

## Hong Kong

### ADD (initiation)

Consensus ratings\*: Buy 18 Hold 3 Sell 0

Current price:	HK\$97.00
Target price:	HK\$144.7
Previous target:	HK\$
Up/downside:	49.2%
CIMB / Consensus:	-10.4%
Reuters:	2378.HK
Bloomberg:	2378 HK
Market cap:	US\$33,974m HK\$266,683m
Average daily turnover:	US\$2.10m HK\$16.41m
Current shares o/s:	2,609m
Free float:	100.0%

\*Source: Bloomberg

#### Key changes in this note

➤ Not applicable.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-12	-24.6	-41.6
Relative (%)	-7.7	-7.7	-14.7

Major shareholders	% held
Blackrock	8.2

#### Analyst(s)


**Michael CHANG, CFA**

T (852) 2539 1323

E michael.chang@cgs-cimb.com

# Prudential PLC

## Tailwinds add up; initiate with an Add

- We see 12 tailwinds for Pru in the near, medium and long term, which we believe can drive a closing of its sizeable P/EV valuation gap vs. AIA.
- Near-term catalysts include an Asia-based CEO, a Macau licence, improved capital ratios and EV after HK RBC adoption, and a decrease in Covid cases.
- Pru has significantly underperformed AIA since Nov 2021 by 39% pts, with its 119% P/EV gap to AIA only exceeded four times since 2010 (Fig 109).
- Initiate coverage with an Add call. TP of HK\$144.7, with FY22F P/EV at 0.7x.

### Many catalysts to narrow its sizeable P/EV gap to AIA

We initiate coverage on Prudential (Pru) with an Add. Our bullishness is due to 12 tailwinds we see for Pru in the near, medium and long term (Fig 2), which we believe can continually reduce its sizeable P/EV valuation gap vs. AIA. AIA trades at a 119% P/EV premium to Pru at 17 May 2022, a level exceeded only four times since 2010.

### Near-term catalysts: Asia-based CEO, Macau and better capital + EV

We see an imminent announcement of an Asia-based CEO as positive as it affirms Pru's strategic shift towards Asia-based growth. Obtaining a Macau licence is also positive as it allows Pru to re-tap sizeable mainland Chinese visitors (MCV) insurance demand, which had grown rapidly to comprise two-thirds of Macau's 4Q21 new business premiums (Fig 5). Like AIA, we see Pru as benefitting from an early adoption of Hong Kong (HK) risk-based-capital (RBC) standards. We see this resulting in improved capital ratios (thus it is better able to fund future growth) and possibly higher embedded values (EVs) (Fig 18).

### Entry into key Asian stock indices is a medium-term catalyst

While we still have AIA as our near-term top sector pick, Pru is our medium-to-long-term top pick, especially as Pru enters key Asia stock indices, as we think its absence in these indices limits the ability of Asia investors to drive a closing of Pru's valuation gap to AIA.

### Medium & long-term catalysts could result in a multi-year re-rating

Another medium-term catalyst is Pru is relatively well placed to benefit from a full HK-China border reopening and MCV buying insurance, as HK comprises 29% of FY21 new business profit (NBP) vs. AIA (21%; Fig 3). We see many reasons to expect MCV to return strongly upon border reopening (Fig 42), given the current US\$/ Rmb strength and a high correlation coefficient of 91% (Dec 2012-Jun 2019) with MCV premium growth (Fig 44). Long-term catalysts include an alignment of EV methodologies (Pru uses European EV vs. AIA's traditional EV) to increase comparability, an increase in the shareholding of its China and India JVs, and China capital account liberalisation initiatives.

### Initiate with an Add rating; SOP-based TP of HK\$144.7

Our SOP uses both P/EV and P/BV GGMs (see pg 47 - 54). Potential near-term catalysts: Asia-based new CEO appointment and share buybacks. Downside risks include Covid-19 outbreaks, a global recession and lower interest rates.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Premium (US\$m)	23,495	24,217	27,224	29,385	33,600
Investment And Other Income (US\$m)					
Net Premium (US\$m)	23,495	24,217	27,224	29,385	33,600
Net Profit (US\$m)	2,118	(2,042)	2,066	3,201	3,513
Normalised EPS (US\$)	0.95	0.83	0.75	1.16	1.27
Normalised EPS Growth	26.0%	(11.9%)	(9.8%)	54.2%	9.2%
FD Normalised P/E (x)	13.06	14.82	16.43	10.66	9.76
P/NB (x)	(4.80)	(4.24)	(5.25)	(5.64)	(5.85)
DPS (US\$)	0.16	0.17	0.15	0.16	0.16
Dividend Yield	1.30%	1.39%	1.22%	1.31%	1.33%
P/EV (x)	0.75	0.76	0.71	0.66	0.61
P/BV (x)	1.54	1.99	1.83	1.61	1.43
ROE	12.2%	11.5%	11.5%	15.9%	15.3%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)			0.83	1.11	1.08

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Tailwinds add up; initiate with an Add

### These tailwinds span the near, medium and long term

### Pru looks well placed to close its sizeable P/EV valuation gap vs. its highly rated peer AIA, in our view

We initiate coverage with an Add rating on Prudential plc (Pru), primarily due to: i) multiple tailwinds for Pru, in our view, which can serve as a re-rating catalyst to close the sizeable P/EV valuation gap (Fig 1) between itself and AIA; ii) inexpensive valuations relative to history, especially once we consider that it should be less risky, with a clearer growth outlook, following the demerger of its European operations in Oct 2019 and its US operations in Sep 2021.

**Figure 1: Sector comparison**

Ticker	Rec	Market Cap (US\$bn)	Price (Lcy)	Target Price (Lcy)	+/- (%)	P/EV (x)		VONB multiple (x)		P/BV (x)		Group ROEV (%)		ROE (%)		P/E (x)		Dividend yield (%)		
						FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F
China Life	2628 HK	Add	88.52	11.38	15.00	32%	0.21x	0.19x	-23.2x	-30.3x	0.5x	0.5x	10.4x	10.7x	10.2x	12.0x	5.3x	4.2x	6.8	8.6
Ping An	2318 HK	Add	116.42	48.45	72.00	49%	0.50x	0.47x	-24.9x	-26.9x	0.8x	0.7x	7.4x	10.1x	15.5x	15.8x	5.3x	4.7x	6.2	7.0
CPIC	2601 HK	Add	27.54	17.20	29.00	69%	0.26x	0.24x	-35.3x	-37.2x	0.6x	0.5x	9.9x	12.2x	11.2x	11.7x	4.8x	4.3x	7.8	8.7
NCI	1336 HK	Add	11.21	19.18	30.30	58%	0.18x	0.17x	-45.3x	-46.6x	0.4x	0.4x	8.9x	9.8x	13.2x	12.1x	3.3x	3.3x	9.1	9.1
PICC P&C	2328 HK	Add	21.68	7.65	9.80	28%	n.a.	n.a.	n.a.	n.a.	0.7x	0.6x	n.a.	n.a.	10.8x	10.8x	6.2x	5.8x	6.6	7.0
AIA	1299 HK	Add	119.00	77.55	94.00	21%	1.62x	1.48x	14.2x	10.1x	1.9x	1.8x	4.8x	12.6x	7.9x	11.7x	24.4x	15.5x	1.9	2.1
Pru	2378 HK	Add	33.97	97.00	144.70	49%	0.69x	0.64x	-5.9x	-6.3x	1.8x	1.6x	8.3x	9.8x	11.5x	15.9x	16.5x	10.7x	1.2	1.3
Manulife	945 HK	NR	34.25	139.70	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.6x	0.6x	n.a.	n.a.	12.6x	12.3x	5.3x	4.9x	7.5	8.1
HK-listed weighted average							0.76x	0.70x	-12.5x	-16.1x	1.1x	1.0x	7.6x	11.1x	11.3x	13.0x	11.2x	7.9x	5.3	6.0
HK-listed weighted average ex AIA, Pru and Manulife							0.35x	0.33x	-26.4x	-30.2x	0.7x	0.6x	8.9x	10.6x	12.8x	13.5x	5.3x	4.5x	6.7	7.8

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

\*CPIC: China Pacific Insurance Company; NCI: New China Life Insurance; PICC P&C: PICC (The People's Insurance Company of China) Property & Casualty); Pru: Prudential plc

Note that we use Bloomberg consensus data to compute valuation multiples for Manulife as we do not cover the stock.

Share prices are as of 17 May 2022

Fig 2 lists these tailwinds, which span the near, medium and long-term.

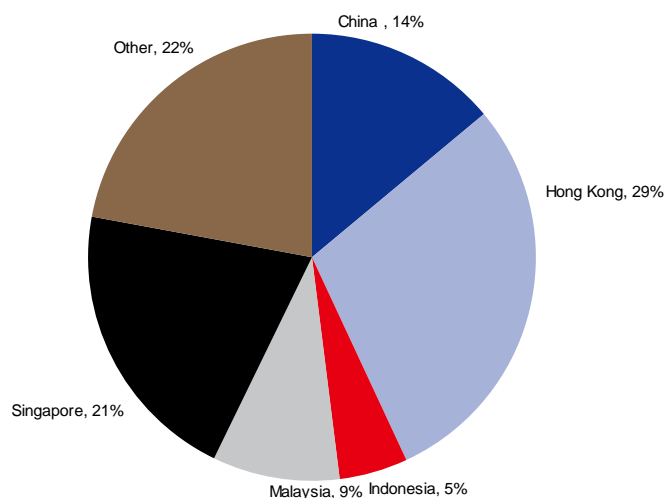
**Figure 2: We identify multiple near-term, medium-term and long-term tailwinds for Pru**

No.	Near term	Medium term	Long term
1	Approval for a Macau licence	Shifting of liquidity from the UK to HK, and later inclusion into the key indices and the Stock Connect programmes	Initiatives to liberalise the capital account for mainland China, which could see more capital inflow into HK and benefit insurance sales. Specifically, the abolishment of two restrictions would help. The first restriction relates to the annual US\$50,000 cap on foreign exchange conversion of Rmb. The second restriction relates to the requirement by State Administration of Foreign Exchange (SAFE) that customers must pledge money that the money converted would not be used for overseas purchases of life insurance or investment-type insurance, amongst others.
2	Appointment of an Asian-based CEO	Border reopening between HK and mainland, which could help boost mainland Chinese visitor (MCV) insurance demand in HK.	Changing the basis of its computation of embedded value (EV) from European embedded value (EEV) to traditional embedded value (TEV)
3	Improved capital ratios and embedded value upon adoption of a risk-based-capital (RBC) regime in Hong Kong (HK).	The launch of the Insurance Connect programme, which could help boost MCV insurance demand.	Potential increase in the shareholding of Pru's China (currently 50%) and India joint ventures (22.1% of ICICI Prudential Life Insurance and 49% of ICICI Prudential Asset Management)
4	Higher interest rate at the long-end of the yield curve, especially with respect to US 10-year government bond yields.		
5	More initiatives to ensure comparability of Pru with higher-valued peers. These include changes to disclosures in the financial statement which shed greater light on the growth of Asia and Africa, as well as a greater focus within management key performance indicators (KPI) towards actuarial metrics such as new business profits (NBP) and embedded value (EV).		
6	Falling Covid-19 cases		

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

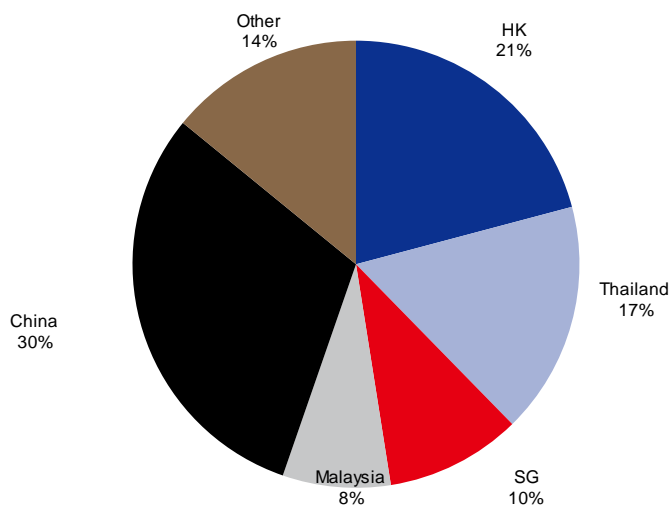
For comparison purposes, we also show below the NBP mix of both Pru and AIA in FY21.

**Figure 3: Pru's NBP mix (FY21)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 4: Geographical value of new business (VONB) composition for AIA (FY21)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## What are the tailwinds that we think can drive Pru's re-rating?

Near-term tailwinds include the increased proportion of senior management and head office personnel based in Asia and the appointment of a CEO based in Asia. We believe that this will be seen as positive, especially by Asia-based investors, as it signals greater commitment by senior management to growth in the Asian region.

Pru's previous Group CEO, Mr. Mike Wells, was based in the UK and had retired on 31 Mar 2022. Pru is currently searching internally and externally for candidates for the new CEO role. Mr. Mark FitzPatrick, who is based in the UK, is the current interim Group CEO and was previously chief financial officer (CFO).

Mr. James Turner, formerly Group Chief Risk & Compliance Officer, is the current Group CFO, succeeding Mr. FitzPatrick, and is based in HK. Mr. Avnish Kalra, formerly Chief Risk Officer for the group's Asian and African businesses, has succeeded Mr. Turner as Group Chief Risk & Compliance Officer and will join the Group Executive Committee; he is also based in HK.

Pru publicly stated in Feb 2022 that its next CEO would be based in Asia, where more than half of its senior management are now based. According to its HK prospectus in Sep 2021, Pru is headquartered in London, with a dual presence in London and HK, with c.60% of its head office staff located in HK. Mr. Mark Fitzpatrick had also stated at its FY21 results that "(HK is) where our biggest business is based, so it makes sense for the CEO to be based there."

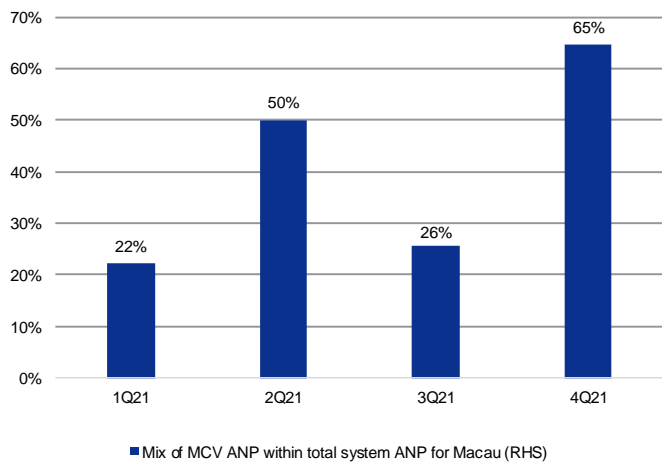
## Obtaining regulatory approval to open in Macau could be another near-term catalyst

Another positive tailwind is the obtaining of approval by Pru to start operations in Macau. This is a region that has benefitted significantly from the rapid growth of insurance sales to MCVs, a segment that Pru had traditionally excelled in in HK, with this segment now negligible following the effective closure of the HK-mainland China borders during the Covid-19 pandemic. Unlike its peers AIA (1299 HK, Add, TP:HK\$94, CP:HK\$77.55) and Manulife (945 HK, NR, CP:HK\$139.7), Pru does not have a presence in Macau, though it was reported

on Jan 2022 by the South China Morning Post that it is in the process of applying for a licence to commence operations in Macau.

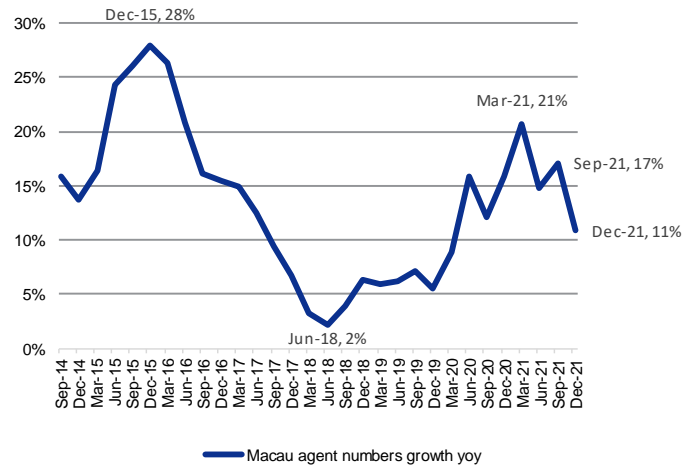
A key reason why we see Pru starting operations in Macau is that: i) its borders with mainland China are open, and ii) consequently, it has become an important beneficiary of MCV buying insurance in Macau (see [A welcome diversion](#), dated 6 Jan 2022). Macau is also an important part of the Greater Bay Area (GBA), a region spanning Guangdong-HK-Macau that has been accorded the status of key strategic planning in mainland China's development footprint.

**Figure 5: Mix of MCV ANP within total system ANP for Macau (RHS)**



SOURCES: CGS-CIMB RESEARCH, MONETARY AUTHORITY OF MACAU

**Figure 6: Macau agent numbers growth yoy**

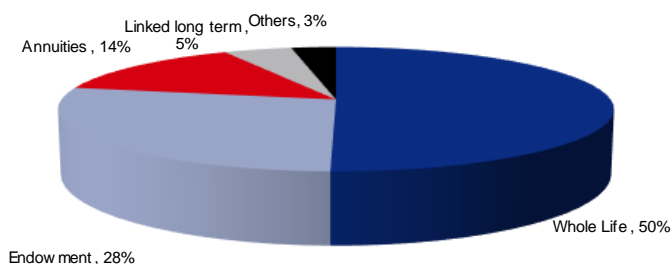


SOURCES: CGS-CIMB RESEARCH, MONETARY AUTHORITY OF MACAU

MCVs had risen rapidly to comprise 65% of 4Q21's total system annualised new premiums (ANP) in Macau, from only 22% in 1Q21 (Fig 5). In addition, while agent growth in Macau's life insurance industry is slowing from Mar 2021's high of 21% yoy, it was still growing strongly at 11% yoy as of Dec 2021 (Fig 6).

Importantly, the insurance policies bought by MCV in Macau in 2021 were heavily protection-focused, and hence high-margin, with whole life policies comprising 50% of insurance premiums bought by MCV in 2021 (Fig 7). In addition, they can also contribute disproportionately to premium growth, as their average case size per policy is almost three times larger for first-year regular-premium policies and more than five times larger for single premium policies in 2021 (Fig 8).

**Figure 7: 2021 mix of insurance premiums bought by MCV by type**



SOURCES: CGS-CIMB RESEARCH, MONETARY AUTHORITY OF MACAU

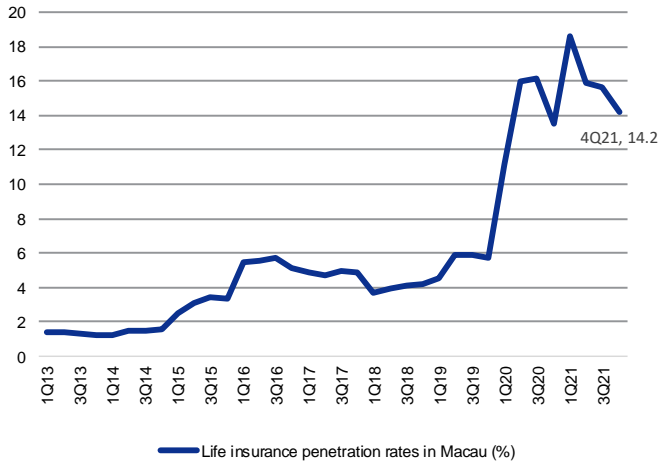
**Figure 8: Average case sizes of policies bought by resident (i.e. non-MCV) and non-resident customers (i.e. MCV) in Macau (MOP)**

	Non-resident	Resident
<b>Single-premium</b>		
1Q21	626,845	289,712
1H21	814,214	224,452
9M21	968,185	208,543
FY21	1,117,918	208,534
<b>First year regular-premium</b>		
1Q21	182,118	134,247
1H21	187,700	95,888
9M21	183,567	102,157
FY21	196,919	79,685

SOURCES: CGS-CIMB RESEARCH, MONETARY AUTHORITY OF MACAU

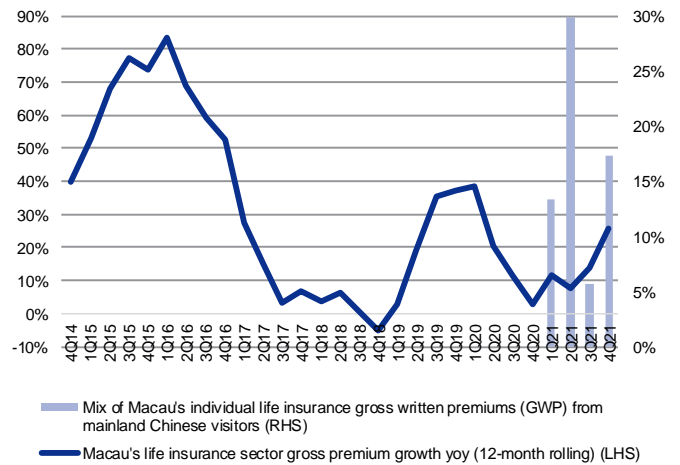
We believe that the rapid growth of MCV buying insurance in Macau in recent years has been a factor driving Macau's life insurance penetration rate up to the relatively high level of 14.2% of GDP in 4Q21 (Fig 9). This is one of the highest in the world, and we think that it is no coincidence that it is only surpassed by HK (2020 life insurance penetration rate of 19.2% of GDP), which is another region that has significantly benefitted from MCV buying insurance over the last decade.

**Figure 9: Life insurance penetration rates in Macau (%)**



SOURCES: CGS-CIMB RESEARCH, MONETARY AUTHORITY OF MACAU

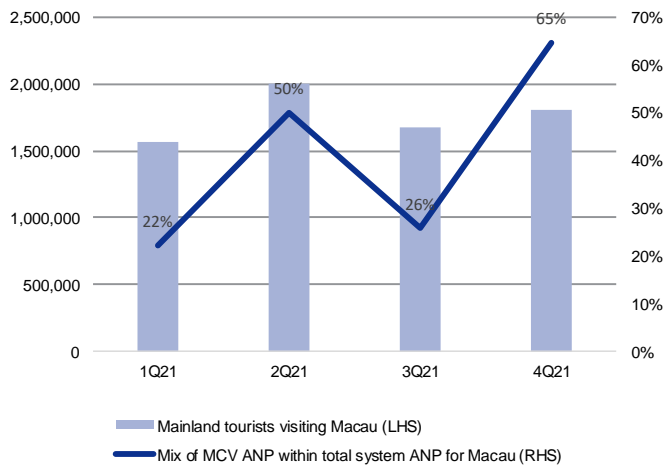
**Figure 10: Macau's life insurance gross written premium (GWP) growth yoy is starting to recover**



SOURCES: CGS-CIMB RESEARCH, MONETARY AUTHORITY OF MACAU

Insofar that there is a strong correlation between mainland tourists visiting Macau and the mix of MCV ANP within total system ANP for Macau (Fig 11), we are optimistic that as the number of monthly mainland tourists visiting Macau gradually returns to pre-Covid-19 levels (Fig 12), MCV will continue to remain a strong growth driver of Macau's insurance premium growth.

**Figure 11: Strong correlation between mainland tourists visiting Macau and the mix of MCV ANP within total system ANP for Macau**



SOURCES: CGS-CIMB RESEARCH, MONETARY AUTHORITY OF MACAU

**Figure 12: Mainland tourists visiting Macau (monthly data) and their growth yoy**

	Mainland tourists visiting Macau (month)	Growth yoy
Jun-19	2,100,557	20%
Jul-19	2,569,941	19%
Aug-19	2,646,406	5%
Sep-19	1,924,490	6%
Oct-19	2,342,373	2%
Nov-19	2,030,742	-11%
Dec-19	2,094,810	-14%
Jan-20	2,132,032	-15%
Feb-20	72,307	-97%
Mar-20	88,890	-96%
Apr-20	10,500	-100%
May-20	14,793	-99%
Jun-20	21,067	-99%
Jul-20	66,489	-97%
Aug-20	200,833	-92%
Sep-20	412,451	-79%
Oct-20	539,482	-77%
Nov-20	588,511	-71%
Dec-20	606,884	-71%
Jan-21	496,157	-77%
Feb-21	380,649	426%
Mar-21	688,353	674%
Apr-21	730,934	6861%
May-21	795,389	5277%
Jun-21	471,935	2140%
Jul-21	724,342	989%
Aug-21	369,467	84%
Sep-21	583,056	41%
Oct-21	300,996	-44%
Nov-21	741,226	26%
Dec-21	762,554	26%
Jan-22	642,016	29%
Feb-22	609,249	60%
Mar-22	468,995	-32%

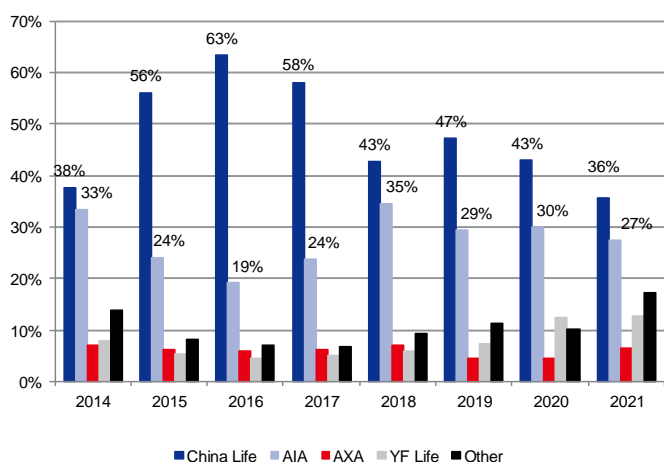
SOURCES: CGS-CIMB RESEARCH, MACAO GOVERNMENT TOURISM OFFICE

Pru stands out as the only major multinational insurer that does not have a presence in Macau. The largest insurer in Macau in 2021 was China Life (2628 HK, Add, TP:HK\$15, CP:HK\$11.38), with a market share of 35.7%, followed by AIA at 27.4% (Fig 12).

Axa (AXA FP, NR, CP:€23.58), Manulife, China Taiping (966 HK, NR, CP:HK\$8.48), HSBC Life (Unlisted) and FWD (Unlisted) are just some of the other insurers that have a sizeable market share in HK and also have a presence in Macau.

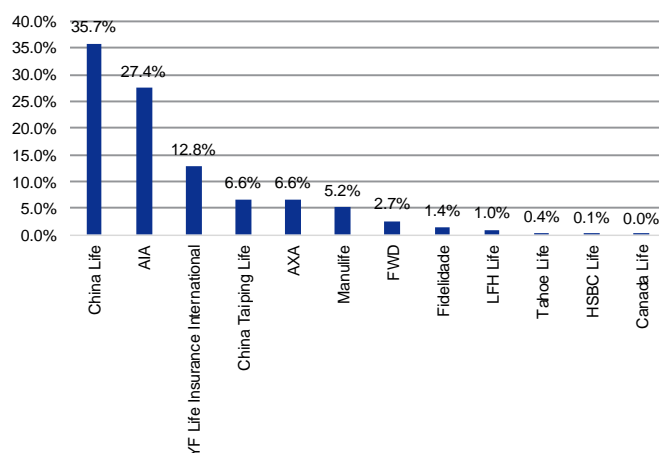


**Figure 13: Market share of Macau life insurance (gross written premiums)**



SOURCES: CGS-CIMB RESEARCH, MONETARY AUTHORITY OF MACAU

**Figure 14: Market share of the life insurers at end-2021, by market share of gross written premiums**



SOURCES: CGS-CIMB RESEARCH, MONETARY AUTHORITY OF MACAU

How material could Macau be to Pru over the medium to long term? We believe that AIA's Macau business comprised about 10-20% of its combined HK and Macau NBP in FY21.

There are also a few other noteworthy points. Firstly, AIA's Macau agents are also highly productive, with 928 Million-Dollar-Round-Table (MDRT) agents, as reported by the MDRT organisation in Jul 2021 (based on 2020's performance), or about 34% of its Macau agent force, slightly higher than about 30% for its HK agent force. The Million Dollar Round Table (MDRT) organisation is a global association of more than 72,000 of the world's leading life insurance and financial services professionals from more than 500 companies in 70 nations and territories.

Secondly, in terms of MDRT numbers in Macau relative to the combined HK & Macau operations, AIA's Macau's MDRT comprised 15% of its combined HK and Macau MDRT as of Jul 2021, while Manulife's Macau MDRT comprised 10% of its combined HK and Macau MDRT (Fig 15), with the MDRT qualification awarded based on 2020 performance.

**Figure 15: MDRT agents across time in HK and Macau**

	AIA (HK)	AIA (Macau)	Manulife (HK)	Manulife (Macau)	Pru (HK)	Axa (HK)	FWD (HK)
Aug-09	661	n.a.	77	n.a.	200	63	n.a.
Aug-10	603	n.a.	161	n.a.	239	155	n.a.
Aug-11	812	n.a.	253	n.a.	396	310	n.a.
Aug-12	923	n.a.	246	n.a.	538	510	n.a.
Aug-13	1,000	n.a.	282	n.a.	620	533	n.a.
Aug-14	1,321	n.a.	343	n.a.	986	634	113
Aug-15	1,569	n.a.	397	n.a.	1,469	717	164
Aug-16	2,648	n.a.	549	n.a.	2,612	727	183
Jul-17	3,724	n.a.	613	n.a.	4,004	897	277
Jul-18	3,785	n.a.	877	n.a.	3,712	729	206
Jul-19	4,003	564	1,170	n.a.	4,142	763	406
Jul-20	3,565	589	1,085	n.a.	3,503	680	546
Jul-21	5,135	928	2,245	236	4,790	768	625

SOURCES: CGS-CIMB RESEARCH, MILLION DOLLAR ROUND TABLE (MDRT)

Thirdly, Manulife stated at its FY21 results briefing that its Macau ANP doubled in FY21 compared to FY20, after the border between Macau and mainland China reopened, with sales from MCVs comprising 60% of the total.

This suggests that over the medium-to-long term, after obtaining a licence to operate in Macau, it could be reasonable to expect Pru to grow its Macau operations, such that it contributes 10-15% of its combined HK and Macau operations, with this adding another 2-3% pts of growth to Pru's NBP.

## Could Pru also benefit following the early adoption of HK RBC?

AIA recently announced a share buyback of up to US\$10bn (to be implemented over three years) when it announced its FY21 results (see [Ending an 11-year wait](#), dated 14 Mar 2022).

This was the first share buyback it had announced since its 2010 initial public offering (IPO). This buyback was in part spurred by its sizeable increase in its free surplus following its imminent adoption of an RBC regime in HK to compute its capital ratios. AIA had stated at its FY21 results that its free surplus was projected to rise by US\$7.8bn from US\$17bn to a pro-forma level of US\$24.8bn, upon adoption of HK RBC (which it expected to receive before the end of 1H22). It had also stated that its pro-forma Group Local Capital Summation Method (LCSM) ratio would rise to over 400% (FY21: 399%) upon early adoption of HK RBC (Fig 16). It is also worth noting that Manulife, a multinational insurer listed in HK, is also in the midst of a share buyback programme of up to 5% of its issued shares.

**Figure 16: Key data on AIA's LCSM ratios and free surplus following the adoption of HK RBC**

(US\$ m)	4Q21
AIA Group available capital	67,611
AIA Group minimum capital requirement	16,948
Group LCSM surplus	50,663
Group LCSM cover ratio	399%
Free surplus	17,000
Free surplus post HK RBC adoption	24,800
Pro-forma Group LCSM Cover ratio post HK RBC adoption	>400%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 17: Capital ratios of Pru China and AIA China following the adoption of C-ROSS II Phase II**

(Rmb m)	1Q22	4Q21	3Q21
Core capital ratio for Pru China	149.3%	235.2%	233.7%
Comprehensive capital ratio for Pru China	252.4%	261.2%	260.3%
Level of Pru's excess capital based on core capital ratio	16,579	28,521	27,610
Level of Pru's excess capital based on comprehensive capital ratio	25,431	24,822	24,094
Core capital ratio for AIA China	234.0%	437.7%	426.4%
Comprehensive capital ratio for AIA China	389.8%	437.7%	426.4%
Level of AIA's excess capital based on core capital ratio	42,784	89,286	85,300
Level of AIA's excess capital based on comprehensive capital ratio	67,397	77,770	73,969

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Like AIA, Prudential operates under HK's Insurance Authority (IA) group-wide supervision (GWS) framework and is also seeking approval for early adoption of HK RBC (regulators have set the start date for HK RBC for the HK insurance industry to be 1 Jan 2024).

We see no reason why Pru's capital ratios and levels of free surplus should not benefit from early HK RBC adoption, as AIA did. However, unlike for AIA and Manulife, it is not our base case that Pru would announce a share buyback in the near term, as we think Pru may wish to keep any excess capital to fund future growth initiatives over the medium term.

In addition, we understand that Pru is targeting a Moody's leverage ratio of 20-25%. In 1H21, this ratio was 25%, and after the equity placement in mid-late 2021 and the subsequent redemption of high-coupon debt, this leverage ratio has fallen to the lower end of the 20-25% range. Even though we think this leverage ratio could further improve from the early adoption of HK RBC due to a one-off reduction in liabilities, Pru may elect to operate with a lower leverage ratio in the near term, rather than conduct a share buyback.

AIA saw two main benefits from early HK RBC adoption. Firstly, there was a US\$4.4bn reduction from HK liabilities as it moves from a traditional approach to a best estimate approach when computing liabilities (Fig 18).



Figure 18: Impact on AIA’s capital metrics from early HK RBC adoption

## Moving to a Risk-Based Capital Balance Sheet in Hong Kong

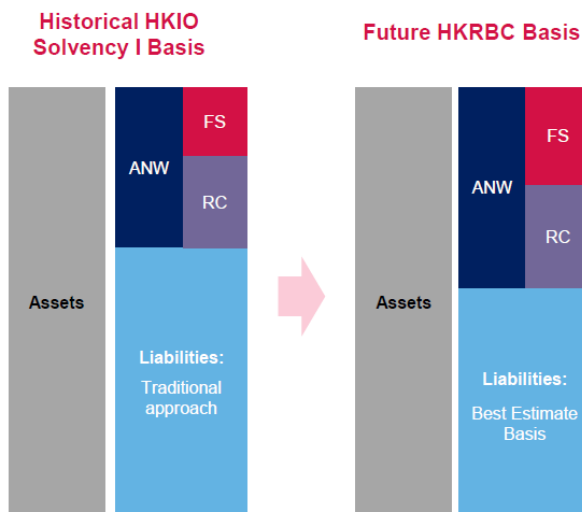


### 2021 Pro Forma Group EV Metrics

(\$b)	Reported	Pro forma	Impact	Description
Free Surplus	17.0	24.8	7.8	<ul style="list-style-type: none"> <li>\$4.4b uplift from HKRBC adoption as liabilities reduce</li> <li>\$3.4b uplift from release of existing additional resilience margins</li> </ul>
Required Capital	14.4	17.2	2.8	<ul style="list-style-type: none"> <li>Increases as it moves from a simple formulaic approach to a risk-based basis in HKRBC</li> </ul>
ANW <sup>(1)</sup>	33.3	43.9	10.6	<p><u>Increases</u> as a result of:</p> <ul style="list-style-type: none"> <li><u>Liabilities</u> reduced from shift to best estimate basis</li> <li><u>Asset values</u> unchanged at market value</li> </ul>
VIF	39.7	32.3	(7.4)	<ul style="list-style-type: none"> <li>Reduced liabilities accelerate future distributable earnings</li> </ul>
EV	73.0	76.3	3.3	<ul style="list-style-type: none"> <li>VIF plus ANW</li> </ul>

No impact on IFRS metrics

### EV Calculation (Hong Kong Business)



Notes: Due to rounding, numbers presented in the table may not add up precisely

(1) Includes \$1.9b investment in China Post Life which is not included in Free Surplus or Required Capital as it does not contribute to the eligible asset value for regulatory capital purposes under both the Group LCSM and the HKIO bases but is included as an asset within IFRS consolidated financial statements

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SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

The historical Hong Kong Insurance Ordinance (HKIO) basis was ‘traditional’ in the sense that the calculation adopted prescribed assumptions and calculation methodology. In practice, this meant that liabilities were more conservative compared to the actual experience (due to implicit allowances or provisions for adverse deviation for mortality, morbidity, expected investment yields, policyholder dividends, surrenders and expenses), while the required capital was driven by a simple formula that was not reflective of underlying risks.

Under HK RBC, there is a clearer and more economic distinction between liabilities and required capital. Going forward, liabilities are determined on a ‘best estimate basis’ that is reflective of the central or mean scenario, after factoring in the experience of the business.

Required capital is then calibrated to the risks of adverse developments, in this case at a level to withstand a 1 in 200 stress over a one-year horizon (i.e. a 99.5% confidence level), capturing all economic risks (market, life, counterparty, operational) and allowing for diversification benefits — so essentially a Solvency II type approach.

Secondly, there was a US\$3.4bn benefit from the release of existing resilience margins. AIA had explained that this was due to the current HKIO using assumptions that include an implicit margin for risk above the best estimate basis in the calculation of liabilities, plus a non-economic capital requirement.

Going forward, however, the HK RBC basis prescribes an economic approach that uses best estimate assumptions for the calculation of liabilities, plus an explicit capital requirement to allow for various risks. While AIA’s required capital for its business increases under the HK RBC basis, the corresponding reduction in AIA’s liabilities results in an increase in both its EV and free surplus.

The HKIO calculation basis does not adequately reflect the benefit of AIA’s approach of matching its assets and liabilities, particularly under volatile capital market conditions. AIA, therefore, holds additional resilience margins to smooth non-economic movements between assets and liabilities that will no longer be required on the adoption of the HK RBC regime. This, thus, drives the release of the additional resilience margins.

As of the end of 2021, Pru reported a shareholder GWS surplus over the Group Minimum Capital Requirement (GMCR) of US\$13.2bn, with a GWS surplus coverage ratio of 454%. This would fall to a shareholder GWS surplus of US\$11.5bn and a GWS coverage ratio of 408% once the redemption of US\$1.725bn of subordinated debt in Jan 2022 is considered (Fig 19). By way of comparison, AIA's FY21 Group GWS surplus was US\$50.7bn at the end of FY21.

**Figure 19: Pru's group-wide supervision (GWS) surplus over the Group Minimum Capital Requirement (GMCR) and its GWS capital surplus (over GMCR) coverage ratio**

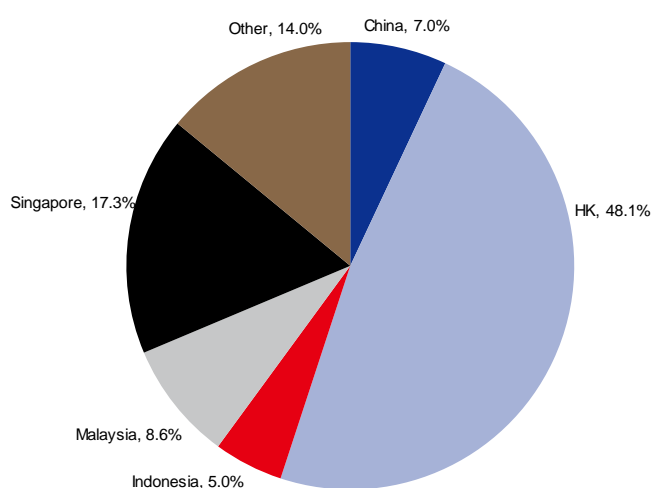
(US\$ bn)	FY20	FY21	Jan-2022 (following debt redemptions), but prior to HK RBC adoption and China C-ROSS 2
<b>Total</b>			
Eligible group capital resources	34.9	44.4	n.a.
Group Minimum Capital Requirement	10.1	10.7	n.a.
GWS capital surplus (over GMCR)	24.8	33.7	n.a.
GWS capital surplus (over GMCR) coverage ratio (%)	344%	414%	n.a.
<b>Less policyholder</b>			
Eligible group capital resources	-22.1	-27.5	n.a.
Group Minimum Capital Requirement	-6.7	-7	n.a.
GWS capital surplus (over GMCR) coverage ratio (%)	-15.4	-20.5	n.a.
<b>Shareholder</b>			
Eligible group capital resources	12.8	16.9	n.a.
Group Minimum Capital Requirement	3.4	3.7	n.a.
GWS capital surplus (over GMCR)	9.4	13.2	11.5
GWS capital surplus (over GMCR) coverage ratio (%)	370%	454%	408%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

These ratios do not factor in the implementation of C-ROSS II phase 2 from 1 Jan 2022, as well as the adoption of the new RBC regime in HK. Pru had applied to the HKIA in Feb 2022 for early adoption of this RBC regime, and it stated in its FY21 financial statements that it expects to include its capital ratios under the new RBC regime in its 1H22 results, assuming it obtains HKIA approval by then.

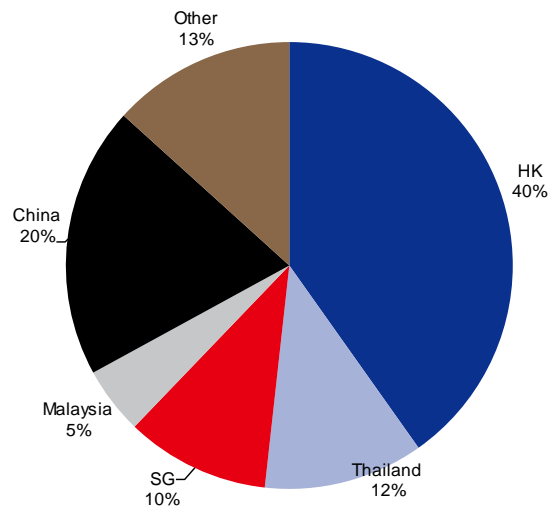
We believe that the adoption of HK RBC will only impact the computation of HK's insurance liabilities and not that of the entire group. Hence, we see Pru as proportionately better impacted than AIA from HK's RBC adoption, given that HK comprised 48% of Pru's group EV (Fig 20), which is more than AIA's 40% of group EV in FY21 (Fig 21).

**Figure 20: Pru's EV mix (FY21)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 21: AIA's EV mix (FY21)**



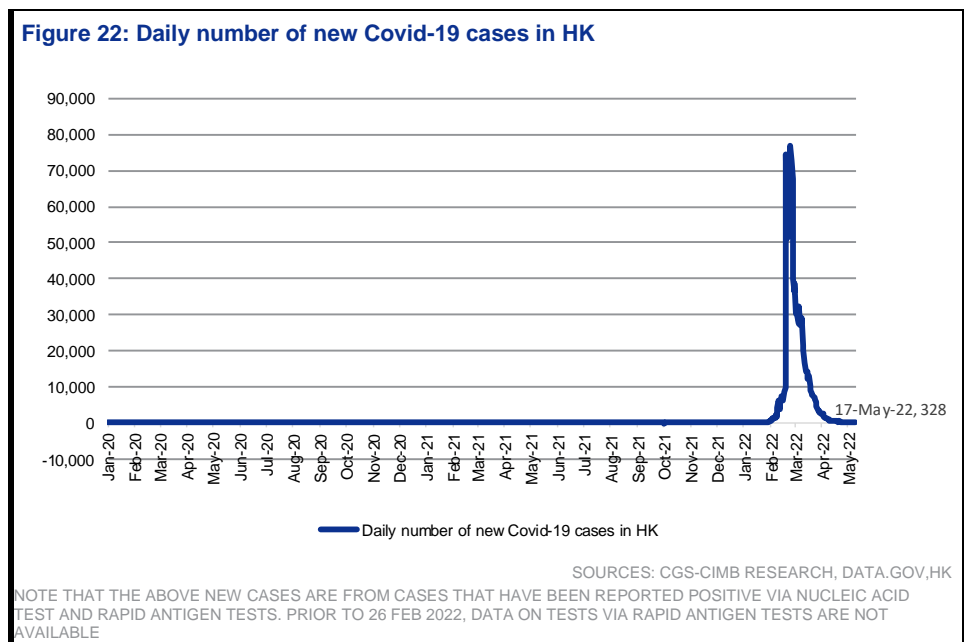
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Both Pru and AIA have already disclosed their China solvency margin ratios under C-ROSS II phase 2, with the core capital and the comprehensive capital ratio both falling (Fig 17). The magnitude of the reduction in both these capital ratios seem to be larger for AIA China, compared to Pru China, with AIA China's 1Q22 core capital ratio down 203.7% pts qoq (vs. Pru China's 85.9%-pt qoq fall). Similarly, AIA China's 1Q22 comprehensive capital ratio fell 47.8% pts qoq (vs. Pru China's 8.8%-pt qoq fall).

### Benefitting from the normalisation of Covid-19 cases in HK

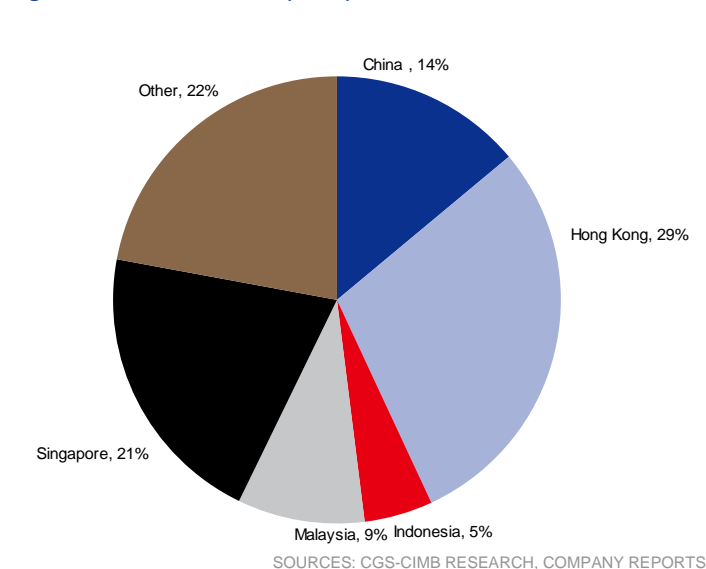
We also see Pru as a key beneficiary of the normalisation of Covid-19 cases in HK, as life returns to normal after HK's fifth wave of a Covid-19 outbreak dwarfed the past four waves, with the daily number of new cases down to 294 cases as of 12 May 2022, well below the early-Mar 2022 peak of about 77,000 cases (Fig 22).

**Figure 22: Daily number of new Covid-19 cases in HK**

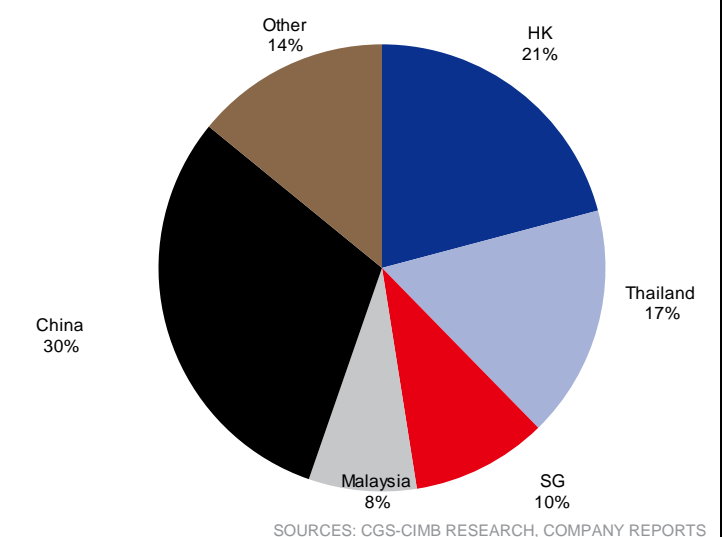


With 29% of Pru's FY21 NBP coming from HK (by way of contrast, 21% of AIA's value of new business in FY21 came from HK; Fig 23 and 24), Pru is well positioned to benefit from a recovery of insurance sales, as life returns to normal.

**Figure 23: Pru's NBP mix (FY21)**



**Figure 24: Geographical value of new business (VONB) composition for AIA (FY21)**



## NBP benefits from higher interest rates

Rising bond yields are also a positive for Pru's NBP, though it is negative to continuing net profit after tax, shareholders' equity and EV. Based on the FY21 sensitivities disclosed by Pru, a 1%-pt rise in interest rates results in a 2.8% increase in FY21 NBP, but a 5% fall in FY21 EV, a 36.3% fall in FY21 continuing net profit after tax (NPAT), and a 5.6% fall in shareholders' equity (Fig 25).

Pru also disclosed that a 20% fall in all equity prices and property prices would result in a 35.9% fall in FY21 continuing NPAT and a 5.5% fall in shareholders' equity (Fig 26).

**Figure 25: Impact of higher interest rates on continuing net profit after tax, shareholders' equity, NBP and EV, based on Pru's disclosures**

	FY21		FY20	
	1%-pts rise	2%-pts rise	1%-pts rise	2%-pts rise
Continuing profit after tax	-36.3%	n.a.	-12.9%	n.a.
Shareholders' equity	-5.6%	n.a.	-2.5%	n.a.
New business profit	2.8%	3.5%	3.5%	3.5%
Embedded value	-5.0%	-10.7%	-3.3%	-8.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 26: Impact of lower equity & property yields on continuing net profit after tax, shareholders' equity, NBP and EV, based on Pru's disclosures**

	FY21		FY20	
	10% rise	20% fall	10% rise	20% fall
Continuing profit after tax	17.0%	-35.9%	16.7%	-34.5%
Shareholders' equity	2.6%	-5.5%	3.2%	-6.6%
New business profit	n.a.	n.a.	n.a.	n.a.
Embedded value	n.a.	-4.4%	n.a.	-4.5%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Interest rates have been clearly on an upward trend, with 10-year bond yields all up in May 2022, compared to the end of 2021 (Fig 27).

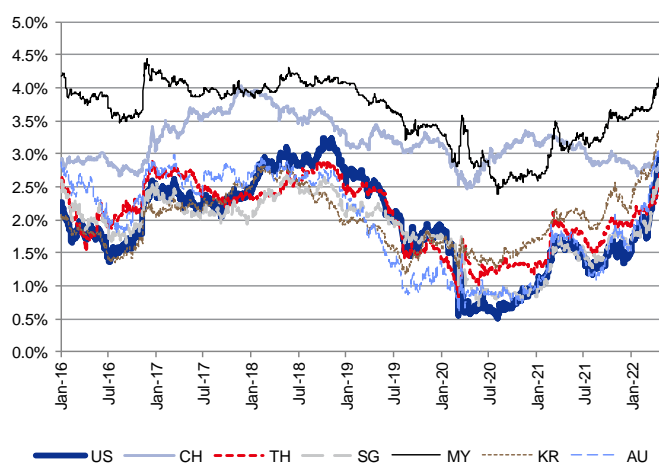
**Figure 27: 10-year government spot bond yields across time (%)**

(%)	US	CH	TH	SG	MY	SK	ID	PH	AU	IN
Dec-17	2.41	3.90	2.32	2.00	3.91	2.47	6.32	4.39	2.63	7.11
Mar-18	2.74	3.75	2.40	2.29	3.94	2.62	6.68	5.25	2.60	7.40
Jun-18	2.86	3.48	2.58	2.53	4.20	2.56	7.80	5.73	2.63	8.02
Sep-18	3.06	3.63	2.80	2.50	4.07	2.36	8.12	6.87	2.67	8.07
Dec-18	2.68	3.31	2.48	2.04	4.07	1.96	8.03	6.96	2.32	7.19
Mar-19	2.41	3.07	2.43	2.07	3.77	1.83	7.63	5.54	1.77	6.93
Jun-19	2.01	3.24	2.12	2.00	3.63	1.60	7.37	4.94	1.32	6.77
Sep-19	1.66	3.14	1.47	1.74	3.32	1.46	7.29	4.25	1.02	6.37
Dec-19	1.92	3.14	1.48	1.74	3.30	1.67	7.06	4.13	1.37	6.47
Mar-20	0.67	2.59	1.40	1.29	3.35	1.55	7.91	4.13	0.76	6.18
Jun-20	0.66	2.85	1.19	0.90	2.86	1.39	7.21	2.40	0.87	5.28
Sep-20	0.68	3.15	1.32	0.87	2.67	1.43	6.96	2.75	0.79	5.39
Dec-20	0.91	3.15	1.32	0.84	2.65	1.72	5.89	2.52	0.97	5.04
Mar-21	1.74	3.19	1.97	1.74	3.24	2.06	6.78	3.06	1.79	5.97
Jun-21	1.47	3.09	1.75	1.58	3.28	2.10	6.59	2.87	1.53	5.72
Sep-21	1.49	2.88	1.86	1.59	3.37	2.24	6.26	3.03	1.49	5.66
Dec-21	1.51	2.78	1.89	1.67	3.56	2.26	6.38	4.41	1.67	5.79
Mar-22	2.34	2.79	2.26	2.34	3.85	2.97	6.74	5.09	2.84	6.33
May-22	2.90	2.81	3.30	2.73	4.45	3.18	7.39	5.62	3.40	7.13

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

US = UNITED STATES; CH = CHINA; TH = THAILAND; SG = SINGAPORE; MY = MALAYSIA; SK = SOUTH KOREA; ID = INDONESIA; PH = PHILIPPINES; AU = AUSTRALIA; IN = INDIA

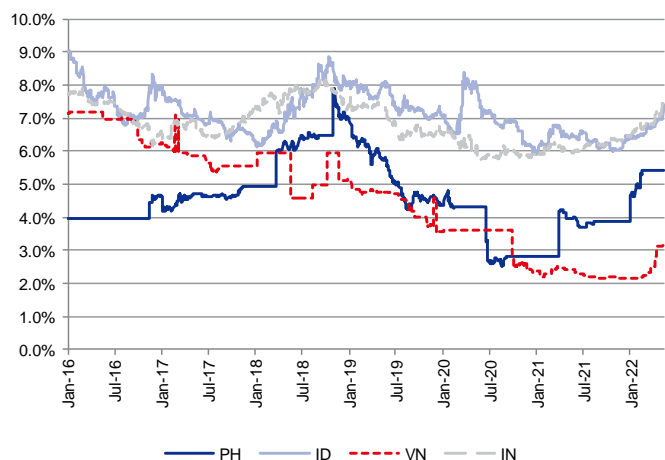
**Figure 28: 10-year government spot bond yields across time for selected countries with low-to-medium interest rates**



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

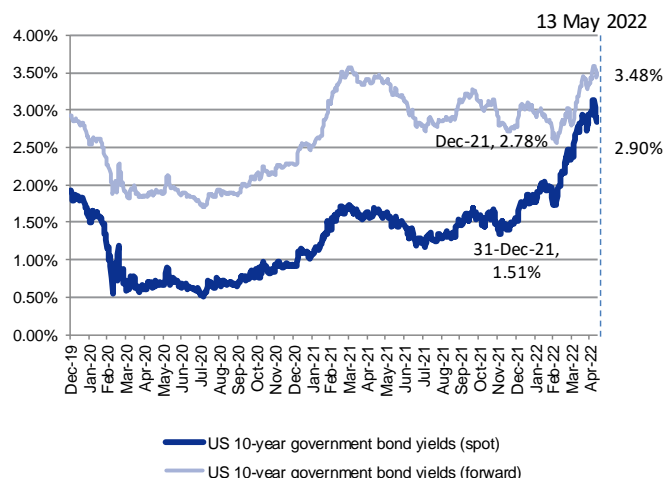
In HK, which is Pru's largest market by NBP in 2021, the relevant interest rate is the 10-year bond yields, where spot yields were 2.90% as of 13 May 2022, well above 31 Dec 2021's level of 1.51%. Forward yields have also risen significantly, up to 3.48% as of 13 May 2022, well above 31 Dec 2021's level of 2.78% (Fig 30).

**Figure 29: 10-year government spot bond yields across time for selected countries with medium-to-high interest rates**



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 30: US 10-year government bond yields (both spot and forward) are rising**



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, FEDERAL RESERVE

## More initiatives to ensure comparability to peers that trade at higher multiples

The last near-term trigger we see for Pru is further disclosure enhancements to increase comparability to AIA, its more highly-valued listed peer.

Many analysts who have primary coverage of AIA do not have primary coverage of Pru. For those that do, it is our opinion that the different disclosure standards and focuses have made it difficult at times to ensure comparability between these two insurers, which thus makes it harder to build the case that both insurers should trade at similar valuation multiples (see [Uniqueness under threat?](#), dated 28 Feb 2020). The different disclosures, which include, among others, their different methods of computing EV, have led to some investors arguing that it is too difficult to compare both companies and, hence, their valuation gaps could continue to persist (see Investor feedback: [AIA vs. Pru](#), dated 27 Sep 2021).

On this front, we are encouraged by the steps that Pru has been taking in past years to ensure greater comparability to AIA.

Firstly, it has changed the unit of currency it uses to disclose its financial accounts from British pound to US dollar. Secondly, it has increased its disclosure with respect to NBP. Singapore, which is its second largest market by NBP in FY21, is no longer disclosed within 'Other countries' (as it had been prior to FY19). Thirdly, it has changed its incentive structure to be more focused on new business profits, which is the key metric of focus of AIA's investors in our view (note that AIA calls NBP as value of new business [VONB]).

For example, Pru has increased the weighting of NBP within its Annual Incentive Plan (AIP) to 45% in 2022, from only 15% in 2020 (Fig 31).

**Figure 31: Mix of KPIs that determine group financial bonus targets for its Annual Incentive Plan (AIP) for the different performance years, as disclosed within Pru's annual reports**

	2017	2018	2019	2020	2021	2022
New business profit	15%	15%	15%	15%	35%	45%
Adjusted operating profits	35%	35%	35%	35%	25%	25%
Operating free surplus	30%	30%	30%	30%	30%	20%
Business unit remittances	20%	20%	20%	20%	10%	10%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 32: Mix of KPIs that determine Pru's group financial bonus targets for its Prudential Long-Term Incentive Plan (PLTIP) for Executive Directors for the different performance years, as disclosed within Pru's annual reports**

	2018	2019	2020	2021	2022
Relative total shareholder return (TSR)	25%	50%	50%	50%	50%
ROE	n.a.	30%	30%	n.a.	n.a.
Sustainability	n.a.	20%	20%	20%	20%
of which ESG metrics	n.a.	n.a.	n.a.	n.a.	10%
Return on embedded value	n.a.	n.a.	n.a.	30%	30%
Balanced scorecard of strategic measures	25%	n.a.	n.a.	n.a.	n.a.
Operating profits	50%	n.a.	n.a.	n.a.	n.a.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

This brings it closer to that of AIA, which had maintained a 60% weighting of NBP, i.e. VONB, within its short-term incentive scheme since 2011 (Fig 33); prior to the pandemic and the 2H19 HK protests, VONB growth was a very important driver of its share price. This is illustrated by the 65% correlation coefficient over the 3Q15-2Q19 period, between AIA's quarterly VONB growth yoy and the next quarter's qoq share price performance (Fig 34).

**Figure 33: Weighted scorecard approach of AIA's short-term incentive scheme**

(%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
VONB	59	60	60	60	60	60	60	60	60	60	60
OPAT	18	25	25	30	30	30	30	30	25	25	25
UFSG **	0	0	0	0	0	0	0	0	15	15	15
Excess EV growth*	23	15	15	10	10	10	10	10	0	0	0

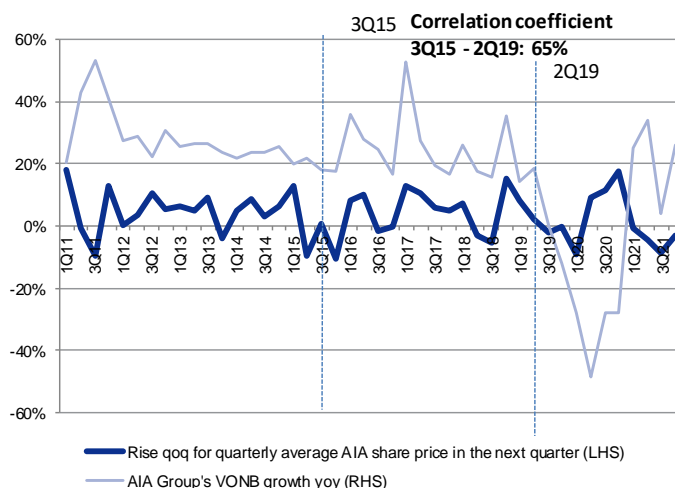
VONB = value of new business; USFG = Underlying free surplus generation; OPAT = Operating profit after tax

\* Sum of the operating experience variances and operating assumption changes in the EV operating profit

\*\* UFSG is the free surplus generated by the business excluding the free surplus invested in new business investment return variances and other items.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 34: AIA Group's correlation between its quarterly VONB growth yoy and its next quarter's qoq share price was strong over the 3Q15-2Q19 period (before the 2H19 HK protests and the onset of the pandemic)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Lastly, and perhaps most importantly, Pru has demerged both its European operations and its US operations, which we believe had been a key hurdle for many Asia-based investors (see [Uniqueness under threat?](#), dated 28 Feb 2020), insofar that they wanted only exposure to Asian insurance, as they did not feel that they understood the risks and outlook of the non-Asian businesses.

The only major remaining difference in our view is the basis in which EV is calculated. AIA, as well as the other HK-listed insurers use traditional EV (ETV) principles, while Pru uses European EV (EEV), which incorporates the cost of options and guarantees via stochastic modelling and uses a market consistent approach to valuing future profits. We shall elaborate on the differences between TEV and EEV later in this report.

### Shifting trading liquidity to HK: When could Pru be admitted into the Hang Seng indices and the Stock Connect programmes?

A medium-term share price catalyst could be admission of Pru into the Hang Seng indices and the Stock Connect programmes.

To qualify for the Shanghai-HK Stock Connect, Pru needs to be a constituent stock either of the Hang Seng Composite LargeCap Index (HSLI) or the Hang Seng Composite MidCap Index (HSMI). To qualify for the Shenzhen-HK Stock Connect programme, it would need to be a constituent stock of the Hang Seng Composite SmallCap index (HSSI).

To qualify as a constituent stock within these Hang Seng Composite indices, it needs to meet either the market value (MV) requirement or the turnover requirement. It also needs to have the majority of its business presence in Greater China.

To meet the MV requirement, Pru needs to have its MV within the top 95% of the cumulative MV coverage of HK-listed shares. Note that MV is calculated as the number of issued shares (registered in HK) multiplied by the share price, with the average of the month-end MVs of the past 12 months computed for the purposes of any review.



According to “Index Methodology: For Managing the Hang Seng Composite Index Series” paragraph 3.10 by Hang Seng Indexes, to meet the primary turnover requirement, the monthly turnover velocity in each of the last 12 months is computed by taking the median traded shares in that month and dividing that by the free float adjusted number of shares, with the free float adjusted factor calculated and reviewed at the end of Mar, Jun, Sep and Dec each year.

If: i) the velocity is a minimum of 0.05% for at least 10 out of the past 12 months, and ii) the velocity is a minimum of 0.05% for at least five out of latest six months, then the primary turnover requirement is met.

If this primary turnover requirement is not met, then there is a supplementary turnover test, which would be applied for those months where the turnover velocity is less than 0.05%. A monthly aggregate turnover of the stock is first calculated, and if the monthly turnover is among the top 90% in terms of cumulative turnover coverage of the total market, then the security passes the monthly turnover test for that month. The security will be regarded as having met the primary turnover test if it passes the supplementary turnover test.

The HSCI constituents ranked within the top 80% of the cumulative MV coverage of the HSCI will be included in the HSLI; the ones ranked within the next 15% will be included in the HSMI; and the constituents ranked within the remaining 5% will be included in HSSI.

Based on our calculations, the earliest that Pru could become a HSCI constituent — specifically, HSSI, which qualifies it for the Shenzhen-HK Stock Connect — would be Mar 2023, assuming it continues to meet the turnover requirement for the remainder of 2022. We estimate that Pru met the primary turnover requirement for velocity for the months of Feb 2022 and Mar 2022, and met the supplementary monthly turnover test for the months of Jan 2022 and Apr 2022 (Fig 35).

**Figure 35: Our estimate of whether Pru has passed the velocity and turnover tests to be admitted into Hang Seng indices**

	Velocity	Velocity test (primary test)	Monthly turnover test (supplementary test)	Overall
Sep-21	0.0253%	Failed	Failed	Failed
Oct-21	0.2980%	Passed	n.a.	Passed
Nov-21	0.1709%	Passed	n.a.	Passed
Dec-21	0.0555%	Passed	n.a.	Passed
Jan-22	0.0408%	Failed	Passed	Passed
Feb-22	0.0766%	Passed	n.a.	Passed
Mar-22	0.2148%	Passed	n.a.	Passed
Apr-22	0.0498%	Failed	Passed	Passed

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, HANG SENG INDEXES

This estimate of Mar 2023 also assumes that Hang Seng Indexes (which is the compiler of the HSCI) continues to undertake regular half-yearly reviews of constituents of the HSCI Series with data cut-off dates at the end of Jun and the end of Dec each year. These half-yearly reviews are normally completed about eight weeks after the data cut-off dates. The review of eligible stocks under the Southbound stock connect programme is conducted monthly.

It is worth noting that, as of 13 May 2022, AIA only had 0.9% of its issued shares held by mainland China investors under the Stock Connect programmes. As such, using AIA at the benchmark, admission into the Stock Connect programmes may end being relatively immaterial to Pru’s share price movements.

A concern we have about Pru’s HK shares is that the number of shares registered in HK (vs. total shares issued in HK and the UK) seem to be falling since its HK IPO in Sep 2021 — from 4.32% in Oct 2021 to 3.26% in May 2022 (Fig 36).

**Figure 36: Trend of Pru's HK's listed shares across time**

	Shareholding in CCASS	Total number of Issued Shares	Number of Participants	% of the total number of Issued Shares
Sep-21	9,971,633	2,615,613,899	148	0.38%
Oct-21	118,721,336	2,746,410,612	131	4.32%
Nov-21	103,057,352	2,746,410,907	124	3.75%
Dec-21	96,011,044	2,746,412,265	125	3.50%
Jan-22	94,928,450	2,746,413,338	123	3.46%
Feb-22	93,878,350	2,746,413,338	136	3.42%
Mar-22	90,835,850	2,749,306,856	138	3.30%
Apr-22	90,653,550	2,749,306,856	142	3.30%
May-22	89,513,416	2,749,306,856	144	3.26%

SOURCES: CGS-CIMB RESEARCH, HONG KONG STOCK EXCHANGE

One possible reason for this trend is that the free float for Pru's share in HK is seen by investors as too low, with the consequential illiquid trading conditions resulting in a wider bid-ask spread for Pru's HK listed shares compared to its UK-listed shares. As Pru's shares are easily convertible between the HK Stock Exchange and London Stock Exchange, this may have led to some investors deciding to switch their shares from being registered in HK to being registered in London.

In the near-term, we believe that Pru is focusing more on getting admitted into the Hang Seng Composite Indices in order to qualify for the Stock Connect programme, rather than focusing on raising its HK free float by methods such as persuading existing large UK shareholders to transfer their registered shares from the London Stock Exchange to the Hong Kong Stock Exchange. This may partly be because if large, long-only shareholders shift their shareholdings now, it may make meeting the velocity requirement of admission into the Hang Seng Composite Indices even more challenging. In the meantime, we believe that Pru is maximising its efforts to raise its brand awareness among the retail investor customer base (both mass market and private banking).

One consideration that might slow any move by Pru to shift its investor base from London to HK is that should Pru drop its UK listing to focus on HK, it could be uninvestable for the funds that focus on the FTSE 100 index. Mr. Mark Fitzpatrick, Pru's current interim CEO, has stated that Pru will continue to maintain a meaningful presence in London to support its most liquid primary listing and its capital market relationships.

### Border reopening: A medium-term catalyst for MCV insurance demand to return

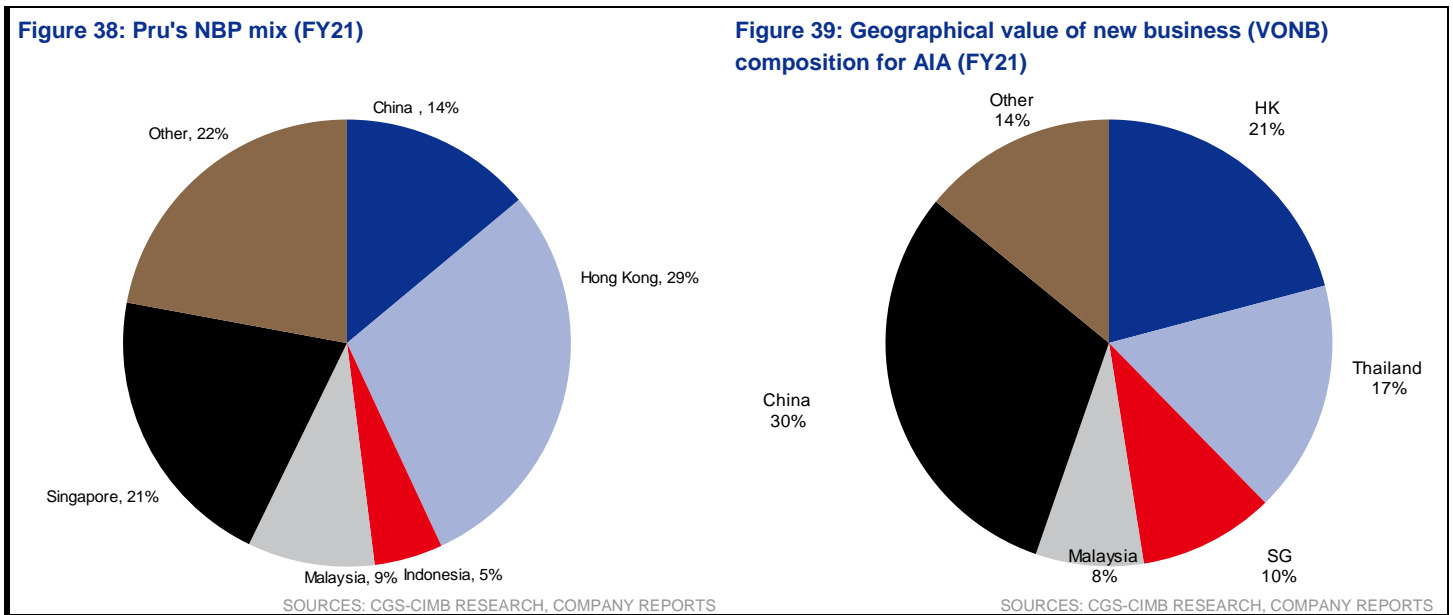
We see the border re-opening between mainland China and HK as a medium-term share price catalyst for Pru. Prior to the HK protests in 2H19 and the onset of Covid-19 from the start of 2020, HK had contributed 66.4% of Pru's FY18 NBP. Following 2H19's HK protests and the effective closure of borders between HK and mainland China in early 2020, this had fallen to only 29.1% of NBP in FY21 (Fig 37).

**Figure 37: Pru's Asian NBP mix across time (%)**

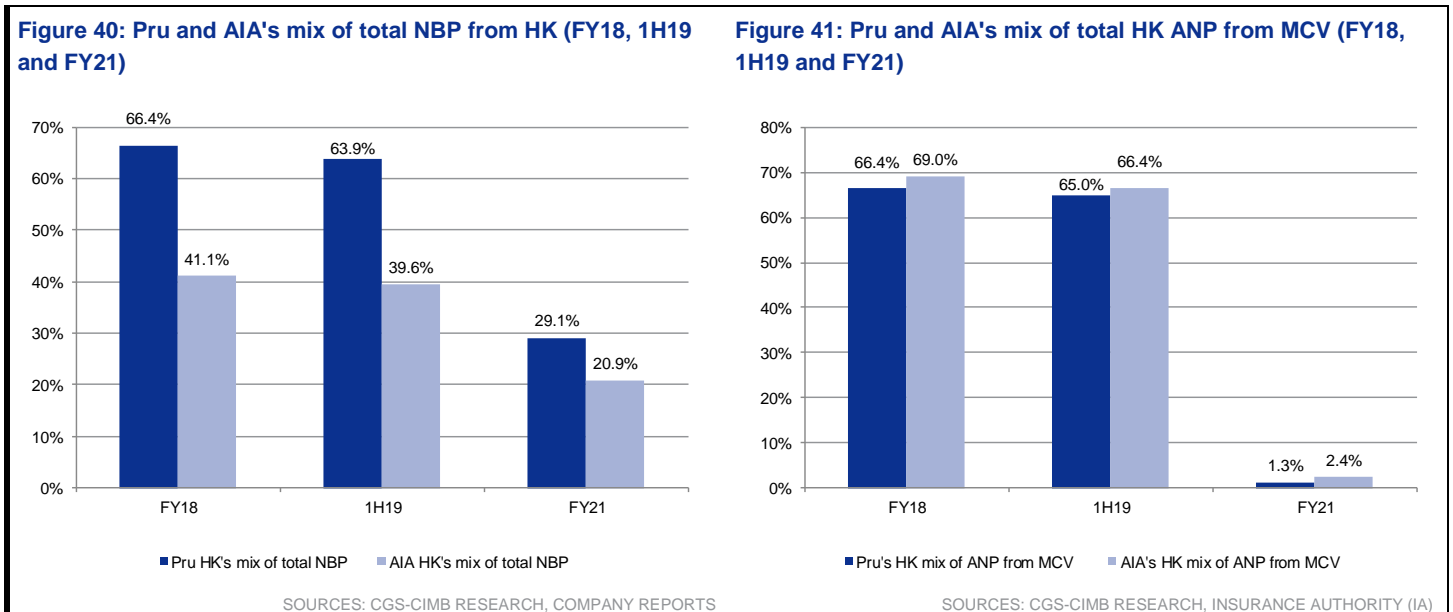
	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
HK	20.8%	17.0%	24.8%	34.9%	56.3%	67.1%	64.8%	66.4%	58.0%	35.8%	29.1%
Mainland China	2.4%	2.0%	2.5%	2.3%	2.0%	3.1%	5.6%	5.7%	7.4%	12.2%	13.9%
Indonesia	28.0%	36.0%	31.5%	25.5%	15.5%	8.6%	7.3%	4.7%	6.4%	7.0%	4.9%
Malaysia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.6%	6.0%	9.5%	9.2%
Singapore	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10.3%	11.0%	15.5%	20.7%
Taiwan	2.8%	4.1%	2.7%	2.5%	1.9%	1.5%	2.4%	1.8%	n.a.	n.a.	n.a.
India	2.0%	1.6%	1.3%	1.0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Korea	3.9%	2.0%	2.2%	0.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other	40.2%	37.3%	34.9%	32.9%	24.3%	19.6%	19.8%	5.5%	11.2%	20.0%	22.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

29% of Pru's FY21 NBP from HK contrasts with 21% of AIA's NBP for AIA (Fig 39). Pru, thus, looks better positioned vs. AIA to benefit from a recovery of insurance sales from MCV, should the borders between HK and mainland China completely open and life return to normal.



It is worth noting that in HK, prior to the 2H19 HK protests, Pru and AIA had a similar mix of ANP from MCVs in 1H19, at 65% and 66.4%, respectively (Fig 41).



One question asked by many investors is whether MCVs' insurance demand will return, once the borders between HK and mainland China fully open. We believe that it will.

We had argued that there were five reasons (Fig 42) in our report [MCV pullback: Permanent or temporary](#), dated 21 Oct 2019, namely: i) The ease and relative cost of travel to HK vs. other regions, especially given the average case size of an MCV insurance policy in HK, which also makes a difference for the claims process; ii) large pool of US\$-denominated policies in HK, which makes a difference given MCVs' preference for US\$-denominated policies; iii) better 'connectivity' of MCVs to agents/financial advisers in HK compared to other regions; iv) insurers' feedback indicates they believe the MCV pullback in HK is temporary, and v) cash of MCVs may already be in HK bank accounts, which reduces the trouble of setting up a bank account and transferring funds elsewhere.

**Figure 42: Why we believe that the MCV insurance demand pullback is temporary and not permanent**

**No. Details**

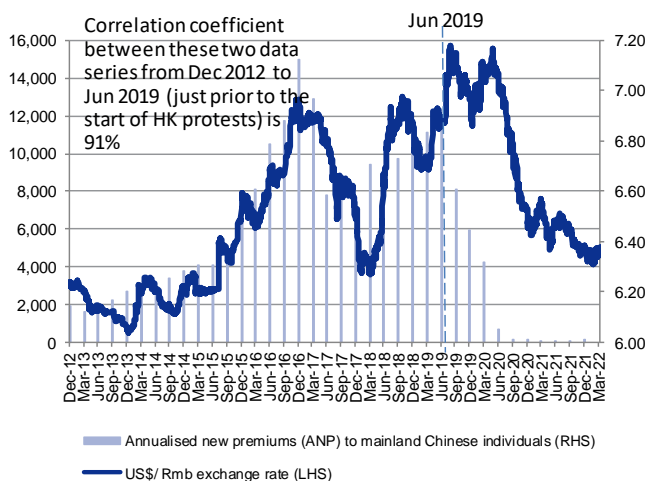
- 1 Ease and relative cost of travel to HK versus other areas. With the possible exception of Macau, it is easier and cheaper to travel to HK, compared to other regions, for MCV seeking to buying non-Rmb denominated insurance policies. This is especially since the average case of an offshore customer buying insurance in HK was only just under US\$8,500. The ease and relative cost of travel makes a difference not only during the time of purchase, but also if subsequently a claim needs to be made.
- 2 Large pool of US\$ policies in HK. Note that there is a very high correlation coefficient (91%) between movements in the US\$/Rmb exchange rate and the annualised new premiums (ANP) of offshore customers in HK. Their much larger average case size of offshore customers versus onshore customers in HK also suggest that there is a strong savings focus of offshore customer insurance policies.
- 3 We believe that MCV are better connected via Wechat groups to agents and financial advisers in HK, compared to other regions such as Singapore. We also believe that Singapore tends to be a wealth management hub more for people living in South East Asia/ South Asia, with Hong Kong tending to be a wealth management hub for people living in North Asia.
- 4 That the pullback in MCV insurance demand is temporary is also consistent with the feedback we have gotten from the two largest insurers (Pru and AIA Group) within this segment. For example, Prudential plc stated on 26 Sep 2019 that 'In Hong Kong, we have been impacted by the sector-wide slowdown in mainland China customers. [It is] the disruptions that have caused [and] are impacting their ability to come across. Now everything that we see indicates no change in purchase intention and it's simply that the number of visits are being postponed.'
- 5 Cash of MCV may already be in HK bank accounts. It may thus be easier to set up an autopay system to buy and pay for on an ongoing basis regular-premium life insurance policies in HK. Buying life insurance in other countries would necessitate the set-up of offshore bank accounts in other countries for life insurance payment. Note that savings-focused life insurance policies can no longer be paid by swiping a Unionpay credit card.

SOURCES: CGS-CIMB RESEARCH

In particular, we see a key motivation of MCVs buying insurance in HK as wealth diversification, especially when we think there are expectations by MCV customers of US dollar appreciation against the renminbi. This is best supported by the extremely high correlation between the movements of the US\$/Rmb exchange rate and the industry's ANP growth yoy to the MCV segment. As Fig 43 shows, the correlation coefficient stands at a very high 91% over the Dec 2012-Jun 2019 period (i.e. the periods before the pandemic and HK protests).

With the US dollar recently showing strength against the renminbi, we think that this suggests the potential for significant MCV demand for insurance in HK, should the borders fully reopen.

**Figure 43: Strong visible relationship between the US\$/Rmb exchange rate and ANP to mainland Chinese individuals over the Dec 2012 to Jun 2019 period (correlation co-efficient of 91%)**



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, INSURANCE AUTHORITY (IA)

**Figure 44: Average case size of insurance policies of AIA, Pru and the system that were bought in HK for onshore (HK) customers vs. offshore (non-HK) customers**

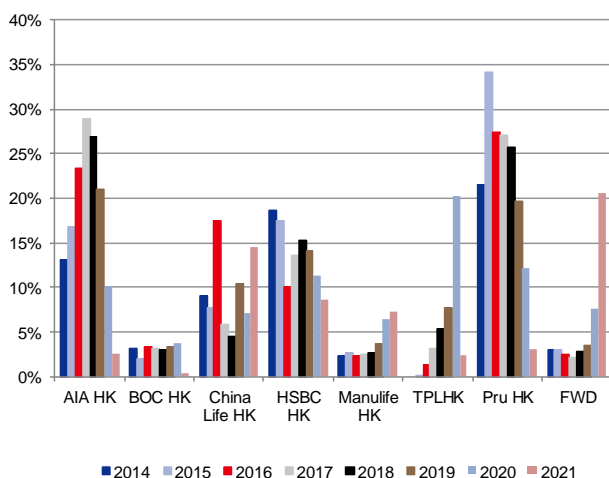
(HK\$)	AIA	Pru	System
<b>Onshore regular premiums</b>			
2016	22,211	42,580	70,137
2017	23,160	45,049	63,833
2018	25,876	46,761	69,300
2019	26,374	49,071	72,099
2020	23,650	42,753	62,395
2021	21,438	35,253	71,189
<b>Offshore regular premiums</b>			
2016	87,713	77,211	115,828
2017	70,971	70,089	92,665
2018	66,349	67,663	93,820
2019	73,799	71,856	123,485
2020	88,641	94,716	190,978
2021	53,938	97,336	197,318
<b>Onshore single premiums</b>			
2016	1,116,516	684,832	924,732
2017	663,495	524,805	684,651
2018	619,107	440,666	627,612
2019	730,679	496,934	766,950
2020	698,975	439,576	858,319
2021	663,001	531,858	800,076
<b>Offshore single premiums</b>			
2016	5,007,680	1,114,396	3,050,166
2017	5,028,771	986,631	3,010,020
2018	3,428,919	937,774	3,008,200
2019	2,692,667	852,778	3,227,552
2020	4,102,041	1,414,944	6,378,898
2021	1,634,889	n.a.	5,370,063

SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY

The relatively large case size of these policies also makes it much more likely that a key motive for buying these policies is savings or investment oriented. The average case size of regular premium policies sold to offshore customers (i.e. non-HK) for the system in 2021 was HK\$197,318, which is almost three times larger than the average case size for onshore customers (i.e. domestic HK customers) of HK\$71,189 (Fig 44).

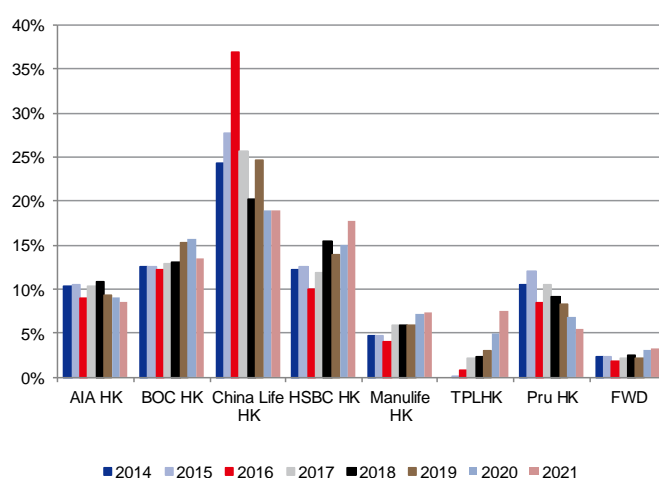
With both Pru and AIA having dominant market shares of offshore customer ANP prior to the HK protests and pandemic, we believe that both these insurers could see significant benefit to their HK NBP when the borders reopen. Even if there a limited reopening in the form of a GBA travel bubble, we believe that both Pru and AIA could see their HK NBP record notable growth (see [And so it begins](#), dated 19 Jun 2020).

Figure 45: Market share of all offshore customer ANP



SOURCES: CGS-CIMB RESEARCH, IA

Figure 46: Market share of all onshore customer ANP



SOURCES: CGS-CIMB RESEARCH, IA

### Insurance Connect: A medium term catalyst to tap mainland Chinese insurance demand

Another potential medium-term catalyst is the announcement of an Insurance Connect programme (see [The importance of being connected](#) dated 10 Jul 2020). We believe that an Insurance Connect programme could tap latent MCV insurance demand, and thus help boost Pru's HK NBP.

Following the implementation of Stock Connect, Bond Connect and a Wealth Management Connect programme, we think that it is just a matter of time that an Insurance Connect programme within the GBA, which includes Guangdong, Macau and HK, will be announced.

We expect the first stage to be the setting up of post-sales service centres, and in the second stage (to be implemented later in the future), customers would be permitted to buy cross-border insurance policies within their own regions.

A key benefit of the first stage is that there is less chance of lapses of insurance policies bought previously by MCVs in HK, as the ratio of policyholders paying by methods other than bank transfers has picked up in recent years.

Another key benefit is a potential increase in mindshare and awareness of the HK insurance policies among GBA residents; this could set the stage for a rebound in MCV insurance sales in HK in a post Covid-19 era, which we think is a share price catalyst.

The Insurance Connect in the GBA had been under discussion since early-2019 and is expected by the authorities to be another critical part of the financial connection mechanism under the national plan of the GBA development.

## Changing the basis of computation of its EV: A long-term catalyst

We believe that a long-term catalyst could be if Pru increases the comparability of its EV disclosures to be more comparable to the other HK-listed insurers. A common investor feedback to Pru trading at lower P/EV multiples vs. AIA is that they are not comparable, as a simple comparison of risk discount rates between both insurers suggests that Pru's uses less conservative actuarial assumptions. This seems especially the case for Pru's FY21 risk discount rate (RDR) for its NBP (or VONB, in AIA's terminology) in its two largest markets — HK (2.8%, much lower than AIA's 6.98%) and Singapore (3.4%, much lower than AIA's 6.59%) (Fig 44). Note that while Pru also assumes a lower actuarial investment return assumption (Fig 45), the gap between these assumed actuarial investment returns for HK and Singapore are not as large as the gaps in their RDRs in 2021.

**Figure 47: Risk discount rate (%) actuarial assumptions for AIA and Pru by region (FY21)**

AIA (%)	Pru (%)		
	RDR	RDR for VONB	RDR for VIF
Australia	6.41	n.a.	n.a.
China	9.72	7.3	7.3
Hong Kong	6.98	2.5	2.8
Indonesia (Rupiah denominated business)	12.98	9.9	10.5
South Korea	8.10	n.a.	n.a.
Malaysia	8.56	5.7	6.1
New Zealand	6.53	n.a.	n.a.
Philamlife (Peso denominated business)	11.80	12.0	12.0
Singapore	6.59	3.4	3.8
Sir Lanka	14.70	n.a.	n.a.
Taiwan	7.25	3.5	3.1
Thailand	7.69	9.3	9.3
Vietnam	9.16	4.0	4.1

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 48: Actuarial investment return assumptions in 2021**

10 year govt bonds (%)	Equities (%)	
	AIA	Pru
Australia	2.3	n.a.
China	3.7	2.8
Hong Kong	2.2	1.5
Indonesia	7.5	7.0
Korea	2.2	n.a.
Malaysia	4.0	3.7
New Zealand	2.3	n.a.
Philippines	5.3	4.8
Singapore	2.2	1.7
Sir Lanka	9.0	n.a.
Taiwan	1.0	0.7
Thailand	2.7	2.0
Vietnam	3.5	2.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

The lower RDR had led to some investors wondering if the higher NBP margins for Pru in both HK and Singapore compared to AIA (Fig 49) were more a function of lower Pru's RDR or due to Pru selling a higher proportion of health and protection products vs. AIA.

**Figure 49: A comparison of VONB margin across Asia for AIA and Pru**

	AIA			Pru		
	FY19	FY20	FY21	FY19	FY20	FY21
Hong Kong	66.1%	44.7%	64.0%	101.3%	103.6%	133.8%
China	93.5%	80.9%	78.9%	44.5%	46.2%	45.4%
Thailand	67.7%	71.0%	90.0%	58.2%	58.1%	49.6%
Singapore	65.5%	63.4%	64.7%	59.0%	56.0%	70.4%
Malaysia	63.1%	59.9%	57.3%	59.0%	60.0%	50.3%
Other Markets	41.9%	38.4%	35.9%	32.0%	35.0%	47.1%
Weighted average for Asia	66.6%	57.7%	63.2%	68.2%	59.5%	60.2%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 50: Impact of a 50bp increase in interest rates**

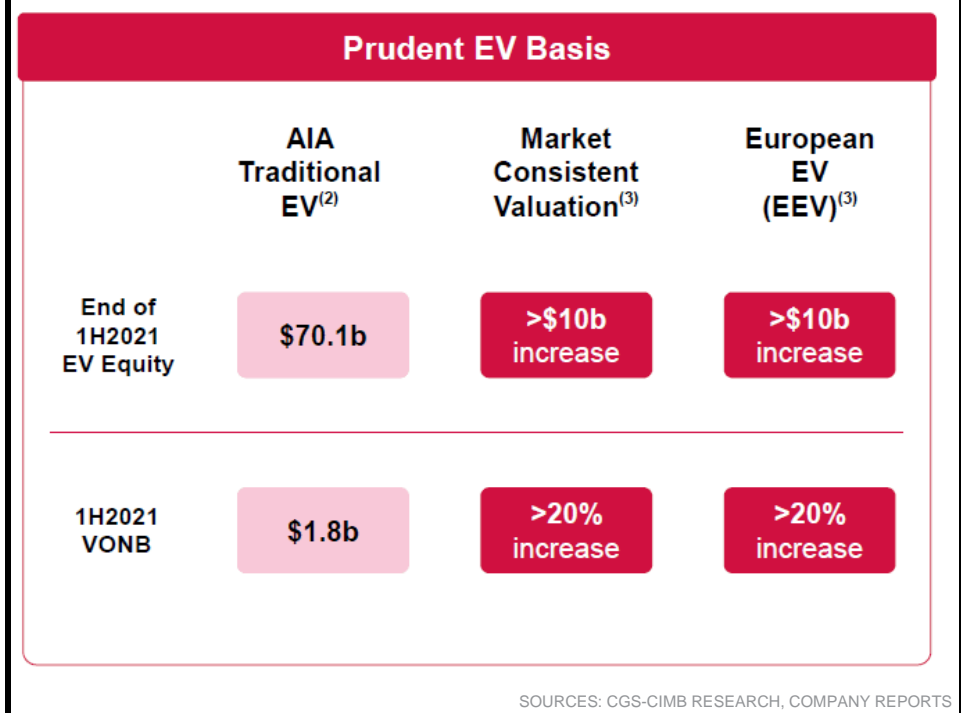
	VONB		EV	
	FY20	FY21	FY20	FY21
AIA	7.0%	2.2%	1.0%	-0.5%
Pru	1.8%	1.4%	n.a.	-2.5%
FWD	19.3%	14.6%	2.9%	2.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Another reason why some investors see Pru and AIA's P/EV as not comparable is because AIA had stated during its 1H21 results briefing that if it were to switch from traditional EV to either European EV (EEV) or market consistent EV (MCEV), its EV would rise by at least 14% or more than US\$10bn, while its VONB would rise by more than 20% (Fig 51).



**Figure 51: AIA claims that its TEV is more conservative than EEV and MCEV**



**Figure 52: VONB contribution by regions in Asia (FY21)**

Region	AIA			VONB Region	Prudential		
	VONB (US\$ m)	yoy growth	weight in total		NBP* (US\$ m)	yoy growth	weight in total NBP
Hong Kong	756	37%	21%	Hong Kong	736	-6%	29%
China	1,108	14%	31%	China	352	31%	14%
Thailand	609	30%	17%	Indonesia	125	-19%	5%
Singapore	356	8%	10%	Malaysia	232	11%	9%
Malaysia	283	27%	8%	Singapore	523	53%	21%
Other Markets	511	-1%	14%	Other markets	558	27%	22%
Total	3,366	22%	100%	Subtotal	2,526	15%	100%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS  
NOTE THAT NEW BUSINESS PROFITS (NBP) IS IN SUBSTANCE THE SAME AS VALUE OF NEW BUSINESS (VONB)

### Increasing its stake in its China and India JVs is a long-term catalyst

Pru operates in mainland China via a 50-50 joint venture with CITIC (Fig 50). Founded in 2000, its mainland China business has a particular focus on areas with the greatest economic growth potential, a strategy aligned with the Chinese government's 'City Cluster Model', centred on Beijing, Shanghai and the GBA, a region which, if it were a separate economy, would be one of the 10 largest economies in the world.

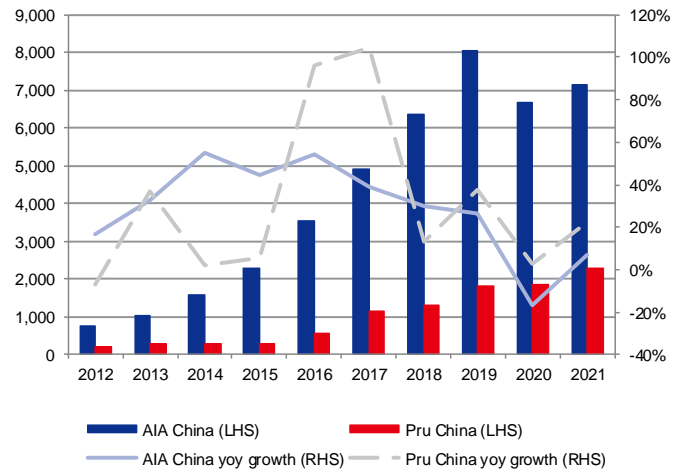
This is in contrast with AIA, which until Jul 2019, had been restricted to only five regions in mainland China. AIA China is also 100%-owned by AIA. In terms of magnitude, AIA's NBP in China is notably larger than that of Pru (Fig 54).

**Figure 53: Major differences in China branches of AIA and Prudential**

	AIA China	Citic-Pru
Ownership of AIA / Pru	100%	50%
Year of entry into China	1992	2000
Operating regions	9	22 (or 20 branches covering 99 cities)
Details of operating regions	Beijing, Shanghai, Guangdong (ex. Shenzhen), Shenzhen, Jiangsu, Tianjin, Hebei, Sichuan and Hubei	Guangdong (ex. Shenzhen), Beijing, Shanghai, Jiangsu, Hubei, Shandong, Zhejiang, Guangxi, Tianjin, Shenzhen, Fujian, Hebei, Liaoning, Shanxi, Henan, Sichuan, Anhui, Suzhou, Hunan, Shaanxi, Wuxi, Ningbo

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

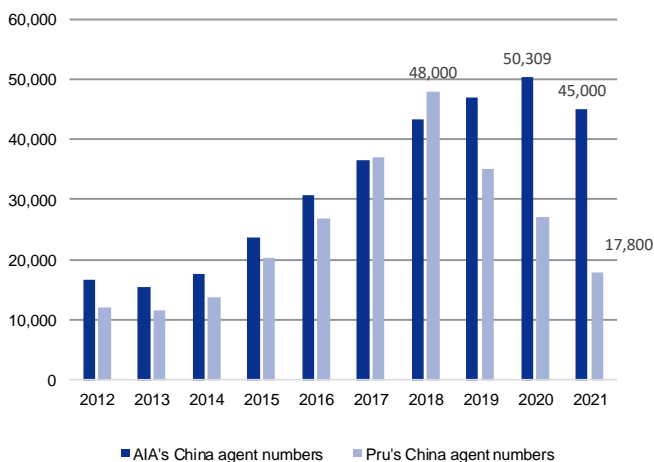
**Figure 54: NBP (Rmb m) of Pru and AIA in mainland China and their growth rates yoy**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

AIA's agent force has also been more stable (Fig 55) compared to Pru.

**Figure 55: A comparison of agent numbers for AIA China and Pru China**



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 56: A comparison of growth rates yoy of agent numbers for AIA China and Pru China**



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Despite Pru's marked fall in agent numbers in China, it did not seem to significantly impact first year premiums (annualised premium equivalent [APE]). Agent APE rose by 25% yoy for Pru's China operations in FY21, with a 23% rise yoy to over 1,100 MDRT agents. FY21 cases per active agent rose 69% yoy, while agent ANP per active agent also rose 61% yoy.

While its FY21 NBP margins of 45.4% for its China business is less than AIA China's margins of 78.9% (Fig 60), this is primarily due to Pru's much greater focus on the lower-margin bancassurance distribution channel.

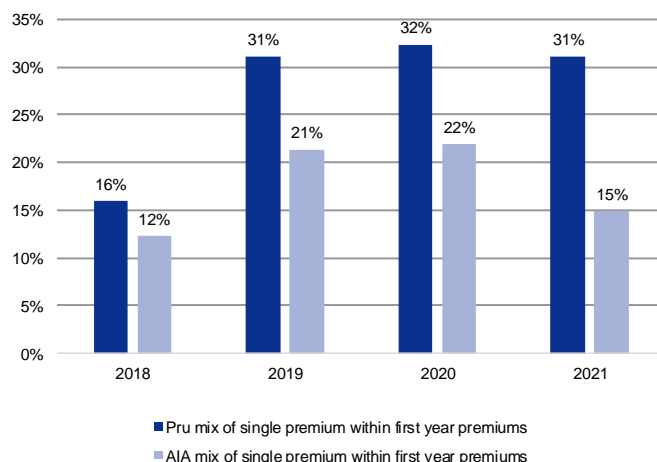
Bancassurance comprised about half of FY21 NBP for Pru China (Fig 57), while it comprised less than 10% for AIA China. Pru's FY21 agent NNP margins was 71%, markedly higher than its bancassurance NBP margins of 39%, and not too dissimilar to AIA China's 78.9% margins.

**Figure 57: Mix of Pru's China NBP by distribution channel and product type**

	FY19	FY20	FY21
<b>NBP mix by distribution channel</b>			
Agency	67%	46%	39%
Bancassurance	27%	51%	56%
Other	6%	3%	6%
Total	100%	100%	100%
<b>NBP mix by product type</b>			
Traditional	26%	43%	48%
Par	19%	9%	4%
H&P	48%	37%	25%
Linked	7%	11%	23%
Total	100%	100%	100%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 58: China's mix of single premium within first year premiums for AIA and Pru**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In part due to AIA's much greater focus on the agent channel, its NBP per agent is significantly higher than the rest of its peers, including Pru (Fig 59).

**Figure 59: NBP per average agent (Rmb)**

	FY18	FY19	FY20	FY21
AIA	176,036	194,289	137,264	158,270
Pru	n.a.	29,224	27,500	39,451
China Life	28,398	34,200	39,032	39,076
Ping An	45,945	52,787	39,177	38,267
CPIC	30,851	29,525	23,040	20,889
NCI	32,660	22,103	18,356	11,618
Taiping	28,598	22,854	21,794	20,530
PICC	19,606	17,397	13,127	9,993

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 60: NBP margins of the China business of Pru and AIA across time**

	Pru's NBP margin	AIA's NBP margin
FY13	34.0%	66.4%
FY14	25.7%	83.1%
FY15	21.2%	83.5%
FY16	31.6%	86.4%
FY17	45.3%	85.5%
FY18	49.4%	90.0%
FY19	44.4%	93.5%
FY20	46.2%	80.9%
FY21	45.4%	78.9%
1H19	36.0%	93.2%
2H19	56.9%	93.9%
1H20	39.8%	81.8%
2H20	52.7%	79.4%
1H21	50.9%	82.1%
2H21	39.8%	73.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Pru's China product focus across time had traditionally been more heavily focused on savings products, with this in part due to its greater bancassurance channel focus. This had been gradually changing in the years leading up to the 2020 pandemic, with two of the Pru's China top five products comprising high-margin critical illness products in 2018 and 2019 (prior to 2017, it was only at most one of their top five products that comprised critical illness).

**Figure 61: Pru's top five products in China across time, by product type, have been more heavily savings-focused**

	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	Whole life (par)	Whole life (par)	Whole life (par)	CI	Ann. (par)	CI	Endow. (par)	Whole life (par)	Whole life
2	Endow. (par)	Ann. (par)	Endow. (par)	Ann. (par)	CI	Ann. (par)	Ann. (par)	Endow. (par)	Endow. (par)
3	Ann. (par)	Endow. (par)	CI	Ann. (par)	Ann. (par)	Ann. (par)	CI	Ann. (par)	Endow. (par)
4	Ann. (par)	Ann. (par)	Ann. (par)	Whole life (par)	Whole life (par)	CI	Ann. (par)	Endow. (par)	Ann. (par)
5	Endow. (par)	Ann. (par)	Endow. (par)	Whole life (par)	Whole life (par)	Ann. (par)	CI	CI	CI

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

CI = Critical illness; par. = participating; Ann. = Annuity; Endow. = Endowment

This is in contrast with AIA's consistently heavy focus on critical illness products until the onset of Covid in 2020 (Fig 62).

**Figure 62: AIA's top five products in China across time: Note the consistent extremely heavy focus on critical illness products until the onset of Covid in 2020**

No.	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	Endow. (par.)	CI	CI	CI	CI	CI	CI	CI	Ann. (par.)	Ann. (par.)	Ann. (par.)	Ann. (par.)
2	CI Ann. (non-par.)	CI	CI	CI	CI	CI	CI	CI	CI	CI	Ann. (par.)	Ann. (par.)
3	Ann. (non-par.)	Ann. (par.)	Ann. (non-par.)	Ann. (par.)	Ann. (par.)	CI Ann. (par.)	Ann. (par.)	CI	CI	Whole life	Ann. (par.)	Ann. (par.)
4	Ann. (par.)	Endow. (par.)	Ann. (par.)	Ann. (non-par.)	Ann. (non-par.)	Ann. (par.)	CI Ann. (par.)	CI	CI	CI	CI	CI
5	Endow. (par.)	Endow. (par.)	CI	CI	CI	CI	CI	CI Ann. (par.)	CI	CI	CI	Whole life

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

CI = Critical illness; par. = participating; Ann. = Annuity; Endow. = Endowment

Some investors believe that one of the reasons for AIA's higher VONB margins and its heavier focus on protection is due to its 100% ownership of its China operations.

Accordingly, we believe that investors will react positively to any announcement of Pru raising its 50% shareholding of its China JV, should CITIC wish to sell down its stake sometime in the future. There has been previous speculation that Pru could increase its stake in its China JV. For example, Reuters reported on 6 Feb 2020 that it was in talks that could lead to it taking full control of its 50/50 JV with CITIC (267 HK, NR), following changes in China's ownership laws with respect to life insurers. Bloomberg had also reported on 16 Nov 2021 that Pru was keen to increase its investment in its China insurance JV.

Similarly, we believe that investors could react favourably if Pru raises its stake in its Indian joint ventures, where it has a 22.1% stake in ICICI Prudential Life Insurance and a 49% stake in ICICI Prudential Asset Management.

### **Initiatives to further liberalise China's capital account, possibly by raising the annual foreign exchange conversion limit, could also be a long-term catalyst**

Finally, we believe that a long-term share price catalyst is further initiatives for China to liberalise its capital account, specifically by abolishing quotas that relates to capital outflow. One such restriction is the annual US\$50,000 cap on foreign exchange conversion of renminbi. Another such restriction is the requirement by State Administration of Foreign Exchange (SAFE) that customers must pledge money that the money converted would not be used for overseas purchases of property, securities, life insurance or investment-type insurance. Prior to Dec 2016, China's citizens did not have to sign such a pledge. Should such restrictions be abolished, we would expect to see more MCV insurance demand in HK, which would benefit Pru.

## Pru's business in more detail

Prudential plc is a multinational insurance company that provides life and health insurance to its customers. Its asset management division, Eastspring, had US\$258.5bn assets under management in FY21. It is dual-headquartered in both London and HK, and is ranked among the top three in eleven out of its 13 Asian life markets, through 540,000 agents and over 26,000 bank branches.

Following its demerger of its European operations in Oct 2019 and its US operations in Sep 2021, it is now only focused on growth in the regions of Asian and Africa. Across Asia, its businesses span Mainland China, HK, Indonesia, Malaysia, Singapore, India, Taiwan, Vietnam, Laos, the Philippines, Cambodia, Thailand and Myanmar (Fig 63). It operates in eight markets in Africa.

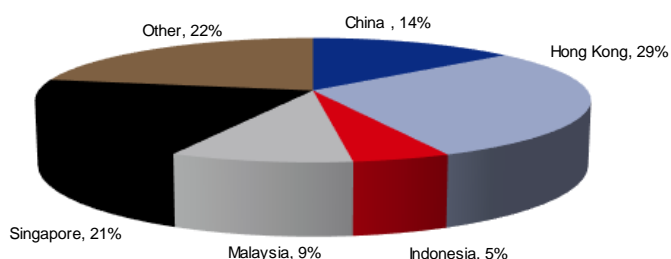
**Figure 63: Pru's markets in more detail as per the 2021 Annual Report**

Market	Population	2020's life insurance penetration	Pru's market ranking	Eastspring's funds under management (US\$ bn)
Mainland China	1.4bn	2.4%	3rd	12.4
Hong Kong	7m	19.2%	2nd	5.5
Indonesia	274m	1.4%	2nd	4.9
Malaysia	32m	4.0%	1st	13.8
Singapore	6m	7.6%	3rd	150.3
India	1.4bn	3.2%	3rd	30.9
Taiwan	24m	14.0%	9th	5.3
Vietnam	97m	1.6%	2nd	6.6
Laos	7m	0.0%	3rd	n.a.
Philippines	110m	1.2%	1st	n.a.
Cambodia	17m	0.6%	2nd	n.a.
Thailand	70m	3.4%	6th	12.7
Myanmar	54m	0.0%	2nd	n.a.
Japan	n.a.	n.a.	n.a.	3.3
Korea	n.a.	n.a.	n.a.	12
<b>Market</b>	<b>Population</b>	<b>Number of Pru's markets</b>		
Africa	416m	8		

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

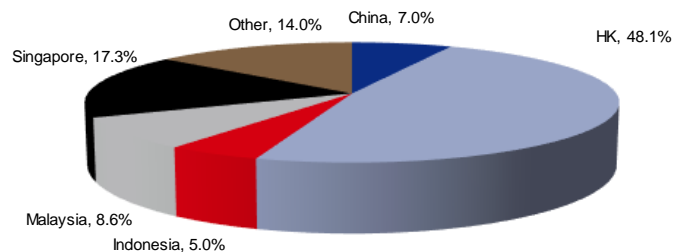
Its three biggest markets in FY21 by NBP were HK (29% of NBP), followed by Singapore (21% of NBP) and mainland China (14% of NBP). HK by far dominates its FY21 EV breakdown by region (48.1%), followed by Singapore (17.3%) and Other regions (14%) (Fig 65).

**Figure 64: Pru's NBP mix (FY21)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 65: Pru's EV mix (FY21)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Pru has over 540,000 licenced tied agents across its life insurance markets, with Indonesia and India containing the most agents (Fig 67).

**Figure 66: Mix of single premiums to total first year premiums**

	FY18	FY19	FY20	FY21
<b>HK</b>				
AIA	53%	49%	68%	80%
Pru	17%	16%	20%	63%
<b>Mainland China</b>				
AIA	12%	21%	22%	15%
Pru	26%	58%	69%	75%
<b>Singapore</b>				
AIA	84%	77%	79%	79%
Pru	72%	69%	76%	83%
<b>Malaysia</b>				
AIA	38%	42%	43%	43%
Pru	26%	39%	21%	14%
<b>Thailand</b>				
AIA	33%	24%	28%	47%
Pru	70%	58%	42%	41%
<b>Indonesia</b>				
Pru	49%	45%	48%	53%
<b>Vietnam</b>				
Pru	12%	9%	8%	19%
<b>Taiwan</b>				
Pru	62%	66%	35%	31%
<b>India</b>				
Pru	28%	39%	59%	59%
<b>Philippines</b>				
Pru	34%	25%	27%	35%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 67: Key 2021 data for Prudential**

	Agent numbers	H&P APE mix
China	17,800	20%
HK	21,600	28%
Indonesia	198,100	71%
Singapore	5,200	22%
Malaysia	24,500	48%
Thailand	1,700	23%
Vietnam	26,100	16%
Philippines	31,300	30%
India	199,600	20%
Taiwan	n.a.	2%
Cambodia	4,900	100%
Laos	n.a.	10%
Myanmar	n.a.	89%
Africa	13,000	n.a.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In the markets of HK and Singapore, which are its two biggest markets by NBP in FY21, its NBP margins are the highest among peers (Fig 68).



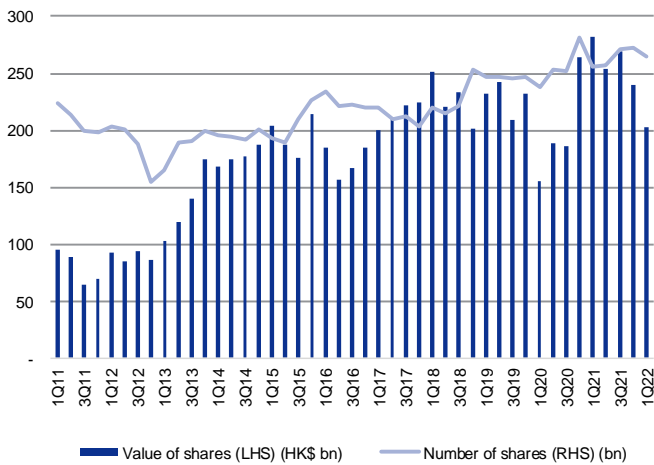
**Figure 68: NBP margins by region**

	FY18	FY19	FY20	FY21	1H19	2H19	1H20	2H20	1H21	2H21
<b>Hong Kong</b>										
AIA	61.5%	66.1%	44.7%	64.0%	68.0%	63.7%	51.0%	38.4%	57.5%	69.6%
Prudential	101.9%	101.3%	103.8%	133.8%	99.7%	103.1%	91.0%	116.6%	120.9%	146.7%
FWD	35.5%	39.6%	45.0%	43.2%			37.4%	52.6%	39.0%	47.4%
Manulife	64.6%	62.5%	59.9%	72.0%	59.2%	65.0%	58.5%	61.2%	70.9%	73.3%
<b>Mainland China</b>										
AIA	90.0%	93.5%	80.9%	78.9%	93.2%	93.9%	81.8%	79.4%	82.1%	73.3%
Prudential	49.4%	44.4%	46.2%	45.4%	36.0%	56.9%	39.8%	52.7%	50.9%	39.8%
Manulife	n.a.	n.a.	49.1%	50.0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Life	44.6%	50.3%	47.4%	42.2%	39.5%	83.2%	37.1%	89.9%	34.7%	74.0%
Ping An	50.7%	56.9%	48.8%	38.1%	52.7%	62.8%	49.1%	48.3%	42.2%	30.3%
CPIC Life	60.4%	69.5%	72.5%	48.7%	61.4%	87.1%	68.5%	80.5%	47.8%	52.2%
NCI	58.9%	49.0%	40.4%	25.3%	50.3%	47.2%	34.6%	52.0%	25.7%	24.6%
PICC Life	28.3%	22.7%	25.0%	15.5%	19.9%	31.3%	19.3%	43.5%	15.1%	16.5%
Taiping Life	34.9%	28.4%	30.8%	26.3%	26.5%	32.2%	14.2%	64.6%	17.3%	42.1%
Sunshine Life	n.a.	n.a.	20.4%	19.7%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Singapore</b>										
AIA	64.1%	65.5%	63.4%	64.7%	64.8%	66.1%	59.3%	66.3%	63.2%	66.7%
Prudential	n.a.	58.6%	55.9%	70.4%	n.a.	n.a.	53.7%	57.3%	56.7%	84.7%
Manulife	n.a.	n.a.	28.7%	33.4%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Great Eastern	31.6%	38.5%	43.8%	32.1%	33.6%	42.0%	33.6%	34.7%	32.1%	32.1%
<b>Malaysia</b>										
AIA	63.6%	63.1%	59.9%	57.3%	65.4%	60.6%	50.5%	67.1%	61.7%	52.9%
Prudential		59.2%	60.4%	50.3%	n.a.	n.a.	56.3%	62.6%	53.6%	47.7%
Great Eastern	68.7%	66.3%	65.1%	66.5%	66.1%	68.2%	67.3%	62.6%	64.4%	68.2%
<b>Thailand</b>										
AIA	72.8%	67.7%	71.0%	90.0%	66.8%	68.4%	63.9%	77.4%	93.5%	86.3%
Bangkok life	21.5%	7.6%	20.2%	42.7%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
FWD	34.5%	24.5%	29.7%	47.0%	n.a.	n.a.	24.3%	35.1%	46.5%	47.5%
<b>Indonesia</b>										
Prudential	51.7%	58.2%	58.1%	49.6%	54.5%	60.7%	55.2%	60.9%	48.7%	50.5%
<b>Japan</b>										
FWD	111.2%	77.7%	37.1%	62.6%	n.a.	n.a.	38.0%	36.2%	64.7%	60.5%
Manulife	30.3%	31.0%	21.9%	22.4%	32.8%	31.9%	22.7%	20.7%	22.1%	23.2%
<b>Vietnam</b>										
Manulife	n.a.	n.a.	41.1%	48.0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Other markets</b>										
AIA	35.1%	41.9%	38.4%	35.9%	41.8%	42.1%	39.7%	37.2%	32.1%	40.5%
Prudential	17.4%	32.0%	35.3%	39.5%	n.a.	n.a.	32.0%	37.9%	38.1%	40.8%
FWD	33.5%	32.9%	40.0%	44.2%	n.a.	n.a.	37.3%	42.7%	43.8%	44.6%
Manulife	n.a.	n.a.	22.5%	20.7%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Great Eastern	31.9%	36.3%	30.6%	29.1%	35.8%	35.2%	39.8%	27.3%	30.9%	27.5%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

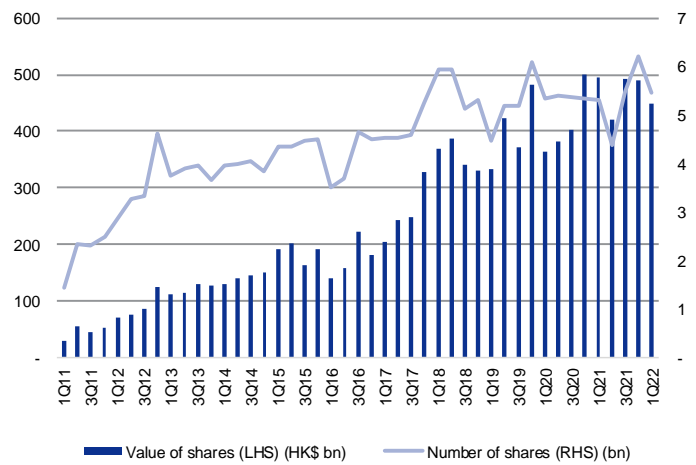
Both Pru and AIA have seen steadily increasing institutional interest from investors since 1Q11 (Fig 69 and Fig 70), though the increase in interest in AIA (as proxied by the number of shares held by the top 50 institutional shareholders) has been more pronounced. However, since the start of the pandemic in 1Q20, it seems that there has been a greater increase in institutional investor interest for Pru compared to AIA, based on this metric.

**Figure 69: The value and number of shares of the top 50 shareholders of PRU**



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 70: The value and number of shares of the top 50 shareholders of AIA**

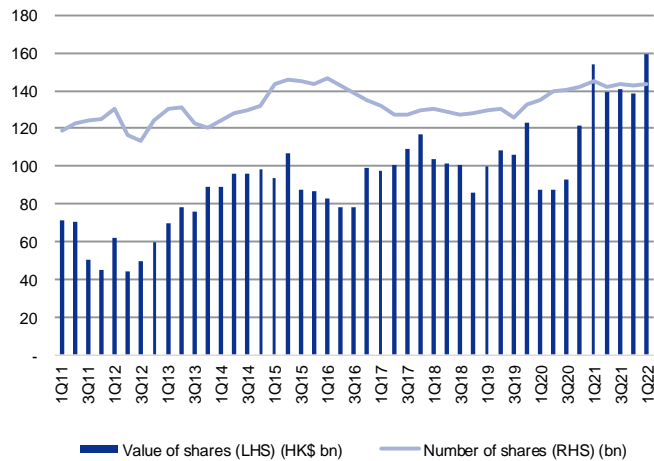


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Based on this metric, there also seems to be a pick-up in institutional investor interest for Manulife as well (Fig 71).

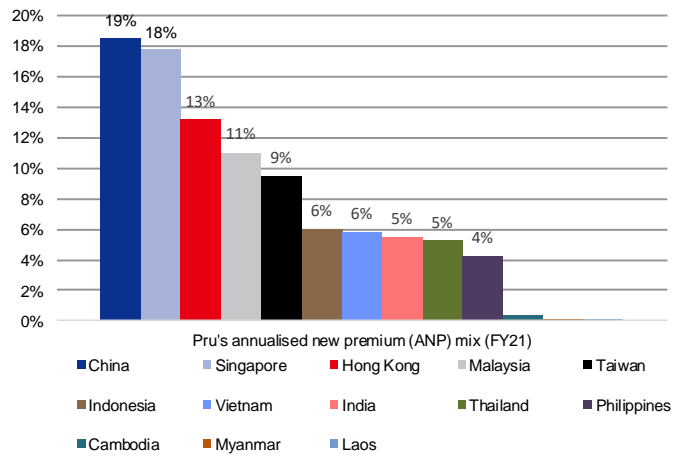
Pru's largest market by ANP in China was China, followed by Singapore, HK and then Malaysia (Fig 72).

**Figure 71: The value and number of shares of the top 50 shareholders of Manulife**



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 72: Pru's ANP mix (FY21)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Pru's largest market by IFRS operating profit in FY21 was Hong Kong, followed by Singapore and then Indonesia (Fig 73).

**Figure 73: Pru's IFRS operating profit mix (pre-tax) and growth yoy**

	IFRS operating profit mix (pre-tax)			Growth yoy	
	FY19	FY20	FY21	FY20	FY21
HK	24%	26%	26%	21%	9%
Mainland China	7%	7%	9%	15%	37%
Indonesia	18%	15%	12%	-4%	-14%
Malaysia	9%	9%	9%	12%	13%
Singapore	16%	17%	18%	16%	16%
Philippines	2%	3%	3%	30%	16%
Taiwan	2%	3%	3%	15%	11%
Thailand	6%	6%	6%	24%	12%
Vietnam	8%	8%	9%	14%	17%
Other	6%	5%	5%	-4%	0%
Total	100%	100%	100%	13%	10%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Can Pru consistently outperform major sharemarket benchmark indices, like AIA had done in the past?

A common question asked by investors is if Pru can generate the impressive share price track record across time that AIA has demonstrated since its 2010 IPO, and related to this, whether Pru possesses any structural advantage that gives them an edge for operational outperformance and/or share price outperformance.

Firstly, it is our view that AIA does possess some structural advantages, which has helped it deliver strong share price outperformance over the market index.

### Correctly incentivised, with alignment of management and shareholders' interest

Firstly, AIA has a structural advantage that in terms of its key performance indicators (KPIs), it is correctly incentivised to sell protection insurance and long-term savings products. We do not believe that it is as focused on metrics such as market share or short-term profits, as their peers, but rather on the actuarial metrics of EV and VONB.

We believe this alignment of incentives is what AIA's investors want. To elaborate, 60% of AIA's senior management short-term bonuses directly relate to VONB (Fig 70) and have been so since its 2010 IPO.

With management incentivised to deliver, we believe that such a strong focus on VONB within management KPI is a key reason why AIA managed to deliver such stable VONB growth on a constant currency exchange rate (CER) basis over the FY12-17 period, with an average VONB growth (CER) of 27% and a standard deviation of only 1%-pt (Fig 74). The HK protests in 2019 and Covid-19 related factors have since led to the stability of VONB growth breaking down.

**Figure 74: Weighted scorecard approach of AIA's short term incentive scheme**

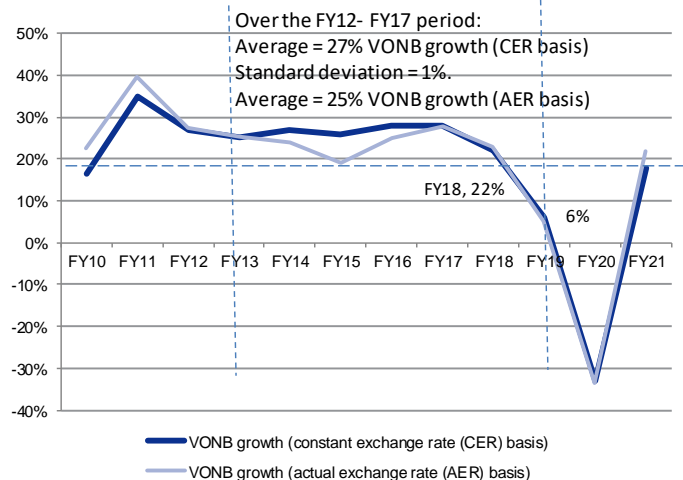
(%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Value of new business	59	60	60	60	60	60	60	60	60	60
Excess EV growth*	23	15	15	10	10	10	10	10	0	0
Underlying free surplus generation (UFSG)**	0	0	0	0	0	0	0	0	15	15
Operating profit after tax	18	25	25	30	30	30	30	30	25	25

\* Sum of the operating experience variances and operating assumption changes in the EV operating profit

\*\* UFSG is the free surplus generated by the business excluding the free surplus invested in new business investment return variances and other items.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 75: VONB growth of AIA Group across time (CER and AER basis)**

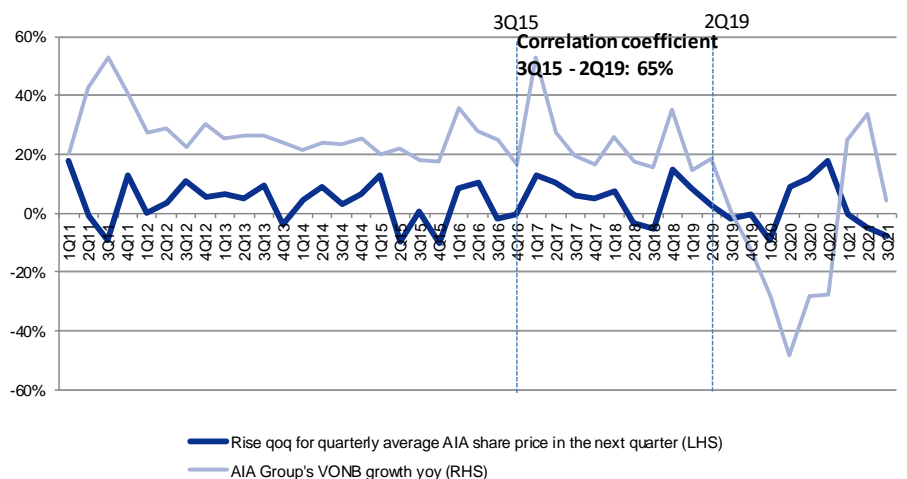


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

It is also worth noting that VONB growth had been a very major driver of AIA's share price. This is extremely valuable to many investors who want to know what to focus on in terms of key share price drivers.

Fig 76 shows that over the 3Q15 to 2Q19 period, prior to HK protests and Covid-19, there was a very strong correlation between AIA's quarterly VONB growth yoy and its next quarter's share price performance qoq, with a correlation coefficient of 65% over this period.

**Figure 76: AIA Group's correlation between its quarterly VONB growth yoy, and its next quarter's qoq share price price has strengthened since 4Q15**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Such a high KPI weighting gives AIA a structural advantage in terms of being incentivised to sell protection and long-duration saving insurance. This is because such products tend to have small case sizes (which thus hurt short-term premium growth and market share), and higher commission rates (which hurt short-term net profits and thus dividends).

Arguably, it is also in AIA shareholders' interest to have AIA's management incentivised to maximum EV and VONB, as a P/EV-based Gordon Growth Model (GGM) valuation delivers about double the valuation of a P/BV-based GGM (which would be the case if management and shareholders focuses heavily on net profits) (this was a point we made in [China Life: Caught between a rock and a hard place; Downgrade to Reduce](#), dated 10 Jan 2019).

In our view, such correct incentives are also a key reason why AIA has such a strong track record around results seasons, where the key metric of focus is VONB (Fig 75).

We are highly encouraged by Pru's increasing focus on NBP within its Annual Incentive Plan (AIP), with NBP rising in weighting from 15% in the 2020 performance year to 45% in the 2022 performance year (Fig 77) and are hopeful that this increased focus on NBP could produce superior NBP performance vs. peers.

**Figure 77: Mix of key performance indicators (KPI) that determine group financial bonus targets for its Annual Incentive Plan (AIP) for the different performance years, as disclosed within Pru's annual reports**

	2017	2018	2019	2020	2021	2022
New business profit	15%	15%	15%	15%	35%	45%
Adjusted operating profits	35%	35%	35%	35%	25%	25%
Operating free surplus	30%	30%	30%	30%	30%	20%
Business unit remittances	20%	20%	20%	20%	10%	10%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 78: Mix of KPIs that determine Pru's group financial bonus targets for its Prudential Long Term Incentive Plan (PLTIP) for Executive Directors for the different performance years, as disclosed within Pru's annual reports**

	2018	2019	2020	2021	2022
Relative total shareholder return (TSR)	25%	50%	50%	50%	50%
ROE	n.a.	30%	30%	n.a.	n.a.
Sustainability	n.a.	20%	20%	20%	20%
<i>of which ESG metrics</i>	n.a.	n.a.	n.a.	n.a.	10%
Return on embedded value	n.a.	n.a.	n.a.	30%	30%
Balanced scorecard of strategic measures	25%	n.a.	n.a.	n.a.	n.a.
Operating profits	50%	n.a.	n.a.	n.a.	n.a.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Fig 79 shows AIA strong track record around results seasons.

In essence, it demonstrates the returns to investors from buying before and selling after AIA reports its results. The returns are shown for a one-day window before and after results ( $t = -1$  to  $t = +1$ ), a three-day window before and after results ( $t = -3$  to  $t = +3$ ), and a five-day window ( $t = -5$  to  $t = +5$ ), with the returns on both an absolute and a market-relative basis (relative to the Hang Seng Index) shown in the table.

Fig 75 shows that that a trading strategy of buying five days before AIA reports its results and selling five days after its results (i.e. a 10-day window) for every single results season since its IPO would have delivered a cumulative absolute return of 128%, based on our analysis.

After adjusting for market movements using the Hang Seng Index (HSI) as a proxy, AIA Group's cumulative share price outperformance over the HSI during this 10-day window since its IPO is 109% pts.

With AIA Group having delivered an outperformance of 315% pts over the HSI since just before it reported its first set of results, its results season outperformance of 109% pts is over a third (34%) of AIA Group's overall outperformance over the HSI.

Of particular interest is AIA Group's share price's track record around its results announcement under the current CEO, given that his tenure started relatively recently in early-2020.

In Fig 75, cells shaded in dark grey refer to the results seasons presided over by AIA's current CEO Mr. Lee Yuan Siong. Cells shaded in yellow refer to the results seasons presided over by AIA's previous CEO Mr. Ng Keng Hooi. Cells shaded in orange refer to the results seasons presided over by AIA's previous CEO Mr. Mark Tucker. It is clear that Mr. Lee Yuan Siong has been more successful than his predecessor in generating outperformance around AIA's results seasons.

**Figure 79: AIA's share price performance (absolute and relative) around result reporting dates**

	AIA absolute share price reaction				AIA relative share price reaction (vs. HSI)			
	t= -1 to t= +1	t= -3 to t= +3	t= -5 to t= +5	Share price change on the day only	t= -1 to t= +1	t= -3 to t= +3	t= -5 to t= +5	Share price change on the day only
4Q10	4%	5%	4%	6%	4%	5%	5%	4%
1Q11	4%	7%	7%	3%	5%	8%	9%	3%
2Q11	4%	6%	5%	3%	5%	5%	6%	4%
3Q11	-1%	0%	6%	-2%	-2%	-2%	1%	-1%
4Q11	2%	10%	10%	3%	3%	9%	10%	3%
1Q12	1%	1%	-1%	0%	0%	1%	-3%	0%
2Q12	0%	2%	-3%	0%	-2%	-2%	-3%	-2%
3Q12	-1%	-2%	1%	0%	-1%	-2%	-2%	0%
4Q12	2%	5%	6%	4%	3%	5%	9%	4%
1Q13	3%	4%	6%	1%	1%	1%	0%	1%
2Q13	-1%	3%	8%	0%	-1%	0%	5%	0%
3Q13	5%	5%	5%	4%	4%	5%	6%	3%
4Q13	-2%	0%	2%	0%	-1%	1%	-1%	-1%
1Q14	6%	4%	2%	3%	5%	2%	2%	4%
2Q14	0%	5%	5%	1%	-1%	-1%	0%	0%
3Q14	-2%	-2%	-1%	-1%	-1%	-2%	0%	-1%
4Q14	0%	6%	10%	0%	0%	6%	11%	0%
1Q15	2%	1%	-1%	-1%	1%	-4%	-2%	-1%
2Q15	0%	0%	-1%	-2%	1%	3%	2%	-1%
3Q15	5%	2%	5%	3%	3%	1%	2%	3%
4Q15	-1%	1%	10%	1%	1%	2%	4%	2%
1Q16	5%	6%	3%	2%	4%	5%	3%	3%
2Q16	-2%	0%	-2%	-1%	-2%	-1%	-1%	-1%
3Q16	-2%	-3%	-1%	1%	-1%	-1%	1%	0%
4Q16	-1%	0%	4%	-1%	0%	2%	6%	0%
1Q17	8%	10%	13%	6%	7%	7%	9%	6%
2Q17	0%	5%	4%	-2%	0%	3%	1%	-1%
3Q17	-3%	-4%	-1%	-1%	-2%	-2%	-1%	-3%
4Q17	3%	2%	-1%	4%	3%	3%	3%	4%
1Q18	-2%	-2%	5%	-2%	0%	-1%	2%	-1%
2Q18	-4%	0%	3%	-3%	-3%	-2%	0%	-2%
3Q18	-1%	4%	5%	-1%	1%	5%	2%	1%
4Q18	0%	3%	1%	0%	-1%	0%	-1%	-1%
1Q19	-3%	-6%	-8%	0%	-1%	-2%	-2%	0%
2Q19	0%	-4%	1%	2%	1%	-1%	0%	1%
3Q19	3%	2%	6%	4%	3%	2%	4%	3%
4Q19	-4%	-13%	-14%	-4%	0%	-1%	1%	-1%
1Q20	0%	0%	2%	2%	1%	0%	1%	2%
2Q20	-4%	5%	4%	-3%	-1%	3%	3%	-2%
3Q20	2%	12%	16%	2%	1%	6%	8%	1%
4Q20	4%	0%	3%	6%	4%	1%	1%	5%
1Q21	5%	2%	2%	6%	5%	2%	3%	5%
2Q21	4%	4%	3%	3%	7%	9%	7%	5%
3Q21	1%	0%	-1%	0%	-1%	-4%	-1%	0%
4Q21	8%	-3%	-1%	3%	8%	9%	3%	5%
1Q22	4%	-1%	-5%	2%	2%	-3%	-1%	0%
Total	53%	81%	128%	53%	61%	80%	109%	53%
AIA's outperf. since just before 1st set of results					315%	315%	315%	315%
Contribution to AIA Group's total market-relative outperformance (just before its 1st set of results to today), that come from just the 10 days around its results announcement (%)					19	26	34	17

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG



Interestingly, Pru also shows a similar positive track record around results, albeit smaller in magnitude (Fig 80).

**Figure 80: Pru's share price performance (absolute and relative vs. HSI Index) around result dates**

	Pru absolute share price reaction				Pru relative share price reaction (vs. HSI)			
	t= -1 to t= +1	t= -3 to t= +3	t= -5 to t= +5	Share price change on the day only	t= -1 to t= +1	t= -3 to t= +3	t= -5 to t= +5	Share price change on the day only
4Q10	11.6%	3.6%	0.7%	8.6%	12.0%	3.8%	2.2%	9.4%
1Q11	-1.0%	-3.6%	-7.2%	-3.1%	0.1%	-2.7%	-5.9%	-2.2%
2Q11	-3.3%	-8.7%	-11.7%	-0.6%	3.0%	3.0%	0.8%	1.6%
3Q11	3.5%	-2.4%	-2.4%	3.5%	1.8%	-1.9%	-2.3%	1.8%
4Q11	7.1%	8.3%	8.5%	3.8%	6.3%	6.3%	8.1%	3.9%
1Q12	-2.4%	-4.1%	-9.4%	-0.9%	-1.2%	2.3%	0.2%	-0.4%
2Q12	1.5%	3.8%	9.6%	1.5%	2.5%	3.9%	7.3%	1.8%
3Q12	1.5%	0.0%	2.0%	0.0%	1.8%	0.6%	4.6%	1.6%
4Q12	11.9%	13.1%	10.5%	11.7%	13.0%	17.5%	12.8%	11.4%
1Q13	-2.3%	-6.8%	-6.8%	1.6%	0.6%	-1.7%	-0.3%	1.8%
2Q13	2.5%	2.5%	3.1%	1.8%	-0.9%	-1.9%	2.0%	0.6%
3Q13	0.3%	-2.5%	-2.5%	0.3%	-2.2%	-5.0%	-5.6%	-1.4%
4Q13	2.8%	-0.5%	0.1%	2.8%	5.1%	4.8%	4.6%	3.5%
1Q14	1.1%	2.2%	4.9%	0.0%	0.6%	0.5%	2.2%	-0.1%
2Q14	2.5%	4.2%	2.5%	1.7%	1.5%	1.9%	0.6%	0.9%
3Q14	1.1%	2.9%	4.0%	-1.0%	2.9%	5.4%	3.9%	-0.3%
4Q14	-1.3%	-1.0%	-0.9%	-1.3%	0.4%	0.5%	2.4%	-0.6%
1Q15	-2.4%	1.0%	-0.5%	-2.4%	-0.7%	2.5%	3.5%	-1.1%
2Q15	2.9%	2.6%	2.1%	2.9%	5.4%	4.2%	5.9%	5.3%
3Q15	-1.4%	-4.6%	-4.1%	-1.4%	0.2%	-1.8%	-2.8%	-1.2%
4Q15	4.8%	5.9%	5.0%	4.5%	5.0%	4.6%	3.7%	4.5%
2Q16	0.1%	-2.3%	5.1%	1.4%	-0.4%	-5.9%	0.2%	1.0%
4Q16	4.2%	8.5%	8.9%	4.0%	4.3%	5.1%	5.1%	4.1%
2Q17	-4.4%	-3.1%	-4.8%	-4.4%	-1.3%	-1.2%	-4.1%	-2.4%
4Q17	5.1%	5.3%	6.3%	5.3%	5.3%	3.7%	2.3%	5.0%
2Q18	3.5%	0.0%	-5.1%	3.5%	2.2%	-0.9%	-1.5%	2.6%
4Q18	0.4%	6.6%	0.1%	0.6%	0.6%	2.4%	-0.9%	0.5%
2Q19	-2.1%	-2.1%	-2.4%	-2.5%	-2.9%	-3.4%	-3.4%	-3.3%
4Q19	-7.9%	-24.8%	-36.2%	-9.8%	-3.7%	-13.0%	-21.2%	-6.1%
2Q20	4.3%	4.5%	7.3%	1.0%	0.8%	3.5%	5.6%	-0.4%
4Q20	2.3%	3.9%	5.5%	0.0%	1.8%	5.4%	8.3%	2.2%
2Q21	3.2%	7.8%	3.3%	1.8%	3.5%	7.8%	5.4%	2.3%
4Q21	12.7%	-4.2%	0.0%	7.1%	12.1%	6.7%	10.1%	5.8%
Total	62.1%	16.3%	-4.3%	41.9%	79.4%	56.9%	53.9%	52.0%
Total ex 4Q19	70.1%	41.0%	31.9%	51.7%	83.1%	69.9%	75.1%	58.2%
PRU's outperf. since just before 1st set of results					63.6%	63.6%	63.6%	
Contribution to PRU Group's total market-relative outperformance (just before its 1st set of results to today), that come from just the 10 days around its results announcement (%)					125	89	85	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG  
Cells shaded in dark grey refer to the results seasons presided over by Prudential's former CEO, Mr Mike Wells.  
Cells shaded in yellow refer to the results seasons presided over by AIA's previous CEO, Mr Tidjane Thiam  
HSI = Hang Seng Index

This positive track record of outperforming the market index since 2010 is evident regardless of whether the market index is the Hang Seng Index (HSI) (Fig 80) or the FTSE 100 (Fig 81).

**Figure 81: Pru's share price performance (absolute and relative vs. FTSE 100 Index) around result dates**

	Pru absolute share price reaction				Pru relative share price reaction (vs. FTSE 100)			
	t= -1 to t= +1	t= -3 to t= +3	t= -5 to t= +5	Share price change on the day only	t= -1 to t= +1	t= -3 to t= +3	t= -5 to t= +5	Share price change on the day only
4Q10	2.9%	1.1%	-3.0%	-1.9%	5.1%	4.6%	2.3%	-0.3%
1Q11	-2.8%	-3.8%	-4.0%	-2.2%	-1.6%	-2.9%	-3.0%	-1.6%
2Q11	-5.2%	-14.5%	-8.8%	-3.0%	0.9%	-2.0%	-0.3%	0.4%
3Q11	-1.1%	1.7%	2.5%	-4.0%	-0.2%	1.7%	0.8%	-2.1%
4Q11	7.8%	11.5%	10.7%	2.9%	6.9%	9.7%	8.5%	3.1%
1Q12	1.6%	-1.6%	-7.5%	1.7%	1.8%	1.8%	-1.3%	1.4%
2Q12	0.1%	3.8%	3.3%	-0.6%	0.5%	4.0%	2.2%	-0.4%
3Q12	-1.6%	2.8%	3.5%	-2.2%	0.3%	3.4%	4.2%	-1.4%
4Q12	12.2%	9.7%	10.1%	2.7%	12.0%	10.1%	10.1%	1.9%
1Q13	-2.3%	-4.6%	-5.2%	-2.3%	-0.5%	-0.9%	-0.4%	-0.5%
2Q13	2.6%	0.0%	-0.3%	-1.4%	2.2%	0.4%	2.0%	-2.0%
3Q13	1.7%	0.9%	1.2%	-0.2%	0.7%	1.3%	1.4%	-0.6%
4Q13	1.0%	-0.7%	-1.7%	-1.7%	2.9%	1.5%	1.3%	-0.7%
1Q14	-0.6%	3.2%	1.3%	-1.8%	-0.9%	2.4%	0.8%	-1.4%
2Q14	4.9%	6.7%	6.9%	2.6%	4.5%	5.3%	5.5%	2.2%
3Q14	2.0%	3.8%	3.9%	0.9%	1.7%	2.0%	2.3%	1.1%
4Q14	-1.8%	0.7%	4.7%	1.4%	0.5%	3.9%	5.4%	1.1%
1Q15	-1.1%	2.2%	-0.8%	-0.1%	-0.5%	1.6%	-0.8%	0.6%
2Q15	2.0%	-0.5%	0.7%	-2.6%	4.4%	2.5%	3.1%	-1.2%
3Q15	-2.7%	-4.7%	-2.2%	1.3%	-2.7%	-0.8%	-0.4%	0.9%
4Q15	-0.5%	0.0%	0.7%	-3.3%	0.9%	0.4%	0.2%	-1.5%
2Q16	2.3%	4.7%	6.8%	0.0%	1.3%	2.5%	3.4%	-0.7%
4Q16	4.3%	6.7%	7.3%	1.3%	4.3%	5.2%	6.8%	1.1%
2Q17	-3.2%	-3.3%	-2.3%	-2.4%	-0.7%	-1.3%	-1.1%	-1.3%
4Q17	6.5%	1.7%	4.1%	1.3%	6.5%	4.2%	5.7%	1.2%
2Q18	3.8%	2.1%	-4.6%	0.1%	3.5%	2.3%	-2.5%	0.6%
4Q18	3.5%	7.7%	0.3%	2.3%	3.0%	5.0%	-1.0%	2.0%
2Q19	-4.4%	-6.3%	-6.4%	-0.3%	-1.8%	-5.4%	-6.5%	0.9%
4Q19	-19.4%	-36.4%	-44.8%	-16.7%	-7.3%	-16.1%	-19.4%	-5.8%
2Q20	4.6%	6.2%	6.1%	1.7%	0.8%	5.1%	5.5%	-0.3%
4Q20	-0.6%	7.2%	6.0%	-0.6%	-1.1%	3.5%	5.0%	-0.2%
2Q21	3.2%	2.3%	6.4%	0.6%	2.8%	1.9%	5.7%	0.9%
4Q21	4.9%	-3.8%	-7.0%	-3.4%	2.9%	-6.8%	-5.1%	-2.2%
Total	24.8%	6.5%	-12.0%	-29.7%	53.1%	50.1%	40.3%	-4.7%
Total ex 4Q19	44.2%	43.0%	32.8%	-13.1%	60.3%	66.2%	59.7%	1.1%
PRU's outperf. since just before 1st set of results					78.3%	78.3%	78.3%	78.3%
Contribution to PRU Group's total market-relative outperformance (just before its 1st set of results to today), that come from just the 10 days around its results announcement (%)					68	64	51	

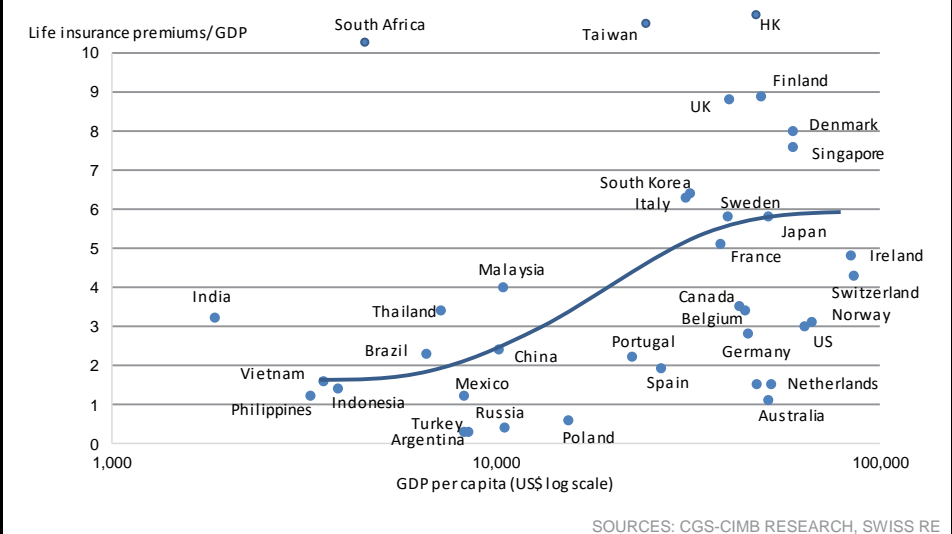
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG  
Cells shaded in dark grey refer to the results seasons presided over by Prudential's former CEO, Mr Mike Wells.  
Cells shaded in yellow refer to the results seasons presided over by AIA's previous CEO, Mr Tidjane Thiam  
FTSE = Financial Times Stock Exchange Group

## What is the market potential for the life insurance industry in Asia?

There seems to be an S-curve relationship between life insurance penetration (premiums to GDP) and GDP per capita, whereby once GDP per capita exceeds US\$10,000, Swiss Re has found that life insurance penetration increases markedly (Fig 82).

There are a few key points of note in Fig 14. Firstly, a lot of developed Asian countries are above the S-curve, compared to non-Asian countries, which are below the curve.

**Figure 82: S-curve of global life insurance penetration rates vs. GDP per capita (2020 data)**



**Figure 83: Life insurance penetration rates and GDP per capita in 2020 of selected regions (US\$)**

	GDP per capita (US\$)	Life insurance penetration (US\$)
Japan	40,345	5.8%
Singapore	59,649	7.6%
Hong Kong	46,840	19.2%
South Korea	32,203	6.4%
Taiwan	27,661	14.0%
Malaysia	10,485	4.0%
China	10,225	2.4%
Thailand	7,189	3.4%
Indonesia	3,876	1.4%
Philippines	3,299	1.2%
Vietnam	3,570	1.6%
USA	63,695	3.0%
UK	40,602	8.8%
France	38,597	5.1%
Italy	31,311	6.3%
Netherlands	52,270	1.5%
Germany	45,588	2.8%
Switzerland	85,908	4.3%
South Africa	5,010	11.2%
Australia	51,595	1.1%
World average	10,886	3.3%

SOURCES: CGS-CIMB RESEARCH, SWISS RE, SIGMA

This is because Asian countries have, on average, higher savings rates and less generous government social security systems.

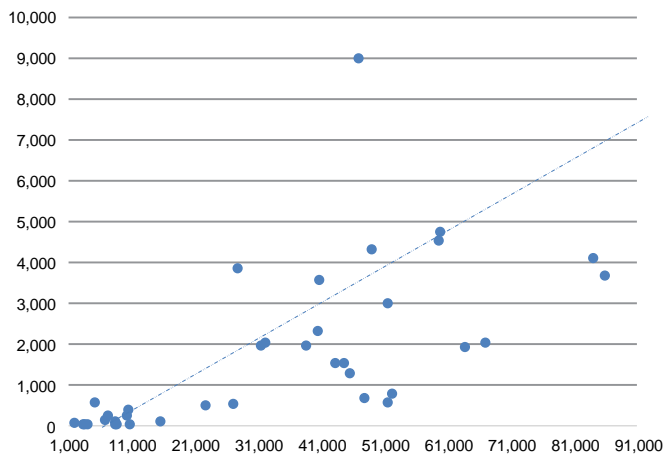
**Figure 84: Note that life insurance premiums per capita are very high in regions that are financial centres and have high savings ratios**

	2020 GDP per capita (US\$)	2020 life insurance density (premiums per capita) (US\$)
Hong Kong	46,840	8,983
Denmark	59,845	4,746
Singapore	59,649	4,528
Finland	49,055	4,319
Ireland	84,100	4,093
Taiwan	27,661	3,861
Switzerland	85,908	3,667
UK	40,602	3,574
Sweden	51,548	2,993
Japan	40,345	2,329
Norway	66,852	2,052
South Korea	32,203	2,050
Italy	31,311	1,972
France	38,597	1,959
USA	63,695	1,918
Canada	43,205	1,532
Belgium	44,565	1,531
Germany	45,588	1,281
Netherlands	52,270	799
Austria	47,742	691
Australia	51,595	568
South Africa	5,010	560
Spain	26,914	525
Portugal	22,647	502
Malaysia	10,485	415
Thailand	7,189	244
China	10,225	241
Brazil	6,610	151
Mexico	8,306	99
Poland	15,544	95
India	1,862	59
Vietnam	3,570	56
Indonesia	3,876	54
Russia	10,546	41
Philippines	3,299	41
Argentina	8,279	24
Turkey	8,493	24

SOURCES: CGS-CIMB RESEARCH, SWISS RE

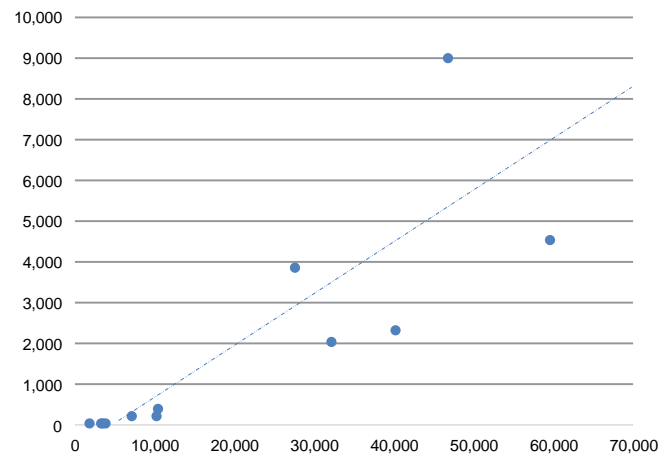
Note that even if we compare GDP per capita with life insurance density (life insurance premiums per capita), there is definitely a positive relationship where insurance density increases as a country becomes more economically developed (i.e. when its GDP per capita increases) (Fig 84). This linear relationship between life insurance premiums per capita and GDP per capita is clear, regardless of whether we compare all countries across the globe (Fig 85) or only compare regions across Asia (Fig 86).

**Figure 85: There is a clear direct relationship between life insurance premiums per capita and GDP per capita across the world**



SOURCES: CGS-CIMB RESEARCH, SWISS RE

**Figure 86: There is a clear direct relationship between life insurance premiums per capita and GDP per capita in Asia**



SOURCES: CGS-CIMB RESEARCH, SWISS RE

In fact, a regression analysis using data from countries globally (whereby the Y-variable is life insurance premiums per capita and the X-variable is GDP per capita) has an adjusted R square of 40%. Meanwhile, a regression analysis using data from countries only within Asia (whereby the Y-variable is life insurance premiums per capita and the X-variable is GDP per capita) has an even higher adjusted R square of 65%.

Given such a relationship between life insurance premiums per capita and GDP per capita, we can make assumptions about population growth (we assume zero growth) and nominal GDP growth by region over the 2020–30 period across Asian regions, which we assume to be 3-8% (Fig 87).

We are then able to predict 2020-30 average premium growth based on these regressions. The global insurance regression predicts the CAGR for premiums in 2020-30, ranging from 8% for Malaysia to 22% for Indonesia and the Philippines (assuming a 7-8% CAGR over this period for nominal GDP growth for both Indonesia and the Philippines) (Fig 87).

**Figure 87: Forecast life insurance premium CAGR over 2020-30 for emerging Asia, based on regression analysis**

	Global insurance regression	Asia insurance regression
Malaysia	8%	14%
Thailand	9%	14%
China	16%	23%
India	11%	-5%
Vietnam	21%	23%
Indonesia	22%	26%
Philippines	22%	23%
	Global insurance regression	Asia insurance regression
	Life insurance premiums per capita = $-37+0.05$ (GDP per capita)	Life insurance premiums per capita = $-418+0.11$ (GDP per capita)
Adjusted R square	40%	65%
t-statistic of the independent variable	5.0	4.6
<b>Key assumptions</b>		
<b>Assumed nominal GDP growth from 2020 to 2030 (assuming 2% inflation every year) by region</b>		
Hong Kong	4%	
Singapore	4%	
Taiwan	4%	
Japan	3%	
South Korea	4%	
Malaysia	5%	
Thailand	5%	
China	7%	
India	8%	
Vietnam	8%	
Indonesia	8%	
Philippines	7%	
<b>Assume 0% population growth</b>		

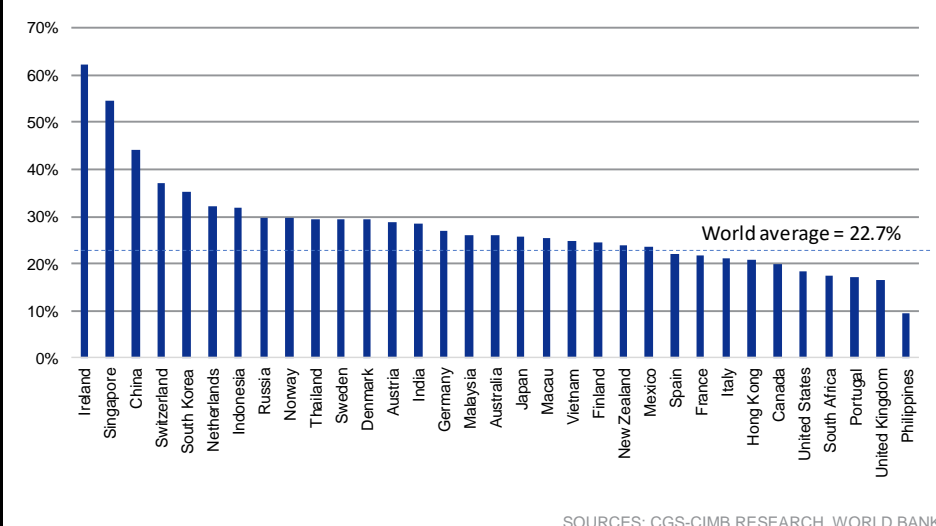
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Why are Asian countries/regions so attractive to multinational insurers? In addition to being relatively underpenetrated, the combination of high savings rates and less generous social security systems (relative to Western countries) present an opportunity for commercial insurers.

Life insurers tend to offer higher yielding products compared to bank deposits in numerous Asian regions, due to life insurers investing at the long yield of the yield curve. Similarly, the sale of protection insurance helps reduce the sizeable mortality gaps that Swiss Re have estimated for these markets.

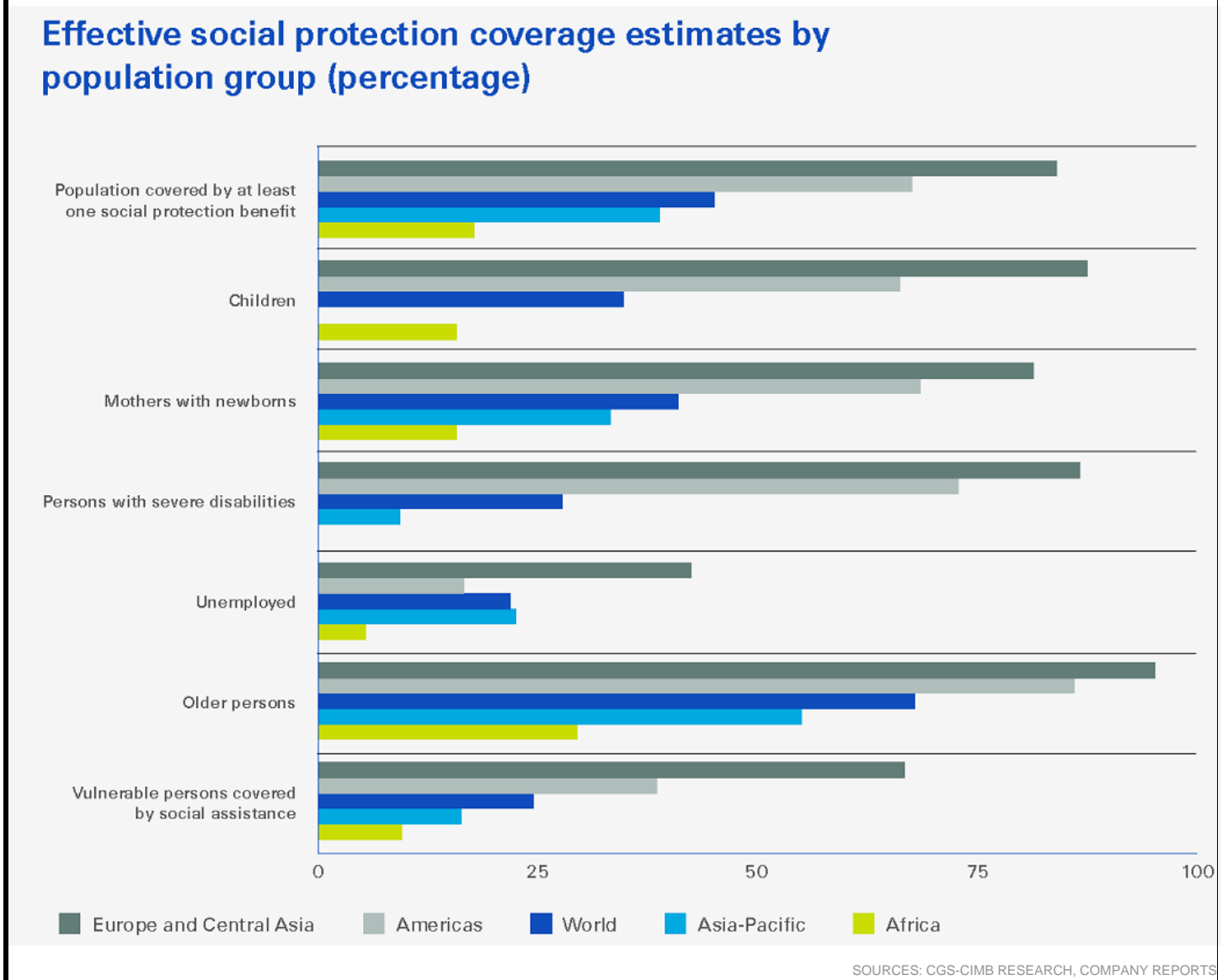
To elaborate, we show in Fig 88 that quite a few Asian countries have savings rates above the world average, including Singapore, China, South Korea, Indonesia, Thailand, Malaysia and Japan. Insofar that insurance can also be a savings substitute, such high savings ratios can help insurance penetration.

**Figure 88: Gross domestic savings as a percentage of GDP (2020)**



Similarly, Swiss Re have also found that social protection coverage in Asian regions tend to be less generous compared to Europe and North America (Fig 89).

Figure 89: Social security protection is worse in Asia on average, compared to other regions in the world



A study by Swiss Re which quantifies the size of the mortality protection gap by region in Asia showed that the mortality protection gap was largest for China and India (Fig 90). On a per household basis, the largest mortality protection gap in Asia Pacific would be Singapore and Australia at US\$644,725 and US\$552,625 respectively.

The mortality protection gap represents the gap in household financial assets needed to sustain the surviving family members, in the event of the premature death of the primary breadwinner.



**Figure 90: The mortality protection gap in Asia is sizeable**

	Total mortality protection gap, 2019 (US\$ tr)	Gap as share of total protection need	Closing the gap: additional annual life premium opportunity, 2020-30(US\$ bn)	Mortality protection gap per household (US\$)
China	40.6	70%	160.4	202,096
India	16.5	83%	78.2	58,618
Japan	8.4	61%	17.2	304,150
South Korea	3.9	55%	9.7	330,752
Australia	2.8	54%	9.1	552,625
Indonesia	2.0	76%	8.5	n.a.
Thailand	0.9	71%	2.9	n.a.
Malaysia	0.7	74%	3.1	n.a.
Singapore	0.6	55%	1.5	644,725
Hong Kong	0.4	41%	1.6	267,938

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Mathematically, how is the mortality protection gap calculated? Given that the mortality protection gap is the difference between the protection needs of a household and the financial resources available to sustain a family's future living standards in the event of the premature death of the main breadwinner(s), then the relevant equation is:

Resources available = total savings + non primary property value + life insurance + other assets (including social security survivor's benefit and compensation from employers)

A household's protection need is a function of age, income of the breadwinner(s), the level of household expenditure, outstanding debts, expected inflation and economic/income growth.

The amount of financial resources available to fund the outgoings depend on the level of life insurance cover, existing liquid assets (cash in hand, bank savings and equity investments, etc.), social security benefits and return from investments in property (other than owner-occupied) a household has.

**Figure 91: Key details of mortality protection gap from a Swiss Re study in 2019**

	China	HK	Singapore	Korea	Thailand	Malaysia	Indonesia	India	Japan	Australia
National mortality protection gap (US\$ tr), 2019	40.6	0.4	0.6	3.9	0.9	0.7	2	16.5	8.4	2.8
Mortality protection gap as share of protection need	69.7%	41.0%	54.5%	55.5%	70.8%	73.6%	75.6%	82.7%	61.3%	53.9%
Percentage coverage that life insurance covers of the national mortality protection need	4.1%	13.5%	14.8%	16.6%	7.9%	4.5%	4.5%	1.2%	20.6%	18.8%
Mortality protection gap per household (US\$)	202,096	267,938	644,725	330,752	71,883	198,243	51,722	58,618	304,150	552,625
Average mortality protection gap per household as a multiple of average annual household income	8.6	5.1	5.3	4.9	6.9	8.6	9.4	14.5	5.5	6.2
<b>Components of household protection coverage in the country, US\$ bn</b>										
Income replacement	56	702	907	6,352	1,273	856	2,523	20	12,287	4,405
Household debt	2	224	115	731	56	59	66	0	1,400	871
Value of non-primary property	8	291	168	1,460	132	89	285	1	1,033	803
Value of liquid assets	4	103	117	440	25	30	47	0	1,128	503
Life insurance sum assured	2	125	151	1,175	105	41	117	0	2,814	994
Other financial assets	4	28	28	79	127	82	181	2	325	132
Protection gap	41	379	557	3,929	941	673	1,959	17	8,387	2,843
Percentage reliance on value of property assets by households as a main source of funds in times of need, by country (2019)	14.3%	41.5%	18.5%	23.0%	n.a.	10.4%	10.4%	11.3%	6.5%	8.4%

SOURCES: CGS-CIMB RESEARCH, SWISS RE

## The quality of the agent force is key, in terms of tapping opportunities

How can this mortality protection gap be properly tapped by life insurers? Given a certain cultural unwillingness to discuss death, it is often said that insurance is sold, and not bought. This means that quite often, insurance sales are more a result of a high-quality agent force. This is an area that AIA excels in, given its focus on highly productive agents.

In the region of HK, AIA has both a superior number and a superior mix of MDRT agents, compared to peers. Another statistic that shows AIA's superior focus on higher quality agents, at least compared to its peer Prudential, is the higher number of AIA's MDRT agents against Pru in every region in Asia, apart from Indonesia (Fig 92).

**Figure 92: A comparison of MDRT agents across time for AIA vs. Pru**

	Aug-15	Aug-16	Jul-17	Jul-18	Jul-19	Jul-20	Jul-21
<b>HK</b>							
AIA	1,569	2,648	3,724	3,785	4,003	3,565	5,135
Pru	1,469	2,612	4,004	3,712	4,142	3,503	4,790
<b>China</b>							
AIA	627	1,062	1,592	2,080	2,577	2,687	3,283
Pru	126	227	347	457	494	403	769
<b>Singapore</b>							
AIA	250	295	393	478	570	593	1,141
Pru	189	175	140	189	297	407	1,002
<b>Malaysia</b>							
AIA	125	179	313	408	503	643	1,002
Pru	n.a.	n.a.	n.a.	n.a.	149	322	941
<b>Indonesia</b>							
AIA	118	196	297	344	401	289	156
Pru	n.a.	n.a.	302	635	675	1,000	1,940
<b>Vietnam</b>							
AIA	110	103	300	410	581	1,112	663
Pru	n.a.	n.a.	n.a.	490	595	560	1,524
<b>Korea</b>							
AIA	189	154	171	220	181	170	n.a.
Pru	443	496	368	343	333	368	465
<b>Philippines</b>							
AIA	278	273	363	419	415	516	n.a.
Pru	153	183	255	267	237	246	501
<b>AIA Other</b>							
Thailand	458	601	847	1,253	1,710	1,703	2,228
India	21	76	159	279	410	531	802
Macau	0	0	0	0	564	589	928
Sri Lanka	26	61	110	130	136	n.a.	213

SOURCES: CGS-CIMB RESEARCH, MDRT

Given the superior quality of AIA's agent force versus peers, and its heavy weighting of VONB within its incentive system that encourages a greater focus than peers on protection insurance and long-term insurance, it is no surprise that AIA has been well placed to sustainably deliver superior VONB growth and hence, continued share price outperformance versus peers.

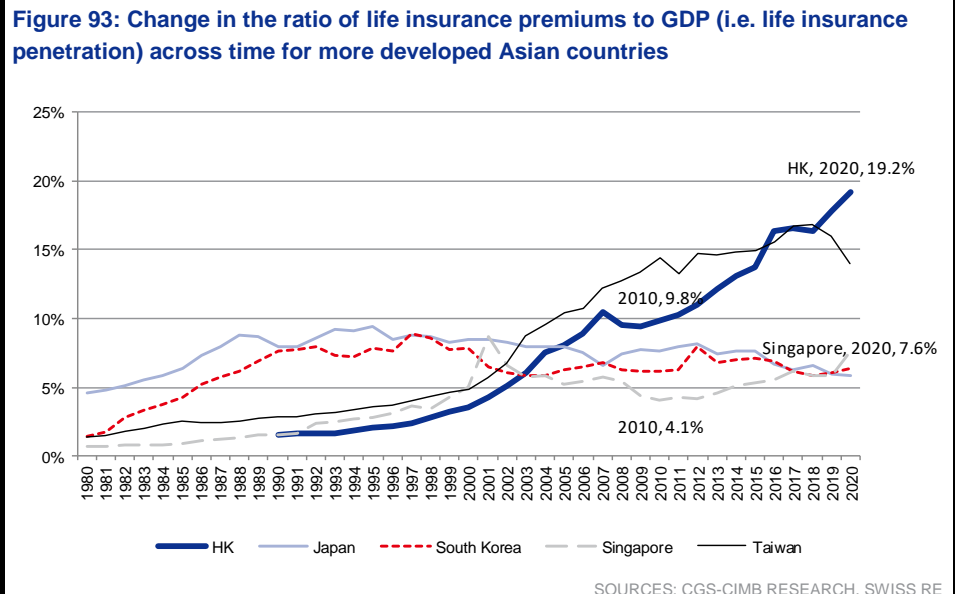
Before we move on to the next section of why investors should not extrapolate China's problems within its insurance sector to the rest of Asia, we wish to make a point to correct a commonly held misconception by the investors that we have historically had conversations with over the course of the last decade about HK and Singapore. In addition, we also point out that the demand for protection and health insurance has seen a significant increase following the start of the Covid-19 pandemic.

### HK and Singapore: High penetration rates are misleading in assessing future growth

Throughout the years, many investors have told us that because HK and Singapore are developed markets, and that their insurance penetration rates are already very high (19.2% for HK and 7.6% for Singapore in 2020), they believed that the future growth potential of insurance sales was limited. This is an overly simplistic way to assess their outlook for insurance premium growth. In our view,

HK and Singapore have the added advantage of being regional financial centres, where HK attracts capital flows from mainland China and Singapore attracts capital flows from Southeast Asia and to a lesser extent, India.

Such capital flows can lead, and have indeed led, to higher insurance premiums in these markets. This is a key reason why since 2010, despite relatively high ratios back in 2010, HK's ratio of life insurance premiums to GDP (i.e. life insurance penetration rate) still continued rising from 9.8% in 2010 to 19.2% in 2020. Similarly, although of a lesser magnitude, Singapore's life insurance penetration rate rose from 4.1% in 2010 to 7.6% in 2020 (Fig 93).

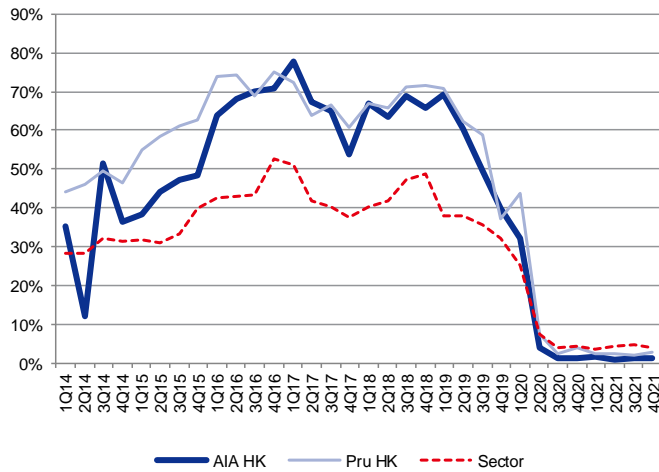


In HK, prior to protests in 2H19 and the border being virtually shut from early-2020 onwards, about two thirds of ANP for both Pru and AIA in HK in 1H19 had come from MCV (Fig 94).

There seems to be strong statistical support that a very high proportion of these MCV buying insurance in HK were doing so for saving reasons, rather than for protection reasons.

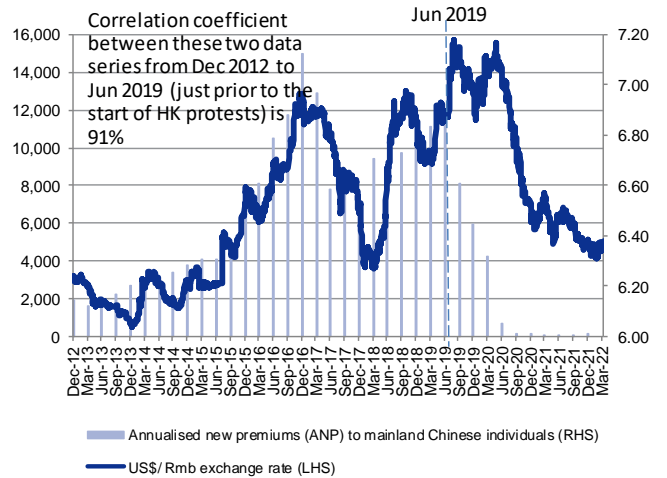
A key reason why we think this is because the correlation coefficient between the US\$/Rmb exchange rate and the ANP from MCV over the Dec 2012 to Jun 2019 period was 91% (Fig 95). This suggests that the US\$/Rmb exchange rate is an extremely important consideration for MCV when buying insurance in HK, which we think would only make sense if these MCV were buying insurance in HK for savings reasons, and not for protection reasons.

**Figure 94: Mix of offshore customer ANP to total ANP (quarterly) for AIA HK, Pru HK and the sector**



SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY

**Figure 95: There had been a very strong visible relationship between the US\$/Rmb exchange rate and ANP to mainland Chinese individuals over the Dec 2012 to Jun 2019 period (correlation coefficient of 91%)**

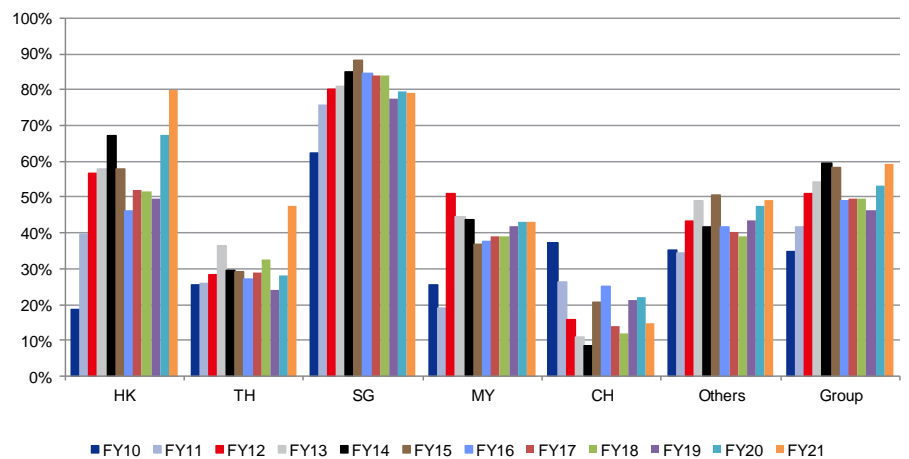


SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY, BLOOMBERG

Similarly, for Singapore, a statistic that supports Singapore being a market where savings insurance dominates more compared to other markets is the fact that Singapore’s single premium mix is much higher than other regions.

For example, AIA’s single premium mix within new business premiums was 79% in FY21, a level that is higher than any of its other markets. Note in Fig 96 that Singapore’s single premium mix has been consistently higher than other markets since AIA’s 2010 IPO. As we think that single premiums tend to be much more savings-oriented than protection-oriented, we therefore think that Singapore’s status as a regional financial centre sees it attract strong savings insurance premiums from neighbouring regions.

**Figure 96: Percentage of single premiums to new business premiums (unweighted)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

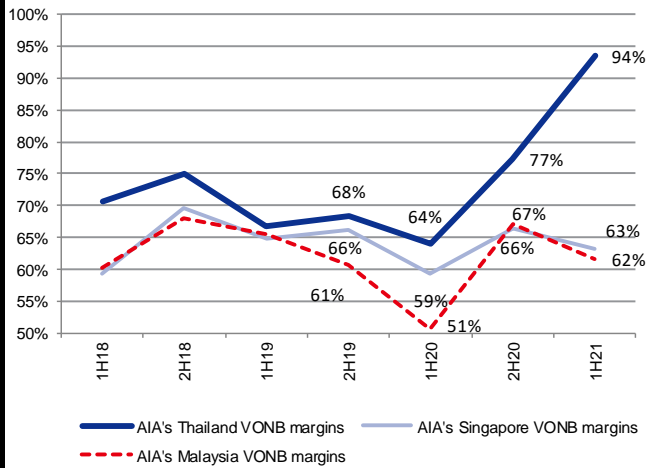
**Thailand: A region where the demand for protection insurance is notably rising**

NBP growth is not just about premium growth. Margin improvement matters as well.

Drawing on the example of AIA, there has been significant VONB margin improvement driving AIA Thailand’s VONB growth, on the back of a sharp rise in protection insurance. In fact, the VONB margin improvement for AIA Thailand in

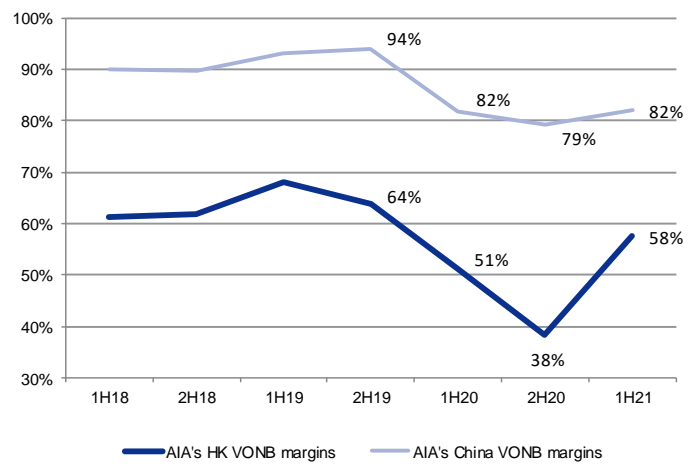
1H21 (from 64% in 1H20 to 94% in 1H21) was more than any other region for AIA (Fig 97).

**Figure 97: AIA's Thailand, Singapore and Malaysia VONB margins**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 98: AIA's HK and China VONB margins**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

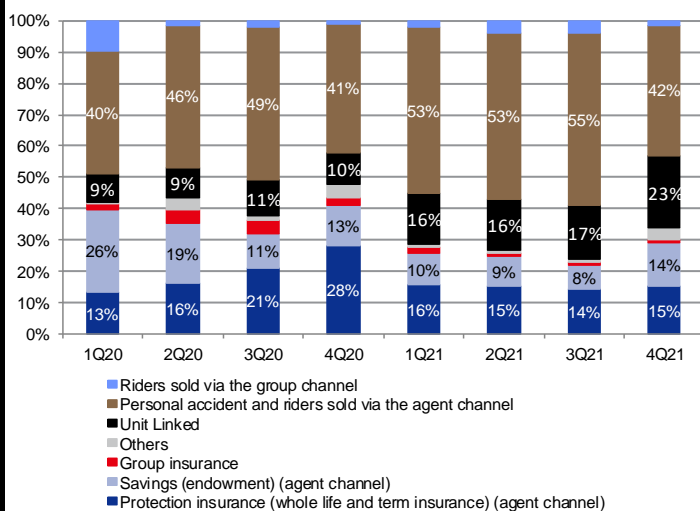
This was a deliberate strategy by AIA and is clearly delivering in terms of a sharp rise in VONB margins, which was already starting to show benefits in 2H20 (1H21: 93.5% vs. 2H20's 77.4% vs. 1H20's 63.9%).

To recap, 4Q21 data from Thailand's Life Assurance Association (TLAA) show that AIA's Thailand life insurance ANP mix had shifted noticeably towards higher-margin protection businesses (specifically, whole life, personal accident and riders) and away from lower-margin savings products (such as endowment insurance).

Thailand clearly stands out as a region where there seems to be a greater demand for protection and health insurance following the start of the Covid-19 pandemic.

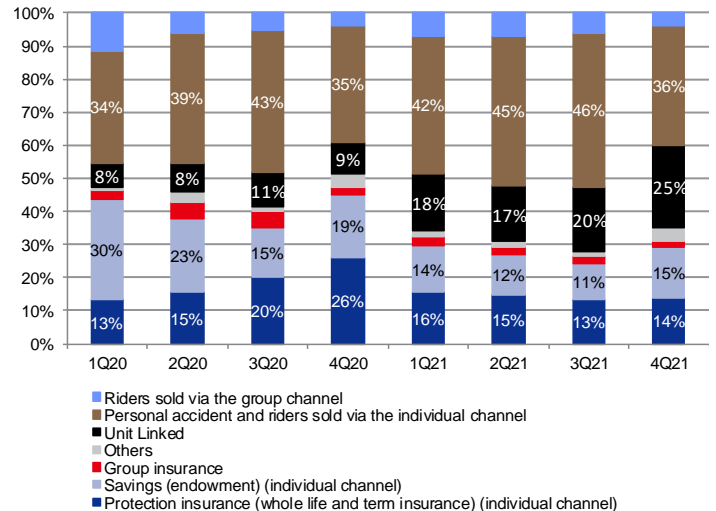
For example, the mix of personal accident and riders sold via the agent channel rose from 49% of AIA Thailand's 3Q20 ANP to 55% in 3Q21 (though it fell due to seasonal factors to 42% in 4Q21) (Fig 99).

**Figure 99: ANP mix of AIA's agent channel only in Thailand**



SOURCES: CGS-CIMB RESEARCH, THAILAND LIFE ASSURANCE ASSOCIATION (TLAA)

**Figure 100: ANP mix of all AIA's distribution channels in Thailand**



SOURCES: CGS-CIMB RESEARCH, TLAA

Across all of AIA Thailand's distribution channels, high-margin protection and rider business saw ANP accelerate from 1% yoy in FY20 to 16% yoy in 1Q21 and 28% yoy in 2Q21, before slowing to flat yoy in 3Q21, primarily as strong

growth in personal accident and riders was offset by a fall in protection insurance (Fig 101). It fell yoy in 4Q21 by 21% due to Covid-19 outbreaks, which had an adverse effect on the sales of protection policies.

**Figure 101: ANP growth yoy by category for all distribution channels of AIA in Thailand**

	Protection insurance (whole life and term insurance) (individual channel)	Savings (endowment) (individual channel)	Group insurance	Others	Unit Linked	Personal accident and riders sold via the individual channel	Riders sold via the group channel	Total ANP	High margin protection and rider business
FY20	7%	-23%	-20%	24%	-7%	-1%	-43%	-11%	1%
1Q21	13%	-56%	-13%	187%	122%	17%	-42%	-4%	16%
2Q21	11%	-37%	-45%	-43%	137%	34%	34%	17%	28%
3Q21	-22%	-17%	-52%	39%	117%	25%	38%	16%	10%
4Q21	-48%	-21%	-22%	-3%	161%	-1%	5%	-2%	-21%
1H21	12%	-50%	-31%	5%	128%	25%	-20%	5%	21%
2H21	-39%	-20%	-39%	4%	142%	11%	21%	5%	-8%
<b>Monthly data</b>									
Dec-20	38%	-48%	-33%	43%	7%	23%	-82%	-13%	29%
Jan-21	26%	-31%	-3%	514%	101%	26%	-50%	2%	26%
Feb-21	10%	-49%	-13%	106%	145%	13%	-33%	4%	12%
Mar-21	4%	-72%	-26%	111%	119%	14%	-15%	-15%	12%
Apr-21	61%	1%	-31%	135%	225%	59%	8%	54%	60%
May-21	7%	-19%	-45%	-23%	101%	39%	17%	21%	30%
Jun-21	-9%	-54%	-56%	-61%	114%	13%	105%	-6%	6%
Jul-21	-15%	-18%	-65%	90%	134%	34%	35%	18%	20%
Aug-21	-33%	-21%	-39%	22%	88%	20%	23%	8%	2%
Sep-21	-17%	-13%	-42%	28%	130%	21%	68%	21%	9%
Oct-21	-49%	-40%	-3%	10%	153%	9%	-10%	-2%	-14%
Nov-21	-48%	-9%	-32%	45%	279%	4%	27%	12%	-18%
Dec-21	-46%	-17%	-30%	-18%	95%	-10%	3%	-11%	-26%
Jan-22	-15%	-24%	1%	-27%	43%	6%	57%	8%	0%
Feb-22	-10%	-12%	-7%	10%	6%	4%	71%	3%	0%

SOURCES: CGS-CIMB RESEARCH, TLAA

## Be careful about assuming China's problems also apply to other markets in Asia

We understand that the China insurance industry has undergone significant challenges to growth over the last few years. However, we stress that investors should not extrapolate such challenges to other markets, for a number of reasons.

Firstly, China is undergoing an unusually tough regulatory environment for life insurance growth. Such a tough regulatory environment is not occurring in any other insurance market in Asia Pacific. Secondly, there are also no parallels to other regions rolling out products similar to Huiminbao, which is causing pressure to growth yoy. Thirdly, China's current problems with agent numbers is in part due to its relatively high penetration of agent numbers, relative to its population.

We show in Fig 102 that China's ratio of life insurance agents to the population peaked at 0.65% in 2019, before falling to 0.60% in 2020. Nevertheless, 2020's ratio of 0.60% is still significantly higher than any other region within Asia, apart from HK (1.18%) and Taiwan (0.97%).

However, these regions are not comparable to mainland China in our view, as HK and Taiwan are much more economically developed in terms of GDP per capita, and in the case of HK, a sizeable proportion of agent numbers relate to mainland Chinese visitors buying insurance in HK.

Hence, we would be surprised if China's agent numbers fall to levels where its agent to population ratio is comparable to that of Malaysia or Thailand or Singapore (i.e. 0.25-0.35%).

Assuming system agent numbers fall by the same rate in 3Q21 vs. 2020 as it did for the listed insurers, this gives an estimated life insurance agent penetration rate of 0.42% in 3Q21 for mainland China. This could mean that China's life insurers' number of agents could fall by another 17-40% from 3Q21 levels.

**Figure 102: Ratio of life insurance agents to the population in countries across Asia**

(%)	CH	HK	TW	SG	KR	JP	TH	IN	ID	PH	MY
2000	n.a.	0.46	1.05	n.a.	n.a.	0.23	0.44	n.a.	n.a.	n.a.	n.a.
2001	0.08	0.45	1.09	n.a.	n.a.	0.23	0.52	n.a.	n.a.	n.a.	n.a.
2002	0.10	0.44	1.11	n.a.	n.a.	0.22	0.58	n.a.	n.a.	n.a.	n.a.
2003	0.11	0.44	1.06	n.a.	n.a.	0.21	0.68	n.a.	n.a.	n.a.	n.a.
2004	0.12	0.43	1.01	n.a.	n.a.	0.21	0.35	n.a.	n.a.	n.a.	n.a.
2005	0.11	0.40	0.89	n.a.	n.a.	0.20	0.41	n.a.	n.a.	n.a.	n.a.
2006	0.12	0.41	0.83	n.a.	n.a.	0.19	0.45	n.a.	n.a.	n.a.	n.a.
2007	0.15	0.42	0.76	0.29	n.a.	0.19	0.49	n.a.	n.a.	n.a.	n.a.
2008	0.19	0.44	0.76	0.28	n.a.	0.19	0.50	n.a.	n.a.	n.a.	n.a.
2009	0.22	0.46	0.73	0.28	n.a.	0.20	0.43	n.a.	n.a.	n.a.	n.a.
2010	0.25	0.48	0.72	0.26	0.29	0.19	0.40	n.a.	n.a.	n.a.	n.a.
2011	0.25	0.49	0.71	0.26	0.31	0.19	0.42	0.19	n.a.	n.a.	n.a.
2012	0.21	0.53	0.74	0.25	0.31	0.18	0.43	0.17	n.a.	n.a.	n.a.
2013	0.21	0.58	0.72	0.26	0.29	0.18	0.42	0.17	n.a.	0.04	n.a.
2014	0.24	0.64	0.77	0.26	0.26	0.18	0.42	0.16	n.a.	0.10	n.a.
2015	0.34	0.74	0.80	0.27	0.25	0.18	0.42	0.15	0.19	0.12	n.a.
2016	0.48	0.86	0.81	0.26	0.25	0.18	0.40	0.16	0.21	0.08	0.27
2017	0.58	0.86	0.85	0.26	0.24	0.18	0.40	0.16	0.22	0.08	0.25
2018	0.62	0.93	0.86	0.28	0.22	0.19	0.39	0.17	0.22	0.11	0.23
2019	0.65	1.10	0.96	0.26	0.21	0.19	0.37	0.17	0.22	0.14	0.24
2020	0.60	1.18	0.97	0.27	0.22	n.a.	0.35	n.a.	n.a.	n.a.	0.25

SOURCES: CGS-CIMB RESEARCH, CEIC, INDUSTRY ASSOCIATIONS

**Figure 103: GDP per capita (US\$) of various countries across Asia**

(US\$ '000)	CH	HK	TW	SG	KR	JP	TH	IN	ID	PH	MY
2000	1.0	25.8	14.9	23.8	11.9	38.5	2.0	0.4	0.8	1.0	4.0
2001	1.1	25.2	13.4	21.6	11.3	33.8	1.9	0.4	0.8	1.0	3.9
2002	1.1	24.7	13.8	22.0	12.8	32.3	2.1	0.5	1.0	1.0	4.2
2003	1.3	24.0	14.1	23.6	14.2	34.8	2.4	0.5	1.1	1.0	4.5
2004	1.5	24.9	15.4	27.4	15.9	37.7	2.7	0.6	1.2	1.1	5.0
2005	1.8	26.6	16.5	29.9	18.6	37.2	2.9	0.7	1.3	1.2	5.6
2006	2.1	28.2	17.0	33.6	20.9	35.4	3.4	0.8	1.7	1.4	6.2
2007	2.7	30.6	17.8	39.2	23.1	35.3	4.0	1.0	2.0	1.7	7.3
2008	3.5	31.5	18.1	39.7	20.4	39.3	4.6	1.0	2.3	1.9	8.5
2009	3.8	30.7	17.0	38.6	18.3	40.9	4.4	1.1	2.4	1.8	7.3
2010	4.6	32.5	19.3	46.6	22.1	44.5	5.3	1.3	3.1	2.1	9.1
2011	5.6	35.1	20.9	53.2	24.1	48.2	5.8	1.5	3.6	2.4	10.4
2012	6.3	36.7	21.3	54.4	24.4	48.6	6.2	1.4	3.7	2.6	10.8
2013	7.1	38.4	21.9	56.0	27.2	40.5	6.5	1.5	3.6	2.8	10.9
2014	7.7	40.3	22.7	57.6	29.2	38.1	6.3	1.6	3.5	2.8	11.2
2015	8.1	42.4	22.4	55.6	28.7	34.6	6.1	1.6	3.3	2.9	9.6
2016	8.1	43.7	22.6	56.7	29.3	39.0	6.3	1.6	3.6	3.0	9.5
2017	8.8	46.2	24.3	60.3	31.6	38.4	6.9	1.8	3.8	3.0	9.9
2018	9.8	46.7	25.2	64.6	33.3	39.2	7.6	2.0	3.9	3.1	11.1
2019	10.2	48.4	25.9	65.6	31.8	40.1	7.8	2.1	4.1	3.5	11.4
2020	10.5	46.3	27.7	59.8	31.5	40.3	7.2	1.9	3.9	3.3	10.4

SOURCES: CGS-CIMB RESEARCH, CEIC

## An analysis of strengths, weaknesses, opportunities and threats (SWOT)

We believe that a key strength for Pru is its geographically diversified footprint across Asia and to a lesser extent, Africa. It is also well diversified across distribution channels, with a strong presence in both the agent and the bancassurance distribution channel. We believe that such a diversified presence is extremely difficult to replicate.

We see Pru's key weakness being its relatively low exposure to Asian based investors, who we believe are willing to pay higher valuation multiples compared to global investors, insofar that they are more willing to use actuarial metrics to value quality multinational life insurers.

A key opportunity that we discussed in this report is that Pru can once again tap MCV insurance demand, either when it obtains a Macau licence or when the borders between mainland China and HK fully reopen.

A key threat is continued Covid outbreaks, especially if there are mutations whereby Covid-19 variants become both more transmissible and more deadly, which could lead to lockdowns being imposed. This could lead once again to reduced face-to-face contact and make it more difficult for Pru's agents to sell insurance policies.



## Valuations look attractive

We value Pru on a SOP basis, with the life insurance division valued via a weighted P/EV GGM and a P/BV GGM, and the asset management division valued via a P/BV GGM (Fig 104).

We assume a cost of equity of 8.4%, a terminal growth rate of 3.5%, a sustainable return on EV (ROEV) of 10.1% (based on the weighted average ROEV over FY20–24F), a sustainable ROE of 16.2% (based on the weighted average ROE over FY20–24F), a sustainable asset management ROE of 15.3%, and an assumed US\$/HK\$ exchange rate of 7.79. Our FY22F EVPS is US\$17.28, our FY22F insurance BVPS is US\$5.72 and our asset management FY22F BVPS is US\$0.50. With a 30% weighting assigned to a P/EV GGM methodology and a 70% weighting assigned to a P/BV GGM methodology for our life insurance valuation. We thus derive a TP of HK\$144.70, which suggests a 49% potential upside based on the share price as of 17 May 2022.

Hence, we initiate coverage on Pru with an Add rating.

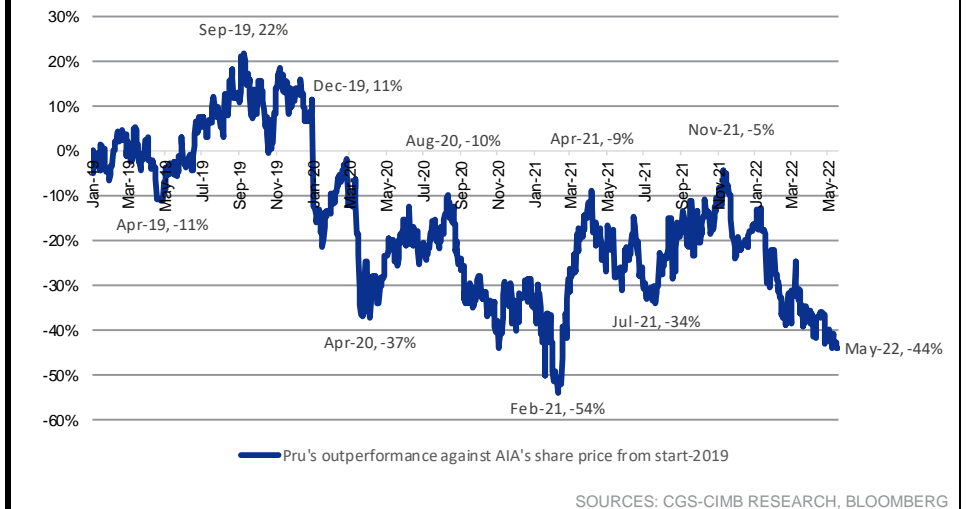
<b>Figure 104: Valuation of Pru</b>	
	<b>Key assumptions</b>
Equity risk premiums (ERP)	10.0%
Risk free rate	2.0%
Beta	0.80
Cost of equity (COE)	8.4%
Terminal growth rate	3.5%
Sustainable ROEV (weighted average of FY20-FY24F, with an equal weighting to all years)	10.1%
Sustainable insurance ROE (weighted average of FY20-FY24F, with an equal weighting to all years)	16.2%
Sustainable asset management ROE (weighted average of FY20 - FY24F ROE, with an equal weighting to all years)	15.3%
Assumed US\$/HK\$ exchange rate	7.79
FY22F EVPS (US\$)	17.28
FY22F insurance BVPS (US\$)	5.72
Asset management FY22F BVPS (US\$)	0.50
Weighting assigned to P/EV methodology for life insurance valuation	30%
Weighting assigned to P/BV methodology for life insurance valuation	70%
<b>Life insurance valuation</b>	
Target P/EV (FY22F)	1.35x
Hence insurance valuation (HK\$) if 100% weighting to a P/EV GGM approach	181.47
Target P/BV (FY22F)	2.60x
Hence insurance valuation (HK\$) if 100% weighting to a P/BV GGM approach	115.68
Asset management target FY22F P/BV multiple	2.4
<b>Sum of the parts valuation of Pru</b>	
Life insurance valuation (HK\$) per share	135.42
Asset management valuation (HK\$) per share	9.33
Hence, Pru valuation (HK\$) per share	144.70
Current share price of 2378 HK (HK\$)	97
Upside/ downside	49%
Rating	Add

SOURCES: CGS-CIMB RESEARCH ESTIMATES

We see current valuations as highly attractive. Pru has unwound all of its 2021 outperformance against AIA, and in fact has underperformed AIA by 38% pts since Nov 2021.

To elaborate, Pru's share price had significantly outperformed that of AIA since Feb 2021. In Fig 99, we show Pru's cumulative outperformance against AIA since the start of 2019. It had been underperforming until Feb 2021, where it troughed at -54% cumulative underperformance. Subsequent outperformance saw it outperform until Nov 2021, with the cumulative underperformance then only -5%. As of 16 May 2022, this cumulative underperformance started to increase again, with Pru's recent underperformance resulting in the cumulative underperformance rising sharply to -44% (Fig 105).

**Figure 105: Pru's significant share price outperformance against AIA had started to unwind noticeably over the last month**



Pru currently trades at 0.67x 12-month forward P/EV, which is 1.8 s.d. below its post-2010 historical mean of 0.97x (Fig 106). It also trades at 1.75x P/TBV (tangible book value) [12-month forward rolling], which is 1.9 s.d. below its post-2010 historical mean of 2.68x (Fig 107).

**Figure 106: Prudential's 12-month rolling forward P/EV**



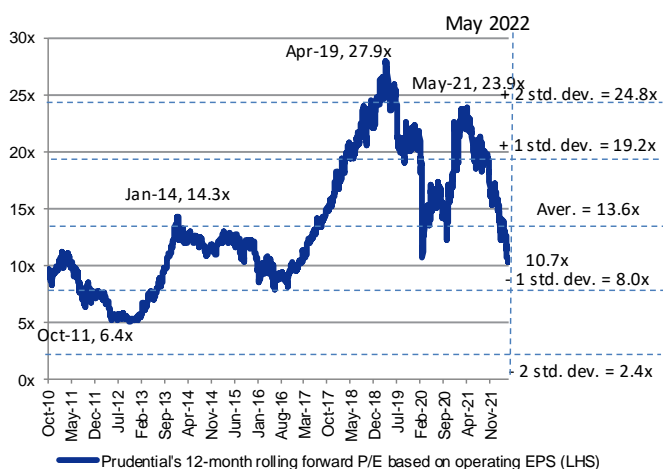
**Figure 107: Prudential's 12-month rolling forward P/TBV**



Even looking at P/E ratios (with earnings based on operating EPS) also indicates that Pru's valuations are attractive, with it currently trading at 10.7x, 0.5 s.d. below its post-2010 mean.

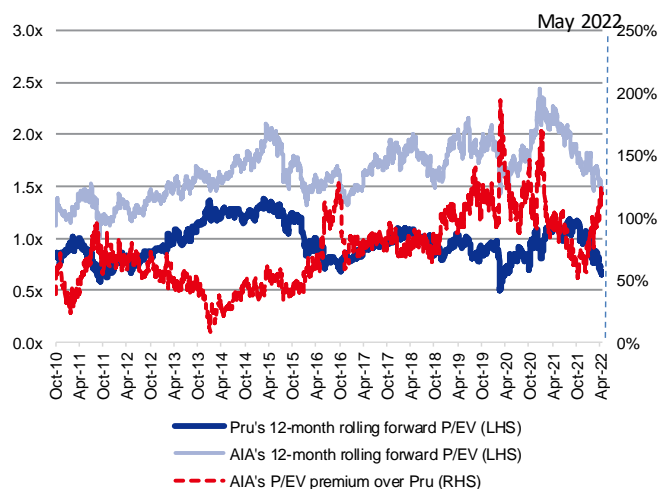
Relative to AIA, AIA's P/EV premium to Pru is currently 119%.

**Figure 108: Prudential's 12-month rolling forward P/E (based on operating EPS)**



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

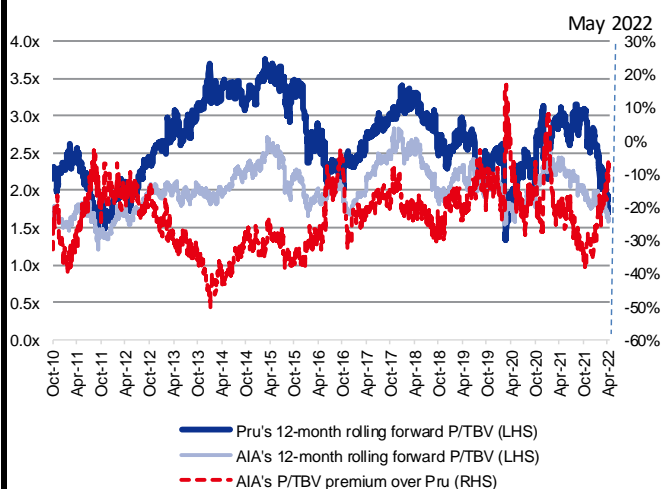
**Figure 109: A comparison of the P/EV of Pru and AIA (12-month rolling basis)**



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

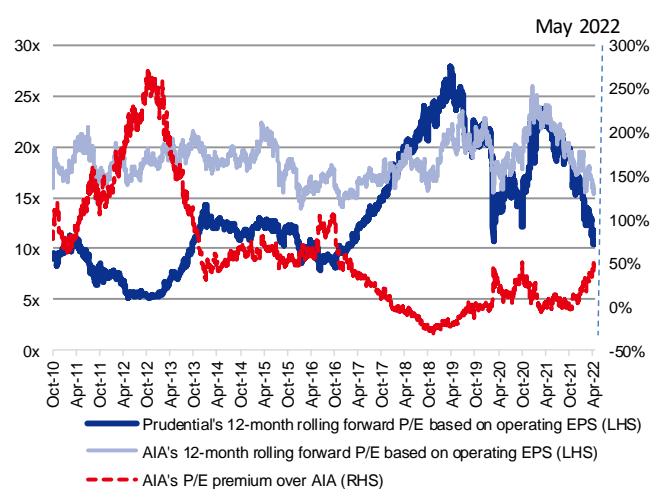
Interestingly, AIA trades at a slight discount on a P/TAV basis to Pru, with the discount at 8% in May 2022. On a P/E (operating EPS) basis, AIA trades at a 47% premium in May 2022.

**Figure 110: A comparison of the P/TBV of Pru and AIA based on operating EPS (12-month rolling basis)**



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

**Figure 111: A comparison of the P/E of Pru and AIA based on operating EPS (12-month rolling basis)**



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

**Figure 112: Sector comparison**

Ticker	Rec	Market Cap	Price	Target Price	+/-	P/EV (x)		VONB multiple (x)		P/BV (x)		Group ROEV (%)		ROE (%)		P/E (x)		Dividend yield (%)		
						FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F
China Life	2628 HK	Add	88.52	11.38	15.00	32%	0.21x	0.19x	-23.2x	-30.3x	0.5x	0.5x	10.4x	10.7x	10.2x	12.0x	5.3x	4.2x	6.8	8.6
Ping An	2318 HK	Add	116.42	48.45	72.00	49%	0.50x	0.47x	-24.9x	-26.9x	0.8x	0.7x	7.4x	10.1x	15.5x	15.8x	5.3x	4.7x	6.2	7.0
CPIC	2601 HK	Add	27.54	17.20	29.00	69%	0.26x	0.24x	-35.3x	-37.2x	0.6x	0.5x	9.9x	12.2x	11.2x	11.7x	4.8x	4.3x	7.8	8.7
NCI	1336 HK	Add	11.21	19.18	30.30	58%	0.18x	0.17x	-45.3x	-46.6x	0.4x	0.4x	8.9x	9.8x	13.2x	12.1x	3.3x	3.3x	9.1	9.1
PICC P&C	2328 HK	Add	21.68	7.65	9.80	28%	n.a.	n.a.	n.a.	n.a.	0.7x	0.6x	n.a.	n.a.	10.8x	10.8x	6.2x	5.8x	6.6	7.0
AIA	1299 HK	Add	119.00	77.55	94.00	21%	1.62x	1.48x	14.2x	10.1x	1.9x	1.8x	4.8x	12.6x	7.9x	11.7x	24.4x	15.5x	1.9	2.1
Pru	2378 HK	Add	33.97	97.00	144.70	49%	0.69x	0.64x	-5.9x	-6.3x	1.8x	1.6x	8.3x	9.8x	11.5x	15.9x	16.5x	10.7x	1.2	1.3
Manulife	945 HK	NR	34.25	139.70	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.6x	0.6x	n.a.	n.a.	12.6x	12.3x	5.3x	4.9x	7.5	8.1
HK-listed weighted average							0.76x	0.70x	-12.5x	-16.1x	1.1x	1.0x	7.6x	11.1x	11.3x	13.0x	11.2x	7.9x	5.3	6.0
HK-listed weighted average ex AIA, Pru and Manulife							0.35x	0.33x	-26.4x	-30.2x	0.7x	0.6x	8.9x	10.6x	12.8x	13.5x	5.3x	4.5x	6.7	7.8

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS  
Note: Estimates for Not rated companies are based on Bloomberg consensus estimates  
DATA AS AT 17 MAY 2022

**Figure 113: Global insurance peer comparison (part 1)**

Company Name	Bloomberg ticker	Rating	Market cap (US\$ m)	Closing Price (local currency)	Target price (local currency)	P/BV		P/E		ROE	
						CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
<b>China</b>											
China Life	2628 HK	Add	88,516.32	11.38	15.00	0.55x	0.50x	5.5x	4.5x	10.1%	11.4%
Ping An	2318 HK	Add	116,420.45	48.45	72.00	0.85x	0.77x	6.0x	5.0x	15.1%	15.7%
CPIC	2601 HK	Add	27,537.62	17.20	29.00	0.59x	0.54x	5.3x	4.6x	10.8%	12.5%
PICC P&C	2328 HK	Add	21,676.90	7.65	30.30	0.66x	0.61x	5.7x	5.0x	12.1%	12.6%
NCI	1336 HK	Add	11,208.72	19.18	30.30	0.44x	0.40x	3.9x	3.2x	12.2%	13.4%
PICC Group	1336 HK	Not Rated	27,158.43	2.44	n.a.	0.40x	0.37x	3.9x	3.5x	10.3%	10.7%
China Taiping	966 HK	Not Rated	3,882.60	8.48	n.a.	0.32x	0.29x	3.8x	3.2x	9.2%	9.5%
<b>Average</b>						<b>0.54x</b>	<b>0.50x</b>	<b>4.9x</b>	<b>4.1x</b>	<b>11.4%</b>	<b>12.3%</b>
<b>Hong Kong</b>											
AIA Group	1299 HK	Add	118,996.12	77.55	94.00	1.86x	1.69x	16.3x	14.1x	11.5%	12.4%
Prudential plc	2378 HK	Add	33,973.63	97.00	144.70	1.75x	1.52x	11.0x	9.4x	16.5%	17.0%
Manulife	945 HK	Not Rated	34,249.64	139.70	n.a.	0.82x	0.80x	7.0x	6.3x	12.7%	12.7%
<b>Average</b>						<b>1.48x</b>	<b>1.34x</b>	<b>11.4x</b>	<b>10.0x</b>	<b>13.6%</b>	<b>14.0%</b>
<b>Taiwan</b>											
Cathay Financial	2882 TT	Not Rated	23,339.75	52.60	n.a.	0.78x	0.71x	6.9x	6.7x	11.0%	10.8%
Fubon Financial	2881 TT	Not Rated	24,501.69	61.60	n.a.	0.80x	0.74x	6.6x	6.9x	11.9%	11.7%
Shin Kong Financial	2888 TT	Not Rated	4,242.03	8.90	n.a.	0.48x	0.46x	8.7x	8.9x	6.0%	6.5%
<b>Average</b>						<b>0.69x</b>	<b>0.64x</b>	<b>7.4x</b>	<b>7.5x</b>	<b>9.6%</b>	<b>9.7%</b>
<b>South Korea</b>											
Samsung Life	032830 KS	Not Rated	10,600.46	67,200.00	n.a.	0.33x	0.32x	9.7x	8.6x	3.2%	6.4%
Hanwha Life	088350 KS	Not Rated	1,743.40	2,545.00	n.a.	0.25x	0.24x	4.9x	4.8x	3.8%	4.1%
Samsung F&M	000810 KS	Not Rated	7,473.14	200,000.00	n.a.	0.52x	0.49x	8.1x	7.6x	6.7%	6.8%
Dongbu Ins	005830 KS	Not Rated	3,523.61	63,100.00	n.a.	0.64x	0.59x	5.0x	5.3x	12.8%	12.5%
Hyundai M&F	001450 KS	Not Rated	2,182.35	30,950.00	n.a.	0.52x	0.46x	5.2x	4.5x	10.0%	11.2%
<b>Average</b>						<b>0.45x</b>	<b>0.42x</b>	<b>6.6x</b>	<b>6.2x</b>	<b>7.3%</b>	<b>8.2%</b>
<b>Australia</b>											
AMP Ltd	AMP AU	Not Rated	2,612.68	1.14	n.a.	0.91x	0.88x	14.8x	14.3x	6.6%	6.1%
IAG	IAG AU	Add	8,095.28	4.68	5.12	1.80x	1.73x	24.1x	15.1x	8.1%	12.3%
QBE	QBE AU	Add	13,259.82	12.74	14.45	1.39x	1.28x	14.5x	9.7x	10.6%	14.9%
SUN	SUN AU	Add	2,335.62	7.25	7.14	4.49x	4.17x	21.4x	21.4x	21.3%	20.1%
NIB	NHF AU	Hold	10,773.39	12.16	13.14	1.20x	1.17x	18.4x	13.6x	6.7%	8.9%
Medibank Private	MPL AU	Add	6,261.25	3.24	3.43	4.56x	4.39x	20.8x	19.3x	22.0%	22.6%
<b>Average</b>						<b>2.39x</b>	<b>2.27x</b>	<b>19.0x</b>	<b>15.6x</b>	<b>12.5%</b>	<b>14.1%</b>
<b>Japan</b>											
Japan Post	6178 JP	Not Rated	27,044.43	928.50	n.a.	0.26x	0.26x	8.3x	8.5x	2.8%	2.6%
Tokio Marine	8766 JP	Not Rated	36,039.58	6,856.00	n.a.	1.14x	1.09x	12.7x	11.7x	9.2%	9.5%
MS&AD Ins.	8725 JP	Not Rated	17,378.54	3,787.00	n.a.	0.61x	0.58x	8.1x	7.2x	7.7%	8.0%
Dai-ichi Life	8750 JP	Not Rated	19,899.86	2,496.00	n.a.	0.48x	0.45x	8.4x	7.9x	6.0%	6.2%
<b>Average</b>						<b>0.62x</b>	<b>0.59x</b>	<b>9.3x</b>	<b>8.8x</b>	<b>6.4%</b>	<b>6.6%</b>
<b>South East Asia</b>											
Tune Protect	TIH MK	Reduce	66.91	0.39	0.36	0.52x	0.46x	12.6x	6.7x	4.1%	7.3%
STMK	STMB MK	Add	659.25	3.45	5.80	1.39x	1.41x	8.6x	7.3x	17.5%	19.5%
Bangkok Life	BLA TB	Not Rated	1,903.01	38.50	n.a.	1.37x	1.26x	15.6x	11.3x	9.0%	11.3%
Great Eastern	GE SP	Not Rated	6,902.78	20.20	n.a.	n.a.	n.a.	8.1x	7.7x	11.3%	10.9%
<b>Average</b>						<b>1.09x</b>	<b>1.04x</b>	<b>11.2x</b>	<b>8.3x</b>	<b>10.5%</b>	<b>12.3%</b>
<b>Other Asiapac</b>											
ICICI Pru	IPRU IN	Not Rated	9,279.44	500.30	n.a.	7.09x	6.48x	57.3x	47.9x	12.4%	13.9%
HDFC Standard Life	HDFCLife IN	Not Rated	15,126.28	554.85	n.a.	8.64x	7.68x	67.6x	56.8x	14.2%	14.6%
SBI Life	SBILife IN	Add	13,817.91	1,070.40	1,500.00	7.99x	6.90x	54.2x	44.2x	14.7%	14.8%
Star Health & Alliance	STARHEAL IN	Not Rated	4,829.60	650.30	n.a.	11.39x	8.10x	61.6x	37.4x	13.0%	18.7%
ICICI Lombard	ICICIGI IN	Not Rated	8,307.99	1,311.35	n.a.	5.91x	5.10x	33.4x	26.6x	17.7%	20.1%
Tower NZ	TWR NZ	Not Rated	162.76	0.68	n.a.	0.79x	0.76x	12.1x	9.8x	6.6%	7.9%
Max Financial	MAXF IN	Not Rated	3,290.45	738.85	n.a.	8.59x	7.90x	50.9x	43.3x	15.9%	16.2%
Bao Viet Holdings	BVH VN	Not Rated	1,644.32	51,200.00	n.a.	1.67x	1.55x	17.2x	14.8x	10.2%	11.1%
Baominh Insurance	BMI VN	Not Rated	137.54	29,000.00	n.a.	3.06x	1.43x	28.0x	12.7x	11.6%	13.5%
<b>Average</b>						<b>6.51x</b>	<b>5.56x</b>	<b>44.3x</b>	<b>35.1x</b>	<b>13.1%</b>	<b>14.7%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS  
DATA AS OF 17 MAY 2022

Note: All forecasts for Non Rated companies are Bloomberg consensus estimates

**Figure 114: Global insurance peer comparison (part 2)**

Company Name	Bloomberg ticker	Rating	Market cap		Target price	P/BV		P/E		ROE	
			(US\$ m)	(local currency)		(local currency)	CY22F	CY23F	CY22F	CY23F	CY22F
<b>North America</b>											
AIG	AIG US	Not Rated	47,753.33	60.28	n.a.	0.79x	0.74x	11.6x	9.5x	6.8%	8.0%
Metlife	MET US	Not Rated	52,850.25	64.99	n.a.	1.01x	0.95x	8.8x	7.9x	12.8%	13.2%
Prudential Financial	PRU US	Not Rated	38,985.00	103.96	n.a.	0.80x	0.76x	9.0x	8.1x	10.7%	11.4%
Allstate Corp	ALL US	Not Rated	35,530.56	129.21	n.a.	1.66x	1.55x	14.6x	10.1x	12.0%	15.5%
Lemonade Inc	LMND US	Not Rated	1,307.26	21.16	n.a.	2.03x	3.27x	n.a.	n.a.	-48.8%	-64.5%
Manulife	MFC CN	Not Rated	34,510.34	23.00	n.a.	0.83x	0.81x	7.0x	6.4x	12.7%	12.7%
Great-West Life	GWO CN	Not Rated	24,467.53	33.68	n.a.	1.30x	1.22x	9.1x	8.6x	14.5%	15.3%
Sunlife Financial	SLF CN	Not Rated	28,627.16	62.65	n.a.	1.47x	1.38x	10.3x	9.3x	14.2%	15.1%
<b>Average</b>						<b>1.24x</b>	<b>1.33x</b>	<b>10.1x</b>	<b>8.6x</b>	<b>4.4%</b>	<b>3.3%</b>
<b>UK</b>											
Prudential	PRU LN	Not Rated	34,880.28	1,016.50	n.a.	1.80x	1.56x	11.5x	9.9x	16.5%	17.0%
Aviva	AV/ LN	Not Rated	14,188.14	405.65	n.a.	0.58x	0.56x	7.5x	6.1x	7.5%	8.8%
Legal & General	LGEN LN	Not Rated	19,262.81	258.50	n.a.	1.33x	1.23x	7.8x	7.3x	18.3%	17.9%
Admiral Group	ADM LN	Not Rated	8,485.32	2,267.00	n.a.	5.41x	5.27x	15.4x	15.8x	33.4%	34.2%
<b>Average</b>						<b>1.82x</b>	<b>1.72x</b>	<b>8.4x</b>	<b>7.8x</b>	<b>15.9%</b>	<b>16.4%</b>
<b>Rest of Europe</b>											
Axa	CS FP	Not Rated	58,625.60	23.59	n.a.	0.82x	0.82x	7.9x	18.4x	9.8%	9.8%
CNP Assurances	CNP FP	Not Rated	15,144.03	20.92	n.a.	0.70x	0.70x	9.4x	9.4x	7.5%	7.5%
Allianz	ALV GR	Not Rated	86,967.16	201.95	n.a.	1.07x	1.07x	10.1x	8.2x	10.3%	10.3%
Generali	G IM	Not Rated	30,276.70	18.10	n.a.	0.93x	0.93x	9.8x	9.0x	10.2%	10.2%
Poste Italiane	PST IM	Not Rated	13,252.55	9.62	n.a.	1.01x	1.01x	8.3x	7.5x	11.9%	11.9%
NN Group	NN NA	Not Rated	15,629.15	47.82	n.a.	0.42x	0.42x	9.7x	9.0x	4.5%	4.5%
Aegon NV	AGN NA	Not Rated	11,303.59	5.06	n.a.	0.42x	0.42x	7.0x	6.7x	6.5%	6.5%
<b>Average</b>						<b>0.77x</b>	<b>0.77x</b>	<b>8.9x</b>	<b>9.7x</b>	<b>8.7%</b>	<b>8.7%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

DATA AS OF 17 MAY 2022

Note: All forecasts for Non Rated companies are Bloomberg consensus estimates

## Key risks

We see several key risks.

Firstly, we think it could be very challenging to record NBP growth in 1Q22, given a very high base, especially for mainland China. Pru recorded 234% NBP growth yoy on an actual exchange rate (AER) basis or 211% NBP growth yoy on a constant exchange rate (CER) basis in 1Q21, with Pru recording 24% NBP growth yoy at the group level in 1Q21, followed by 35% yoy in 2Q21 (Fig 115).

**Figure 115: VONB performance of AIA's key competitors across the Asia region**

(US\$ m)	2Q21	2Q21		1Q21		1H21	1H21	
		Growth	AER	Growth	AER		Growth	AER
<b>China</b>								
Prudential	51	-31%	-39%	234%	211%	228	80%	65%
AIA	n.a.	n.a.	n.a.	n.a.	n.a.	738	24%	15%
<b>Hong Kong</b>								
Prudential	169	23%	24%	-37%	-37%	306	-13%	-13%
Manulife	148	45%	46%	19%	18%	293	31%	31%
AIA	n.a.	n.a.	n.a.	n.a.	n.a.	313	2%	2%
<b>Singapore</b>								
Prudential	120	179%	161%	19%	14%	215	75%	65%
Great Eastern	92	125%	113%	32%	27%	163	73%	65%
AIA	n.a.	n.a.	n.a.	n.a.	n.a.	176	39%	32%
<b>Malaysia</b>								
Prudential	54	59%	54%	69%	64%	113	64%	59%
Great Eastern	46	10%	5%	40%	38%	111	26%	21%
<b>Indonesia</b>								
Prudential	29	-9%	-12%	-22%	-22%	57	-16%	-17%
<b>Thailand</b>								
AIA	n.a.	n.a.	n.a.	n.a.	n.a.	312	57%	52%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Due to 1Q21's extremely strong NBP growth from mainland China, mainland China comprised a very high 28% of group NBP in 1Q21 (2Q21: 9%; 1Q20: 11%). Such a high weighting has significant potential to be a drag on 1Q22F's NBP growth for Pru at the group level.

**Figure 116: Pru's NBP performance in 2021**

	1Q21	2Q21	1H21	2H21	FY21
China	234%	-31%	80%	-13%	31%
Hong Kong	-37%	23%	-13%	-1%	-6%
Indonesia	-22%	-9%	-16%	-22%	-19%
Malaysia	69%	59%	64%	-15%	11%
Singapore	19%	179%	75%	41%	53%
Growth markets and other	56%	43%	49%	12%	27%
Total Asia and Africa operations	24%	35%	29%	5%	15%
Total Asia and Africa insurance operations ex HK	70%	40%	56%	8%	27%
Percentage contribution from China to group NBP	28%	9%	19%	9%	14%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Secondly, operating profits could be under pressure from higher interest rates, even though it is positive for NBP. Higher rates are also negative to shareholders' equity and EV. This is due to adverse mark-to-market effects on the bond portfolio.

Based on the FY21 sensitivities disclosed by Pru, a 1% pt rise in interest rate results in a 5% fall in FY21 EV. It would also result in 36.3% fall in FY21 continuing net profit after tax (NPAT) and a 5.6% fall in shareholders' equity (Fig 117).

Thirdly, Pru's operating profit after tax could also be under pressure from falling equity markets. Based on Pru's disclosed FY21 sensitivities, a 20% fall in all equity prices and property prices would result in a 34.5% reduction in FY21 continuing NPAT and a 5.5% decline in shareholders' equity (Fig 118).

**Figure 117: Impact of higher interest rates on continuing net profit after tax, shareholders' equity, NBP and EV, based on Pru's disclosures**

	FY21		FY20	
	1%pts rise	2%pts rise	1%pts rise	2%pts rise
Continuing profit after tax	-36.3%	n.a.	-12.9%	n.a.
Shareholders' equity	-5.6%	n.a.	-2.5%	n.a.
New business profit	2.8%	3.5%	3.5%	3.5%
Embedded value	-5.0%	-10.7%	-3.3%	-8.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 118: Impact of lower equity & property yields on continuing net profit after tax, shareholders' equity, NBP and EV, based on Pru's disclosures**

	FY21		FY20	
	10% rise	20% fall	10% rise	20% fall
Continuing profit after tax	17.0%	-35.9%	16.7%	-34.5%
Shareholders' equity	2.6%	-5.5%	3.2%	-6.6%
New business profit	n.a.	n.a.	n.a.	n.a.
Embedded value	n.a.	-4.4%	n.a.	-4.5%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Fourthly, the implementation of international financial reporting standard (IFRS) 17 from the start of 2023 could have a negative impact on net profit and shareholders' equity. Manulife announced on 11 May 2022 at its 1Q22 results that it expects IFRS 17 to reduce its shareholder equity by 20% and reduce core earnings by 10% upon adoption. Pru has yet to announce the impact from IFRS 17 adoption. However, insofar that investors focus on net profit and shareholders' equity (which we think are more important metrics of focus for Pru's investors than AIA's investors, especially its European and US-based investors), this could exert pressure on Pru's share price.

A fifth key risk is what if there is a conflict between growing NBP and operating profits? The mix of key performance indicators that determines Pru's group financial bonus targets in its Annual Incentive Plan (AIP) has clearly shifted towards NBP and away from adjusted operating profits.

NBP comprised only 15% of AIP in 2020, with this metric rising to 35% in 2021, before rising further to 45% in 2022's AIP. On the other hand, adjusted operating profits have fallen in importance, from a 35% weighting in 2020 to a 25% weighting in 2022 (Fig 119).

Our concern is what if there is a situation where there is a conflict between both metrics and growing NBP leads to a near-term fall in operating profits? With Pru's shareholder base still primarily dominated by European and US-based investors, in our view, we believe that these investors key metric of focus is operating profit and not NBP. Accordingly, in such a scenario, growing NBP at the expense of operating profits could be detrimental to share price performance in the near term.

**Figure 119: Mix of key performance indicators (KPI) that determine Group financial bonus targets for its Annual Incentive Plan (AIP)**

	2017	2018	2019	2020	2021	2022
New business profit	15%	15%	15%	15%	35%	45%
Adjusted operating profits	35%	35%	35%	35%	25%	25%
Operating free surplus	30%	30%	30%	30%	30%	20%
Business unit remittances	20%	20%	20%	20%	10%	10%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 120: Mix of key performance indicators (KPI) that determine Pru's group financial bonus targets for its Prudential Long Term Incentive Plan (PLTIP) for Executive Directors**

	2018	2019	2020	2021	2022
Relative total shareholder return (TSR)	25%	50%	50%	50%	50%
ROE	n.a.	30%	30%	n.a.	n.a.
Sustainability	n.a.	20%	20%	20%	20%
<i>of which ESG metrics</i>	n.a.	n.a.	n.a.	n.a.	10%
Return on embedded value	n.a.	n.a.	n.a.	30%	30%
Balanced scorecard of strategic measures	25%	n.a.	n.a.	n.a.	n.a.
Operating profits	50%	n.a.	n.a.	n.a.	n.a.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

A sixth key risk is continued Covid-19 outbreaks, especially if there are mutations whereby Covid-19 variants become more transmissible and more deadly, which could lead to lockdowns being imposed. This could lead once again to reduced face-to-face contact and make it more difficult for Pru's agents to sell insurance policies.

A seventh risk is the risk of Pru's investors continuing to focus heavily on valuation methodologies based on earnings or tangible book value which, as we argued in [Uniqueness under threat?](#), dated 28 Feb 2020, could constrain Pru's ability to close its P/EV valuation gap with AIA. This is especially since we believe that EV-based valuation methodologies yield higher valuations compared to P/E, P/BV or P/NTA valuation methodologies, based on our




analysis of the differences of these valuation methodologies when applied to the insurers under our coverage universe.

**Figure 121: Financial Summary for Prudential plc**

Year end Dec	2018	2019	2020	2021	2022F	2023F	2024F	2025F
<b>Summary</b>								
EPS (US\$)	1.56	0.30	0.82	-0.78	0.75	1.16	1.27	1.45
EPS (US\$) (continuing operations)	1.12	0.90	0.95	0.83	0.75	1.16	1.27	1.45
Operating EPS (US\$) (continuing operations)	n.a.	0.73	0.87	1.02	1.06	1.17	1.24	1.42
P/E ratio (x) (oper. EPS)	n.a.	25.7	21.2	16.8	11.1	10.1	9.5	8.3
EPS growth (%)	7.9%	20.5%	18.0%	17.2%	4.9%	10.2%	5.8%	14.2%
DPS (US\$)	0.63	0.46	0.16	0.17	0.15	0.16	0.16	0.19
Payout ratio	40%	153%	20%	-22%	20%	14%	13%	13%
BVPS (US\$)	8.47	7.49	8.00	6.22	6.75	7.67	8.67	9.81
TBVPS (US\$)	7.56	7.12	7.63	5.89	6.41	7.31	8.30	9.42
P/TBV (x)	2.18	2.65	2.41	2.89	1.84	1.61	1.42	1.25
EV per share (US\$) (excl goodwill)	23.54	20.66	20.33	16.91	17.99	19.39	21.16	23.39
P/EV (x)	0.70	0.91	0.90	1.01	0.66	0.61	0.56	0.50
Growth of EV per share	4%	-12%	-2%	-17%	6%	8%	9%	11%
ROEV	18%	12%	2%	7%	8%	10%	11%	12%
Operating ROEV (Asia & Africa)	22%	26%	15%	7%	8%	10%	11%	12%
NBP per share (US\$) (Group)	1.82	1.69	1.07	0.92	0.94	1.11	1.36	1.73
NBP per share (US\$) (Asia & Africa)	1.34	1.35	0.84	0.92	0.94	1.11	1.36	1.73
Growth of NBP per share (Asia & Africa)	11%	-7%	-37%	-14%	2%	18%	22%	28%
<b>Profit &amp; Loss (US\$ m)</b>								
Net premium	44,431	43,481	21,870	22,373	25,151	27,147	31,042	38,237
Investment income	-9,117	49,555	13,762	3,486	6,182	8,591	9,221	9,682
Other income	531	700	615	641	668	696	726	756
Total Revenue	35,845	93,736	36,247	26,500	32,001	36,435	40,989	48,676
Insurance-related expenses	-31,953	-91,188	-33,239	-23,471	-29,324	-32,210	-36,351	-43,337
Other operating-related expenses	-654	-658	-346	-363	-213	-228	-244	-261
Underwriting income	3,238	1,890	2,662	2,666	2,465	3,997	4,394	5,078
Share of P/L from associates	517	352	380	411	443	479	0	0
Operating profit/(loss)	3,755	2,242	3,042	3,077	2,908	4,476	4,394	5,078
<b>Operating profit after tax (OPAT)</b>	<b>2,881</b>	<b>2,329</b>	<b>2,458</b>	<b>2,192</b>	<b>2,066</b>	<b>3,201</b>	<b>3,513</b>	<b>4,036</b>
Non operating items	1,146	-1,546	-340	-4,234	0	0	0	1
<b>Net profit after tax</b>	<b>4,019</b>	<b>783</b>	<b>2,118</b>	<b>-2,042</b>	<b>2,066</b>	<b>3,201</b>	<b>3,513</b>	<b>4,036</b>
<b>Balance sheet (US\$ m)</b>								
<b>Assets</b>								
Investment assets	583,550	410,841	434,804	177,389	186,258	195,571	205,350	215,617
Intangible assets	17,550	18,445	21,306	7,765	8,153	8,561	8,989	9,438
Other assets	46,710	24,928	59,987	13,948	14,645	15,378	16,147	16,954
Total assets	647,810	454,214	516,097	199,102	209,057	219,510	230,485	242,010
<b>Liabilities</b>								
Contract liabilities	521,286	385,678	441,246	151,915	158,840	165,262	171,867	178,553
Borrowings	24,951	17,140	18,845	7,211	7,540	7,845	8,158	8,475
Other liabilities	79,582	31,727	33,887	22,712	23,747	24,707	25,695	26,694
Total liabilities	625,819	434,545	493,978	181,838	190,126	197,813	205,720	213,723
Share capital	166	172	173	182	182	182	182	182
Reserves	-15	5,730	6,281	6,690	6,690	6,690	6,690	6,690
Retained profits	21,817	13,575	14,424	10,216	11,865	14,612	17,659	21,157
Total shareholders' equity	21,968	19,477	20,878	17,088	18,737	21,484	24,531	28,029
Equity attributable to shareholders	21,991	19,669	22,119	17,264	18,931	21,697	24,765	28,287
<b>Ratio and growth analysis</b>								
ROA	0.61%	0.14%	0.44%	-0.57%	1.01%	1.49%	1.56%	1.71%
ROE	26.2%	3.8%	10.5%	-10.8%	11.5%	15.9%	15.3%	15.4%
Growth in net earned premium	11%	-2%	-50%	2%	12%	8%	14%	23%
<b>Asset portfolio mix</b>								
- Fixed interest assets	47%	39%	35%	64%	64%	64%	64%	64%
- Equity securities & interest in investment funds	47%	60%	64%	35%	35%	35%	35%	35%
- Others	6%	1%	1%	1%	1%	1%	1%	1%
Average investment income yield	-2.6%	10.0%	3.3%	1.1%	3.4%	4.5%	4.6%	4.6%
Insurance-related expense ratio	65%	90%	79%	71%	76%	73%	73%	73%
Operating expense ratio	19%	15%	21%	20%	20%	20%	20%	20%
Growth of operating profit after tax and minorities	8%	21%	18%	19%	10%	11%	6%	15%
Growth of net profit after tax and minorities	59%	-81%	170%	-196%	-201%	55%	10%	15%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

		Refinitiv ESG Scores					
<b>ESG in a nutshell</b>		B+	A+	B+	C+	B	A-
		<small>ESG Score</small>	<small>ESG Controversies Score</small>	<small>ESG Combined Score</small>	<small>ESG Environment Pillar Score</small>	<small>ESG Social Pillar Score</small>	<small>ESG Government Pillar Score</small>
<p>Pru scored a B+ rating for its combined ESG score by Refinitiv in 2020. Pru adopted a new ESG strategic framework in 2020, which revolves around three core themes: i) Making health and financial security accessible, (ii) stewarding the human impact of climate change, and (iii) building social capital. To deliver these three themes, it sees three strategic enablers as key: (i) good governance and responsible business practices, (ii) responsible investment, and (iii) community engagement and investment. In 2021, Pru established a Board Responsibility and Sustainability Working Group (RSWG) to oversee its work in these areas.</p>							
<p><b>Keep your eye on</b></p> <p>Pru announced on 7 May 2021 that it plans to de-carbonise its investment asset portfolio with a goal of becoming net zero (i.e. net carbon neutral) by 2050. Pru states that it intends to publish data on the weighted average carbon intensity of its asset portfolio in its 2021 ESG report. Its goals include (i) a 25% reduction in the carbon emissions of all shareholder and policyholder assets by 2025, (ii) divestment from all direct investments in businesses which derive more than 30% of their income from coal, with equities to be fully divested by the end of 2021 and fixed-income assets by the end of 2022, and (iii) a commitment to accelerate the transition to a low-carbon economy by engaging with the companies responsible for 65% of the emissions in our portfolio. Other targets were listed in the 2021 ESG report, including a 25% fall per full-time-employee (FTE) in Scope 1 and 2 emission reduction by 2030, and a 30% target of women in senior leadership (this was already met in 2021, with a ratio of 35%).</p>	<p><b>Implications</b></p> <p>We see its 2022-25 goals as a positive move, which should catalyse a further improvement in Pru's ESG ratings and its valuation.</p>						
<p><b>ESG highlights</b></p> <p>According to Pru's 2021 ESG report, its Carbon Disclosure Project (CDP) score was B (2020: B; 2019: B; 2018: B). Its 2021 MSCI ESG rating was AA (2020: A), while its Sustainalytics ESG Risk Rating was 15.9 (2020: 22.4). Its Refinitiv Combined ESG score over the 2016–20 period has remained stable within the range of B- to B+.</p>	<p><b>Implications</b></p> <p>With a renewed commitment to ESG in 2022, we see potential for Pru's ESG ratings to improve, which could be positive for its valuation.</p>						
<p><b>Trends</b></p> <p>Pru's Refinitiv combined ESG score has been relatively stable over 2016-20 between B- and B+, with 2020's score at B+. Its Refinitiv Environmental pillar score is relatively low at C+ in 2019 and 2020, falling from B- over the 2017-18 period. Its Social pillar score has been constant at B over the 2019-20 period, after falling from B+ in 2016-18. Its Governance pillar score in 2020 was A-, an improvement from B in 2019 and B- in 2018. Its ESG controversies score was A+ in 2020, after experiencing volatility in this metric over the 2016-20 period (2019: C+, 2018: A+, 2017: B+, 2016: A-).</p>	<p><b>Implications</b></p> <p>We believe that there is scope for Pru to improve its Refinitiv combined ESG score, especially its Environmental pillar score, which we believe looks relatively low.</p>						

SOURCES: CGS-CIMB RESEARCH, REFINITIV

# Appendix

## Key management and Board members

### **Ms. Shriti Vadera, Chair of the Board of Directors**

Ms Vadera joined the Board of Directors in May 2020 and then became Chair of the Board in Jan 2021.

Ms Vadera contributes her wide-ranging and global experience in economics, public policy and strategy to Prudential. She was chair of Santander UK Group Holdings, the Senior Independent Director at BHP and a Non-executive Director of AstraZeneca. Between 2009 and 2014, she undertook a wide range of assignments, such as advising the South Korean Chair of the G20, two European countries on the Eurozone and banking crisis, the African Development Bank on infrastructure financing and a number of global investors and sovereign wealth funds on strategy and economic and market developments. From 2007 to 2009, Ms Vadera was a Minister in the UK government and led the UK government's response to the global financial crisis and its Presidency of the G20.

### **Mr. Mark FitzPatrick, Interim Group Chief Executive Officer**

Mr. FitzPatrick was appointed as Interim Group Chief Executive Officer in Apr 2022, having previously served as Group Chief Financial Officer since joining the Board in Jul 2017. He is also Chief Operating Officer, a position he has held since Jul 2019. He will retain his current position of interim CEO while the Board of Directors conducts a search for Group CEO. Thereafter, he will step down from the Board and remain available to Prudential as an adviser for a period.

Prior to joining Prudential, Mr. FitzPatrick worked at Deloitte for 26 years, building his industry focus on insurance and investment management globally. He was a vice chairman of Deloitte for four years, leading the CFO Programme and developing the CFO Transition labs. He previously led the Insurance & Investment Management audit practice and the insurance industry practice.

### **Mr. James Turner, Group Chief Financial Officer**

Mr. Turner is the Group Chief Financial Officer, having previously served as Group Chief Risk Officer since joining the Board in Mar 2018 and Group Compliance Officer since Jul 2019.

Mr. Turner has a wide-ranging understanding of the business and draws on previous experience across internal audit, finance and compliance, as well as technical knowledge and skills, relevant to his role.

### **Mr. Avnish Kalra, Group Chief Risk and Compliance Officer**

Mr. Kalra joined the Group Executive Committee and became Group Chief Risk and Compliance Officer in Apr 2022. He joined Prudential in Aug 2014 and held the position of Chief Risk Officer of Prudential Corporation Asia since Jul 2018.

Prior to joining Prudential, Mr. Kalra was the Asia CRO for Aviva for six years and has also worked at Bank of America for 14 years in various capital markets trading and risk roles across Asia.

### **Ms. Jolene Chen, Group Human Resources Director**

Ms. Chen is the Group Human Resources Director, having served as Chief Human Resources Officer for Prudential Corporation Asia for eight years.

Prior to joining Prudential, Ms Chen spent over 21 years with multinational companies in a variety of resourcing, organisational design, talent management, learning and development and human resources roles.

### **Mr. Nicolaos Nicandrou, Chief Executive Asia & Africa of Prudential**

Mr. Nicandrou is Chief Executive Asia & Africa of Prudential. Prior to assuming his current role in 2017, he was Chief Financial Officer at Prudential plc from 2009, when he joined the company.

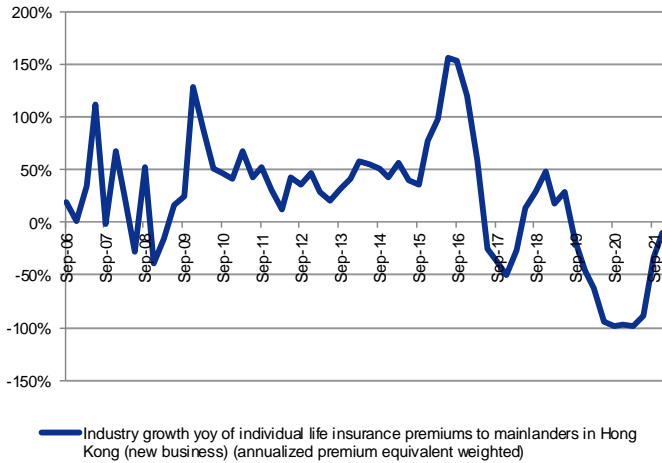
Before joining Prudential, Mr. Nicandrou worked at Aviva, where he held a number of senior roles including Norwich Union Life Finance Director and Board Member, Aviva Group Financial Control Director, Aviva Group Financial Management and Reporting Director and CGNU Group Financial Reporting Director. He started his career at PricewaterhouseCoopers.

Of the above, Mr. Nicandrou, Ms. Chen, Mr. Turner and Mr. Kalra are based in HK.

## Key life insurance industry trends for various regions in which Pru operates

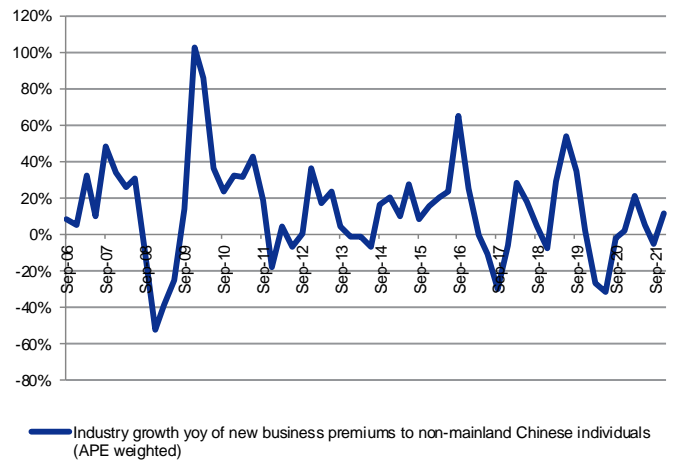
### Hong Kong life insurance industry

**Figure 122: Industry growth yoy of individual life insurance premiums to mainlanders in Hong Kong (new business) (annualized premium equivalent weighted)**



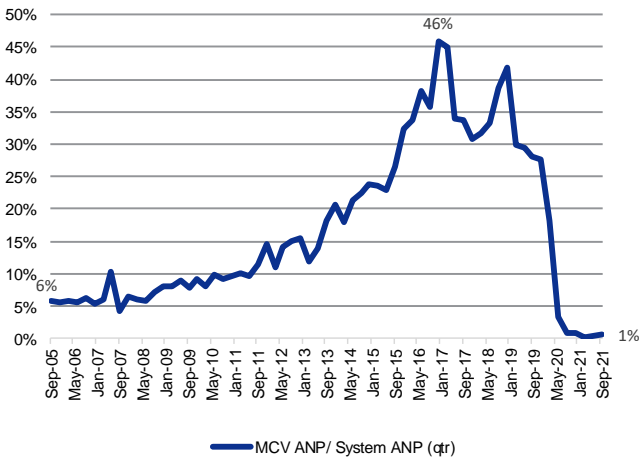
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, INSURANCE AUTHORITY

**Figure 123: Industry growth yoy of new business premiums to non-mainland Chinese individuals (APE weighted)**



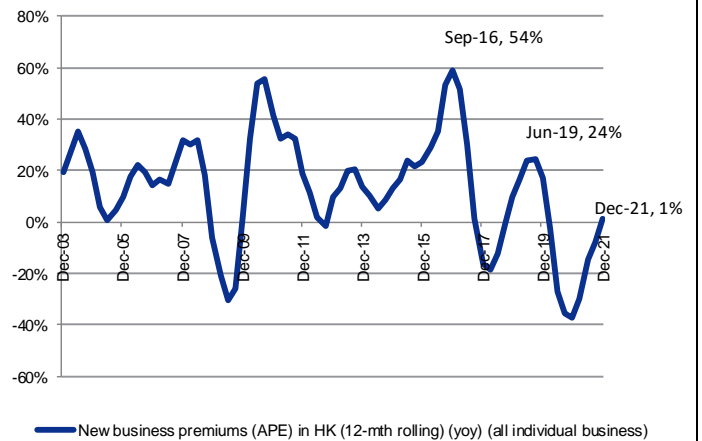
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, INSURANCE AUTHORITY

**Figure 124: The mix of annualised new premiums (ANP) from mainland Chinese visitors (MCV) to the system has fallen to virtually zero in HK (quarterly data)**



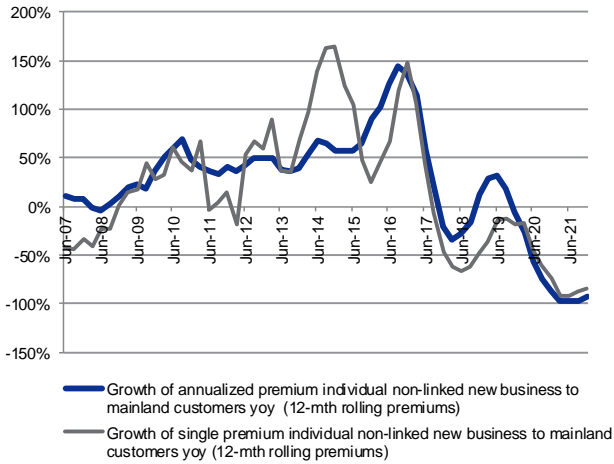
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, INSURANCE AUTHORITY

**Figure 125: New business premiums (APE) in HK (12-mth rolling) (yoy) (all individual business)**



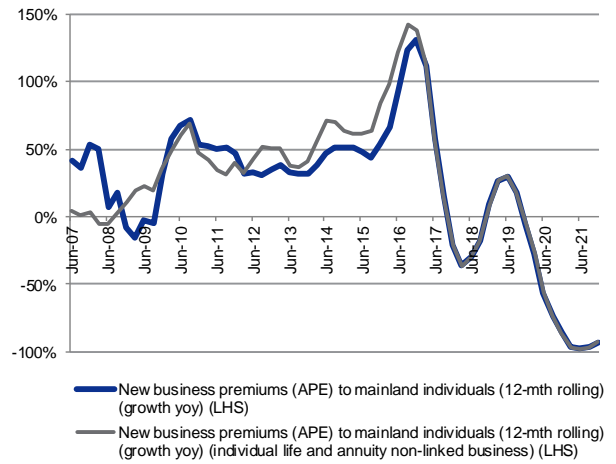
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 126: Growth of individual new business to mainland customers y-o-y (annualized vs. single)**



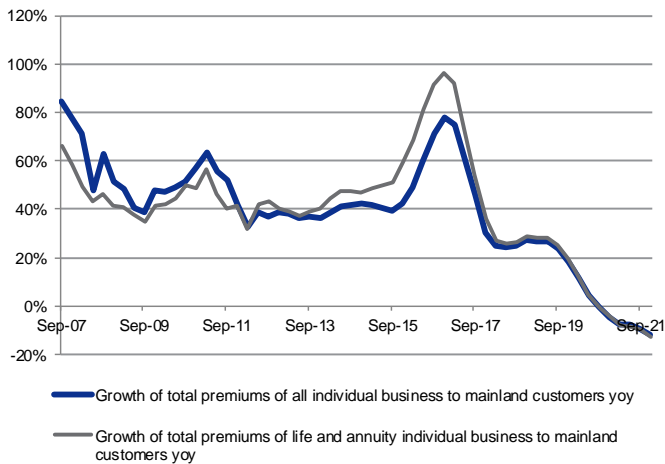
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 127: Growth of new business premiums (annualized new premium (APE) weighted) to mainland customers (yoy)**



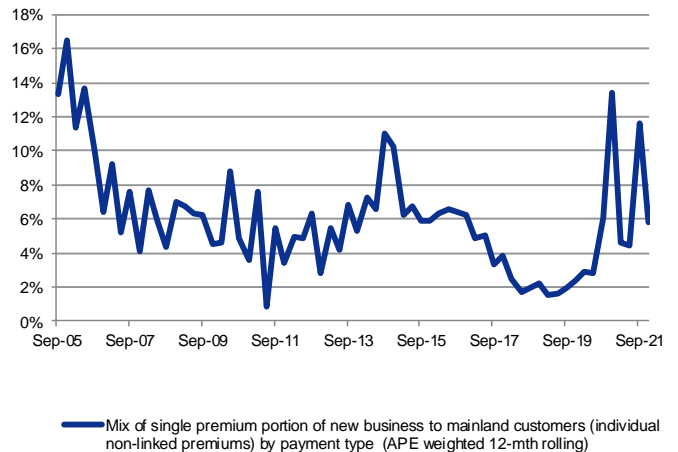
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 128: Growth of total premiums of individual business yoy**



SOURCES: CGS-CIMB RESEARCH, IA

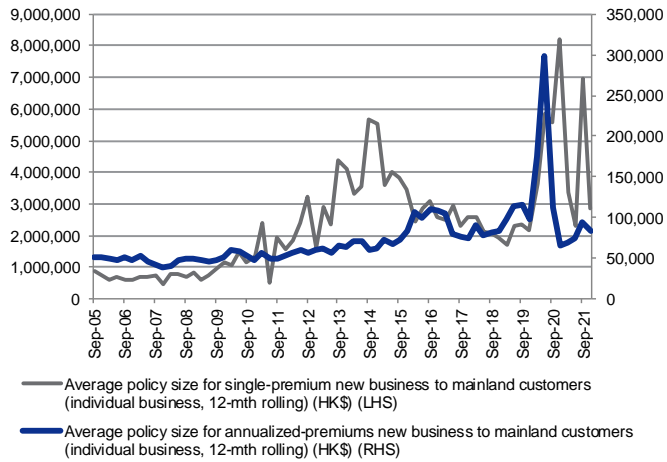
**Figure 129: Mix of single premium portion of new business to mainland customers (individual non-linked premiums) by payment type (APE weighted 12-mth rolling)**



SOURCES: CGS-CIMB RESEARCH, IA

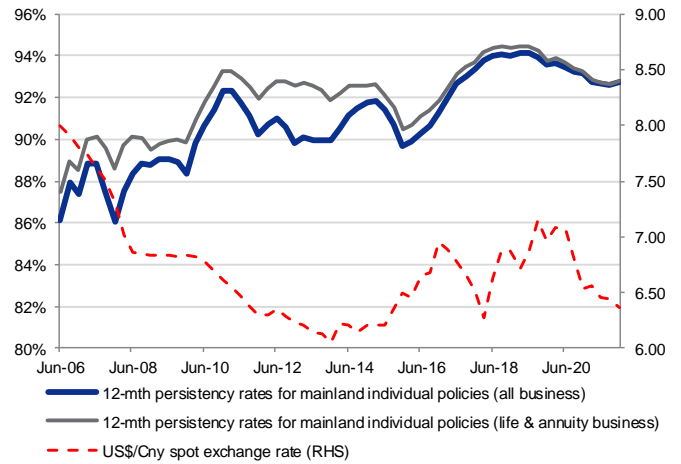


**Figure 130: Average policy size of new business to mainland customers by payment type (HK\$)**



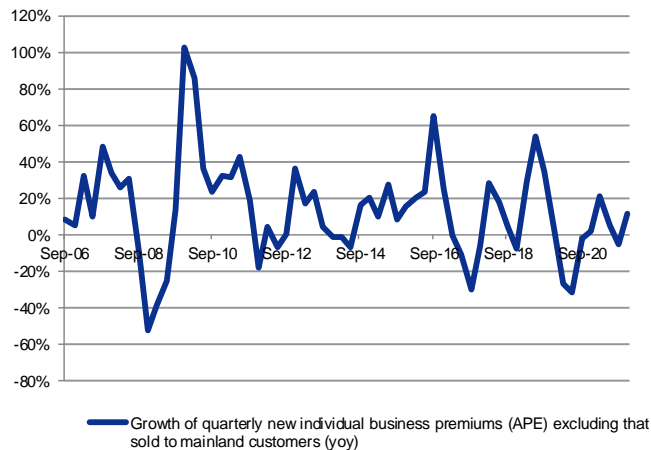
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 131: 12-mth persistency rates for mainland individual policies**



SOURCES: CGS-CIMB RESEARCH, IA

**Figure 132: Growth of quarterly new individual business premiums (APE) excluding that sold to mainland customers (yoy)**



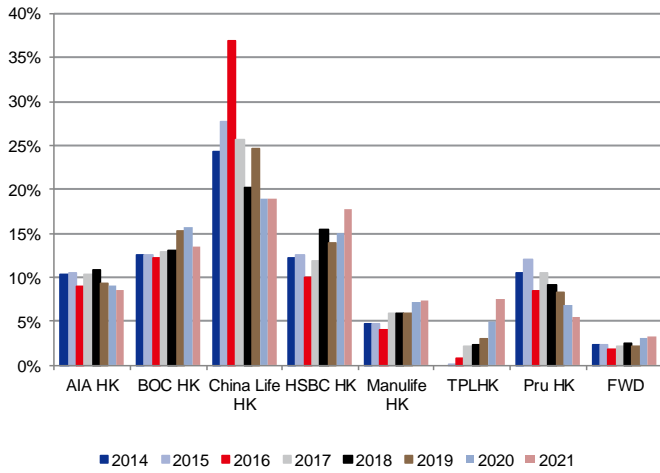
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 133: 2020 HK industry annualised new premiums (ANP) mix for insurance purchases by mainland Chinese visitors (MCV)**

	2021 ANP mix	2021 in-force mix
Whole life	48.5%	44.8%
Endowment	15.6%	12.6%
Universal life	6.3%	7.5%
Term Life	0.1%	0.0%
Medical	1.9%	0.4%
Critical illness	15.3%	16.1%
Annuities	2.2%	12.5%
Other	0.0%	0.0%
Accident & sickness (medical) rider	1.4%	1.0%
Accident & sickness (non-medical) riders	0.2%	0.4%
Riders other than accident & sickness	5.1%	0.1%
Unit linked	3.4%	4.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

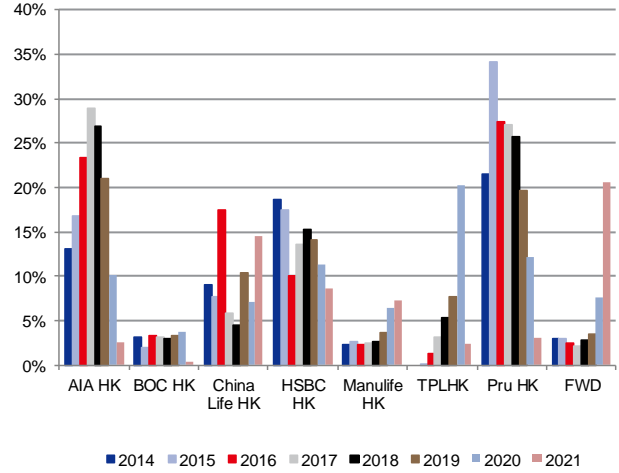
SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY (IA)

**Figure 134: Market share of all onshore customer annualised new premiums (ANP)**



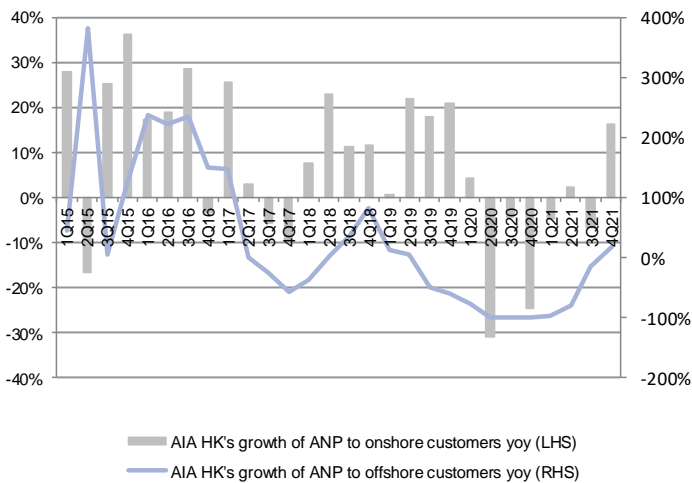
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 135: Market share of all offshore customer annualised new premiums (ANP)**



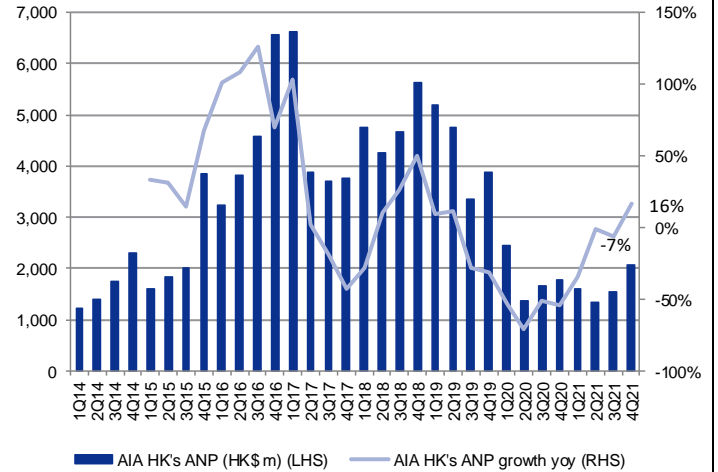
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 136: AIA HK's ANP growth to onshore customers and offshore customer (quarterly data)**



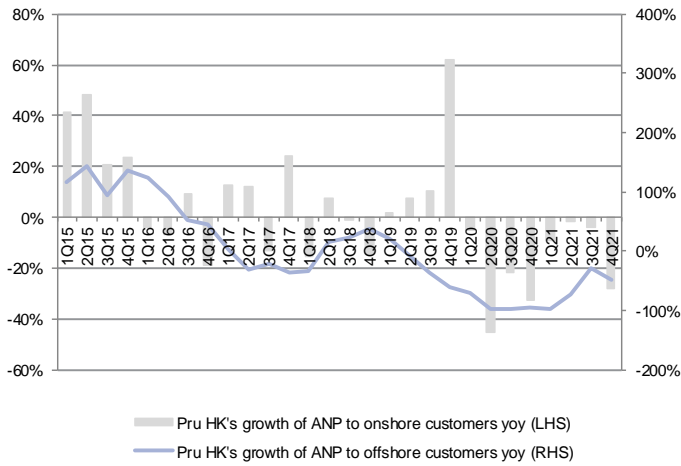
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 137: AIA HK's ANP across time and growth yoy**



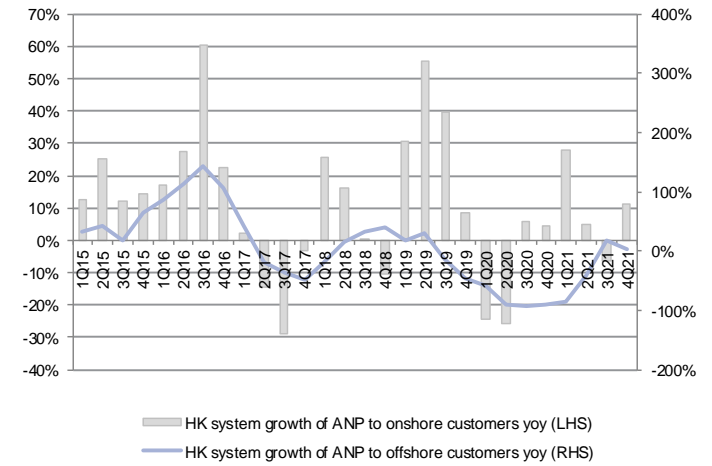
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 138: Pru HK's ANP growth to onshore customers and offshore customer (quarterly data)**



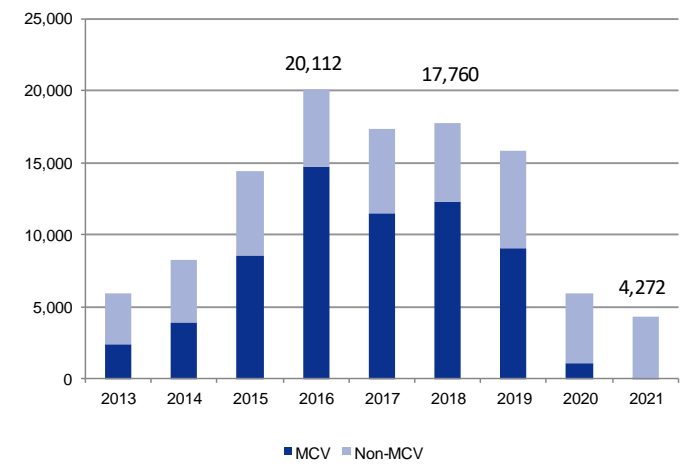
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 139: HK system ANP growth to onshore customers and offshore customer (quarterly data)**



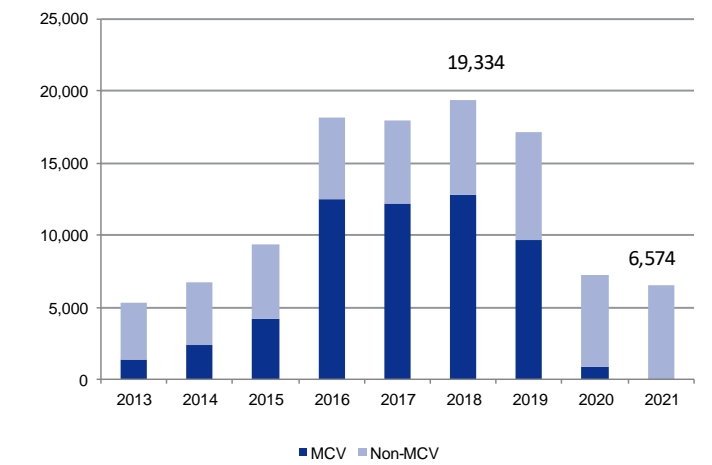
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 140: Pru HK's ANP volumes by offshore (MCV) and onshore (non-MCV) customers (HK\$ m)**



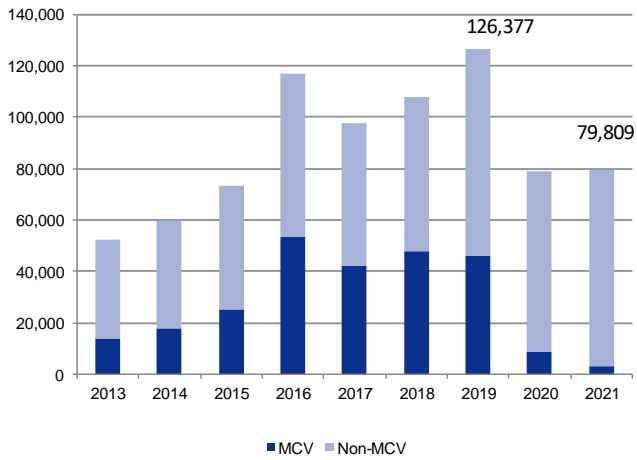
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 141: AIA HK's ANP volumes by offshore (MCV) and onshore (non-MCV) customers (HK\$ m)**



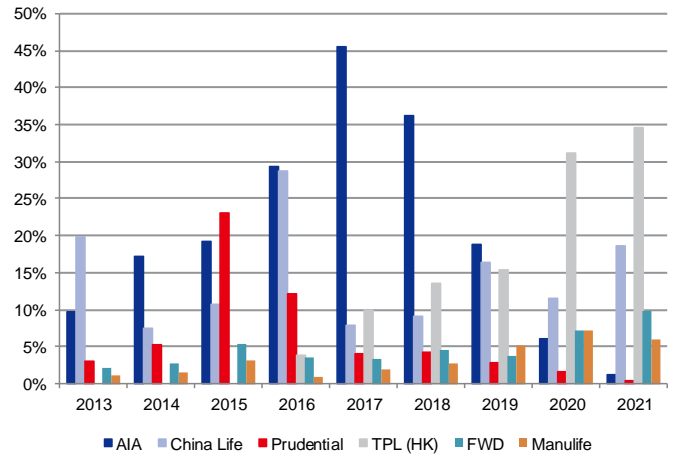
SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY (IA)

**Figure 142: Industry ANP volumes by offshore (MCV) and onshore (non-MCV) customers (HK\$ m)**



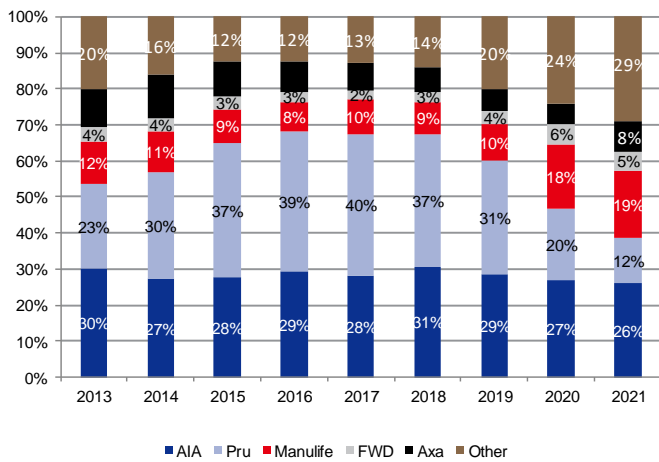
SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY (IA)

**Figure 143: Market share of the broker channel for HK individual annualized new premiums (ANP)**



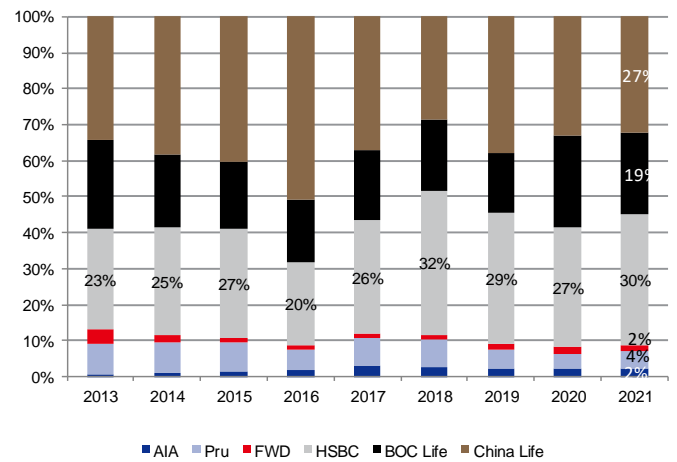
SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY (IA)

**Figure 144: Market share of the agent channel for HK individual annualized new premiums (ANP)**



SOURCES: CGS-CIMB RESEARCH, HONG KONG INSURANCE AUTHORITY (IA)

**Figure 145: Market share of the bancassurance channel for HK individual annualized new premiums (ANP)**



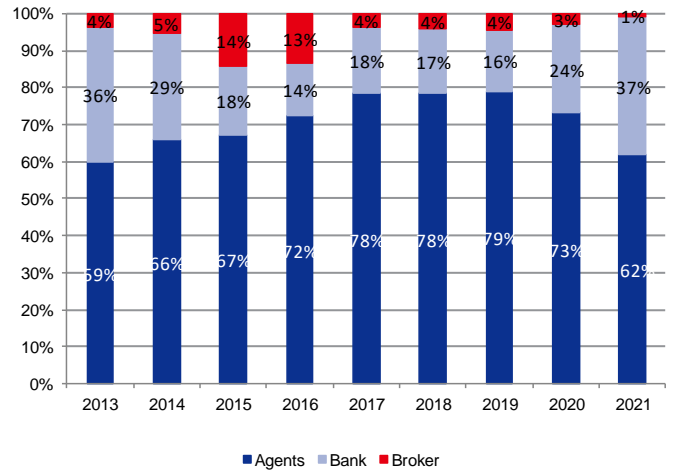
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 146: Pru HK's growth yoy of individual ANP by distribution channel**

	Agents	Bank	Broker	Others	Total
2014	54%	10%	105%	-35%	39%
2015	78%	12%	370%	19%	74%
2016	51%	8%	31%	-48%	40%
2017	-7%	8%	-76%	-38%	-14%
2018	3%	0%	17%	n.a.	3%
2019	-10%	-16%	-6%	n.a.	-11%
2020	-66%	-46%	-74%	n.a.	-63%
2021	-38%	13%	-76%	n.a.	-27%

SOURCES: CGS-CIMB RESEARCH, IA

**Figure 147: Pru HK's mix of individual ANP by distribution channel**



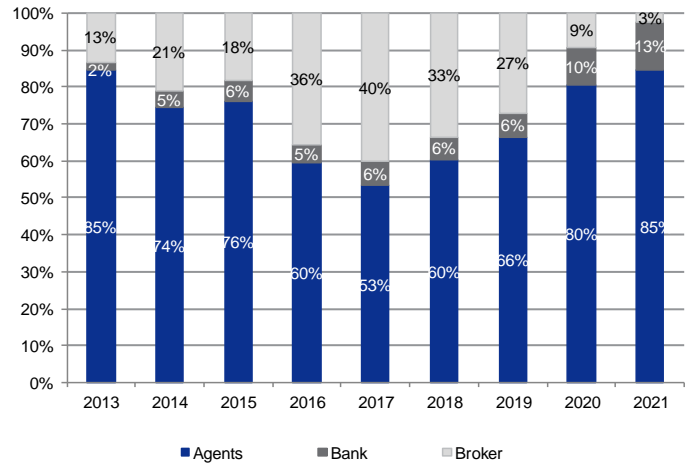
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 148: AIA HK's growth yoy of individual ANP by distribution channel**

	Agents	Bank	Broker	Others	Total
2014	10%	165%	100%	n.a.	25%
2015	43%	70%	21%	n.a.	40%
2016	53%	72%	278%	n.a.	95%
2017	-12%	28%	12%	n.a.	-1%
2018	22%	3%	-10%	n.a.	8%
2019	-2%	-6%	-28%	n.a.	-11%
2020	-49%	-33%	-85%	n.a.	-58%
2021	-5%	15%	-75%	n.a.	-9%

SOURCES: CGS-CIMB RESEARCH, IA

**Figure 149: AIA HK's mix of individual ANP by distribution channel**



SOURCE: CGS-CIMB RESEARCH, IA

**Figure 150: System growth yoy of new business premiums (APE weighted) by distribution channel by quarter**

	Agent	Bancassurance	Broker	Other	Total
1Q15	38%	8%	35%	5%	18%
2Q15	48%	31%	-6%	-6%	31%
3Q15	26%	15%	-12%	-29%	14%
4Q15	51%	18%	20%	-10%	30%
1Q16	37%	33%	73%	12%	39%
2Q16	42%	35%	204%	29%	54%
3Q16	47%	78%	273%	32%	89%
4Q16	48%	52%	91%	59%	56%
1Q17	34%	-1%	66%	64%	20%
2Q17	-7%	-14%	-39%	67%	-17%
3Q17	-11%	-34%	-58%	109%	-32%
4Q17	-27%	-21%	-41%	79%	-27%
1Q18	-10%	19%	-12%	25%	3%
2Q18	18%	11%	32%	31%	16%
3Q18	15%	4%	41%	-24%	13%
4Q18	22%	-5%	15%	14%	9%
1Q19	14%	34%	16%	110%	26%
2Q19	26%	31%	117%	290%	45%
3Q19	2%	11%	46%	123%	15%
4Q19	-16%	-16%	-26%	-45%	-18%
1Q20	-37%	-37%	-42%	-19%	-37%
2Q20	-62%	-32%	-73%	-20%	-50%
3Q20	-43%	-10%	-57%	99%	-29%
4Q20	-37%	-26%	-10%	355%	-26%
1Q21	-15%	6%	-11%	95%	-1%
2Q21	9%	-15%	35%	123%	2%
3Q21	-8%	-10%	28%	-38%	-5%
4Q21	8%	14%	24%	-39%	11%

SOURCE: CGS-CIMB RESEARCH, INSURANCE AUTHORITY

**Figure 151: System mix of new business premiums (APE weighted) by distribution channel by quarter**

	Agent	Bancassurance	Broker	Other	Total
1Q14	24%	64%	11%	1%	100%
2Q14	28%	57%	14%	1%	100%
3Q14	31%	54%	14%	1%	100%
4Q14	38%	45%	16%	1%	100%
1Q15	29%	59%	12%	0%	100%
2Q15	32%	58%	10%	0%	100%
3Q15	34%	55%	11%	0%	100%
4Q15	44%	41%	15%	0%	100%
1Q16	28%	56%	15%	0%	100%
2Q16	29%	51%	20%	0%	100%
3Q16	27%	52%	21%	0%	100%
4Q16	42%	40%	18%	0%	100%
1Q17	32%	47%	21%	1%	100%
2Q17	33%	52%	14%	1%	100%
3Q17	35%	51%	13%	1%	100%
4Q17	41%	43%	15%	1%	100%
1Q18	27%	54%	18%	1%	100%
2Q18	33%	50%	16%	1%	100%
3Q18	36%	47%	17%	1%	100%
4Q18	46%	37%	15%	1%	100%
1Q19	25%	57%	17%	1%	100%
2Q19	29%	45%	24%	2%	100%
3Q19	32%	46%	21%	1%	100%
4Q19	48%	38%	14%	1%	100%
1Q20	25%	58%	16%	1%	100%
2Q20	22%	62%	13%	4%	100%
3Q20	26%	58%	13%	3%	100%
4Q20	41%	38%	17%	5%	100%
1Q21	21%	62%	14%	3%	100%
2Q21	23%	52%	17%	8%	100%
3Q21	25%	55%	18%	2%	100%
4Q21	40%	39%	19%	3%	100%

SOURCE: CGS-CIMB RESEARCH, INSURANCE AUTHORITY

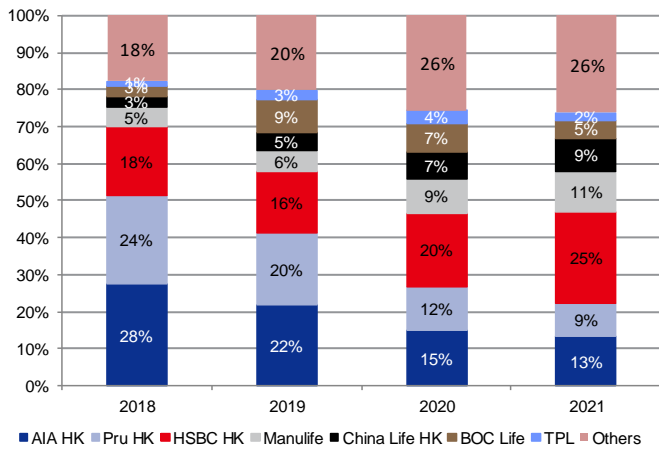
**Figure 152: Average policy size in the agent and broker channel for selected insurers**

(HK\$)	AIA	Pru	China Life	BOC	HSBC	Manulife	TPLHK
<b>FY21</b>							
Agent channel							
Regular premium	20,308	27,624	37,366	144,150	n.a.	19,219	107,008
Single premium	550,962	370,982	n.a.	1,997,231	n.a.	551,444	n.a.
Broker channel							
Regular premium	23,380	51,553	937,703	138,313	n.a.	105,141	934,536
Single premium	699,360	453,435	n.a.	2,011,077	26,480,895	12,378,761	n.a.
<b>FY20</b>							
Agent channel							
Regular premium	23,103	39,564	36,441	117,881	n.a.	16,326	141,488
Single premium	550,962	370,982	n.a.	1,997,231	n.a.	551,444	n.a.
Broker channel							
Regular premium	86,977	120,310	667,144	120,227	n.a.	179,232	1,122,847
Single premium	2,362,366	2,170,800	n.a.	1,425,462	35,763,000	7,121,245	n.a.
<b>FY19</b>							
Agent channel							
Regular premium	33,353	52,573	75,419	149,613	n.a.	16,866	637,254
Single premium	596,248	587,942	n.a.	3,436,667	n.a.	486,752	n.a.
Broker channel							
Regular premium	86,765	110,579	1,229,756	352,456	n.a.	136,130	2,884,979
Single premium	7,544,287	900,132	n.a.	3,169,025	38,526,857	12,544,185	n.a.
<b>FY18</b>							
Agent channel							
Regular premium	34,732	50,978	39,787	90,033	n.a.	28,072	892,297
Single premium	557,691	611,973	n.a.	3,013,900	n.a.	432,716	n.a.
Broker channel							
Regular premium	75,817	100,158	777,967	630,672	n.a.	40,761	3,001,191
Single premium	9,173,073	814,186	n.a.	3,462,012	44,680,765	16,525,464	n.a.
<b>FY17</b>							
Agent channel							
Regular premium	32,415	50,980	36,945	107,675	n.a.	28,345	329,732
Single premium	582,032	666,878	6,822,500	5,530,125	n.a.	399,588	n.a.
Broker channel							
Regular premium	75,729	89,002	400,338	448,030	n.a.	44,070	2,230,052
Single premium	12,920,478	1,118,882	11,646,250	6,058,388	18,551,962	9,959,881	n.a.
<b>FY16</b>							
Agent channel							
Regular premium	36,133	54,228	44,594	108,720	n.a.	31,547	554,131
Single premium	943,837	916,772	588,194	6,975,458	n.a.	707,408	n.a.
Broker channel							
Regular premium	92,065	108,883	2,494,175	1,926,890	n.a.	58,002	1,541,122
Single premium	13,838,621	982,021	16,047,783	16,984,906	22,623,815	9,032,569	n.a.
<b>FY15</b>							
Agent channel							
Regular premium	25,318	47,310	29,603	22,858	n.a.	25,906	n.a.
Single premium	899,484	669,423	174,971	n.a.	n.a.	862,036	n.a.
Broker channel							
Regular premium	55,999	94,502	643,995	105,400	1,341,000	60,792	n.a.
Single premium	98,893,500	820,126	11,704,163	33,391,333	24,784,741	8,039,829	n.a.

SOURCES: CGS-CIMB RESEARCH, IA

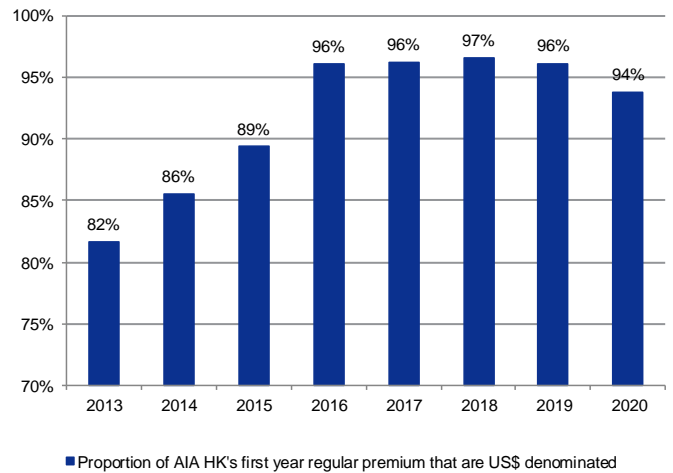


**Figure 153: Market share of US\$ denominated premiums**



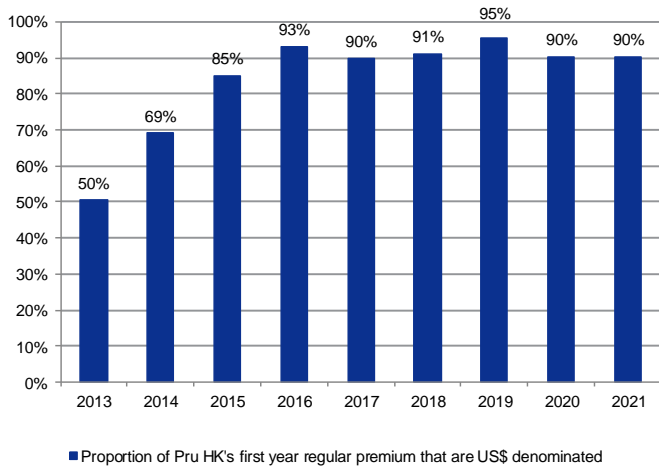
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 154: Proportion of AIA HK's first year regular premium that are US\$ denominated**



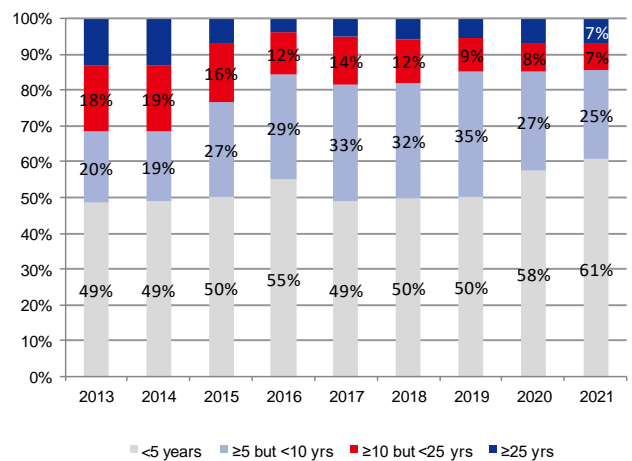
SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY

**Figure 155: Proportion of Pru HK's first year regular premium that are US\$ denominated**



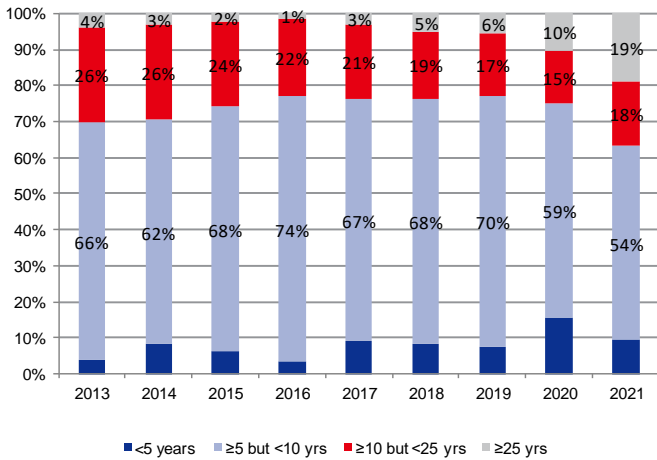
SOURCES: CGS-CIMB RESEARCH, IA

**Figure 156: Premium duration structure of the HK life insurance industry's regular premiums (new business) of its individual life business**



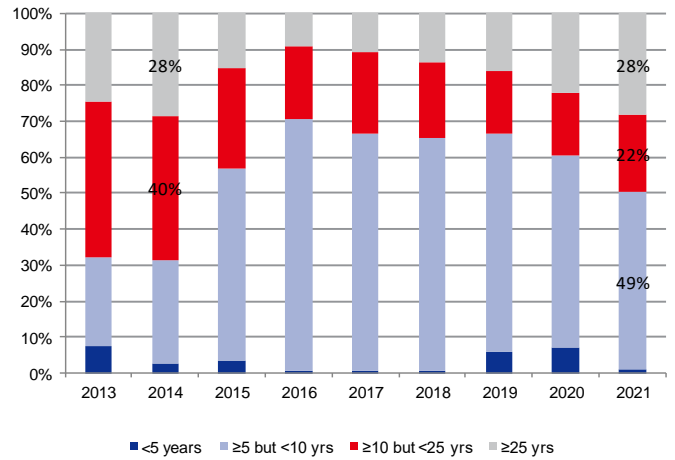
SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY (IA)

**Figure 157: Premium duration structure of Pru's regular premiums (new business) of its HK individual life business**



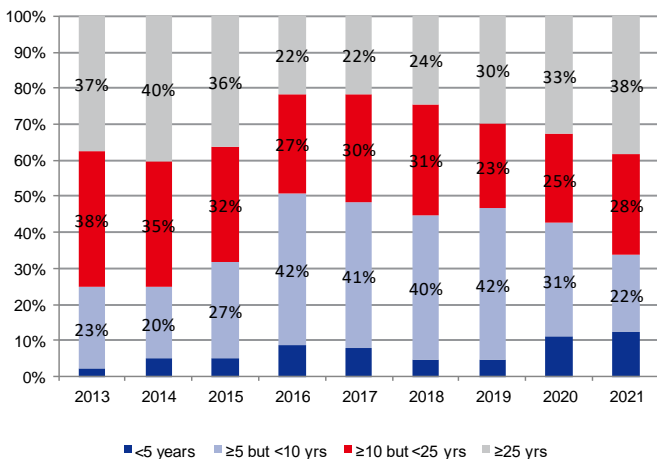
SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY (IA)

**Figure 158: Premium duration structure of AIA's regular premiums (new business) of its HK individual life business**



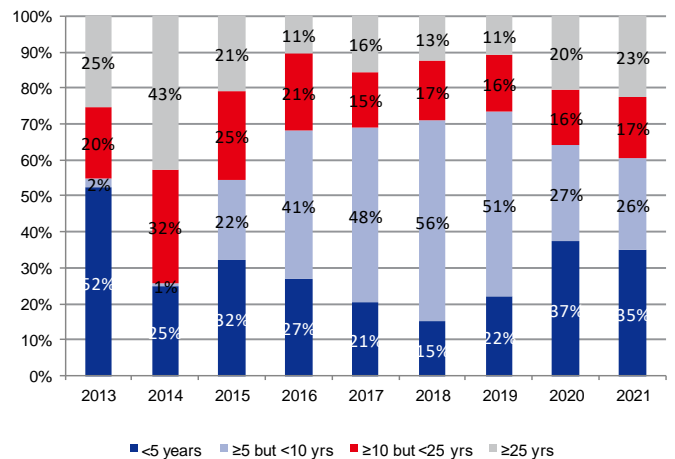
SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY

**Figure 159: Premium duration structure of Manulife's regular premiums (new business) of its HK individual life business**



SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY

**Figure 160: Premium duration structure of FWD's regular premiums (new business) of its HK individual life business**



SOURCES: CGS-CIMB RESEARCH, INSURANCE AUTHORITY (IA)

## Mainland China life insurance industry

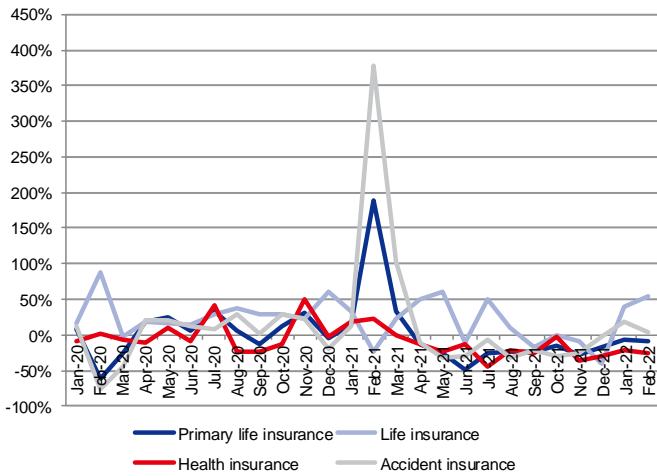
**Figure 161: Premium growth yoy of selected insurers in China**

Growth of total premiums yoy

	China Life	Ping An Life	CPIC Life	NCI	PICC Life	Taiping Life	Ping An Pension	Ping An Health	Taiping Pension	PICC Health	AIA China	PICC P&C	Ping An P&C	CPIC P&C	Taiping P&C
Oct-20	-5%	-1%	-6%	3%	3%	9%	-13%	38%	8%	26%	-35%	-11%	-4%	6%	-10%
Nov-20	-2%	-3%	-4%	-37%	14%	16%	42%	42%	14%	90%	7%	-14%	-12%	0%	-11%
Dec-20	-1%	-2%	2%	-13%	53%	2%	20%	28%	17%	10%	5%	-11%	-14%	-7%	6%
Jan-21	13%	-5%	9%	13%	4%	4%	77%	44%	49%	85%	43%	1%	-13%	5%	6%
Feb-21	2%	-1%	6%	7%	-18%	4%	-8%	5%	73%	102%	20%	23%	-1%	27%	-4%
Mar-21	-12%	-6%	-8%	3%	-26%	1%	-40%	23%	-8%	-28%	-14%	4%	-7%	15%	3%
Apr-21	-2%	-3%	9%	-1%	-25%	3%	-40%	18%	39%	-26%	n.a.	-9%	-11%	3%	-7%
May-21	3%	-4%	1%	-14%	-14%	3%	-7%	18%	23%	-11%	n.a.	-7%	-7%	-1%	7%
Jun-21	-3%	0%	-8%	0%	28%	3%	-38%	12%	-12%	-6%	n.a.	9%	-1%	6%	14%
Jul-21	-3%	-2%	-3%	-10%	16%	6%	48%	27%	9%	14%	n.a.	-9%	-14%	0%	-12%
Aug-21	-6%	-2%	-16%	-4%	-31%	3%	19%	24%	5%	10%	n.a.	-4%	-14%	-4%	-24%
Sep-21	-3%	-3%	-6%	-1%	10%	0%	-51%	27%	2%	-20%	n.a.	-2%	-9%	-6%	4%
Oct-21	-4%	-6%	-6%	0%	56%	3%	-27%	23%	17%	-7%	n.a.	3%	0%	2%	11%
Nov-21	-9%	-9%	5%	4%	90%	7%	9%	13%	17%	-13%	n.a.	13%	4%	5%	0%
Dec-21	0%	-4%	42%	20%	-23%	1%	-22%	5%	-8%	36%	n.a.	30%	14%	10%	-24%
Jan-22	-5%	-1%	-1%	4%	30%	-6%	-23%	31%	18%	-7%	n.a.	14%	8%	13%	-5%
Feb-22	-3%	-5%	15%	11%	6%	1%	-22%	19%	30%	39%	n.a.	13%	18%	21%	15%
Mar-22	6%	-5%	10%	-4%	-25%	1%	-1%	7%	8%	56%	n.a.	10%	9%	11%	15%
Apr-22	-2%	-3%	2%	13%	6%	2%	-13%	22%	-9%	179%	n.a.	3%	2%	0%	5%
1H19	5%	9%	6%	9%	1%	11%	8%	74%	-5%	44%	33%	15%	10%	12%	10%
2H19	8%	13%	4%	18%	15%	18%	19%	59%	15%	71%	28%	7%	9%	13%	13%
1H20	13%	-6%	0%	31%	-5%	0%	13%	61%	10%	46%	27%	4%	10%	12%	2%
2H20	-3%	0%	-5%	-2%	6%	7%	9%	38%	27%	40%	6%	-5%	1%	10%	7%
1H21	3%	-4%	2%	4%	-5%	3%	-19%	23%	22%	15%	16%	3%	-7%	8%	4%
2H21	-4%	-4%	-3%	0%	13%	3%	-12%	22%	5%	2%	11%	5%	-4%	1%	-8%
3Q19	10%	10%	3%	6%	9%	17%	28%	68%	0%	92%	24%	8%	7%	14%	7%
4Q19	5%	16%	4%	36%	24%	20%	7%	47%	29%	54%	33%	6%	12%	13%	18%
1Q20	13%	-11%	-1%	35%	-9%	-6%	9%	69%	-2%	38%	31%	2%	5%	10%	2%
2Q20	14%	3%	2%	25%	12%	14%	17%	52%	29%	58%	23%	7%	17%	14%	2%
3Q20	-3%	3%	-6%	10%	-6%	6%	7%	39%	44%	44%	18%	2%	13%	21%	21%
4Q20	-3%	-2%	-3%	-17%	23%	8%	11%	37%	14%	36%	-6%	-12%	-10%	-1%	-5%
1Q21	5%	-4%	4%	9%	-5%	3%	-7%	29%	28%	37%	18%	6%	-9%	12%	2%
2Q21	-1%	-2%	-1%	-4%	-1%	3%	-32%	16%	14%	-13%	16%	-1%	-6%	3%	5%
3Q21	-4%	-3%	-9%	-4%	-7%	2%	-11%	26%	5%	-1%	15%	-5%	-12%	-4%	-10%
4Q21	-4%	-6%	9%	7%	34%	4%	-14%	15%	5%	5%	9%	17%	7%	6%	-6%
1Q22	-3%	-2%	4%	2%	18%	-3%	-14%	22%	17%	19%	22%	12%	10%	14%	6%
2019	6%	11%	5%	13%	5%	14%	12%	66%	3%	52%	31%	11%	9%	13%	11%
2020	8%	-4%	-2%	15%	-2%	3%	11%	49%	18%	44%	17%	0.1%	6%	11%	4%
2021	1%	-4%	1%	2%	1%	3%	-16%	22%	13%	11%	14%	4%	-6%	4%	-2%

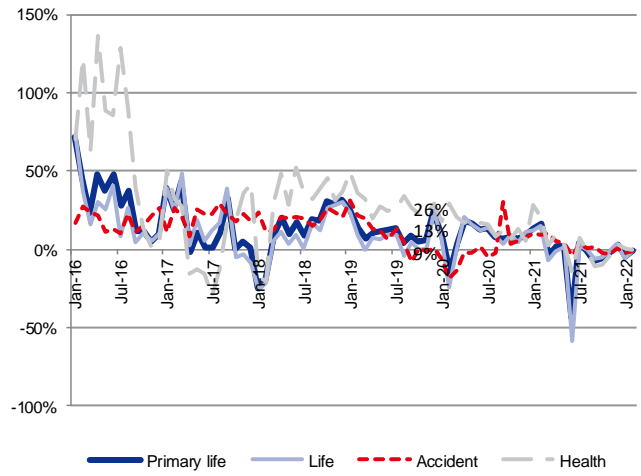
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, CHINA BANKING AND INSURANCE REGULATORY COMMISSION (CBIRC), WIND

**Figure 162: yoy change of monthly average case size (Rmb) for primary life insurance and subcategories of primary life insurance**



SOURCES: CGS-CIMB RESEARCH, WIND, CBIRC

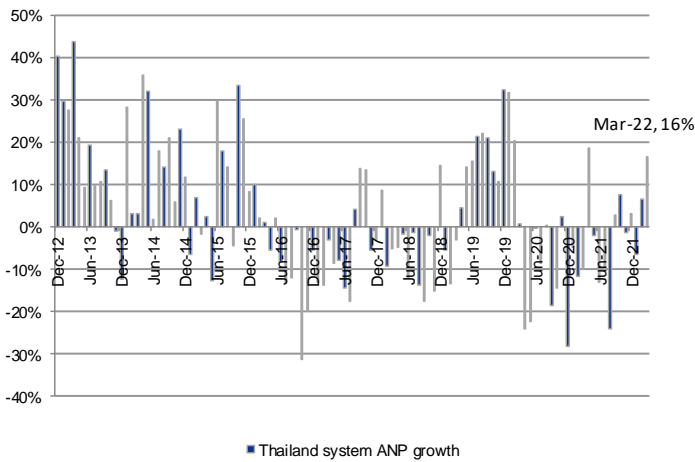
**Figure 163: yoy growth of monthly premiums for primary life insurance and subcategories of primary life insurance**



SOURCES: CGS-CIMB RESEARCH, WIND, CBIRC

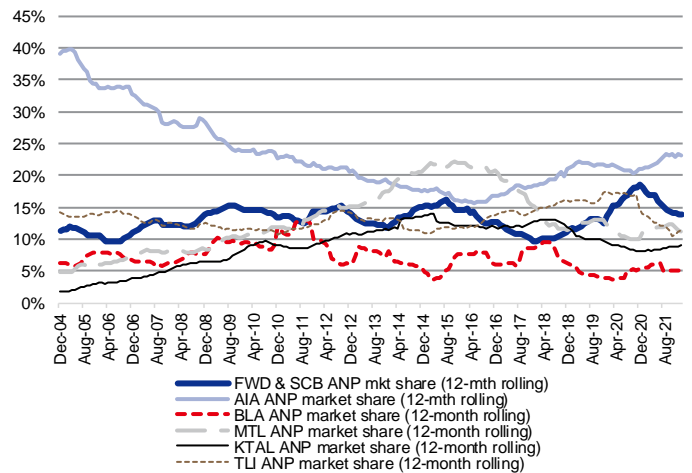
## Thailand's life insurance industry

**Figure 164: Thailand's life insurance industry ANP yoy growth on a monthly basis**



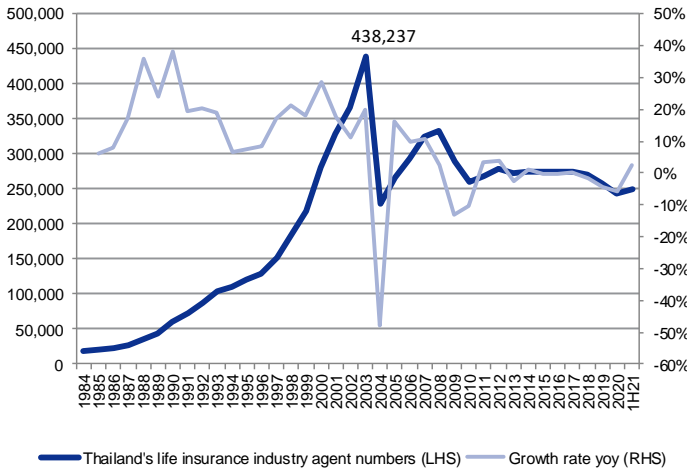
SOURCE: CGS-CIMB RESEARCH, THAILAND LIFE ASSURANCE ASSOCIATION (TLAA)

**Figure 165: Thailand's ANP market share (12-months rolling)**



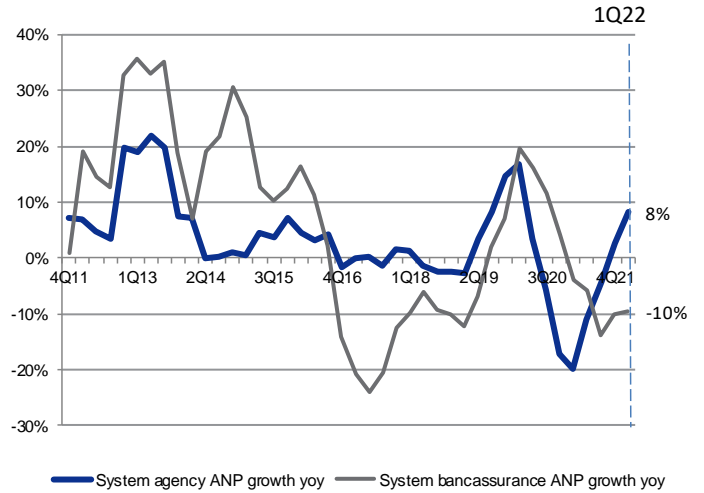
SOURCES: CGS-CIMB RESEARCH, TLAA

**Figure 166: Thailand's life insurance industry agent numbers and their growth yoy**



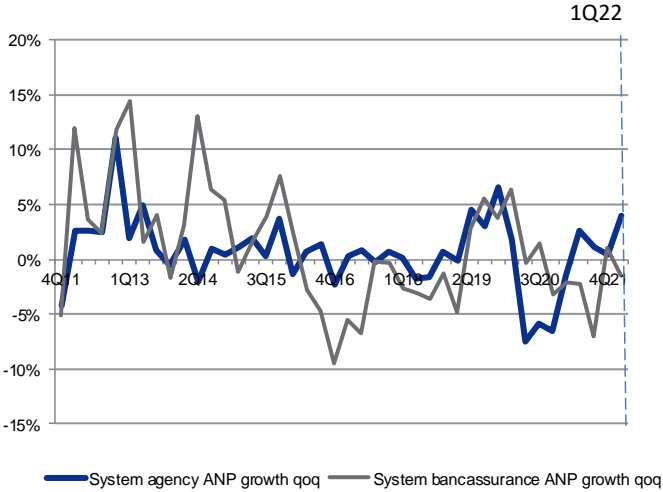
SOURCES: CGS-CIMB RESEARCH, THAILAND LIFE INSURANCE ASSOCIATION (TLAA)

**Figure 167: Growth yoy of ANP for the agency channel and the bancassurance channel in Thailand**



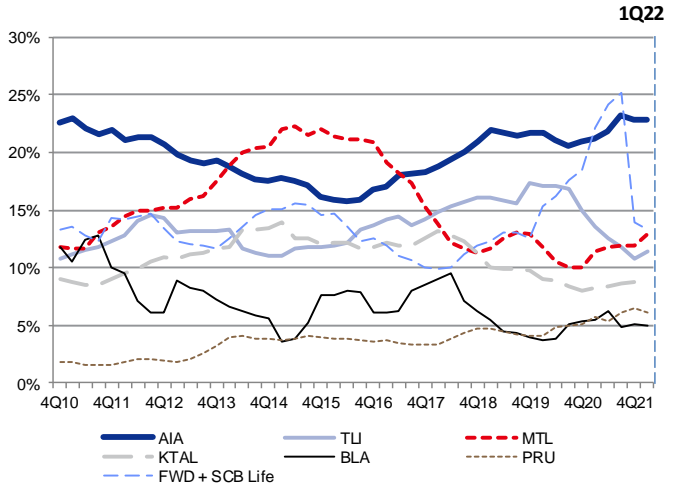
SOURCE: CGS-CIMB RESEARCH, TLAA

**Figure 168: Growth qoq of ANP for the agency channel and the bancassurance channel in Thailand**



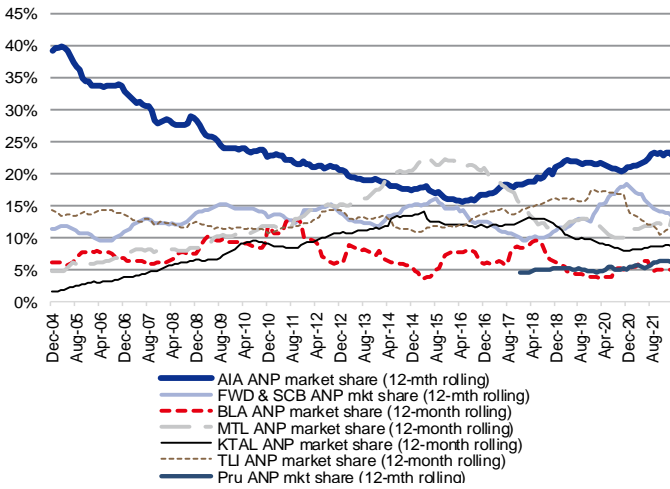
SOURCE: CGS-CIMB RESEARCH, TLAA

**Figure 169: Market share of total ANP**



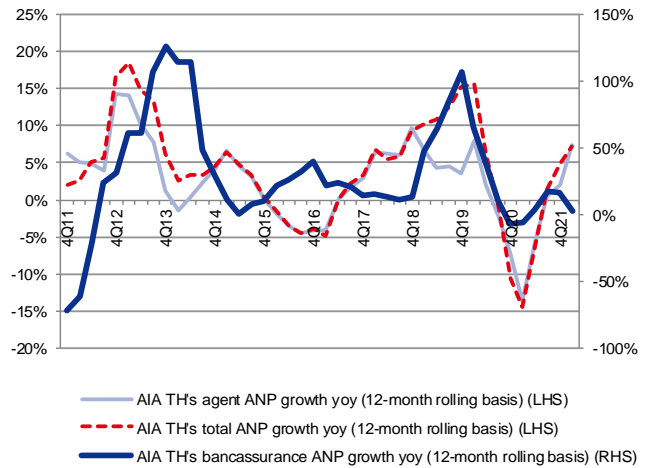
SOURCES: CGS-CIMB RESEARCH, THAILAND LIFE ASSURANCE ASSOCIATION (TLAA)

**Figure 170: Thailand's ANP market share (12-month rolling)**



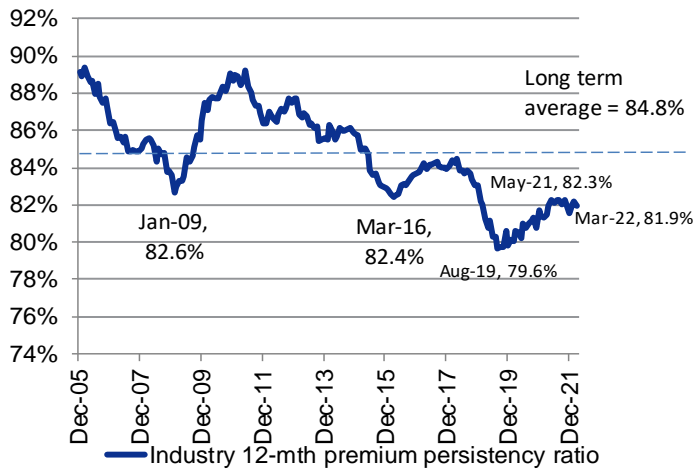
SOURCES: CGS-CIMB RESEARCH, TLAA

**Figure 171: AIA's ANP growth by distribution channel**



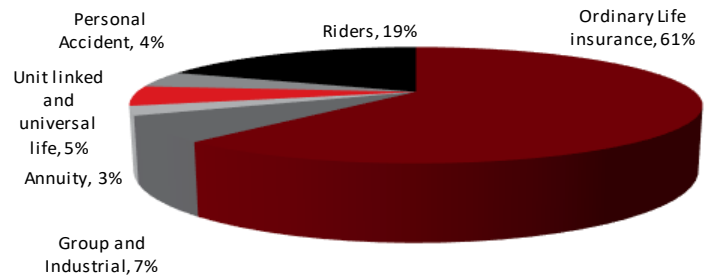
SOURCES: CGS-CIMB RESEARCH, TLAA

**Figure 172: 12-mth premium persistency rate of the Thai life insurance industry**



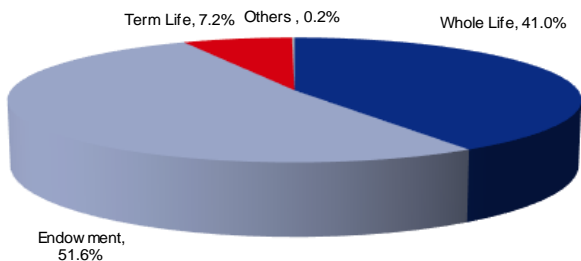
SOURCE: CGS-CIMB RESEARCH, TLAA

**Figure 173: 2020 ANP mix by product type**



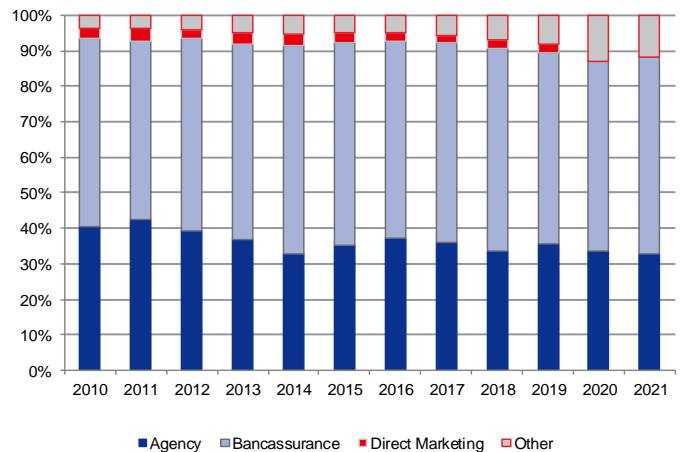
SOURCE: CGS-CIMB RESEARCH, TLAA

**Figure 174: Thailand in-force mix (based on number of policies) in 2020**



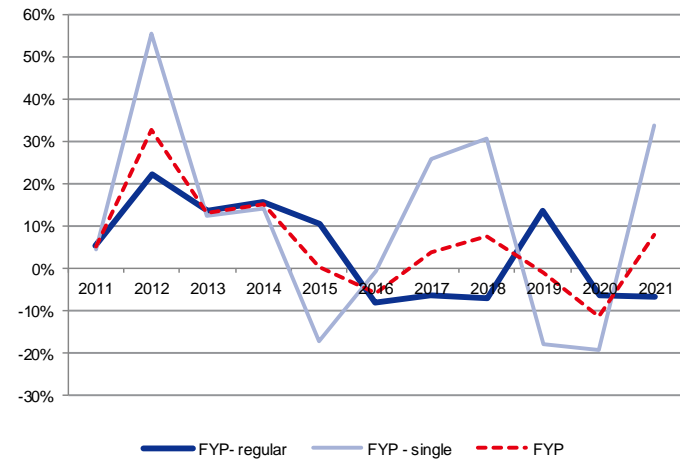
SOURCES: CGS-CIMB RESEARCH, TLAA

**Figure 175: Sales through agency channel seem to be decreasing in contribution to new life premiums (unweighted)**



SOURCES: CGS-CIMB RESEARCH, TLAA

**Figure 176: Growth of new life premiums in Thailand insurance industry - Single premium is recovering while regular premium is still struggling**



SOURCES: CGS-CIMB RESEARCH, TLAA

**Figure 177: Pru Thailand's first year premium growth yoy (annualised)**

	Pru Thailand's first year regular premium growth yoy	Pru Thailand's first year single premium growth yoy	Pru Thailand's annualized new premium growth yoy
2014	32%	64%	35%
2015	18%	-27%	13%
2016	-17%	7%	-15%
2017	-21%	56%	-14%
2018	34%	56%	37%
2019	4%	-37%	-4%
2020	22%	-36%	14%
2021	21%	17%	21%
1Q22	-17%	-3%	-16%

SOURCES: CGS-CIMB RESEARCH, TLAA

**Figure 178: Pru Thailand's ANP growth yoy by distribution channel**

	Agency	Bancassurance	Total
2014	131%	35%	35%
2015	12%	19%	13%
2016	-10%	-16%	-15%
2017	23%	-16%	-14%
2018	35%	29%	37%
2019	-9%	5%	-4%
2020	-32%	19%	14%
2021	-15%	25%	21%
1Q22	-29%	-17%	-16%

SOURCES: CGS-CIMB RESEARCH, TLAA

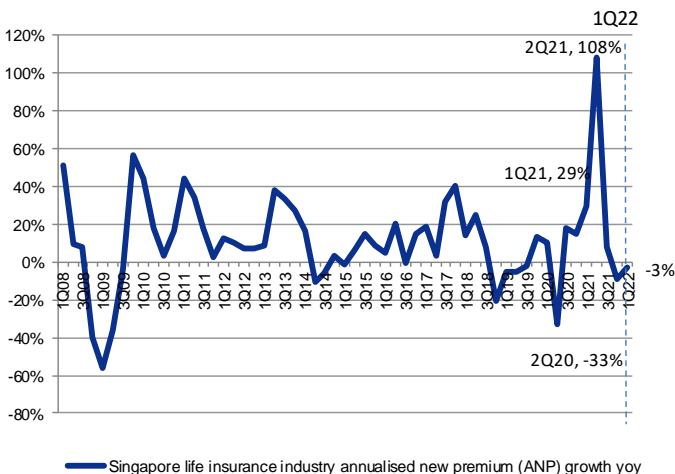
**Figure 179: Pru Thailand's ANP mix by distribution channel**

	Agency	Bancassurance	Other	Total
2014	6%	82%	12%	100%
2015	6%	87%	7%	100%
2016	6%	86%	8%	100%
2017	9%	84%	7%	100%
2018	9%	78%	13%	100%
2019	8%	85%	6%	100%
2020	5%	89%	6%	100%
2021	4%	92%	5%	100%
1Q22	3%	91%	6%	100%

SOURCES: CGS-CIMB RESEARCH, TLAA

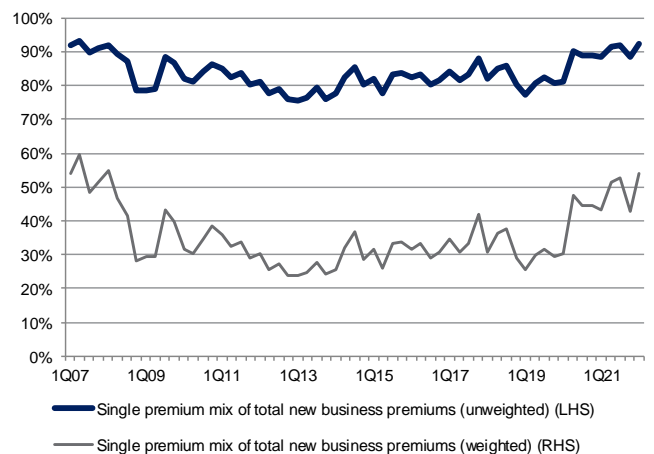
## Singapore's life insurance industry

**Figure 180: Singapore's life insurance industry's ANP growth yoy**



SOURCES: CGS-CIMB RESEARCH, LIFE INSURANCE ASSOCIATION OF SINGAPORE (LIAS)

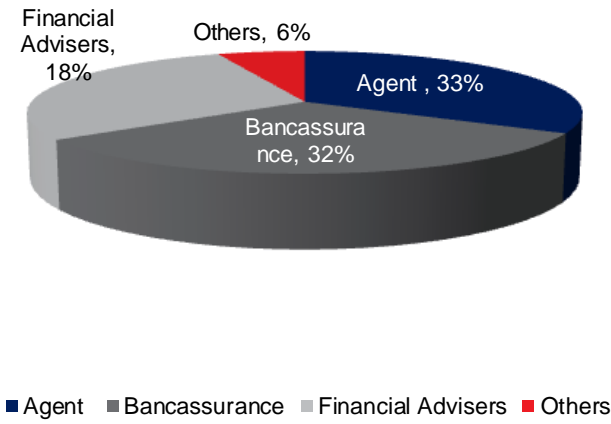
**Figure 181: Single premium mix, as a percentage of new business premiums and as a percentage of ANP**



SOURCE: CGS-CIMB RESEARCH, LIAS

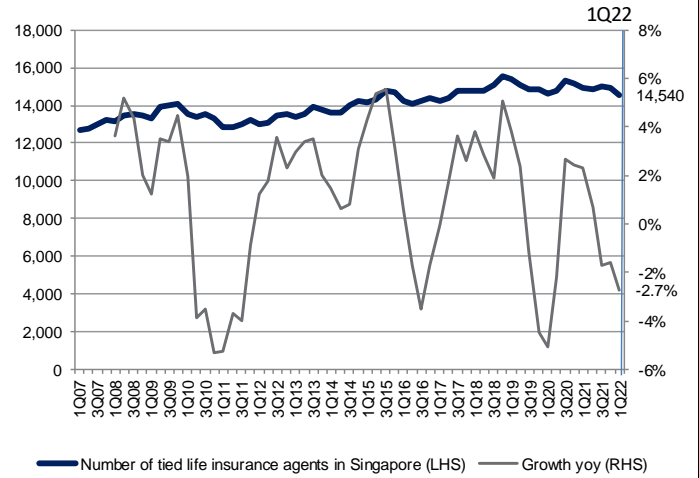


**Figure 182: Weighted premium mix by distribution channel in Singapore (FY21)**



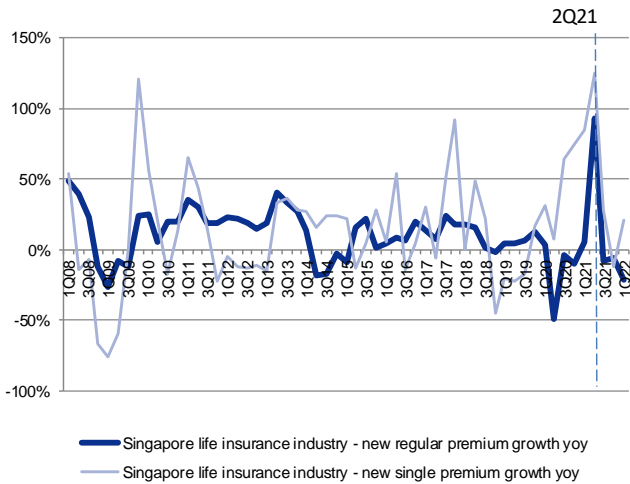
SOURCE: CGS-CIMB RESEARCH, LIAS

**Figure 183: Tied insurance agent numbers in Singapore and their growth rate yoy**



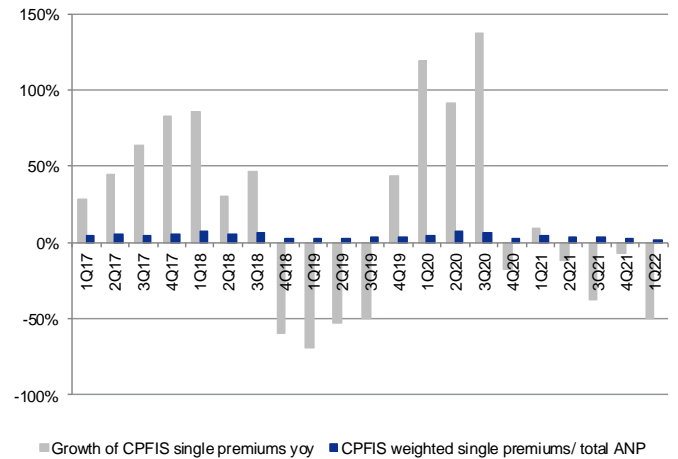
SOURCE: CGS-CIMB RESEARCH, LIAS

**Figure 184: Industry's new single and regular premium growth yoy**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, LIAS

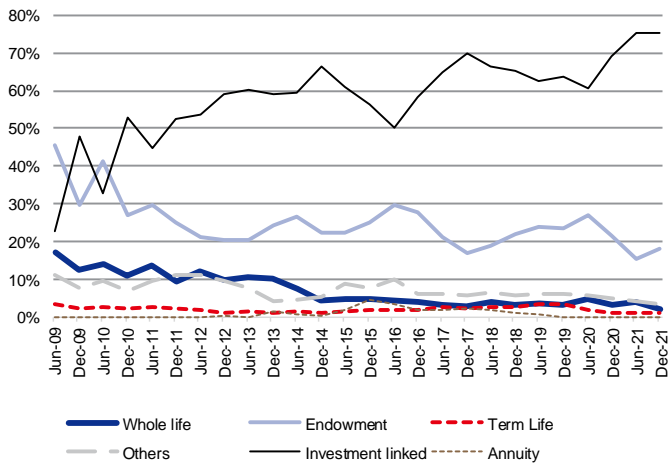
**Figure 185: Growth and mix of CPFIS schemes for Singapore's life insurance industry**



SOURCES: CGS-CIMB RESEARCH, LIAS

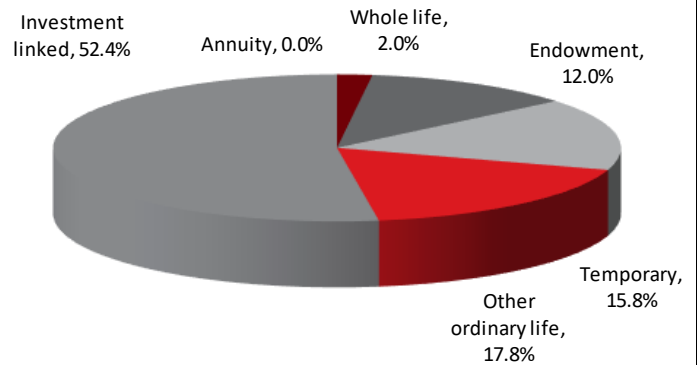
### Malaysia's life insurance industry

**Figure 186: Mix of new business premiums (unweighted) in Malaysia across time**



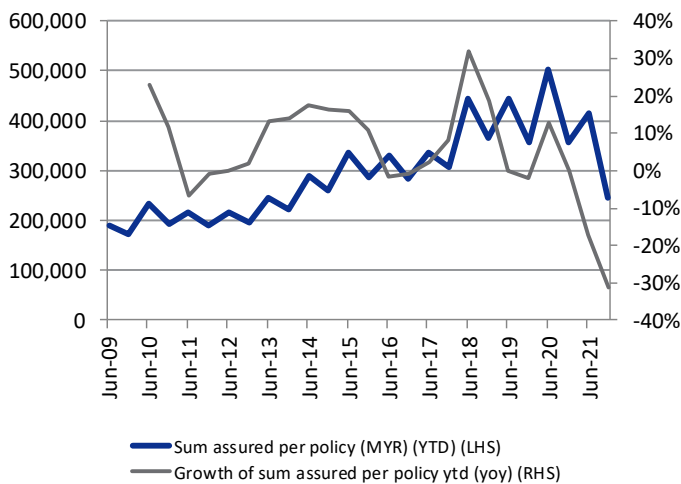
SOURCES: CGS-CIMB RESEARCH, BANK NEGARA MALAYSIA (BNM)

**Figure 187: System premium mix at the end of 2021 for new business premiums**



SOURCE: CGS-CIMB RESEARCH, BNM

**Figure 188: Sum assured per policy and growth of sum assured by policy yoy**



SOURCE: CGS-CIMB RESEARCH, BNM

**Figure 189: Growth of new business premiums (unweighted) yoy by customer type**

	Individual	Group	Total
1H10	33%	10%	25%
2H10	-4%	15%	0%
1H11	-11%	6%	-6%
2H11	-9%	2%	-6%
1H12	3%	2%	3%
2H12	5%	2%	4%
1H13	-8%	8%	-3%
2H13	-1%	9%	2%
1H14	16%	3%	11%
2H14	8%	9%	8%
1H15	-5%	15%	2%
2H15	2%	0%	2%
1H16	14%	-1%	8%
2H16	9%	-1%	6%
1H17	5%	5%	5%
2H17	1%	7%	3%
1H18	0%	14%	5%
2H18	-4%	3%	-2%
1H19	14%	10%	12%
2H19	18%	11%	16%
1H20	-22%	2%	-13%
2H20	14%	-12%	7%
1H21	40%	5%	24%
2H21	-1%	13%	3%

SOURCES: CGS-CIMB RESEARCH, BNM

**Figure 190: Growth yoy of individual new business premiums (unweighted) by type**

	Whole life	Endowment	Term Life	Others	Investment linked	Annuity	Total
Jun-10	7.3%	21.3%	0.3%	13.1%	90.6%	n.a.	33.0%
Dec-10	-16.3%	-12.8%	-1.8%	-8.7%	6.3%	n.a.	-3.5%
Jun-11	-11.4%	-36.1%	-16.4%	-10.0%	22.4%	n.a.	-10.6%
Dec-11	-20.1%	-15.2%	-22.9%	42.9%	-9.1%	n.a.	-8.6%
Jun-12	-10.7%	-25.5%	-26.5%	23.1%	24.3%	n.a.	3.4%
Dec-12	5.3%	-14.4%	-45.6%	-7.3%	18.5%	n.a.	5.1%
Jun-13	-18.4%	-12.3%	-31.0%	-39.1%	2.3%	n.a.	-8.5%
Dec-13	3.8%	19.3%	0.9%	-58.5%	-0.7%	644%	-0.7%
Jun-14	-16.9%	49.4%	11.5%	-32.0%	14.5%	1120%	15.7%
Dec-14	-51.3%	-0.9%	9.2%	43.3%	21.3%	-73%	8.1%
Jun-15	-42.6%	-19.7%	18.4%	88.5%	-3.0%	100%	-5.2%
Dec-15	7.2%	14.6%	58.9%	46.4%	-13.4%	1215%	2.0%
Jun-16	12.0%	50.6%	41.5%	30.9%	-5.7%	123%	14.1%
Dec-16	-12.7%	19.7%	23.9%	-12.3%	12.8%	-51%	8.8%
Jun-17	-24.2%	-24.2%	35.5%	-35.4%	35.7%	-51%	5.0%
Dec-17	-23.7%	-37.6%	23.7%	-9.0%	20.8%	16%	1.1%
Jun-18	23.1%	-12.3%	-0.1%	4.1%	2.4%	10%	0.2%
Dec-18	7.3%	23.9%	9.6%	0.0%	-9.8%	-53%	-3.6%
Jun-19	-1.2%	46.0%	53.0%	7.2%	7.0%	-68%	13.7%
Dec-19	23.3%	26.6%	54.5%	23.1%	15.2%	-95%	18.2%
Jun-20	5.5%	-12.5%	-57.5%	-27.2%	-24.5%	-95%	-22.2%
Dec-20	15.1%	4.3%	-59.7%	-10.2%	23.2%	38%	13.6%
Jun-21	15.9%	-20.0%	-31.3%	7.1%	74.2%	-90%	40.2%
Dec-21	-38.5%	-16.1%	-18.1%	-30.5%	8.5%	-100%	-0.6%

SOURCES: CGS-CIMB RESEARCH, BNM

## Historical share price performances of listed HK insurers

**Figure 191: Share price / index performances of AIA & Prudential (Pru) in HK versus major benchmark indices**

	Absolute performance		AIA's relative performance (% pts)			
	AIA	Pru	vs. HSI	vs. MSCI Asia ex Jap.	vs. MSCI EM	vs. MSCI World
Dec-11	11%	-8%	31%	30%	32%	21%
Dec-12	25%	53%	2%	6%	9%	11%
Dec-13	29%	55%	26%	28%	33%	8%
Dec-14	11%	4%	10%	11%	15%	9%
Dec-15	8%	-1%	15%	19%	24%	12%
Dec-16	-6%	-15%	-7%	-9%	-13%	-12%
Dec-17	52%	28%	16%	19%	18%	31%
Dec-18	-2%	-30%	11%	14%	15%	9%
Dec-19	26%	25%	17%	11%	11%	2%
Dec-20	16%	-3%	20%	-4%	0%	2%
Dec-21	-16%	-7%	-2%	-10%	-12%	-36%
2022 YTD	-1%	-26%	11%	15%	15%	14%

SOURCES: CGS-CIMB RESEARCH, DATASTREAM, MSCI, BLOOMBERG

DATA AS OF 17 MAY 2022

THE SHADED CELLS ARE THE ONLY PERIODS THAT AIA'S SHARE PRICE UNDERPERFORMED MAJOR SHAREMARKET BENCHMARK INDICES

NOTE THAT HISTORICAL SHARE PRICE PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE FOR FUTURE RETURNS. THIS DATA IS PURELY FOR ANALYTICAL PURPOSES.

**Figure 192: Share price of AIA versus other listed insurers in HK and the Hang Seng Index (HSI)**

Prices as of 17-May-2022	AIA	Pru	HSI	China Life	Ping An	CPIC	NCI	PICC P&C	PICC Group	Taiping
Share price (HK\$)	77.55	97.0	20,603	11.38	48.45	17.20	19.18	7.65	2.44	8.48
<b>Absolute share price performance</b>										
1 wk	6%	9%	5%	2%	1%	3%	1%	-1%	0%	2%
1 mth	-3%	-12%	-4%	-6%	-15%	-10%	-16%	-8%	-6%	-12%
2 mths	3%	-10%	3%	-1%	-3%	-10%	-6%	6%	5%	0%
3 mths	-11%	-21%	-15%	-19%	-25%	-29%	-18%	-4%	-4%	-23%
6 mths	-10%	-37%	-20%	-18%	-17%	-31%	-14%	10%	3%	-27%
1 yr	-24%	-41%	-28%	-25%	-40%	-37%	-33%	8%	-6%	-38%
3 yrs	6%	-33%	-27%	-34%	-41%	-32%	-42%	15%	-4%	-56%
5 yrs	52%	-34%	-19%	-47%	19%	-27%	-43%	11%	-12%	-54%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

THE SHADED CELLS SHOW THE PERFORMANCE OVER THE LAST THREE MONTHS

NOTE THAT HISTORICAL SHARE PRICE PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE FOR FUTURE RETURNS. THIS DATA IS PURELY FOR ANALYTICAL PURPOSES.

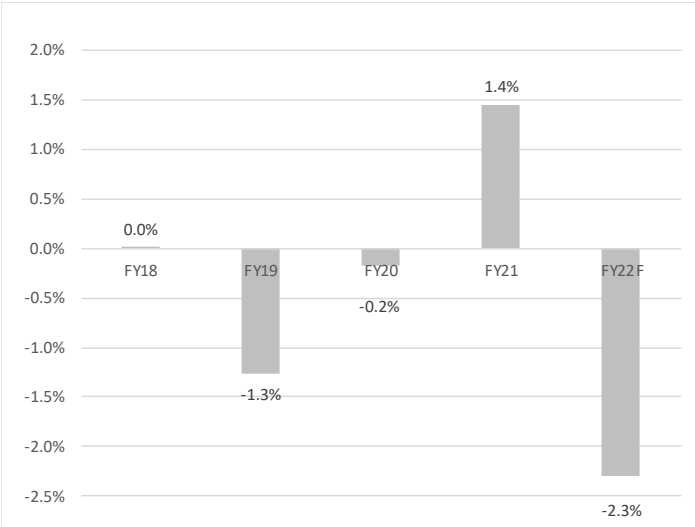
**Figure 193: Share price performance of the China insurers**

	China Life	Ping An	CPIC	NCI	Taiping	PICC P&C	PICC Group	AIA	Pru (HK)
<b>Absolute share price perf.</b>									
Dec-11	-38%	-41%	-31%	n.a.	-40%	0%	n.a.	11%	-5%
Dec-12	34%	28%	32%	17%	9%	6%	n.a.	26%	58%
Dec-13	-3%	8%	8%	-12%	1%	14%	-4%	30%	59%
Dec-14	28%	16%	32%	52%	48%	40%	-3%	12%	6%
Dec-15	-17%	10%	-18%	-16%	8%	4%	5%	9%	2%
Dec-16	-17%	-8%	-11%	11%	-33%	-19%	-19%	-5%	-12%
Dec-17	23%	114%	43%	52%	84%	28%	27%	55%	31%
Dec-18	-31%	-13%	-30%	-41%	-26%	-17%	-17%	-1%	-28%
Dec-19	31%	36%	26%	10%	-10%	22%	5%	28%	18%
Dec-20	-18%	6%	5%	-5%	-26%	-33%	-18%	18%	0%
Dec-21	-20%	-39%	-26%	-26%	-21%	16%	2%	-16%	-7%
May-22 YTD	-14%	-17%	-20%	-10%	-23%	18%	2%	-6%	-30%
1-wk	-2%	-4%	1%	-1%	-2%	-3%	-3%	0%	0%
1-mth	-9%	-19%	-12%	-18%	-15%	-10%	-7%	-8%	-17%
3-mth	-24%	-30%	-32%	-22%	-30%	-8%	-7%	-15%	-27%
6-mth	-20%	-19%	-33%	-14%	-29%	9%	2%	-13%	-41%
1-yr	-27%	-42%	-36%	-33%	-40%	5%	-6%	-27%	-43%
<b>Relative share price perf. (vs. HSCEI, HSI)</b>									
Dec-11	-17%	-19%	-9%	n.a.	-18%	22%	n.a.	31%	15%
Dec-12	19%	13%	17%	2%	-6%	-9%	n.a.	3%	35%
Dec-13	2%	14%	13%	-6%	6%	19%	1%	27%	56%
Dec-14	17%	5%	21%	41%	37%	29%	-14%	11%	5%
Dec-15	3%	29%	2%	3%	27%	24%	24%	16%	9%
Dec-16	-14%	-5%	-9%	13%	-31%	-17%	-16%	-5%	-12%
Dec-17	-2%	90%	18%	27%	59%	3%	3%	19%	-5%
Dec-18	-17%	1%	-17%	-27%	-13%	-4%	-4%	13%	-14%
Dec-19	21%	26%	16%	0%	-20%	11%	-6%	19%	9%
Dec-20	-14%	10%	8%	-1%	-22%	-29%	-15%	22%	3%
Dec-21	3%	-15%	-3%	-3%	2%	39%	25%	-2%	8%
May-22 YTD	3%	0%	-3%	7%	-6%	35%	19%	9%	-16%
1-wk	-2%	-5%	0%	-1%	-3%	-3%	-3%	0%	0%
1-mth	-1%	-11%	-5%	-10%	-7%	-2%	1%	0%	-9%
3-mth	-3%	-9%	-11%	-1%	-9%	13%	14%	4%	-8%
6-mth	5%	6%	-8%	11%	-4%	34%	27%	8%	-19%
1-yr	8%	-7%	-2%	1%	-6%	40%	28%	2%	-14%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

## Impact of exchange rate movements on listed insurers

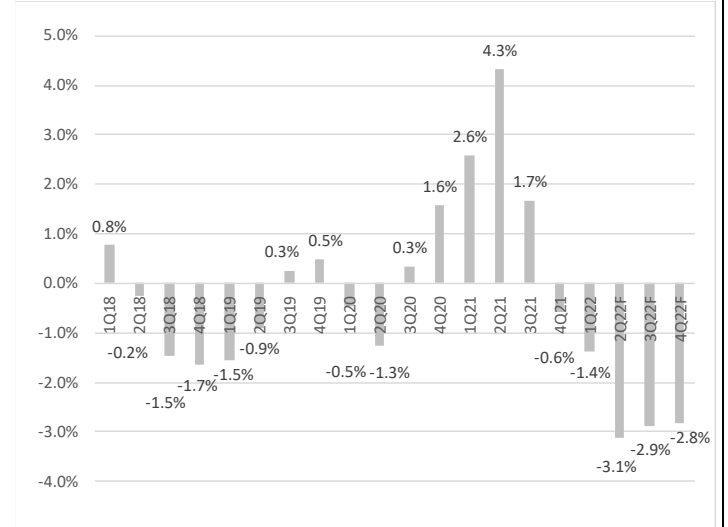
**Figure 194: Weighted average impact yoy on Pru NBP growth from currency movements (based on period average rates)**



SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

Positive figures indicate a tailwind to VONB growth

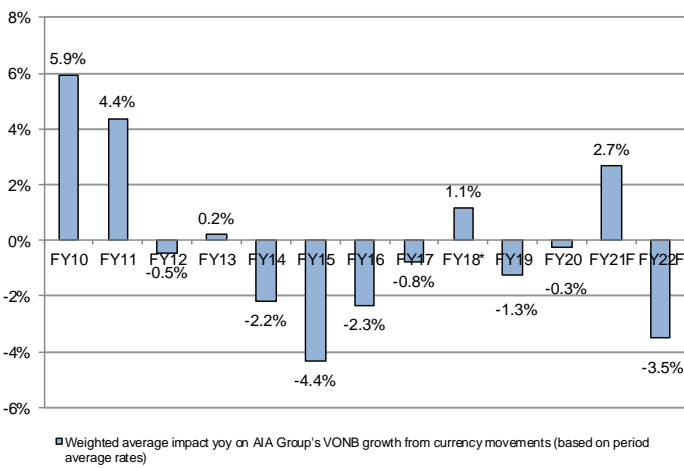
**Figure 195: Weighted average impact yoy on Pru Group's NBP growth from currency movements**



SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

Positive figures indicate a tailwind to VONB growth

**Figure 196: Weighted average impact yoy on AIA Group's VONB growth from currency movements, by year**

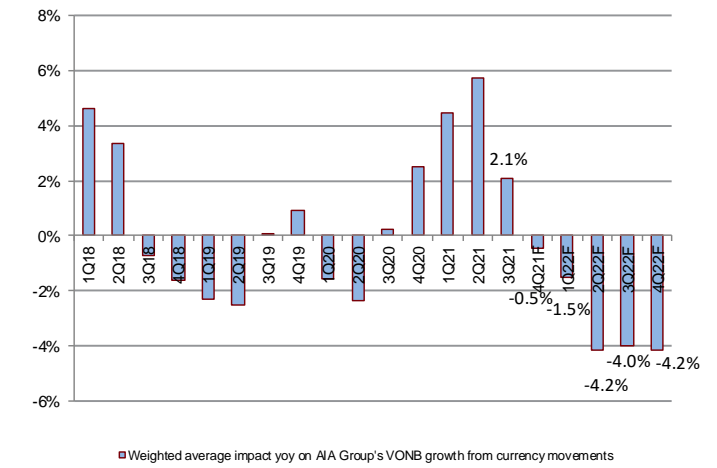


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

\* 1Q18 - 4Q18's change is based on the new financial year end of Dec. instead of the old financial year of Nov.

Positive figures indicate a tailwind to VONB growth

**Figure 197: Weighted average impact yoy on AIA Group's VONB growth from currency movements, by quarter**

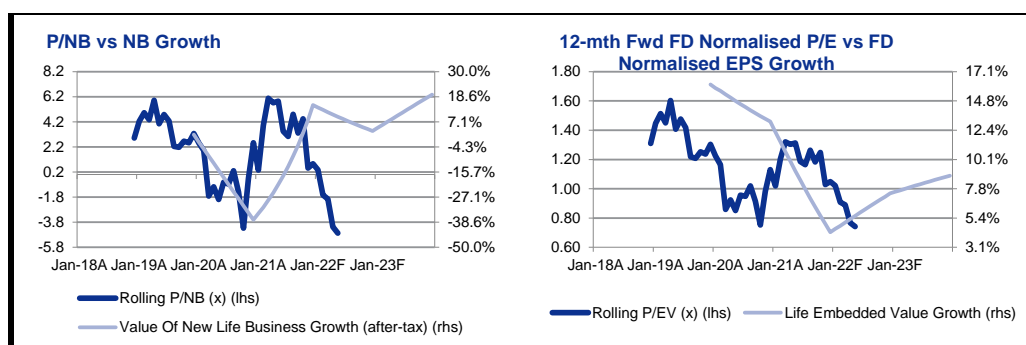


SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

\* 1Q18 - 4Q18's change is based on the new financial year end of Dec. instead of the old financial year of Nov.

Positive figures indicate a tailwind to VONB growth

## BY THE NUMBERS



### Profit & Loss

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue	21,870	22,373	25,151	27,147	31,042
Total Claims and Changes in Reserves	(28,588)	(18,911)	(24,197)	(26,677)	(30,024)
Acq. Costs/Other Underwriting Exp.					
Total Underwriting Result	(11,715)	(1,461)	(4,385)	(5,291)	(5,553)
Investment Income on Tech Reserve	13,762	3,486	6,182	8,591	9,221
Insurance Profit / (Loss)	2,047	2,025	1,797	3,301	3,668
Total Other Technical Income	615	641	668	696	726
<b>Total Other Revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Operating Costs</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other Technical Income / (Loss)					
<b>Depreciation And Amortisation</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Operating Profit</b>	<b>2,662</b>	<b>2,666</b>	<b>2,465</b>	<b>3,997</b>	<b>4,394</b>
Pretax Income/(Loss) from Assoc.	517	352	380	411	443
Post-Tax Oper. Earnings - Life/Other Biz					
Head Office Costs					
<b>Non-Operating Income/(Expense)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Interest Income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Investment Income on Shareholders Fund					
Other Income					
Exceptional Items					
<b>Pre-tax Profit</b>	<b>3,179</b>	<b>3,018</b>	<b>2,845</b>	<b>4,408</b>	<b>4,837</b>
Taxation	(711)	(804)	(758)	(1,174)	(1,289)
Consolidation Adjustments & Others					
Exceptional Income - post-tax	(340)	(4,234)	0	0	0
<b>Profit After Tax</b>	<b>2,128</b>	<b>(2,020)</b>	<b>2,087</b>	<b>3,233</b>	<b>3,548</b>
Minority Interests	(10)	(22)	(21)	(32)	(35)
Preferred Dividends					
Special Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
<b>Net Profit</b>	<b>2,118</b>	<b>(2,042)</b>	<b>2,066</b>	<b>3,201</b>	<b>3,513</b>

### Operating Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Premium Retention Ratio (life & Health)	100.0%	100.0%	100.0%	100.0%	100.0%
Benefits Ratio (life & Health)	(131%)	(85%)	(96%)	(98%)	(97%)
Acquisition Expense Ratio (life & Health)	19.8%	18.8%	18.8%	18.8%	18.8%
Admin Expense Ratio (life & Health)	0%	0%	0%	0%	0%
Total Expense Ratio (life & Health)	21.3%	20.3%	19.6%	19.6%	19.6%
Policyholder Dividends Ratio (life & Health)	0%	0%	0%	0%	0%
Combined Underwriting Ratio (life & Health)	(109%)	(64%)	(77%)	(79%)	(77%)
Underwriting Profit Margin (life & Health)	(53.6%)	(6.5%)	(17.4%)	(19.5%)	(17.9%)
Operating Profit Margin (life & Health)	12.2%	11.9%	9.8%	14.7%	14.2%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



## BY THE NUMBERS... cont'd

### Balance Sheet

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Fixed Assets	893	478	502	527	553
Intangible Assets	961	907	952	1,000	1,050
Other Long Term Assets	509,645	194,767	204,505	214,731	225,467
<b>Total Non-current Assets</b>	<b>511,499</b>	<b>196,152</b>	<b>205,960</b>	<b>216,258</b>	<b>227,070</b>
Total Cash And Equivalents	0	0	0	0	0
Trade Debtors					
Other Current Assets	4,598	2,950	3,098	3,252	3,415
<b>Total Current Assets</b>	<b>4,598</b>	<b>2,950</b>	<b>3,098</b>	<b>3,252</b>	<b>3,415</b>
Creditors - Direct & Reinsurance Business					
Provision For Claims Outstanding					
Other Current Liabilities	10,048	408	427	444	462
<b>Total Current Liabilities</b>	<b>10,048</b>	<b>408</b>	<b>427</b>	<b>444</b>	<b>462</b>
Total Long-term Debt	9,077	6,988	7,307	7,602	7,906
Hybrid Debt - Debt Component					
Other Liabilities	474,853	174,442	182,393	189,768	197,353
<b>Total Non-current Liabilities</b>	<b>483,930</b>	<b>181,430</b>	<b>189,700</b>	<b>197,370</b>	<b>205,259</b>
<b>Total Technical &amp; Other Provisions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Liabilities</b>	<b>493,978</b>	<b>181,838</b>	<b>190,126</b>	<b>197,813</b>	<b>205,720</b>
Shareholders' Equity	20,878	17,088	18,737	21,484	24,531
Minority Interests	1,241	176	194	213	234
<b>Total Equity</b>	<b>22,119</b>	<b>17,264</b>	<b>18,931</b>	<b>21,697</b>	<b>24,765</b>
Life Embedded Value	42,808	44,646	47,945	52,170	57,449

### Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net Premium Growth	(47.9%)	3.1%	12.4%	7.9%	14.3%
Operating Profit Growth (Life & Health)	40.8%	0.2%	(7.5%)	62.2%	9.9%
Value Of New Life Business Growth (after-tax)	(37.5%)	14.8%	3.0%	19.6%	23.5%
Life Embedded Value Growth	13.1%	4.3%	7.4%	8.8%	10.1%
Pre-tax Margin	14.5%	13.5%	11.3%	16.2%	15.6%
Net Profit Margin	9.7%	(9.1%)	8.2%	11.8%	11.3%
Effective Tax Rate	22.4%	26.6%	26.6%	26.6%	26.6%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Return On Average Assets	0.51%	0.62%	1.02%	1.51%	1.58%
Net Gearing	47.4%	29.7%	28.7%	26.7%	25.0%
Financial Leverage	24.04	18.84	11.39	10.66	9.78
Equity / Assets	4.0%	8.6%	9.0%	9.8%	10.6%

### Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
VONB growth (%)	-37.5%	14.8%	3.0%	19.6%	23.5%
Embedded value growth	0.1	0.0	0.1	0.1	0.1
Benefits and claims / total net revenue	0.8	0.7	0.8	0.7	0.7
Acquisition costs / net earned premiums	0.2	0.2	0.2	0.2	0.2
Effective tax rate	0.2	0.2	0.2	0.2	0.2
Dividend payout ratio (based on operating profits)	0.2	0.2	0.2	0.1	0.1

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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#### **Corporate Governance Report:**

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	N/A

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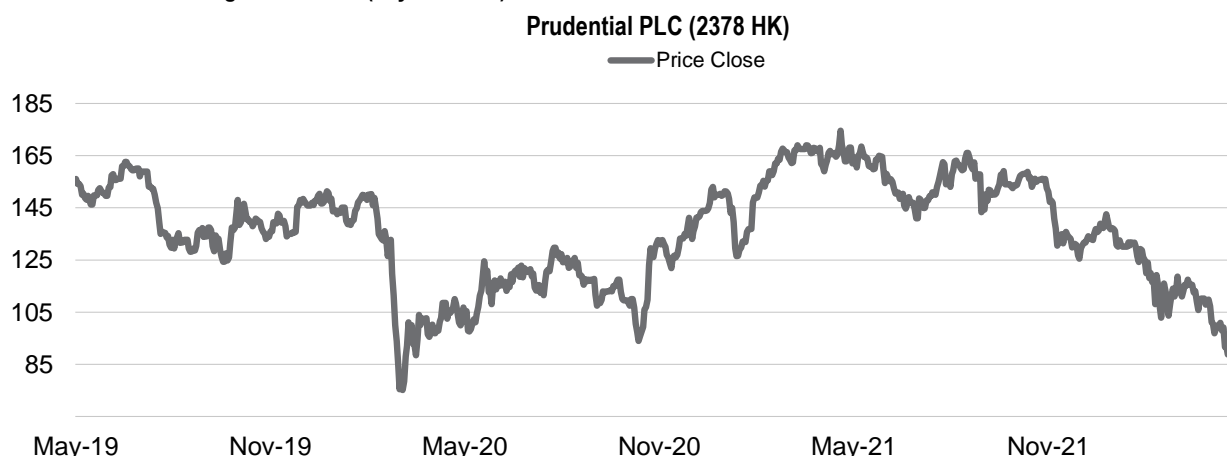
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2022		
632 companies under coverage for quarter ended on 31 March 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Spitzer Chart for stock being researched ( 2 year data )



**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021**

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework	
<b>Stock Ratings</b>	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
<b>Sector Ratings</b>	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
<b>Country Ratings</b>	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.