

# PICC P&C (2328 HK)

## Expect CoR improvement in FY22

PICC reported 97.3% combined ratio (CoR) of auto business in FY21, outperforming industry average (101%) and major peers. Overall combined ratio edged up 0.7ppt YoY to 99.6%, mostly due to higher NAT CAT losses (+16% YoY to RMB8.3bn). Excluding the impacts of Henan 7.20 rainfall and typhoon Fireworks, PICC's overall combined ratio would decrease 0.3ppt YoY. We also notice that the loss reserve ratio increased by 3ppt YoY, reflecting prudent reserving policy. Looking into FY22, the management guided for below 97% CoR of auto insurance and below 100% CoR of corporate business. We expect strong premium income growth in 2M22 to sustain into the rest of 2022. And the insurer reiterated its progressive dividend policy, in spite of the upcoming C-ROSS 2.0 regime. The stock is trading at 5.7x P/E FY22E and 0.7x P/BV FY22E, with over 7% dividend yield. We believe the recovery of auto insurance and improvement in non-auto business will drive stock re-rating. Reiterate Buy.

- Auto: CoR to improve in 2022.** After the launch of NEV insurance terms in Dec 2021, NEV business also shows improving underwriting profitability. The management indicated that the CoR of NEV insurance is around 97% in 1Q22, close to that of traditional auto insurance. The management guided for YoY improvement of auto CoR, with traditional auto CoR below 97%, NEV CoR around 97% in FY22. On growth front, we expect the double-digit growth of auto business in 2M22 to sustain into FY22.
- Non-auto: Corporate biz to turn UW profitable in 2022.** FY21 non-auto underwriting was dragged by 1) higher NAT CAT losses and 2) surging surrender of liability insurance due to policy changes. Looking into 2022, the management guided for both growth acceleration and CoR improvement of non-auto business, as the insurer proactively reduces expense ratio and shifts to comprehensive risk assessment system.
- Expect NAT CAT losses to normalize in 2022.** Based on PICC's internal NAT CAT risk model, the management expect the NAT CAT losses in FY22 to fall back to historical average level, with high possibility of floods in Northern and Southern China along with droughts in Middle China.
- Sufficient capital to support progressive dividend policy.** Under the upcoming C-ROSS 2.0 regime, PICC will face some one-off decline in solvency margin, but on a much better-than-industry scale. After the solvency regime changes, the capital position will remain sufficient to support progressive dividend policy. The Company also believes the impairment risks on investment front is manageable.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Gross written premiums (RMB mn)	433,187	449,533	494,486	543,935	598,328
Underwriting profit (RMB mn)	4,177	1,521	4,422	6,760	7,436
Net profit (RMB mn)	20,868	21,652	25,268	30,093	33,914
EPS (RMB)	0.9	1.0	1.1	1.4	1.5
EPS CHG (%)	(14.1)	3.8	16.7	19.1	12.7
Consensus EPS (RMB)	0.9	1.1	1.2	1.3	1.4
PER (x)	6.9	6.7	5.7	4.8	4.3
PBR (x)	0.8	0.7	0.7	0.6	0.6
Yield (%)	5.8	6.3	7.3	8.7	9.8
ROE (%)	11.68	11.09	12.02	13.30	13.84

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$11.54
Up/Downside	+47.4%
Current Price	HK\$7.83

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### Stock Data

Mkt Cap (HK\$ mn)	150,806
Avg 3 mths t/o (HK\$ mn)	169.66
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%

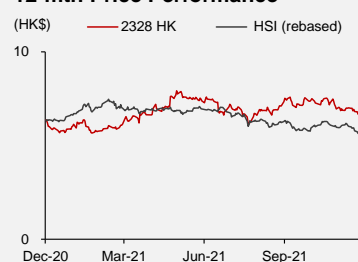
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-1.9%	2.7%
3-mth	-4.1%	4.5%
6-mth	-7.6%	12.4%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Deloitte

### 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

The net earnings of PICC P&C (2328.HK) grew 7.2% YoY to RMB22.4bn, in line with our estimate. Excluding the impacts of Henan 7.20 rainfall and typhoon Fireworks, the overall combined ratio would decrease 0.3ppt YoY. The 0.5ppt YoY improvement in auto combined ratio in 2H21 reconfirms that the insurer has fully digested the impact of comprehensive auto insurance reform. We also notice that the loss reserve ratio increased by 3ppt YoY, reflecting prudent reserving policy. ROE remained stable at 11.3% in FY21 (vs 11.6% in FY20). PICC P&C's dividend payout ratio of FY21 is 40%, at the same level as that of FY20.

### PICC P&C (2328.HK)

- FY21 overall combined ratio edged up 0.7ppt YoY to 99.6%, outperforming the industry average of 101%. Total premium income grew 3.8% YoY, outperforming the industry average of 0.7% YoY in FY21. Excluding the impacts of Henan 7.20 rainfall and typhoon Fireworks, the overall combined ratio would decrease 0.3ppt YoY. We notice the ratio of loss reserve/NEP was up by 3ppt YoY to 37.1%, implying RMB12bn extra reserves in FY21.
- Auto combined ratio (97.3% in FY21) continued to outperform industry average (101%) and major peers (Ping An 98.9%). Auto combined ratio improved by 0.5ppt/0.1ppt YoY in 2H21/4Q21, signaling recovery of auto insurance underwriting. Auto premiums growth rebounded to 8.9% YoY in 4Q21, and further accelerated to 13.6% YoY in 2M22.
- On the non-auto front, combined ratio remained stable YoY in FY21 and increased by 3.4ppt YoY in 2H21, but the YoY deterioration narrowed to 2ppt in 4Q21 from 5ppt in 3Q21. The massive improvement in underwriting of credit guarantee business was offset by higher loss ratio of commercial property, liability, agricultural and other insurance business on the back of competitions, inflation and higher catastrophe losses.
- Renewal rate and online customer rate of auto insurance business continued to increase in 2021, reflecting improved efficiency and customer loyalty.
- Total investment return was up 0.2ppt YoY to 5.0% in FY21, while the net investment return edged down by 0.1ppt YoY.
- Core solvency margin increased by 16ppt YoY to 266%, thanks to a strong earning generation.

## Focus Charts

**Figure 1. PICC P&C: Premium Income**

(RMBmn)	2020	2021	YoY chg	2H20	2H21	YoY chg	4Q20	4Q21	YoY chg
Auto	265,651	255,275	-3.9%	134,632	134,520	-0.1%	66,367	72,271	8.9%
Non-auto	166,368	193,109	16.1%	51,748	62,039	19.9%	21,479	30,317	41.1%
A&H	66,187	80,692	21.9%	16,496	20,656	25.2%	6,735	10,563	56.8%
Agro	35,754	42,654	19.3%	10,226	13,089	28.0%	3,982	5,283	32.7%
Liability	28,467	33,132	16.4%	12,533	14,257	13.8%	5,662	7,057	24.6%
Credit	5,283	2,840	-46.2%	965	1,677	73.8%	80	1,008	1160.0%
Property	14,258	14,923	4.7%	5,338	5,486	2.8%	2,087	2,310	10.7%
Cargo	3,807	4,814	26.5%	1,787	2,285	27.9%	877	1,144	30.4%
Others	12,612	14,054	11.4%	4,403	4,589	4.2%	2,056	2,952	43.6%
<b>P&amp;C total</b>	<b>432,019</b>	<b>448,384</b>	<b>3.8%</b>	<b>186,380</b>	<b>196,559</b>	<b>5.5%</b>	<b>87,846</b>	<b>102,588</b>	<b>16.8%</b>

Source: Company data, CMBIGM

**Figure 2. PICC P&C: Combined ratio**

(RMBmn)	2020	2021	YoY chg	2H20	2H21	YoY chg	4Q20	4Q21	YoY chg
<b>P&amp;C total:</b>									
Combined ratio (%)	98.9	99.6	0.7 ppt	100.6	101.9	1.3 ppt	100.7	101.6	0.9 ppt
Expense ratio (%)	32.7	25.9	(6.8) ppt	33.4	26.3	(7.1) ppt	31.1	28.1	(3.0) ppt
Loss ratio (%)	66.2	73.7	7.5 ppt	67.1	75.5	8.4 ppt	69.4	73.4	4.1 ppt
<b>Auto insurance</b>									
Combined ratio (%)	96.5	97.3	0.7 ppt	98.3	97.8	(0.5) ppt	97.0	96.9	(0.1) ppt
Expense ratio (%)	38.5	27.2	(11.3) ppt	39.8	28.0	(11.9) ppt	-	29.1	29.1 ppt
Loss ratio (%)	58.0	70.1	12.0 ppt	58.5	69.8	11.4 ppt	-	67.8	67.8 ppt
<b>Non-auto insurance</b>									
Combined ratio (%)	103.3	103.4	0.0 ppt	104.7	108.0	3.4 ppt	107.3	109.2	1.9 ppt
Expense ratio (%)	22.1	23.9	1.8 ppt	21.9	23.7	1.8 ppt	-	26.6	26.6 ppt
Loss ratio (%)	81.1	79.5	(1.7) ppt	82.5	84.2	1.7 ppt	-	82.4	82.4 ppt
<b>By products:</b>									
Auto	96.5	97.3	0.8 ppt	98.3	97.8	(0.5) ppt	96.5	97.3	0.8 ppt
A&H	101.3	102.6	1.3 ppt	99.0	96.6	(2.4) ppt	101.3	102.6	1.3 ppt
Agro	99.8	101.6	1.8 ppt	99.2	95.5	(3.7) ppt	99.8	101.6	1.8 ppt
Liability	97.2	107.4	10.2 ppt	102.2	84.6	(17.6) ppt	97.2	107.4	10.2 ppt
Credit	144.8	66.7	(78.1) ppt	42.6	161.6	119.0 ppt	144.8	66.7	(78.1) ppt
Property	104.1	130.0	25.9 ppt	74.8	29.9	(45.0) ppt	104.1	130.0	25.9 ppt
Cargo	82.9	91.2	8.3 ppt	117.4	101.0	(16.4) ppt	82.9	91.2	8.3 ppt
Others	91.9	108.8	16.9 ppt	95.7	54.4	(41.2) ppt	91.9	108.8	16.9 ppt

Source: Company data, CMBIGM

**Figure 3. PICC Life**

(RMBmn)	2020	2021	YoY chg	2H20	2H21	YoY chg	4Q20	4Q21	YoY chg
FYP	48,831	49,169	1%	14,665	20,074	37%	8,460	13,890	64%
FYRP	19,118	18,101	-5%	4,167	3,432	-18%	1,716	1,412	-18%
Single	29,713	31,068	5%	10,498	16,642	59%	6,744	12,478	85%
Renewal	47,355	47,680	1%	14,283	12,641	-11%	5,609	5,023	-10%
FYP APE	22,089	21,208	-4%	5,217	5,096	-2%	2,390	2,660	11%
Total GWP	96,186	96,849	1%	28,948	32,715	13%	14,069	-	-100%
VNB	5,429	3,227	-41%	2,205	815	-63%	5,429	3,227	-41%
VNB margin (FYP)	11.1%	6.6%	(4.6) ppt	15.0%	4.1%	(11.0) ppt	11.1%	6.6%	(4.6) ppt
VNB margin (FYP APE)	24.6%	15.2%	(9.4) ppt	42.3%	16.0%	(26.3) ppt	24.6%	15.2%	(9.4) ppt
Life EV	102,297	111,431	9%	102,297	111,431	9%	102,297	111,431	9%
Residual margin	75,758	74,834	-1%	75,758	74,834	-1%	75,758	74,834	-1%
Surrender rate (%)	11.80	5.90	(5.9) ppt	11.80	5.90	(5.9) ppt	11.80	5.90	(5.9) ppt
# of agents (mn)	0.41	0.19	-55%	0.41	0.19	-55%	0.41	0.19	-55%
Reported Agent productivity (FYP)	2,198	2,994	36%	2,198	2,994	36%	2,198	2,994	36%
Agent productivity (VNB basis/month/agent)	1,094	833	-24%	759	504	-34%	1,094	833	-24%

Source: Company data, CMBIGM

**Figure 4. PICC Health**

(RMBmn)	2020	2021	YoY chg	2H20	2H21	YoY chg	4Q20	4Q21	YoY chg
FYP	24,351	23,200	-5%	5,888	4,194	-29%	2,729	2,157	-21%
FYRP	7,720	4,830	-37%	3,394	1,718	-49%	1,678	762	-55%
Single	16,631	18,370	10%	2,494	2,476	-1%	1,051	1,395	33%
Renewal	7,906	(23,200)	-393%	4,196	(29,764)	-809%	2,201	(32,807)	-1591%
FYP APE	9,383	6,667	-29%	3,643	1,966	-46%	1,783	902	-49%
Total GWP	32,257	-	-100%	10,084	(25,570)	-354%	4,930	(30,650)	-722%
VNB	703	765	9%	374	54	-86%	703	765	9%
VNB margin (FYP)	2.9%	3.3%	0.4 ppt	6.4%	1.3%	(5.1) ppt	2.9%	3.3%	0.4 ppt
VNB margin (FYP APE)	7.5%	11.5%	4.0 ppt	10.3%	2.7%	(7.5) ppt	7.5%	11.5%	4.0 ppt
Health EV	14,947	16,176	8%	14,947	16,176	8%	14,947	16,176	8%
Surrender rate (%)	1.50	1.20	(0.3) ppt	1.50	1.20	(0.3) ppt	1.50	1.20	(0.3) ppt
# of agents (mn)	0.02	0.01	-60%	0.02	0.01	-60%	0.02	0.01	-60%
Reported Agent productivity (FYP)	2,160	1,872	-13%	2,160	1,872	-13%	2,160	1,872	-13%
Agent productivity (VNB basis/month/agent)	2,204	6,712	205%	2,204	6,712	205%	2,204	6,712	205%

Source: Company data, CMBIGM



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