

China / Hong Kong Company Update

AIA Group

Bloomberg: 1299 HK Equity | Reuters: 1299.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Nov 2023

BUY

Last Traded Price (3 Nov 2023): HK\$70.90 (HSI: 17,664)

Price Target 12-mth: HK\$118 (66% upside)

Analyst

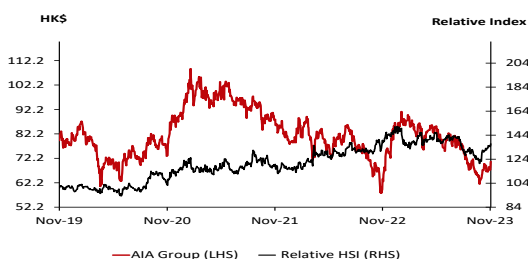
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What's New

- 3Q23 VONB up 35% y-o-y, beating expectations
- Double-digit VONB y-o-y growth seen in HK, China, ASEAN, India
- China growth likely to reaccelerate with double-digit growth in active agent headcount, stable product mix
- Factoring in stronger-than-expected VONB growth, weaker investment sentiment, and rolling over to FY24F, maintain BUY with unchanged TP of HK\$118

Price Relative



Forecasts and Valuation

FY Dec (US\$ m)	2022A	2023F	2024F	2025F
Ins. service result	5,466	5,510	5,759	6,105
Net investment result	551	3,425	4,527	5,127
Net Profit	3,331	5,733	6,782	7,477
EPS (US\$)	0.28	0.49	0.58	0.64
EPS (HK\$)	2.22	3.82	4.52	4.99
EPS Gth (%)	(44.4)	72.1	18.3	10.2
PE (X)	31.9	18.5	15.7	14.2
DPS (HK\$)	1.54	1.57	1.74	1.92
Net Div Yield (%)	2.2	2.2	2.5	2.7
BV Per Share (HK\$)	29.79	31.04	33.48	36.22
P/Book Value (X)	2.4	2.3	2.1	2.0
P/EV (X)	1.5	1.5	1.4	1.3
ROAE (%)	6.6	12.6	14.0	14.3

Earnings Rev (%)		Nil	Nil	New
Consensus EPS (US\$)		0.53	0.61	0.68
Other Broker Recs:		B:35	S:0	H:0

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

China expansion intact

Investment Thesis

Structural opportunity to capture China growth remains firmly intact.

AIA's structural opportunities to capture China's protection demand in the premium market segment remains firmly intact. The reopening of the market post-pandemic, and the strong performance from newly expanded operations will translate to strong growth momentum 2H23F and onward. Its investment in China Post Life (CPL, non-listed) offers a unique chance for AIA to penetrate China's mass market segment. Since its investment in FY20, CPL's VONB has grown by 3.8x, driven mainly by a margin uplift and premium growth. Such growth momentum is expected to continue.

VONB growth to reach 31%/16% y-o-y in FY23F/24F on the back of multiple drivers. We expect AIA to post strong VONB growth of 31%/16% y-o-y in FY23F/24F, mainly driven by a) significant growth from the MCV segment driving AIA's HK business with VONB in 2H23F to likely surpass the pre-pandemic level, b) AIA China's recovery reaccelerating post-pandemic, and c) the ASEAN business regaining strength, driven by business normalisation and rising protection demand. The strong recovery in VONB growth, driven by 1) strong new agent recruitment, 2) stable product mix, 3) new operations in China being on track, is expected to serve as the main share price driver.

Maintain BUY with unchanged TP of HK\$118. Factoring in weak investment sentiment, stronger-than-expected VONB growth, and rolling over to FY24F, we maintain BUY with an unchanged TP of HK\$118, based on a 1.6x FY24F P/EV (previously: 1.8x). Trading at 1.5x P/EV, we believe further share price upside will mainly come from VONB growth of AIA China and HK outpacing the current consensus expectation.

Key Risks

Slower VONB growth, sharp deterioration of investment performance, and slower economic growth in China.

At A Glance

Issued Capital (m shrs)	11,734
Mkt Cap (HKm/US\$m)	831,941 / 106,323
Major Shareholders (%)	
Capital Research Global Investors	6.7
BlackRock Financial Management, Inc.	5.9
Free Float (%)	87.4
3m Avg. Daily Val. (US\$m)	259.67
GICS Industry: Financials / Insurance	

AIA Group

WHAT'S NEW

China expansion remains intact

AIA posted a strong value of new business (VONB) of US\$994m in 3Q23, a significant increase of 35% y-o-y, beating the consensus of 28% y-o-y on a constant exchange rate (CER) basis. Mainland China, Hong Kong, ASEAN, and India all delivered double-digit VONB growth: 1) AIA China saw accelerating recovery from 1H23, mainly benefiting from China's reopening after the pandemic, with double-digit VONB from critical illness products, 2) AIA HK growth momentum continued, mainly driven by the mainland China visitor (MCV) segment, 3) AIA Thailand's strong VONB growth was supported by higher sales volumes and a more favourable product mix, 4) AIA Tata Life in India's performance was mainly driven by its proprietary agency channel strategy. Here are our takeaways from the 3Q23 analyst call:

- **AIA China remains the primary growth driver**

Growth in agency channel remains intact. AIA China's strong VONB growth in agency channel was mainly driven by 1) a double-digit increase in the number of active agents and 2) enhanced agent productivity in terms of ANP per agent. We saw multiple positive signs in 3Q23: 1) new agent recruitment accelerated with double-digit y-o-y growth in the third quarter compared to mid-single-digit in 1H23, supporting growth in total number of agents; 2) the new sales strategy started to show its effects by acquiring new customers with long-term saving products, e.g. tax-deductible pension products (TDPP) and cross-selling them with protection products, such as critical illness (CI), with approximately 10% of customers who had TDPP repurchasing protection products; 3) proportion of CI cases remaining stable, accounting for c.35% of new business cases in 3Q23 with protection product cases accounting for more than 50% of total cases and 70% of protections coming from CI; 4) the progress in new provinces and cities being on track, with agency channel dominating VONB contribution with high proportion of CI cases and agent recruitment keeping a high standard.

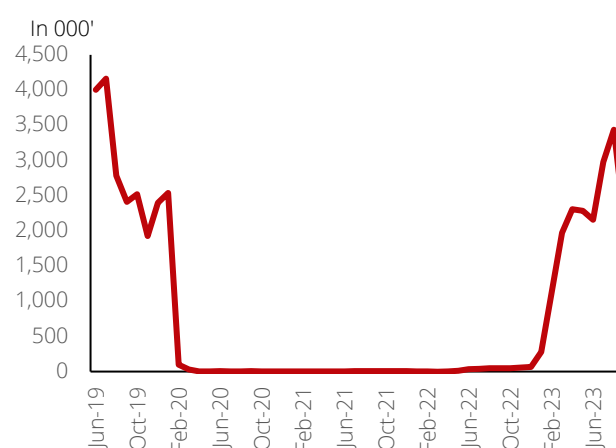
Stricter regulatory rules in China had less impact on AIA compared to Chinese peers, due to 1) AIA China's bancassurance channel accounting for a quite small proportion to China VONB and having fewer legacy issues, 2) the lowering of the assumed interest rates improving the VONB margin in the bancassurance channel in 3Q.

We expect further reaccelerating in China VONB growth in 2H23F onward, supported by 1) accelerated new agent recruitment, 2) a stable CI cases in product mix, and 3) on-track progress in new provinces and cities. We revised up AIA China VONB forecast by 2% and 7% in FY23F/24F, respectively, and expect VONB y-o-y growth to be 18%/24%/24% in FY23F-25F respectively.

- **AIA HK VONB in 2H23F likely to surpass the pre-pandemic level of 2H19**

Mainland China Visitor (MCV) remains the main contributor to AIA HK VONB and AIA HK's new business cases remain closely correlated to MCV arrivals in HK. In the third quarter, MCV arrivals in HK have already recovered to more than 90% of the pre-pandemic level (Fig 1), given the average ticket size per policy having substantially increased compared to the pre-pandemic level, and CI products proportion remaining stable (48% of total policies) in the product mix partially diluted by VONB margin decline due to strong growth of long-term saving products. We believe AIA HK VONB is likely to surpass the pre-pandemic level in 2H23F, and expect HK VONB y-o-y growth to be +87%/+18%/+14% in FY23F-25F respectively.

Fig 1. MCV arrivals in HK



Source: Bloomberg Finance L.P. DBS HK

- **Thailand and India markets to be long-term growth strategy**

Thailand's double-digit VONB growth was mainly driven by 1) strong growth of the number of active agents, 2) robust agent productivity improvement, and 3) a favourable product mix. The strong growth of new agent recruitment and strong demand in protection and invest products are likely to support VONB growth in 2H23F onward.

AIA considers the India market as a long-term opportunity with stable demographics, high digitalization level in the society, and huge protection gap. Tata AIA Life has become third largest private life insurer in India in 3Q23. With India's multi-channel strategy agency going on, we expect India VONB to be more visible to the group VONB in the long-term.

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- Our first forecast under IFRS 9/17

We are publishing our forecasts for the first time based on the IFRS9/17 standard. We expect a net profit of US\$5.7b for FY23F, with a y-o-y growth of 18%/10% for FY24F/25F, respectively, mainly driven by the steady growth of insurance service result and investment result. We revise up our VONB forecast for FY23F/24F by 10%/8% respectively to reflect better-than-expected VONB performance in HK and China. The VONB for FY23F/24F/25F is expected to be US\$4.1b/4.7b/5.5b, respectively.

With stronger VONB growth momentum in China and HK, offset by the weaker investment sentiment in HK market, along with rolling over to FY24F, we revise down the valuation multiple from 1.8x to 1.6x, revise up FT24F adj. embedded value (adj. EV including FY24F EV and present value of EV from potential China expansion) by 6% and maintain BUY with unchanged TP of HK\$118 (Fig 2).

Company Background

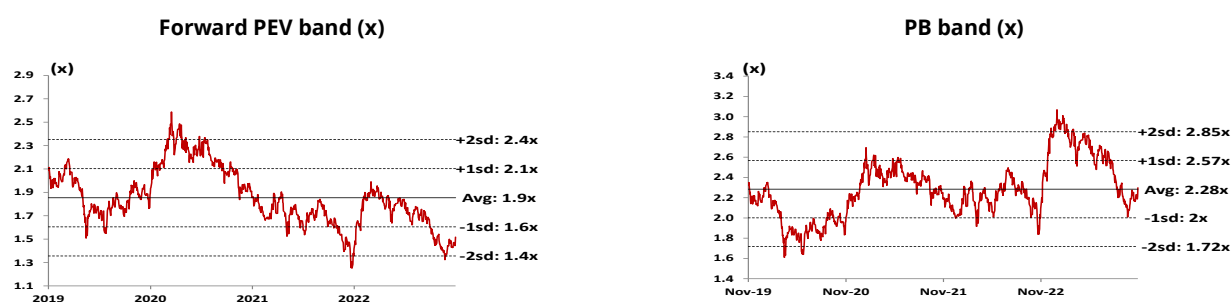
AIA Group Limited (AIA) is the largest independent publicly listed Pan-Asian life insurance group that was first established in Shanghai in 1919. It is a market leader in the Asia-Pacific region (ex-Japan), based on life insurance premiums, and holds leading positions across most of its markets. AIA meets the long-term savings and protection needs of individuals by offering a range of products and services, including life insurance, accident and health insurance, and savings plans. The group also provides employee benefits, credit life, and pension services to corporate clients.

Fig 2. 2-stage Gordon growth model

USD (mil)	FY17	FY18	FY19	FY20	FY21	FY22	FY23F	FY24F
VoNB	3,206	3,955	4,186	2,789	3,399	3,121	4,082	4,490
VoNB growth		23%	6%	-33%	22%	-8%	31%	10%
VIF	29,805	29,880	33,744	36,744	39,685	35,114	36,218	37,052
ANW	20,974	24,637	28,241	28,503	33,302	33,751	34,065	37,455
EV	50,779	54,517	61,985	65,247	72,987	68,865	70,283	74,506
EV growth		7%	14%	5%	12%	-6%	2%	6%
PV of additional VONB from China expansion (by FY33F)								34,514
Investment value of China Post Life @ 24.99%								3,827
Adjusted EV								112,848
No. of shares	12,074	12,074	12,074	12,074	12,087	11,938	11,938	11,938
USD / HKD								7.8
EV per share (HKD)								73.9
Multiple (x)								1.6x
Target price (HK\$)								118.00

Source: Company data, DBS HK

Historical PEV and PB band



Source: Bloomberg Finance L.P. DBS HK

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Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Total weighted premium growth	4.1	(1.9)	7.8	9.4	10.3
VNB growth	21.9	(8.2)	30.8	16.3	14.9
VNB margin	60.2	57.7	51.4	52.3	53.2
Total investment return	4.2	4.8	4.4	4.4	4.4
EV growth	11.9	(5.6)	2.1	6.0	7.9
Solvency ratio	436.0	282.9	275.9	273.1	269.0
CSM amortization rate	N/A	9.3	9.3	9.3	9.3
New business CSM (in Rmb m)	N/A	6,031	6,940	8,069	9,272
CSM closing balance (in Rmb m)	N/A	50,225	50,264	52,230	55,061

Source: Company, DBS HK

Key Financials & Ratios

FY Dec	2021A	2022A	2023F	2024F	2025F
Du Pont analysis (%)					
Net profit / insurance revenue	17.7	20.4	34.9	39.7	41.6
Insurance revenue / total asset	10.2	6.0	5.7	5.5	5.3
Total asset / total equity	5.6	6.0	6.1	6.2	6.2
Return on equity	10.0	6.6	12.6	14.0	14.3
Embedded value(US\$ m)					
Book value	60,467	44,672	46,548	50,214	54,311
Adjusted items	(27,165)	(10,921)	(12,482)	(12,759)	(13,069)
Adjusted book value	33,302	33,751	34,065	37,455	41,242
Value-in-force	39,685	35,114	36,218	37,052	39,168
Group embedded value	72,987	68,865	70,283	74,506	80,410
Per share analysis(US\$)					
EPS	0.51	0.28	0.49	0.58	0.64
BPS	5.00	3.81	3.97	4.28	4.63
DPS	0.19	0.20	0.20	0.22	0.25
EVPS	6.03	5.87	5.99	6.35	6.85
Capital Strength (%)					
Leverage ratio	N/A	6	6	6	6
Solvency ratio	436.0	282.9	275.9	273.1	269.0

Source: Company, DBS HK

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Income Statement (US\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Insurance revenue	N/A	16,319	16,436	17,075	17,983
Insurance service expenses	N/A	(10,434)	(10,517)	(10,894)	(11,438)
Net expenses from reins. contract held	N/A	(419)	(409)	(421)	(439)
Insurance service result	N/A	5,466	5,510	5,759	6,105
Investment return	N/A	(31,613)	6,988	11,727	14,129
Net finance expenses	N/A	31,024	(4,655)	(8,322)	(10,180)
Other movements	N/A	1,140	1,091	1,122	1,178
Net investment result⁰	N/A	551	3,425	4,527	5,127
Other expenses	N/A	(1,842)	(1,950)	(2,022)	(2,120)
Share of profit of associated and JVs	-11	(121)	(45)	(45)	(45)
Profit before tax	8,468	4,054	6,939	8,219	9,067
Income tax expense	(991)	(689)	(1,179)	(1,397)	(1,541)
Minority interest	(50)	(34)	(27)	(40)	(50)
Net income attributable to shareholders	7,477	3,331	5,733	6,782	7,477

Source: Company, DBS HK

Balance Sheet(US\$ m)

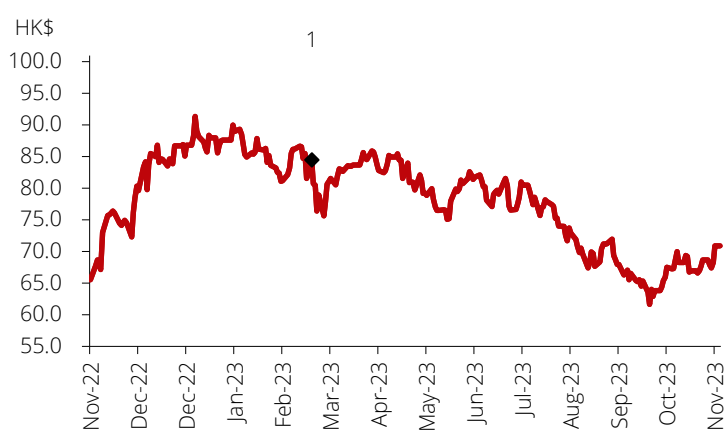
FY Dec	2021A	2022A	2023F	2024F	2025F
Total Investment	253,634	245,331	263,402	286,906	315,147
Property, plant and equipment	2,744	2,844	2,844	2,844	2,844
Other assets	83,496	22,296	22,296	22,296	22,296
Total assets	339,874	270,471	288,542	312,046	340,287
Net life reserves - traditional	239,423	181,851	192,275	207,774	226,865
Investment contract liabilities	11,860	9,092	9,613	10,388	11,343
Other Liabilities	27,657	34,380	26,634	27,799	29,199
Total liabilities	278,940	225,323	228,522	245,961	267,407
Shareholder's equity	60,467	44,672	46,548	50,214	54,311
Minority interest	467	476	476	476	476
Total equity	60,934	45,148	47,024	50,690	54,787

Source: Company, DBS HK



AIA Group

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	13-Mar-23	HK\$81.55	HK\$118.00	Buy

Source: DBS HK
 Analyst: Ken Shih
 Iris GAO

AIA Group

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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Sources for all charts and tables are DBS HK unless otherwise specified.

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