

China / Hong Kong Company Update

PICC Property & Casualty

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DBS Group Research . Equity

13 Nov 2023

BUY

Last Traded Price (10 Nov 2023): HK\$9.27 (HSI : 17,203)
Price Target 12-mth: HK\$11.00 (19% upside) (Prev HK\$9.50)

Analysts

Ken Shih +852 36684184 kenshih@db.com
Iris GAO +852 36684196 irisgao@db.com

What's New

- PICC's risk mitigation system, unveiled on its Investor Day, has been effective in reducing potential claims and improve the insurer's COR
- Higher natural catastrophic (nat cat) losses pushed up COR by c.2.6ppt in 3Q23, while management guided FY23F COR to be maintained at 97% for auto and 100% for non-auto
- Underwriting profit on a recovery trend, benefiting from lower auto expense competition and high-quality growth in non-auto
- We revise down COR by 0.4ppt to 98% in FY23F. With underwriting profit to further improve in FY24F, we lift TP to HK\$11 on higher multiple. Maintain BUY

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2022A	2023F	2024F	2025F
Ins. service result	N/A	16,296	18,068	19,772
Net investment result	N/A	7,578	9,662	11,452
Net Profit	26,708	24,633	28,111	31,276
EPS (RMB)	1.20	1.11	1.26	1.41
EPS (HK\$)	1.29	1.19	1.35	1.51
EPS Gth (%)	19.4	(7.8)	14.1	11.3
PE (X)	7.2	7.8	6.8	6.1
DPS (HK\$)	0.51	0.52	0.54	0.59
Net Div Yield (%)	5.5	5.6	5.8	6.3
BV Per Share (HK\$)	10.54	11.07	11.96	12.83
P/Book Value (X)	0.9	0.8	0.8	0.7
P/EV (X)	N/A	N/A	N/A	N/A
ROAE (%)	12.7	11.0	11.8	12.2

Earnings Rev (%): (13) New New
Consensus EPS (RMB) 1.24 1.48 1.62
Other Broker Recs: B:34 S:0 H:4

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

Underwriting profit on recovery trend

Investment Thesis

FY24F underwriting profit on recovery trend with stable COR. After benefitting from the improving auto insurance segment and refocusing on quality growth in the non-auto segment, while also being impacted by higher-than-expected nat cat losses in 3Q23, the combined ratio (COR) is expected to reach 98% in FY23F, slightly better than our previous forecast. With less competition in the auto segment due to stricter regulations on commissions paid to distribution channels and high-quality growth in the non-auto segment, we expect underwriting profit to further improve by teen-level growth in FY24F.

Refocus on profit, and agriculture insurance pricing subsidy to drive quality growth in non-auto segment. Expect the non-auto segment to reach 44% of the total premium by FY24F, with the company's refocus on profit and benefits from the agriculture insurance pricing subsidy helping drive quality growth.

Positive duration gap position to benefit from lower-for-longer CN rates. P&C insurers' positive duration gap position should benefit from the declining bond yield. The continuous lengthening of the duration via investment in government bonds helps improve the adjusted investment yield, given its tax-exempt nature.

Lift TP to HK\$11, maintain BUY (vs. HK\$9.50 previously). We revise down our FY23F COR assumption by 0.4ppt to 98% and expect FY24F/25F COR to remain largely stable. Based on the improvement in underwriting profit for FY24F and rolling it over to FY24F, we lift TP to HK\$11 based on 0.85x FY24F P/B ratio (previously: 0.76x), maintain BUY.

Key Risks

Increasing market competition, unfavourable policy developments, natural catastrophes, and slower-than-expected economic growth in China.

At A Glance

Issued Capital (m shrs)	22,243
Mkt Cap (HKm/US\$m)	206,193 / 26,401
Major Shareholders (%)	NIL
Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	32.2
GICS Industry: Financials / Insurance	

PICC Property & Casualty

WHAT'S NEW

Underwriting profit on recovery trend

PICC P&C held its Investor Day event on 10 Nov 2023 and provided a comprehensive presentation of its risk prevention and mitigation framework. Below are our takeaways from the company's Investor Day presentation.

Risk prevention and mitigation framework

• **Details on framework**

PICC P&C has established a risk prevention and mitigation framework based on the data-driven comprehensive risk analysis system “万象云” to accurately recognise risk, reasonably price

premiums, effectively reduce insurance claims by real-time risk monitoring, promptly warn once a risk is detected and closely control that risk, and issue risk mitigation recommendations after events. PICC P&C has designed specific risk prevention and mitigation plans for different business lines, including auto insurance, agriculture insurance, corporate insurance, health insurance, etc. Please find more details on PICC P&C's risk prevention and mitigation framework in Figures 1 and 2, and specific plans for the main business lines in Figure 3.

Fig 1. PICC P&C's Management Structure on Risk Prevention and Mitigation system



Source: Company data, DBS HK

• **Our view**

We believe PICC P&C's risk prevention and mitigation framework will effectively assist policyholders in reducing the probability and severity of accidents through its data-driven analysis and effectively managed risk control process, and, in turn, PICC P&C will hence benefit from the framework and maintain its combined ratio (COR) at a low ground. For example, before Typhoon Doksuri hit the Fujian province, PICC P&C detected the potential risks that would arise from the auto damages caused due to flooding and sent advance warnings to auto owners to move the cars to a safer place, thus successfully reducing claims that would've amounted to Rmb1bn, an improvement of Rmb500m compared to when Typhoon Meranti hit in 2016. By protecting people's property, wealth, and health through its proactive service to society in the aforementioned manner, PICC P&C achieves a triple-win outcome for the insurer, policyholder, and society.

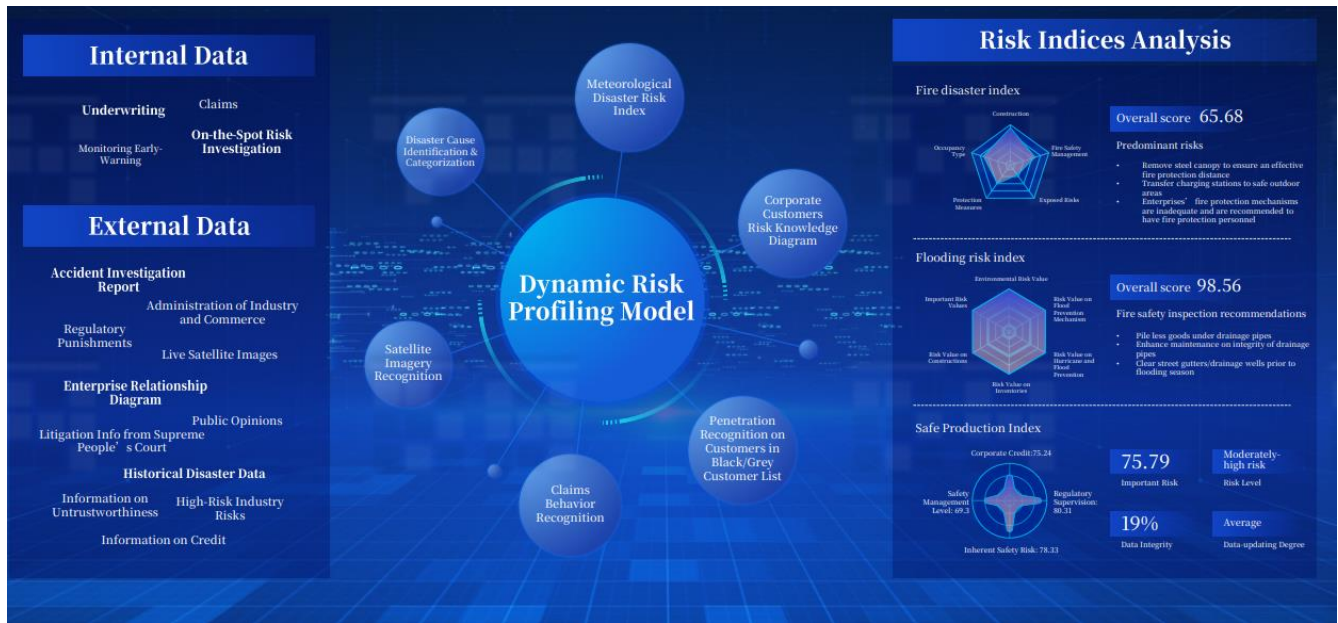
Our first forecast under IFRS9/17

We are publishing our forecasts for the first time based on the IFRS9/17 standard. We expect a net profit of Rmb24.7bn for FY23F, with y-o-y growth of 17%/11% for FY24F/25F, respectively, mainly driven by the steady growth in the insurance service result and investment result.

We fine-tune our COR forecast for FY23F to 98% to factor in higher-than-expected nat cat losses in 3Q23 and expect COR to remain largely stable in FY24F/25F. Based on less competition in the auto segment due to stricter rules on commission fees paid to distribution channels, and high-quality growth in the non-auto segment, and rolling it over to FY24F, we maintain BUY and revise up our TP from HK\$9.5 to HK\$11, based on 0.85x FY24F P/B ratio (previously: 0.76x).

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Fig 2. PICC P&C's risk prevention and mitigation framework – Dynamic risk profiling



Source: Company data, DBS HK

Fig. Risk prevention and mitigation application by main business lines

No.	Area	Measures	Examples and effects
1	Auto insurance	- To Identify high-risk driving behaviors, hazardous intersections, adverse weather conditions, and similar situations - Highest risk levels will trigger manual telephone interventions by customer service personnel, effectively reducing the accident occurrence rate	-The system has covered 334k heavy-loaded vehicles - Issued 23.45m warnings for dangerous driving behaviors - Successfully corrected hazardous driving behaviors 19.79m times
2	Liability insurance	- Before underwriting corporate property business, a comprehensive risk survey is conducted to identify potential risks such as fire incidents and operational hazards. Recommendations for risk mitigation are then provided in an improvement proposal - After underwriting, risk reduction services are implemented, including meteorological warnings, hazard inspections, monitoring alerts, and online training to actively mitigate identified risks	- Developed a specialized system for offshore wind power projects, named "Deep Blue Sea Shield", which provides risk reduction management services for 75% of wind farms nationwide. Using technologies such as satellite sensing, the system precisely identifies the spatial locations of offshore wind turbines with an accuracy rate of 95%, offering valuable recommendations for enterprise wind farm site planning.
3	Natural Catastrophe	- Before the natural catastrophe, risk maps are created for fire, flooding, wind risks, along with real-time monitoring data. Prior to major disasters, warning messages are sent to vehicle owners and business owners, facilitating the evacuation of vehicles and valuable assets. - During the natural catastrophe, dispatch of rescue and survey vehicles to ensure timely and accurate arrival in the affected areas for rescue operations. - After the natural catastrophe, provide risk feedback recommendation reports are sent to customers and the governments	- In Typhoon Doksuri, advanced warnings were issued to vehicle owners, resulting in the evacuation of asset at over Rmb1b. - Dispatched nearly 5k rescue vehicles, undertook over 40 rescue cases, and achieved 100% rescue for vehicles that meet the rescue criteria
4	Health insurance	- To establish a health promotion matrix through online platforms - To set up clinics within companies and enhance professional health management services to reduce medical expenses and the incidence of critical illness	- Taking the clinics within a bank as example, over the past six years, the average medical expenses per person have decreased by 45% to Rmb2k per person and the incidence of critical illness has decreased by 1.5ppts to 1.6%
5	Agriculture insurance	- To design specific service standards for agricultural crop cultivation, fisheries, and animal husbandry. Utilizing a cloud platform supported by big data and technologies such as drones to accurately identify risks and mitigate in these sectors	- Using the example of the rice disaster prevention and mitigation project in Guangdong, 15 service centers were established, achieving loss reduction and efficiency improvement, benefiting farmers by more than Rmb110m

Source: Company, DBS HK

PICC Property & Casualty

Company Background

PICC P&C is the largest property and casualty insurer in China and was established in July 2003. It was listed on the HKEX in November 2003. Its insurance products include motor vehicle, commercial property, cargo, liability, accidental injury, and short-term health policies. In FY22, its total assets and equity reached Rmb752bn and Rmb213bn, respectively.

Historical PB band (x)



Source: Bloomberg Finance L.P. DBS HK

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Key Assumptions (%)

FY Dec	2021A	2022A	2023F	2024F	2025F
Gross written premium growth	3.8	5.1	6.6	6.6	6.7
Expense ratio	25.9	25.4	25.6	24.9	24.2
Loss ratio	73.7	72.0	72.5	73.0	73.5
Combined ratio	99.6	97.4	98.0	97.8	97.7
Net investment return	3.9	4.1	3.7	3.7	3.7
Total investment return	5.0	3.7	3.7	3.9	4.0
Solvency ratio	283.8	229.3	233.1	236.4	238.0

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Insurance revenue	N/A	N/A	404,223	428,856	455,390
Insurance service expenses	N/A	N/A	(377,216)	(399,557)	(423,485)
Net expenses from reins. contract held	N/A	N/A	(10,711)	(11,232)	(12,133)
Insurance service result	N/A	N/A	16,296	18,068	19,772
Investment return	N/A	N/A	16,206	18,771	21,083
Net finance expenses	N/A	N/A	(8,298)	(8,803)	(9,352)
Other movements	N/A	N/A	(329)	(306)	(279)
Net investment result	N/A	N/A	7,578	9,662	11,452
Other revenues	N/A	N/A	552	580	609
Other expenses	N/A	N/A	(2,064)	(2,088)	(2,114)
Share of profit of associated and JVs	4,524	4,130	5,954	6,093	6,236
Profit before tax	26,028	30,919	28,317	32,314	35,953
Income tax expense	(3,663)	(4,266)	(3,681)	(4,201)	(4,674)
Minority interest	(5)	55	(2)	(3)	(3)
Net income attributable to shareholders	22,360	26,708	24,633	28,111	31,276

Source: Company, DBS HK

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Balance Sheet(RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Total Investment	529,077	565,433	609,230	655,989	705,923
Property, plant and equipment	23,743	24,774	24,774	24,774	24,774
Other assets	129,802	82,255	70,892	65,707	59,156
Total assets	682,622	672,462	704,896	746,470	789,853
Net life reserves - traditional	338,781	351,254	372,621	395,869	421,102
Other Liabilities	138,192	97,862	97,862	97,862	97,862
Total liabilities	476,973	450,857	472,224	495,472	520,705
Shareholder's equity	202,887	218,713	229,783	248,112	266,266
Minority interest	2,762	2,892	2,889	2,886	2,883
Total equity	205,649	221,605	232,672	250,998	269,149

Source: Company, DBS HK

Key Financials & Ratios

FY Dec	2021A	2022A	2023F	2024F	2025F
Du Pont analysis (%)					
Net profit / insurance revenue	N/A	N/A	6.1	6.6	6.9
Insurance revenue / total asset	N/A	N/A	57.3	57.5	57.7
Total asset / total equity	3.3	3.0	3.0	3.0	2.9
Return on equity	11.5	12.7	11.0	11.8	12.2
Per share analysis(RMB)					
EPS	1.01	1.20	1.11	1.26	1.41
BPS	9.12	9.83	10.33	11.15	11.97
DPS	0.41	0.48	0.49	0.51	0.55
Capital Strength (%)					
Leverage ratio	3	3	3	3	3
Solvency ratio	283.8	229.3	233.1	236.4	238.0

Source: Company, DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	6-Jan-23	HK\$7.45	HK\$9.50	BUY

Source: DBS HK

Analyst: Ken Shih

Iris GAO

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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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DBS Bank (Hong Kong) Limited

 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

PICC Property & Casualty

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam

13th Floor One Island East,

18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Paul Yong

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand