

# Ping An (2318 HK)

## Agency reform well on track

Ping An reported 23.6% VNB decline and 6.1% growth of OPAT for FY21, largely in line with our estimates yet slightly above the market consensus. Excluding the negative assumption changes over surrender and expenses in 4Q21, the VNB decrease in FY21 would narrow to 18.6% YoY. We note 1) the company's channel and product reforms were well on track, 2) the number of retail customers (+4.1% YoY) and contracts per customer (+1.8% YoY) continued to grow, 3) investment exposure to real estate stabilized in 4Q21, and 4) the management pledged to further increase dividend payout. Looking ahead, we forecast a VNB decline in 1Q22 given the high base of critical illness product sales in Jan 2021, but expect to see sequential improvements on new business momentum in 2Q22 and onwards, as the channel reform will expand to more branches. Reiterate BUY.

- Channel reform well on track.** Ping An continued to see positive progress of its digital agency reform, as its pilot projects covered 30% branches by end of FY21. The insurer has seen 30% YoY increase in agent productivity and 10% YoY growth on its early piloted branches' VNB. The insurer targets to expand the pilot programs to a nationwide implementation by end FY22.
- Sound capital position to support progressive dividend policy.** Solvency reporting will shift to C-ROSS 2.0 regime starting from 1Q22 results. The management indicated that the core solvency margin of group/life/P&C would stay above 100% (vs the regulatory requirement of 50%) under C-ROSS 2.0.
- Real estate investment exposure stabilized at 5.5% at end-FY21,** at the same level as of end 3Q21. After RMB43.2bn impairments on China Fortune Land (incl. RMB7.3bn in 2H), the insurance fund's investment balance in real estate sector amounted to RMB216bn (accounted for 27% of Ping An's book value), which consists of 26% equity investment, 27% debt and 47% physical holdings. We believe recent positive policy signals from the Financial Stability Committee will lead to marginal improvements on the insurer's asset quality.
- Valuation.** Ping An's A and H shares are trading at 0.6x P/EV FY22E and 1.0x P/BV FY22E with operating ROE of 19%, near a historical trough valuation. We think current share price has already factored in the worst case of life business slowdowns and a write-down of real estate investments. We believe a progressive dividend policy and marginal improvements on asset quality will continue to support the insurer's share price performance.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
GWP (RMB mn)	797,880	760,843	762,018	794,989	837,654
YoY growth (%)	0.4	(4.6)	0.2	4.3	5.4
Net profit (RMB mn)	143,099	101,618	115,345	131,153	148,027
EPS (RMB)	8.1	5.7	6.3	7.2	8.1
YoY growth (%)	(3.7)	(29.0)	9.8	13.7	12.9
Consensus EPS (RMB)	8.1	6.3	8.0	9.1	11.7
P/E (x)	5.9	8.3	7.6	6.7	5.9
P/B (x)	1.1	1.1	1.0	0.9	0.8
P/EV (x)	0.7	0.6	0.6	0.5	0.5
Yield (%)	4.7	5.1	5.3	6.0	6.8
ROE (%)	19.9	12.9	13.6	14.2	14.7

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** HK\$81.40  
**Up/Downside** +41.2%  
**Current Price** HK\$57.65

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### Stock Data

Mkt Cap (HK\$ mn)	925,659
Avg 3 mths t/o (HK\$ mn)	1,627.53
52w High/Low (HK\$)	98.95/45.80
Total Issued Shares (mn)	<b>7,448 (H)</b>
	10,833 (A)

Source: Bloomberg

### Shareholding Structure

Charoen Pokphand Group	7.85%
Shenzhen Investment Holdings	5.27%

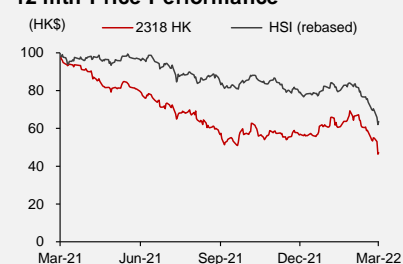
Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	-27.9%	-4.7%
3-mth	-18.0%	4.2%
6-mth	-18.3%	11.1%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Recent Reports:

- China Insurance Sector – FY21 results preview ([link](#))
- China Insurance – P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22 ([link](#))

## FY21 Results Highlights

Ping An reported 23.6% VNB decline and 6.1% growth of OPAT for FY21, largely in line with our estimates and slightly above market consensus. In 2H21, OPAT grew 1.5% YoY vs 10% growth in 1H21, as the improved life OPAT was partially offset by a decline in P&C OPAT and operating losses from trust business. Net profit declined by 29% YoY to RMB102bn in FY21, mainly dragged by (1) a 28% decline in investment income on the back of RMB43.2bn impairment on China Fortune Land (including RMB7.3bn incremental impairment in 2H21) and (2) a RMB9.9bn non-operating loss arise from the revaluation of convertible bonds issued by Lufax to the group (including RMB6.3bn incremental losses in 2H21). Ping An declared RMB2.38 full year dividend per share, up 8.2% YoY, as the payout ratio based on OPAT increased. Solvency reporting will shift to C-ROSS 2.0 in 1Q22 results.

### ■ Life Insurance:

VNB declined by 23.6% YoY to RMB37.9bn, translating into 43% decline in 2H21. Excluding assumption changes, the VNB decrease in FY21 would narrow to 18.6% YoY. VNB margin on FYP basis declined by 5.5ppt YoY to 27.8%, or down 7.2ppt YoY in 2H21, owing to a decline in FYP from long-term protection business.

OPAT increased 3.5% YoY in FY21, translating in to 11.7% YoY growth in 2H21, primarily due to positive operating variance in 2H21 vs negative operating variance in 2H20 on the back of unfavorable assumption changes.

Life EV grew by 6% YoY to RMB876.5bn, with operating ROEV down 3.4ppt YoY to 11.1% in FY21. Assumption changes of surrender and expense ratio lead to a negative movement of RMB5.9bn in EV. Residual margin decreased by 2% YoY to RMB940 dragged by higher surrenders and soft new business.

Agent productivity on FYP basis increased by 27% YoY in FY21, while agent income slightly declined by 1% YoY. Agent headcount shrank to 0.6mn, down 15% QoQ or down 32% HoH or down 41% YoY.

### ■ Property & Casualty Insurance:

FY21 overall combined ratio improved by 1.1ppt YoY to 98.0%, outperforming the industry average of 101%, and translating into 0.17ppt YoY improvement in 2H21. Premium income decline 5.5% YoY, underperforming industry average (+1% YoY) and PICC (+3.8 YoY). Underwriting profit grew by 146% YoY to RMB5.14bn.

Auto insurance combined ratio deteriorated by 0.7ppt YoY to 98.9% in FY21, beat the industry average of 101%. Auto premium income declined 4% YoY, translating into 1% YoY decrease in 2H21 and 8.7% YoY growth in 4Q21.

On non-auto front, combined ratio improved by 5.5ppt YoY to 96.2%, while premium income declined by 9% YoY in FY21 and down 10% YoY in 2H21. The improvement was mainly from a 20ppt reduction in the combined ratio of credit guarantee insurance.

### ■ Ping An Bank:

Net profit increased by 25.6% YoY, driven by (1) strong growth of wealth management fee income and investment income and (2) lower provision charge ratio. Pre-provision operating profit increased by 11.6% YoY.

NIM edged down by 9bps YoY to 2.79% in FY21, and down 1bps QoQ to 2.74% in 4Q21, as the market yields trend down.

NPL ratio further improved by 3bps QoQ to 1.02%, while the 60 days overdue ratio remained stable QoQ. However, special mention ratio increased by 2bps QoQ or 40bps HoH or 15bps YoY.

- **Technology:** OPAT from technology business grew 19.4% YoY in FY21, translating into 47% YoY decline in 2H21. Net losses amounted to RMB2bn in FY21, dragged by a RMB9.9bn non-operating loss arise from the revaluation of convertible bonds issued by Lufax.

## Focus Charts

Figure 1. Ping An: FY21 Results Summary

(RMBmn)	2020	2021	YoY chg	2H20	2H21	YoY chg	4Q20	4Q21	YoY chg
Net profit attribute to shareholders	143,099	101,618	-29.0%	74,416	43,613	-41.4%	40,058	19,980	-50.1%
OPAT attribute to shareholders	139,471	147,961	6.1%	65,161	66,125	1.5%	30,779	29,224	-5.1%
Life insurance	92,672	95,906	3.5%	41,545	46,411	11.7%	17,908	23,205	29.6%
P&C insurance	16,083	16,117	0.2%	7,849	5,376	-31.5%	5,080	2,896	-43.0%
Bank	16,766	21,060	25.6%	8,839	10,869	23.0%	3,785	4,173	10.3%
Trust	2,476	229	-90.8%	825	(1,024)	-224.1%	237	(1,640)	-792.0%
Broker	2,959	3,614	22.1%	1,450	1,937	33.6%	578	806	39.4%
Other AMC	5,737	8,378	46.0%	3,066	3,300	7.6%	1,929	1,186	-38.5%
Technology	6,654	7,948	19.4%	3,216	1,712	-46.8%	1,985	511	-74.3%
Others	(3,876)	(5,291)	36.5%	(1,629)	(2,456)	50.8%	(723)	(1,913)	164.6%
Operating ROE	19.5	18.9	(0.6) ppt						
Life insurance	35.0	32.3	(2.7) ppt						
P&C insurance	16.4	14.8	(1.6) ppt						
Bank	9.6	10.9	1.3 ppt						
AMC	11.0	11.3	0.3 ppt						
Technology	7.8	8.0	0.2 ppt						
Group EV	1,328,112	1,395,509	5.1%						
Net investment yield (%)	5.1	4.6	(0.5) ppt						
Total investment yield (%)	6.2	4.0	(2.2) ppt						
Comprehensive investment yield (%)	5.7	3.9	(1.8) ppt						
Total investment assets	3,740,581	3,916,412	4.7%						
Total investment income	199,636	144,086	-27.8%	113,737	78,032	-31.4%	63,767	40,522	-36.5%
# of individual customers (mn)	218.4	227.3	4%	218.4	227.3	4%			
Avg. # of contracts per customer (mn)	2.76	2.81	2%						
# of cross-selling customers (mn)	83.1	89.3	7%	83.1	89.3	7%			
% of cross-selling customers	38.0	39.3	1.3 ppt	38.0	39.3	1.3 ppt			

Source: Company data, CMBIGM

Figure 2. Ping An Life: FY21 Results Summary

(RMBmn)	2020	2021	YoY chg	2H20	2H21	YoY chg	4Q20	4Q21	YoY chg
VNB	49,575	37,898	-23.6%	18,544	10,511	-43.3%	6,731	2,661	-60.5%
FYP	148,915	136,290	-8.5%	64,367	48,649	-24.4%	28,763	21,541	-25.1%
VNB margin (FYP)	33.3%	27.8%	(5.5) ppt	28.8%	21.6%	(7.2) ppt	23.4%	12.4%	(11.0) ppt
Life EV	824,574	876,490	6%	824,574	876,490	6%			
Residual margin	918,416	960,183	4.5%	918,416	960,183	4.5%			
Surrender rate (%)	1.74	2.23	0.5 ppt	0.97	1.17				
Surrender	36,914	52,931	43.4%	19,614	26,777	36.5%	9,862	13,319	35.1%
# of agents (mn)	1.02	0.60	-41%	1.02	0.60	-41%	1.02	0.60	-41%
Activity rate (%)	49.3	47.0	(2.3) ppt						
Agent income (RMB per month)	5,793	5,758	-1%						
Reported agent productivity (VNB/agent)	40,688	39,031	-4%						
Agent productivity (FYP/month/agent)	7,563	9,596	27%	5,794	6,492	12%			
Agent productivity (VNB/month/agent)	3,265	3,189	-2%	2,337	1,667	-29%			
<b>FYP by distribution</b>									
Agent	99,417	93,509	-6%	37,704	28,789	-24%			
Bancassurance	9,197	9,291	1%	3,548	4,691	32%			
Group & Others	49,084	47,274	-4%	21,558	21,396	-1%			
Total FYP	157,698	150,074	-5%	62,810	54,876	-13%			
Total FYP APE	104,179	101,745	-2%	39,433	35,622	-10%			

(RMBmn)	2020	2021	YoY chg	2H20	2H21	YoY chg	4Q20	4Q21	YoY chg
<b>VNB breakdown</b>									
Retail business	48,756	37,330	-23%	17,825	10,249	-43%			
Agency	42,913	31,076	-28%	15,208	7,392	-51%			
Long-term protection	25,756	12,512	-51%	8,757	3,186	-64%			
Protection & Saving hybrid (long-PPP)	7,195	7,560	5%	3,105	1,595	-49%			
Protection & Saving hybrid (short-PPP)	6,187	7,178	16%	1,184	822	-31%			
Short-term	3,775	3,827	1%	2,162	1,791	-17%			
Tele, internet and others	4,234	4,485	6%	1,936	2,010	4%			
Bancassurance	1,609	1,769	10%	681	846	24%			
Group business	820	568	-31%	720	262	-64%			
<b>VNB margin (FYP basis)</b>									
Retail business	47.4	38.4	(9.0) ppt						
Agency	54.9	43.1	(11.8) ppt						
Long-term protection	96.0	86.7	(9.3) ppt						
Protection & Saving hybrid (long-PPP)	55.6	47.5	(8.1) ppt						
Protection & Saving hybrid (short-PPP)	18.8	19.5	0.7 ppt						
Short-term	67.2	75.6	8.4 ppt						
Tele, internet and others	27.4	28.2	0.8 ppt						
Bancassurance	17.7	19.3	1.6 ppt						
Group business	1.8	1.5	(0.3) ppt						

Source: Company data, CMBIGM

**Figure 3. Ping An P&C: FY21 Results Summary**

(RMBmn)	2020	2021	YoY chg	2H20	2H21	YoY chg	4Q20	4Q21	YoY chg
Combined ratio (%)	99.1	98.0	(1.1) ppt	100.2	100.1	(0.2) ppt			
Expense ratio (%)	38.6	31.0	(7.6) ppt						
Loss ratio (%)	60.5	37.0	(23.5) ppt						
Premium income	285,854	270,043	-6%	141,736	136,730	-4%	66,364	70,700	7%
Auto	196,151	188,838	-4%	100,505	99,823	-1%	49,079	53,370	9%
Non-auto	89,703	81,205	-9%	41,231	36,907	-10%	17,285	17,330	0%
Underwriting profit	2,090	5,136	146%	(306)	(74)	-76%			
Auto combined ratio (%)	98.2	98.9	0.7 ppt	101.6	100.3	(1.3) ppt			
Non-auto combined ratio (%)	101.7	96.2	(5.5) ppt	96.7	99.5	2.8 ppt			

Source: Company data, CMBIGM

**Figure 4. Ping An Bank: FY21 Results Summary**

(RMBmn)	2020	2021	YoY chg	2H20	2H21	YoY chg	4Q20	4Q21	YoY chg
NIM	2.88	2.79	(0.09) ppt				2.44	2.74	0.30 ppt
Cost to Income ratio	29.1	28.3	(0.8) ppt						
NPL ratio	1.18	1.02	(0.16) ppt	1.18	1.02	(0.16) ppt	1.18	1.02	(0.16) ppt
Special mention ratio	1.11	1.42	0.31 ppt	1.11	1.42	0.31 ppt	1.11	1.42	0.31 ppt
Broad NPL ratio	2.29	2.44	0.15 ppt	2.29	2.44	0.15 ppt	2.29	2.44	0.15 ppt
Credit cost (annualized)	1.73	2.08	0.35 ppt						
Provision coverage ratio	201.4	288.4	87.0 ppt	201.4	288.4	87.0 ppt	201.4	288.4	87.0 ppt
60 days overdue coverage ratio	219.8	338.2	118.4 ppt	219.8	338.2	118.4 ppt	219.8	338.2	118.4 ppt
Core T1 (>7.5%)	8.69	8.60	(0.09) ppt	8.69	8.60	(0.09) ppt	8.69	8.60	(0.09) ppt
T1 (>8.5%)	10.91	10.56	(0.35) ppt	10.91	10.56	(0.35) ppt	10.91	10.56	(0.35) ppt
Capital adequacy ratio (>10.5%)	13.29	13.34	0.05 ppt	13.29	13.34	0.05 ppt	13.29	13.34	0.05 ppt

Source: Company data, CMBIGM

## Financial Summary

Income statement						Key ratios					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
GWP & policy fees	797,880	760,843	762,018	794,989	837,654	<b>Group</b>					
<b>Net earned premiums</b>	757,599	739,933	737,490	769,305	810,506	Net investment yield	5.3%	5.2%	4.6%	4.7%	4.7%
Reinsurance income	6,356	5,908	7,567	8,083	8,686	Total investment yield	6.5%	5.3%	4.2%	4.7%	4.7%
Total premium income	763,955	745,841	745,057	777,388	819,192	ROAE	19.9%	12.9%	13.6%	14.2%	14.7%
						ROAA	1.6%	1.0%	1.1%	1.1%	1.2%
Investment income	225,046	203,513	168,693	200,102	210,015	EV growth	10.6%	5.1%	8.6%	11.7%	11.6%
Net invt income from banking	100,404	121,368	117,717	131,540	150,230	ROEV	10.1%	4.9%	8.2%	11.1%	11.0%
Net fees and commission income	51,762	41,584	48,536	52,557	56,939	<b>Life &amp; Health insurance</b>					
Claims and benefits	(614,751)	(618,662)	(575,554)	(599,736)	(612,928)	GWP growth	-2.3%	-4.0%	-5.9%	0.7%	2.1%
Commission expenses	(102,021)	(80,711)	(102,886)	(106,884)	(112,213)	Agency FYRP growth	-28.3%	-5.3%	-5.0%	10.0%	10.0%
G&A expenses	(181,166)	(177,061)	(167,901)	(181,841)	(200,025)	VNB growth	-34.7%	-23.6%	-7.0%	9.2%	9.3%
Impairment loss	(79,458)	(105,042)	(43,984)	(54,898)	(63,133)	VNB margin (APE basis)	47.6%	37.2%	36.0%	36.5%	37.0%
Other income and expenses	7,148	1,404	(15,878)	(22,823)	(30,832)	L&H EV growth	8.9%	6.3%	8.3%	10.4%	10.3%
Associates/JVs	16,845	7,346	5,854	6,045	6,245	L&H operating ROEV	14.9%	11.8%	13.9%	14.6%	15.0%
Pretax profit	187,764	139,580	179,653	201,449	223,490	<b>P&amp;C insurance</b>					
						GWP growth	5.5%	-5.5%	10.0%	10.0%	10.0%
Tax	(28,405)	(17,778)	(38,630)	(42,513)	(43,957)	Combined ratio	99.1%	98.0%	98.0%	98.0%	98.0%
Less: minorities	(16,260)	(20,184)	(25,678)	(27,783)	(31,506)	ROE	8.5%	9.6%	11.0%	10.7%	10.9%
<b>Net profit</b>	143,099	101,618	115,345	131,153	148,027	<b>Profit breakdown:</b>					
						Life & health insurance	67.1%	59.3%	45.4%	47.0%	50.6%
						P&C insurance	11.3%	15.9%	11.4%	11.6%	10.8%
						Banking	11.7%	20.7%	23.2%	22.1%	22.2%
						Others	9.9%	4.0%	20.0%	19.4%	16.4%
						<b>Per share data:</b>					
<b>Balance sheet</b>						EPS (RMB)	8.10	5.75	6.31	7.17	8.10
<b>YE 31 Dec (RMB mn)</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	DPS (RMB)	2.27	2.44	2.52	2.87	3.24
Investment assets	5,601,861	5,801,001	6,099,449	6,406,911	6,719,034	BVPS (RMB)	41.71	44.44	48.23	52.53	57.39
Loans to customers	2,599,510	2,980,975	3,428,121	3,942,339	4,533,690	VNBPS (RMB)	2.71	2.07	1.93	2.10	2.30
<b>Total assets</b>	9,527,870	10,142,026	11,045,118	12,044,944	13,150,076	Group EVPS (RMB)	72.65	76.34	82.89	92.60	103.33
Insurance contract liabilities	2,972,460	3,261,354	3,466,720	3,736,790	4,007,230						
Customer deposits	2,693,833	3,002,049	3,362,295	3,765,770	4,217,663						
<b>Total liabilities</b>	8,539,965	9,064,303	9,872,509	10,765,861	11,750,671						
<b>Total equity</b>	987,905	1,077,723	1,172,608	1,279,083	1,399,405						
<b>Shareholders' equity</b>	762,560	812,405	881,612	960,304	1,049,120						

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

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**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

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