

# People's Ins Co Group of China

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DBS Group Research . Equity

13 Nov 2023

## H: HOLD

Last Traded Price (H) ( 10 Nov 2023):HK\$2.51 (HSI : 17,203)  
Price Target 12-mth (H):HK\$2.80 (11.6% upside) (Prev HK\$2.72)

## A: HOLD (Upgrade from SELL)

Last Traded Price (A) ( 10 Nov 2023):RMB5.17 (CSI300 Index : 3,586)  
Price Target 12-mth (A):RMB5.51 (6.6% upside) (Prev RMB2.34)

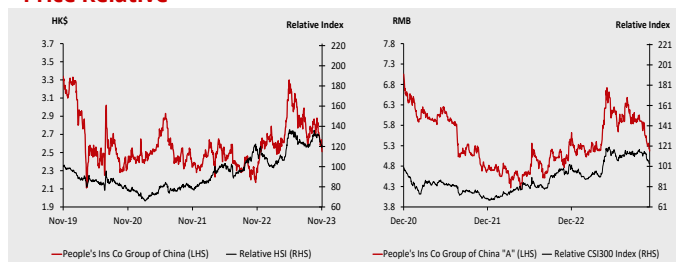
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### What's New

- P&C business improvement to drive operating profit
- Bancassurance channel to drive L&H's growth, with VNB expected to increase by mid-single-digit in FY24F/25F
- Stock offers attractive dividend yield in FY24F/25F
- TP lifted to HK\$2.8, maintain HOLD; we prefer PICC P&C (2328 HK) over PICC (1339 HK)

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Ins. service result	0	29,460	32,028	34,561
Net investment result	0	7,283	9,688	11,232
Net Profit	24,477	25,429	28,939	31,680
EPS (RMB)	0.55	0.58	0.65	0.72
EPS (HK\$)	0.59	0.62	0.70	0.77
EPS Gth (%)	13.3	4.5	13.8	9.5
PE (X)	4.3	4.1	3.6	3.3
DPS (HK\$)	0.18	0.22	0.25	0.27
Net Div Yield (%)	7.1	8.6	9.8	10.7
BV Per Share (HK\$)	5.43	5.82	6.25	6.73
P/Book Value (X)	0.5	0.4	0.4	0.4
P/EV (X)	0.4	0.3	0.3	0.3
ROAE (%)	11.0	11.0	11.6	11.8
Earnings Rev (%)		11	New	New
Consensus EPS (RMB)		0.60	0.68	0.72
Other Broker Recs:		B:15	S:0	H:4

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

## P&C contribution outstanding

### Investment Thesis

Bancassurance channel to drive VNB growth in the Life segment, with slow progress in agency channel reform. 1H23 VNB increased by 66.8% y-o-y, mainly driven by 1) a low base, and 2) robust growth in the bancassurance channel, where VNB tripled in 1H23. The progress of the insurer's agent channel reform has been relatively slow, and thus PICC L&H's VNB margin is lower than major peers.

### Improving P&C business outlook to drive operating profit growth.

With impact from multi-year auto insurance pricing reform gradually fading, along with better industry discipline, and improving outlook in non-auto segments, we expect the company's P&C combined ratio (COR) to improve to 98.0%/97.8% in FY23F/24F, respectively, serving as the key driver for operating profit growth.

**Business rebalancing needed.** With 92% of the company's fair value coming from the P&C segment and 8% from its life/health segment (L&H), PICC's share price shows a 0.91x correlation with PICC P&C, with the latter as the key driver. We believe profit contribution from life/health would need to improve to re-rate the shares.

**Lift H-share TP to HK\$2.8, maintain HOLD.** Factoring in 1) better-than-expected VNB growth in FY23F, 2) a weak VNB growth outlook in FY24F, 3) improving underwriting profit in P&C segment, 4) rolling over to FY24F, we lift H-share TP from HK\$2.72 to HK\$2.8. We also lift A-share TP to Rmb5.51, upgrading from SELL to HOLD.

### Key Risks

Improving life agent productivity, life business VNB and FYP resuming growth, interest rate returning to an upward cycle, and stronger-than-expected economic recovery in China.

### At A Glance

Issued Capital - H shares (m shs)	8,726
- Non H shrs (m shs)	35,498
H shs as a % of Total	20
Total Mkt Cap (HK\$m/US\$m)	218,533 / 27,982
Major Shareholders (%)	
Ministry of Finance of the People's Republic of China	75.8
National Social Security Fund	15.8
Major H Shareholders (As % of H shares)	
BlackRock Institutional Trust Company, N.A.	5.4
H Shares-Free Float (%)	94.6
3m Avg. Daily Val. (US\$m)	8.24
GICS Industry: Financials / Insurance	

## People's Ins Co Group of China

### WHAT'S NEW

#### P&C contribution standing out

**PICC Group released 9M23 results.** Its net profit decreased by 15.5% y-o-y to Rmb20.5b. The weaker-than-expected net profit was mainly attributable to 1) frequent natural catastrophes in 3Q23 which led to an increase of combined ratio in the P&C segment, and 2) weak investment results due to volatile capital markets.

**Bancassurance channel remains the main growth driver for L&H segment.** 1H23 L&H VNB increased by 63.8% y-o-y, mainly driven by 1) a low base, and 2) robust growth in the bancassurance channel, where VNB quadrupled in 1H23 compared to last year. However, moving into 2H23F and FY24F, stricter regulations on the bancassurance channel and open-year sales in 2024 are likely to cool down the insurer's growth momentum. The progress of insurer's agent channel reform has been relatively slow, with a higher proportion of bancassurance channel sales, and thus PICC L&H's VNB margin is lower than major peers. We hence expect PICC L&H's VNB to growth at a mid-single-digit y-o-y growth in FY24F and FY25F.

**We expect P&C segment's COR to remain stable,** with underwriting profits continuing to grow at a double-digit level. Please refer to our latest notes on PICC P&C (2328 HK) for more details ([Underwriting profit on recovery trend](#)). As P&C continues to be the primary contributor to the Group's net profits, and L&H's growth is negatively impacted by regulatory rules in the short-term, we prefer PICC P&C.

**Our first forecast under IFRS9/17.** We are publishing our forecasts for the first time based on the IFRS9/17 standard. We expect a net profit of Rmb25.4b for FY23F, with a y-o-y growth of 14%/10% for FY24F/25F, respectively, mainly driven by the steady growth of the insurance service result and investment result.

**Lift TP to H-share HK\$2.8, maintain HOLD.** Factoring in 1) better-than-expected VNB growth in FY23F, 2) a weak VNB growth outlook in FY24F, 3) improving underwriting profit in P&C segment, 4) rolling over to FY24F, we lift H-share TP from HK\$2.72 to HK\$2.8, based on (i) a 0.1x FY24F price/embedded value (P/EV) for PICC L&H (same as previous), (ii) share price of HK\$9.27 (as of 10 Nov 2023) for 68.98%-owned PICC P&C, and (iii) a 20% conglomerate discount. We also lift A-share TP to Rmb5.51, upgrading rating from SELL to HOLD.

#### Company Background

PICC was established in 1949 as the first nationwide insurer in China. It was listed on the HKEX in 2012. The company operates the P&C business via PICC P&C and PICC Hong Kong and the life and health businesses via PICC Life and PICC Health. In FY22, its total assets and equity were Rmb2,176bn and Rmb234bn respectively.

### Historical PEV and PB band

Forward PEV band (x)



PB band (x)



Source: Bloomberg Finance L.P. DBS HK

## People's Ins Co Group of China

### Key Assumptions (%)

FY Dec	2021A	2022A	2023F	2024F	2025F
Gross written premium growth	3.9	6.9	4.7	7.9	7.8
Agency growth	(55.1)	(47.6)	0.0	0.0	0.0
Agency productivity growth	9.4	91.6	35.0	5.0	5.0
VNB margin	6.6	5.7	7.2	7.2	7.2
Net investment return	3.4	3.6	3.3	3.1	3.1
Total investment return	3.4	3.6	3.5	3.6	3.6
EV growth	8.9	(6.9)	5.8	5.0	4.4
Solvency ratio	197.5	204.0	190.7	181.8	174.9

Source: Company, DBS HK

### Key Financials & Ratios

FY Dec	2021A	2022A	2023F	2024F	2025F
<b>Du Pont analysis (%)</b>					
Net profit / insurance revenue	0.0	0.0	5.7	6.2	6.4
Insurance revenue / total asset	0.0	0.0	28.7	28.0	27.5
Total asset / total equity	4.6	4.6	4.7	4.7	4.7
Return on equity	10.2	11.0	11.0	11.6	11.8
<b>Embedded value(RMB m)</b>					
Book value	219,256	224,153	239,931	257,953	277,680
Adjusted items	55,014	40,894	45,108	49,883	55,029
Adjusted book value	274,270	265,047	285,039	307,837	332,710
Value-in-force	44,963	45,845	47,810	48,025	47,567
Adjustment (if any)	(23,265)	(21,859)	(23,263)	(24,565)	(25,801)
Group embedded value	295,968	289,033	309,586	331,296	354,475
<b>Per share analysis(RMB)</b>					
EPS	0.49	0.55	0.58	0.65	0.72
BPS	6.71	5.07	5.43	5.83	6.28
DPS	0.15	0.17	0.20	0.23	0.25
EVPS	6.69	6.54	7.00	7.49	8.02
<b>Capital Strength (%)</b>					
Leverage ratio	5	5	5	5	5
Solvency ratio	197.5	204.0	190.7	181.8	174.9

Source: Company, DBS HK

**Income Statement (RMB m)**

FY Dec	2021A	2022A	2023F	2024F	2025F
Insurance revenue	N/A	N/A	442,551	469,485	498,458
Insurance service expenses	N/A	N/A	(401,753)	(425,566)	(451,055)
Net expenses from reins. contract held	N/A	N/A	(11,338)	(11,891)	(12,842)
<b>Insurance service result</b>	<b>N/A</b>	<b>N/A</b>	<b>29,460</b>	<b>32,028</b>	<b>34,561</b>
Investment return	N/A	N/A	48,267	54,191	59,554
Net finance expenses	N/A	N/A	(34,885)	(38,049)	(41,494)
Other movements	N/A	N/A	(6,099)	(6,453)	(6,828)
<b>Net investment result</b>	<b>N/A</b>	<b>N/A</b>	<b>7,283</b>	<b>9,688</b>	<b>11,232</b>
Other revenues	N/A	N/A	(115)	(2,636)	(2,939)
Other expenses	N/A	N/A	(4,451)	(4,685)	(5,072)
Share of profit of associated and JVs	13,571	15,371	8,774	12,401	13,393
Profit before tax	35,589	41,140	40,951	46,796	51,174
Income tax expense	(5,219)	(6,712)	(6,638)	(7,748)	(8,427)
Minority interest	(8,894)	(9,951)	(8,883)	(10,109)	(11,067)
<b>Net income attributable to shareholders</b>	<b>21,476</b>	<b>24,477</b>	<b>25,429</b>	<b>28,939</b>	<b>31,680</b>

Source: Company, DBS HK

**Balance Sheet(RMB m)**

FY Dec	2021A	2022A	2023F	2024F	2025F
Total Investment	1,196,920	1,140,145	1,254,160	1,379,575	1,517,533
Property, plant and equipment	33,357	34,130	34,130	34,130	34,130
Other assets	146,580	242,012	255,740	262,953	260,210
<b>Total assets</b>	<b>1,376,857</b>	<b>1,416,287</b>	<b>1,544,029</b>	<b>1,676,658</b>	<b>1,811,873</b>
Insurance contract liabilities	773,098	883,055	970,066	1,100,037	1,217,256
- Life insurance contract liabilities	N/A	474,401	521,841	568,807	614,311
Investment contract liabilities	44,252	7,629	8,010	8,411	8,832
Other Liabilities	262,614	220,710	236,398	210,524	197,306
<b>Total liabilities</b>	<b>1,079,964</b>	<b>1,111,394</b>	<b>1,214,475</b>	<b>1,318,973</b>	<b>1,423,394</b>
Shareholder's equity	219,256	224,153	239,931	257,953	277,680
Minority interest	77,637	80,740	89,623	99,732	110,799
<b>Total equity</b>	<b>296,893</b>	<b>304,893</b>	<b>329,554</b>	<b>357,686</b>	<b>388,479</b>

Source: Company, DBS HK

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

Completed Date: 13 Nov 2023 11:44:20 (HKT)

Dissemination Date: 13 Nov 2023 16:22:27 (HKT)

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