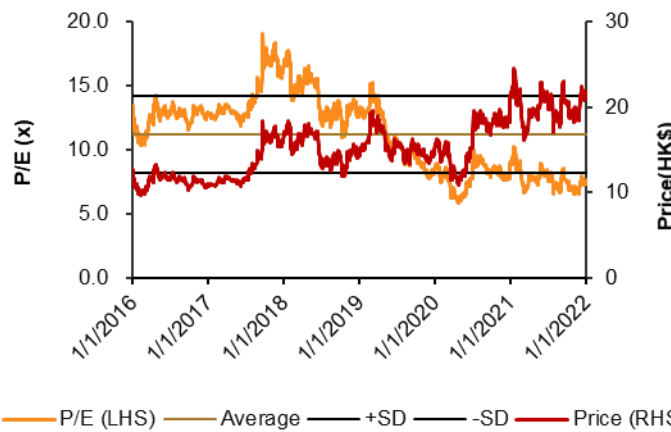
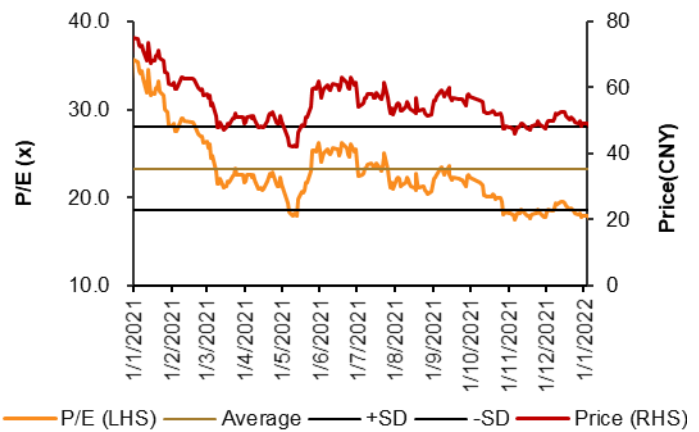


Fig.4: CICC-CH (601995 CH) 12-month forward P/E



Source: Company data, CMBIS

Source: Company data, CMBIS

Fig.5: CSC-H (6066 HK) 12-month forward P/E

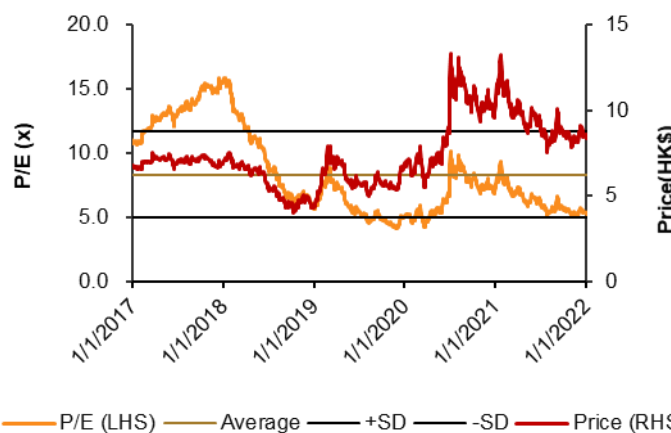
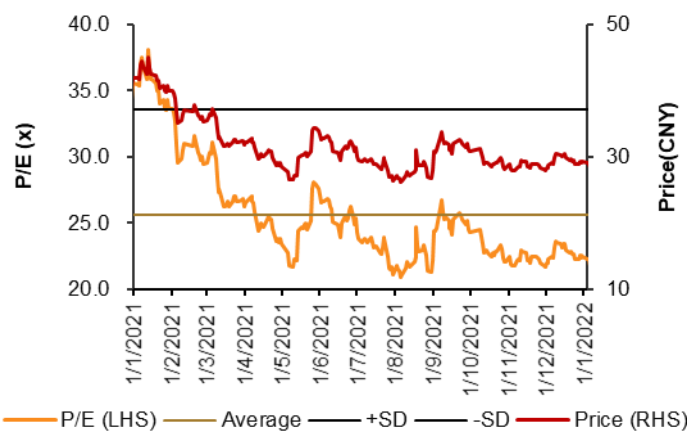


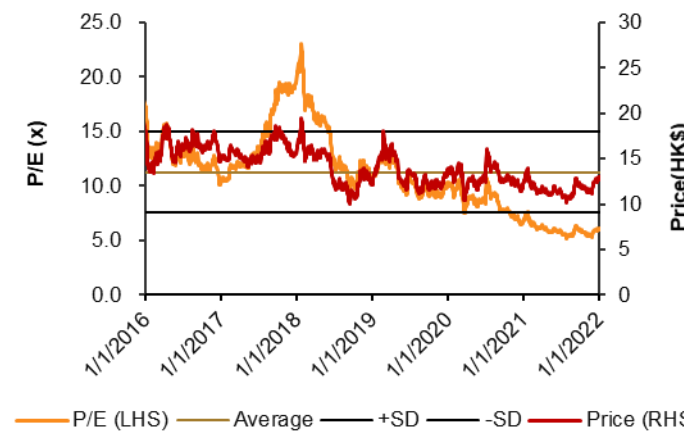
Fig.6: CSC-CH (601066 HK) 12-month forward P/E



Source: Company data, CMBIS

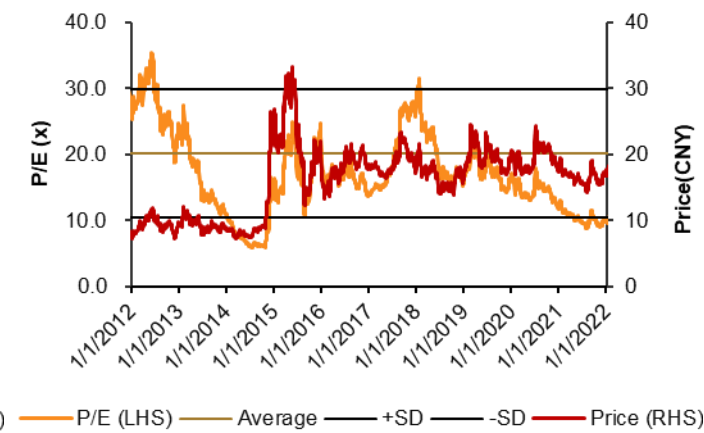
Source: Company data, CMBIS

Fig.7: HUATAI SEC-H (6886 HK) 12-month forward P/E



Source: Company data, CMBIS

Fig.8: HUATAI SEC-CH (601688 CH) 12-month forward P/E



Source: Company data, CMBIS

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