

## China Taiping Ins

Bloomberg: 966 HK EQUITY | Reuters: 0966.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Nov 2022

### BUY

Last Traded Price (4 Nov 2022): HK\$6.09 (HSI : 16,161)  
Price Target 12-mth: HK\$9.50 (56% upside) (Prev HK\$11.00)

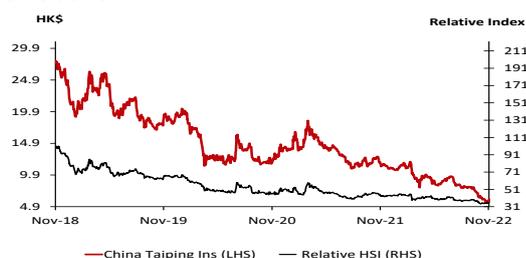
#### Analyst

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#### What's New

- 3Q22 earnings likely dragged by sharp drop in investment income on volatile market based on solvency report
- TP Life delivered better-than-peers' GWP growth of 5% y-o-y in 3Q22; agency quality improvement next to watch
- Embedded value growth to be suppressed by Renminbi depreciation on FX conversion risk
- Lowered FY22/23F earnings by 18%/14% on lower investment income, and VNB to -15%/+8%; TP cut to HK\$9.5 on lower multiple; with attractive risk-reward, Maintain BUY

#### Price Relative



#### Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021A	2022F	2023F
Net earned premiums	217.932	250.496	258.846	270.429
Net investment income	36.297	43.988	46.184	51.411
Net Profit	6.549	7.514	4.621	6.188
EPS (HK\$)	1.82	2.09	1.29	1.72
EPS Gth (%)	(27.3)	14.7	(38.5)	33.9
PE (X)	3.3	2.9	4.7	3.5
DPS (HK\$)	0.40	0.46	0.28	0.38
Net Div Yield (%)	6.6	7.6	4.6	6.2
BV Per Share (HK\$)	25.22	24.50	25.79	27.51
P/Book Value (X)	0.2	0.2	0.2	0.2
P/EV (X)	0.1	0.1	0.1	0.1
ROAE (%)	7.8	8.4	5.1	6.5

Earnings Rev (%)		(18)	(14)
Consensus EPS (HK\$)		1.62	2.17
Other Broker Recs:	B:16	S:1	H:3

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

### More time needed to transition

#### Investment Thesis

VNB growth to recover in FY23F. China Taiping's VNB growth was -13.5% y-o-y in 1H22, outperforming its peers, mainly benefiting from the low base. While it may suffer less from the lower life agent headcount due to its smaller scale, we estimate its VNB would decline -14.5% y-o-y in FY22F before recovering to +8% y-o-y in FY23F.

P&C business remains healthy. Taiping's domestic P&C business saw continuous improvement in the combined ratio to 98.7% in 3Q22, with less claims due to weak social activities in Mainland China. We estimate its combined ratio will improve to 98.3%/98.6% in FY22/23F, compared to 102.9% in FY21.

Investment strategy refocus to enhance recurring yield. The continuous improvements in asset allocation to focus more on bond investments/high-value stocks will help to enhance its recurring yield. Nonetheless, the total investment yield may still be impacted by the recent market volatility.

#### Valuation:

Our TP is based on a SOTP valuation, where we apply a multiple of 0.12x FY23F P/EV for China Taiping (0.14x prev), 0.4x FY23F P/BV for CT P&C and other businesses, and a 20% (15% prev) conglomerate discount.

#### Where we differ:

The market is turning neutral on China Taiping, however it is trading at only 0.1x FY23F P/EV, which makes it the cheapest insurance company in China in terms of valuation. We see limited downside from here.

#### Key Risks to Our View:

Intensified competition from peers, downward interest rate trend, declining bond yields, and a rise in A/H-share market volatility are some key risks.

#### At A Glance

Issued Capital (m shrs)	3,594
Mkt Cap (HKm/US\$m)	21,887 / 2,788
Major Shareholders (%)	
China Taiping Insurance Group Ltd.	61.3
Free Float (%)	38.7
3m Avg. Daily Val. (US\$m)	3.2
GICS Industry: Financials / Insurance	

## China Taiping Ins

### WHAT'S NEW

#### More time needed to transition

##### Aims to lessen the adjustment impact on life business

In contrast to its peers, China Taiping is placing emphasis on both the quality and quantity of its agency force to ease the pain from its life business adjustment. Despite agent headcount remaining stable in 1H22, concerns may arise from its agent productivity. The VNB (value of new business) margin in agent channel dropped 11.7% y-o-y to 17.3% in 1H22 and agent productivity by VNB per agent dropped 30% y-o-y on our estimates, while most of its listed peers showed an increasing trend in agent productivity. Though the life segment achieved better-than-peers GWP growth of 5.2% y-o-y in 3Q22, we keep eye on improving quality in the agent channel. We expect its VNB to decline by -15% y-o-y in FY22F before recovering to +8% y-o-y in FY23F, in-line with peers.

##### P&C business remains healthy

Taiping's domestic P&C business saw continuous improvement in the combined ratio to 98.7% in 3Q22, with less claims due to weak social activities in Mainland China. However, P&C's gross written premium (GWP) increased by 8.3% y-o-y in 3Q22, weaker than industry's average growth of 12.2% y-o-y, suggesting its top-line growth is under pressure. Large insurers in auto insurance enjoy a stronger competitive advantage in pricing and customer acquisition after the comprehensive auto insurance reform. We estimate its combined ratio will improve to 98.3%/98.6% in FY22/23F, compared to 102.9% in FY21.

##### Lower TP to HK\$9.5

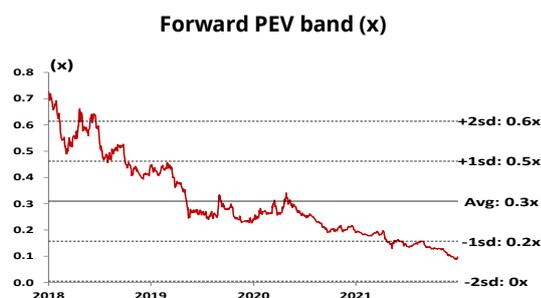
Book value of the three major subsidiaries TPL, TP Pension and TP P&C in 3Q22 had declined by 8%/4%/2% q-o-q in 3Q22 respectively in CER basis, mainly driven by the fair value loss from available-for-sales assets (equity investments). The weak investment performance in 3Q22 did put net profit growth under pressure.

To factor lower investment income growth due to H/A-share market volatility, we revised down China Taiping's FY22/23F earnings by 18%/14% and fine-tuned VNB growth to -15%/+8% y-o-y. Accordingly, we cut TP to HK\$9.5 (from HK\$11), based on 0.12x FY23F P/EV (at 0.14x previously) for its life business mainly to reflect slower EV growth, 0.4x FY23F P/BV for CT P&C and other businesses, and a 20% (15% prev) conglomerate discount. Maintain BUY.

#### Company Background

China Taiping Ins (China Taiping), the former overseas insurance arm of PICC and the only China life insurance company set up outside China, was established in July 2003. It was listed on the HKEX in November 2003. Its insurance products include that of life (individual and group life insurance, health and accident insurance, and annuities) and P&C (motor vehicle, commercial property, cargo, and liability). In FY21, its total assets and equity reached HK\$1,379bn and HK\$113bn, respectively.

### Historical PEV and PB band



Source: Bloomberg Finance L.P. DBS HK

## China Taiping Ins

### Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross written premium growth	11.7	4.7	12.4	2.9	4.6
Agency growth	(24.8)	(1.1)	1.0	1.0	(2.0)
Agency productivity growth	(5.5)	(34.0)	30.5	2.0	6.0
Expense ratio	51.4	49.2	36.5	34.3	34.1
Loss ratio	50.3	55.2	70.9	69.9	69.4
Combined ratio	101.7	104.4	107.4	104.2	103.5
VNB margin	27.6	29.8	25.6	21.8	22.2
Net investment return	4.8	4.4	4.3	4.0	4.0
Total investment return	4.8	4.4	4.3	4.0	4.0
EV growth	14.8	18.8	14.3	3.7	1.4
Solvency ratio	214.5	204.2	142.5	135.4	122.8

Source: Company, DBS HK

### Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross written premiums	223,019	233,535	262,549	270,116	282,442
Net earned premium	208,768	217,932	250,496	258,846	270,429
Investment income	30,533	36,297	43,988	46,184	51,411
Other operating income	5,227	15,885	21,374	10,569	16,570
<b>Total income</b>	<b>244,528</b>	<b>270,113</b>	<b>315,858</b>	<b>315,599</b>	<b>338,409</b>
Benefits and claims	(112,979)	(132,417)	(158,738)	(160,882)	(172,065)
Underwriting and policy acquisition costs	(59,282)	(55,396)	(58,526)	(57,583)	(60,552)
Finance cost	(2,328)	(2,190)	(2,382)	(2,284)	(2,238)
Other expenses	(58,374)	(65,274)	(85,908)	(87,999)	(94,488)
<b>Total expenses</b>	<b>(232,963)</b>	<b>(255,277)</b>	<b>(305,553)</b>	<b>(308,749)</b>	<b>(329,343)</b>
Share of profit of associated and JVs	1,761	(1,571)	609	758	870
Profit before tax	13,326	13,265	10,914	7,608	9,937
Income tax expense	(783)	(2,808)	39	(965)	(1,378)
Minority interest	(3,534)	(3,908)	(3,439)	(2,022)	(2,371)
Preferred dividend	0	0	0	0	0
<b>Net income attributable to shareholders</b>	<b>9,009</b>	<b>6,549</b>	<b>7,514</b>	<b>4,621</b>	<b>6,188</b>

Source: Company, DBS HK

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### Balance Sheet(HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Total Investment	706,738	932,354	1,099,337	1,191,484	1,359,137
Property, plant and equipment	20,126	23,023	32,945	36,314	40,838
Other assets	192,556	213,631	246,360	291,825	308,996
<b>Total assets</b>	<b>919,420</b>	<b>1,169,008</b>	<b>1,378,642</b>	<b>1,519,622</b>	<b>1,708,971</b>
Net life reserves - traditional	534,557	706,785	887,817	902,788	970,584
Net life reserves - investment contracts	56,219	77,039	86,491	99,518	124,194
Other Liabilities	234,587	268,570	290,878	397,217	485,536
<b>Total liabilities</b>	<b>825,363</b>	<b>1,052,395</b>	<b>1,265,186</b>	<b>1,399,523</b>	<b>1,580,313</b>
Shareholder's equity	76,308	90,647	88,067	92,687	98,875
Minority interest	17,749	25,966	25,389	27,412	29,783
<b>Total equity</b>	<b>94,057</b>	<b>116,613</b>	<b>113,456</b>	<b>120,099</b>	<b>128,658</b>

Source: Company, DBS HK

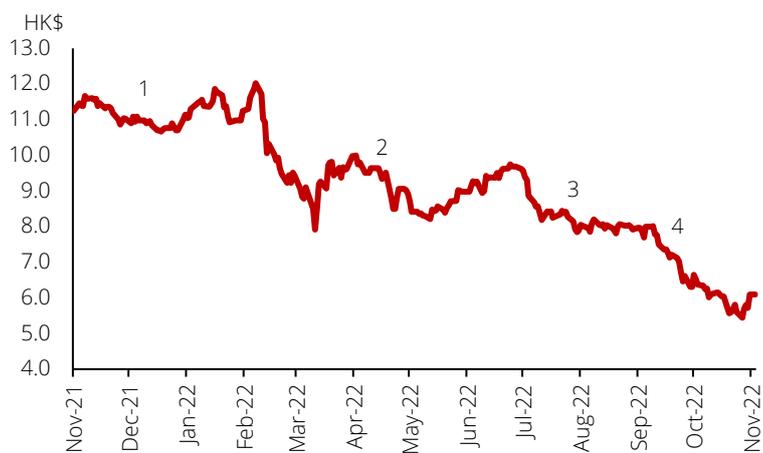
### Key Financials & Ratios

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Du Pont analysis (%)</b>					
Net profit / premium income	4.3	3.0	3.0	1.8	2.3
Premium income / total asset	22.7	18.6	18.2	17.0	15.8
Total asset / total equity	10	10	12	13	13
Return on equity	12.7	7.8	8.4	5.1	6.5
<b>Embedded value(HK\$ m)</b>					
Book value	76,308	90,647	88,067	92,687	98,875
Adjusted items	33,229	43,007	75,918	51,808	58,114
Adjusted book value	109,536	133,654	163,984	144,495	156,989
Value-in-force	98,008	113,120	127,158	138,491	129,706
Adjustment (if any)	(47,379)	(56,501)	(73,573)	(57,406)	(57,899)
Group embedded value	160,166	190,274	217,569	225,580	228,796
<b>Per share analysis(HK\$)</b>					
EPS	2.51	1.82	2.09	1.29	1.72
BPS	21.23	25.22	24.50	25.79	27.51
DPS	0.30	0.40	0.46	0.28	0.38
EVPS	44.56	52.94	60.54	62.77	63.66
<b>Capital Strength (%)</b>					
Leverage ratio	10	10	12	13	13
Solvency ratio	214.5	204.2	142.5	135.4	122.8

Source: Company, DBS HK

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**Target Price & Ratings History**



S.No.	Date	Closing Price	Target Price	Rating
1	13-Dec-21	HK\$10.98	HK\$16.50	BUY
2	20-Apr-22	HK\$9.64	HK\$14.50	BUY
3	1-Aug-22	HK\$8.27	HK\$12.50	BUY
4	26-Sep-22	HK\$7.21	HK\$11.00	BUY

Source: DBS HK

Analyst: Ken Shih

Iris GAO

## China Taiping Ins

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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