

PICC P&C (2328 HK)

CoR improvement in 1Q22

Underwriting profit of PICC P&C grew 10.8% YoY to RMB4.3bn, driven by solid premium income growth of 12.2% and 0.1ppt YoY improvement in combined ratio. The UW margin improvement was primarily due to a 2.9ppt YoY reduction in non-auto combined ratio. The net earnings edged down 3.2% YoY to RMB8.7bn dragged by lower investment income, tracking 33% of our FY22 forecast. During the 1Q22 analyst briefing, the management reiterates the FY22 guidance of below 97% CoR of auto insurance and below 100% CoR of corporate business. We expect the double-digit premiums growth to sustain into FY22. Under C-ROSS 2.0, PICC P&C's core solvency margin remained high at 203% at end-1Q22 (vs 50% minimum requirement). The stock is trading at 5.9x P/E FY22E and 0.7x P/BV FY22E, with over 7% dividend yield. We believe the recovery of auto insurance momentum and improvement in non-auto underwriting will drive stock re-rating. Reiterate Buy.

- Auto: Stable underwriting and continual outperformance.** In 1Q22, the insurer's auto business recorded 11% YoY premium income growth, outpacing industry average. Auto combined ratio edged up 1.4ppt YoY to 96%, because 1Q21 CoR was partially diluted by some residual policies written before the comprehensive auto insurance reform. Excluding that, the auto insurance CoR remained stable and outperformed major peers. Moreover, NEV business showed improving underwriting profitability in 1Q22, according to the management. Looking ahead, we expect PICC to deliver YoY improvement of auto CoR and double-digit premiums growth in FY22.
- Non-auto: CoR improvement in 1Q22.** Non-auto underwriting margin improved by 2.9ppt YoY to 94.9% in 1Q22, mainly due to better underwriting quality of credit insurance, commercial property insurance and agricultural insurance. The UW margin of liability insurance and accident insurance was dragged by long-tail impact from some low-quality business written in 2021; that said, the underwriting of new business turned more prudent in 1Q22. With improving business quality, we expect the non-auto business to turn UW profitable in 2022.
- Sound capital position under C-ROSS 2.0.** PICC P&C shifted to C-ROSS 2.0 solvency regime in 1Q22. The core solvency margin remained high at 203% under the new regime, safely above the regulatory requirements. We think the capital position will remain sufficient to support the insurer's progressive dividend policy.

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	1.3	1.4	1.5
PER (x)	7.1	6.8	5.9	4.9	4.4
PBR (x)	0.8	0.7	0.7	0.6	0.6
Yield (%)	5.6	6.1	7.1	8.5	9.6
ROE (%)	11.7	11.1	12.0	13.3	13.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$11.64
(Previous TP)	HK\$11.54)
Up/Downside	+44.2%
Current Price	HK\$8.07

China Insurance Sector

Gigi Chen, CFA
 (852) 3916 3739
 gigichen@cmbi.com.hk

Nika Ma
 (852) 3900 0805
 nikama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	172,159
Avg 3 mths t/o (HK\$ mn)	249.86
52w High/Low (HK\$)	8.65/6.00
Total Issued Shares (mn)	6,899 (H)

Source: Bloomberg

Shareholding Structure

PICC Group	68.98%
Free float	31.02%

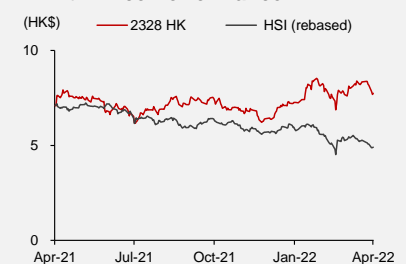
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.0%	7.4%
3-mth	5.8%	28.9%
6-mth	2.8%	34.3%

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](#))
- PICC P&C – Expect CoR improvement in FY22 ([link](#))

1Q22 Results Highlights

Underwriting profit of PICC P&C (2328.HK) grew 10.8% YoY to RMB4.3bn, with strong premium income growth of 12.2% and 0.1ppt YoY improvement in combined ratio. The UW improvement was primarily driven by a 2.9ppt YoY reduction in non-auto combined ratio. The net earnings edged down 3.2% YoY to RMB8.7bn dragged by lower investment income, tracking 33% of our FY22 forecast.

- Overall expense ratio was reduced by 0.3ppt YoY due to improving efficiency and digitalization. Loss ratio edged up 0.2ppt YoY, reflecting stable underwriting quality.
- Auto combined ratio edged up 1.4ppt YoY to 96%, outperforming industry average. Auto premiums growth rebounded to 11% YoY in 1Q22, outpacing industry average and major peers.
- Non-auto underwriting margin improved by 2.9ppt YoY, mainly due to better business quality of credit insurance and commercial property insurance.
- Total investment return edged down 0.2ppt YoY to 1.2% in 1Q22, as the investment income decline by 11.6% due to dim A share performance.
- Under C-ROSS 2.0, core solvency margin remained high at 203% (vs 50% minimum requirement).

Focus Charts

Figure 1: PICC P&C: Premium Income

	1Q21	1Q22	YoY chg
Auto	57,503	63,782	10.9%
Non-auto	78,049	88,688	13.6%
A&H	43,646	48,744	11.7%
Agro	12,196	15,704	28.8%
Liability	9,784	10,993	12.4%
Credit	490	1,488	203.7%
Property	5,266	5,593	6.2%
Cargo	1,257	1,380	9.8%
Others	5,410	4,786	(11.5%)
P&C total	135,552	152,470	12.5%

Source: Company data, CMBIGM

Figure 2: PICC P&C: Combined ratio (%)

	1Q21	1Q22	YoY chg
P&C total:			
Combined ratio (%)	95.7	95.6	(0.1) ppt
Expense ratio (%)	25.4	25.1	(0.3) ppt
Loss ratio (%)	70.3	70.5	0.2 ppt
Auto insurance:			
Combined ratio (%)	94.6	96.0	1.4 ppt
Non-auto insurance:			
Combined ratio (%)	97.8	94.9	(2.9) ppt

Source: Company data, CMBIGM

Figure 3: PICC P&C Combined ratio (%) by product

(RMBmn)	1Q22
Auto	96.0
A&H	100.6
Agro	92.1
Liability	104.4
Credit	63.7
Property	79.3
Cargo	79.6
Others	71.5

Source: Company data, CMBIGM

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

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

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.