

# China / Hong Kong Company Update

# Ping An Insurance

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Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Nov 2023

## H: BUY

Last Traded Price (H) ( 7 Nov 2023): HK\$40.70 (HSI : 17,670)  
Price Target 12-mth (H): HK\$66.00 (62.2% upside) (Prev HK\$72.00)

## A: BUY

Last Traded Price (A) ( 7 Nov 2023): RMB45.30 (CSI300 Index : 3,620)  
Price Target 12-mth (A): RMB52.74 (16.4% upside) (Prev RMB57.54)

### Analyst

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

### What's New

- Ping An's investor day shed light on its Integrated Finance ecosystem, which lifted Ping An to achieve almost twice the operating ROE of listed China insurers in the past three years
- Three key metrics set by management paving way to achieve an ambitious target of doubling or even tripling OPAT by 2030
- Despite a short-term growth slowdown due to stricter regulations, Ping An is likely to maintain its leading position among peers in this round of VNB growth cycle
- Maintain BUY, cut TP to HK\$66 to reflect slowdown of VNB growth and weak performance in Asset Management segment

## Integrated Finance ecosystem to gauge long-term growth

### Investment Thesis

Integrated Finance providing a new perspective to gauge Ping An's growth. Ping An shed light on its Integrated Finance ecosystem – which paved its way to becoming the world's leading financial service provider – on its Investor Day. Management guides for ambitious targets to double or even triple OPAT over the next eight years. We believe Integrated Finance will continue to help Ping An maintain a high teens operating ROE, which is nearly twice that of listed insurers, and achieve long-term targets set by management, including growing customer base by 76% and profit per customer by 37% by 2030.

**Leading peers in this round of VNB growth cycle.** Ping An started its life business reforms in 2H19, a year ahead of its peers. After four years of business transition, through: a) agent reforms to refocus on high quality, high-compensated agents; b) business outlet and community-grid channel reforms to refocus on growth and deeper rooted service; c) product reforms to provide a home-based eldercare service; and d) continuous technology enablement, we believe Ping An will lead its peers in this round of the value of new business (VNB) growth cycle.

**VNB growth to reach 28%/6%/10% y-o-y in FY23/24F/25F.** With Ping An benefiting from a) stabilising agent headcount; b) continuous agent productivity improvement; and c) stabilising margin impact from a product mix shift, but d) partially offset by stricter regulatory rules on bancassurance and open-year sales, we expect its VNB growth to reach 28%/6%/10% y-o-y in FY23/24F/25F, respectively.

**Maintain BUY, cut TP to HK\$66.** Our TP is based on a SOTP valuation, where we consider a) a 0.9x FY24 P/EV (previously: 1.0x ) for the life business, b) a DBS TP of Rmb15.9 for PAB, c) a 0.8x for P&C and 0.4x for other major subsidiaries (previously: 0.6x), and d) MTM being listed as a fintech business to factor in VNB growth slowdown and weak performance in the Asset Management segment. We maintain BUY and cut TP from HK\$72 to HK\$66. Trading only at a 0.6x FY24F P/EV (based on life EV), we believe share price upside will mainly come from the better-than-expected VNB growth and market sentiment improvement.

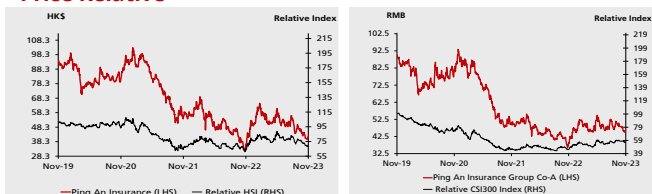
### Key Risks

i) Increasing market competition, ii) interest rate downcycle, iii) rising volatility in China's bond and equity markets, iv) policy risks, and v) an economic slowdown in China.

### At A Glance

Issued Capital - H shares (m shs)	7,448
- Non H shrs (m shs)	10,763
H shs as a % of Total	41
Total Mkt Cap (HK\$/US\$m)	847,917 / 108,416
Major Shareholders (%)	
Shenzhen Investment Holdings Co., Ltd.	8.9
Major H Shareholders (As % of H shares)	
Charoen Pokphand Group	15.0
H Shares-Free Float (%)	85.0
3m Avg. Daily Val. (US\$m)	175.7
GICS Industry: Financials / Insurance	

### Price Relative



### Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Ins. service result	99,446	94,865	95,419	96,478
Net investment result	(11,797)	22,307	38,647	50,547
Net Profit	111,008	114,664	134,389	149,869
EPS (RMB)	6.36	6.59	7.73	8.62
EPS (HK\$)	6.84	7.09	8.31	9.27
EPS Gth (%)	10.2	3.7	17.2	11.5
PE (X)	6.0	5.7	4.9	4.4
DPS (HK\$)	2.60	2.70	2.93	3.18
Net Div Yield (%)	6.4	6.6	7.2	7.8
BV Per Share (HK\$)	51.14	55.72	61.06	67.12
P/Book Value (X)	0.8	0.7	0.7	0.6
P/EV (X)	0.5	0.4	0.4	0.4
ROAE (%)	12.8	12.7	13.6	13.8

Earnings Rev (%):	(6)	(1)	New
Consensus EPS (RMB)	6.64	8.00	8.87
Other Broker Recs:	B:29	S:1	H:0

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



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WHAT'S NEW

Integrated Finance ecosystem to gauge long-term growth

Ping An's Investor Day 2023

Ping An held its Investor Day on 6 Nov 2023, shedding light on its Integrated Finance ecosystem – which paves its way to become the world's leading financial service provider and helped Ping An achieve a high teens operating ROE, which is nearly twice that of listed insurers (Fig 1). Following are our takeaways from the insurer's Investor Day:

1. Synergies between business lines

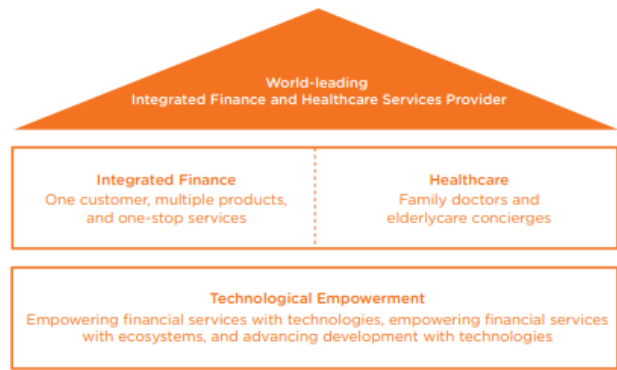
Integrated Finance model has generated substantial synergies between Ping An's business lines, including life insurance, P&C insurance, banking, securities, etc. Here are multiple key numbers that can justify its contribution:

- 1) The revenue contribution generated by the Integrated Finance ecosystem to business lines being equivalent to no.4 in annuity, no.3 in health insurance, no.8 in P&C, no.15 in bank's AUM, and no.1 in insurance trust in the respective sectors;
- 2) Integrated Financial ecosystem having a lower distribution cost than external channels, e.g. Integrated Finance ecosystem costing only 73% in PAB compared to external channels, 55% in PA Health Insurance and 53% in PA Securities;
- 3) improving customer retention rate, with >4 contracts being 97%+ in 2022, 22% higher than customers with 1 contract; and
- 4) also enhancing profit per customer, five-year customers generating 1.7x profit per customer than that of one-year customers.

2. Key metrics to measure operational efficiency and long-term targets

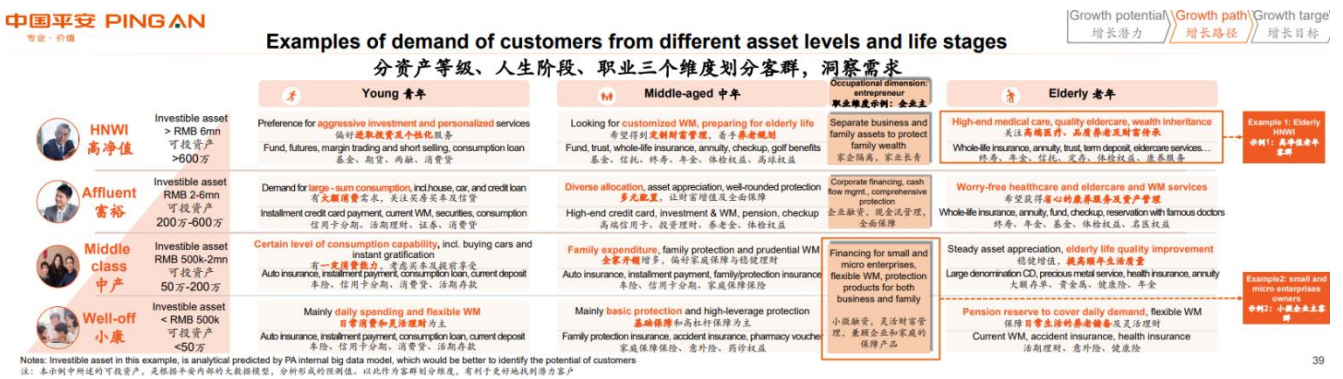
Management proposed three key metrics to measure the operational efficiency of the Integrated Finance ecosystem, including the number of retail customers, contracts per customer, and profit per customer. In the past eight years (since 2015), the Integrated Finance ecosystem has driven retail customers to double from 109m to 227m, contracts per customer reaching 1.5x from 2.03 contracts per customer to 2.97, and profit per customer also doubling from Rmb289 per customer to Rmb585.

Fig 1. Ping An's vision and strategy framework



Source: Company data, DBS HK

Fig 2. Ping An's customer segmentation based on life stages



Source: Company data, DBS HK

## Ping An Insurance

Management also guided long-term target – to achieve double-digit retail OPAT growth by growing retail customer number by 76% to 400m, raising contracts per customer by 68% to 5+ contracts per customer, and increasing profit per customer by 37% to Rmb800 per customer.

### 3. Our views

We believe 1) the Integrated Finance ecosystem is an asset for Ping An Group, as it provides a clear growth path by gauging customer needs for full range of financial services over the life stage, especially for affluent and middle-class customers (Fig 2). It also enhances the operational model by cross-selling, customer

**Fig 3. Key metrics and our estimation**

	2015	2022	2030F	CAGR (2022 -2030)
<b>Baseline scenario</b>				
Number of retail customer (in mn)	109	227	400	7.3%
- Retaining customer	90	195	359	8.0%
- New customer	19	32	41	3.0%
- Retention rate	82.5%	85.7%	97.0%	1.6%
- Contract per customers	2.03	2.97	5.00	6.7%
Profit per customer (in Rmb per customer)	289	585	850	4.8%
<b>OPAT (in Rmb mn)</b>	<b>31,501</b>	<b>132,795</b>	<b>340,000</b>	<b>12.5%</b>
<b>Bear case: Retention rate</b>				
-95%/profit per customer		132,795	282,019	9.9%
-Rmb750 per customer by 2030				
<b>Bull case: New customer</b>				
acquisition +8%/profit per customer		132,795	399,884	14.8%
-Rmb950 per customer				

Source: Company data. DBS HK

retention, and profit generation to maximize the customer value; 2) based on management guidance and our estimations, Ping An is likely to double or even triple its OPAT by successfully delivering its long-term target of the key metrics over the next eight years. Please find our assumptions and estimations in Figure 3.

### Our first forecast under IFRS9/17

Ping An has already released its 3Q23 results under the new accounting rules IFRS 9 and IFRS 17 (Fig 4). Due to the impact on the Asset Management segment, the insurer's net profit declined 5.6% y-o-y to Rmb87.6b in 9M23, missing expectations. However, value of new business (VNB) saw a structural recovery, rising by 40.9% y-o-y to Rmb33.6b in 9M23 on a like-for-like basis (VNB calculated in the same actuarial assumptions).

We are publishing our forecasts for the first time based on the IFRS9/17 standard. We expect a net profit of Rmb115b for FY23F, with y-o-y growth of 17%/12% y-o-y for FY24F/25F, respectively. The steady growth of the insurance service results is expected to be offset by weak results in the Asset Management segment in FY23F and we expect it to return to normal in FY24F/25F. We slightly revise up our VNB forecast for FY23F/FY24F by 6%/5%, respectively, to reflect 1) better-than-expected results of the life agent reform, 2) strong agent productivity improvement, 3) but partially offset by stricter regulatory restrictions to cool down insurance sales in 2H23 and onward. The VNB for 2023/24/25 is expected to be Rmb36.8bn/39.1bn/42.9bn, respectively.

## Ping An Insurance

Fig 4. Ping An's 3Q23 results recap

	3Q22	2Q23	3Q23	yoy %	qoq %
<b>P&amp;L (RMB m)</b>					
Insurance revenue	133,531	136,199	135,178	1.2%	-0.7%
Insurance service expenses	(108,933)	(107,955)	(113,938)	4.6%	5.5%
Net expenses from reinsurance contracts held	(82)	(777)	(1,059)	1191.5%	36.3%
<b>Insurance revenue results</b>	<b>24,516</b>	<b>27,467</b>	<b>20,181</b>	<b>-17.7%</b>	<b>-26.5%</b>
Net finance expenses from insurance contracts and reinsurance contracts held	(22,527)	(29,636)	(28,098)	24.7%	-5.2%
Other revenues	106,089	126,774	111,330	4.9%	-12.2%
Other expenses	(79,731)	(85,478)	(79,778)	0.1%	-6.7%
Share of profits and losses of asso and JVs	2,184	1,561	(117)	-105.4%	-107.5%
<b>Profit before tax</b>	<b>30,531</b>	<b>40,688</b>	<b>23,518</b>	<b>-23.0%</b>	<b>-42.2%</b>
Income tax	(1,204)	(3,427)	1,167	-196.9%	-134.1%
Net profit after tax	29,327	37,261	24,685	-15.8%	-33.8%
Minority interests	7,271	5,772	6,951	-4.4%	20.4%
<b>Net profit attributable to shareholders</b>	<b>22,056</b>	<b>31,489</b>	<b>17,734</b>	<b>-19.6%</b>	<b>-43.7%</b>
<b>Key items (RMB m)</b>					
Total assets	N/A	11,467,577	11,465,779	N/A	0.0%
Total shareholder's equity	N/A	918,145	903,103	N/A	-1.6%
Value of new business	6,276	12,258	7,614	21.3%	-37.9%

Source: Company data. DBS HK

By factoring in 1) weak results in the Asset Management segment, 2) VNB slowdown to single-digit growth in FY24F, 3) resilient results in P&C and banking segment, 4) along with rolling over valuation base to FY24F, we cut the valuation multiple for the Life segment from 1.0x to 0.9x based on FY24F P/EV and Asset Management segment from 0.6x to 0.4x based on FY24F P/B, and maintain multiple for P&C (0.8 FY24F P/B) and PAB (0.6x FY24F P/BV). We cut TP from HK\$72 to HK\$66 and maintain a BUY rating as Ping An is likely to lead peers in the VNB growth cycle. (Fig 5).

Fig 5. Ping An's SOTP valuation

	Estimated fair value (HK\$)/share	% of total
<b>Ping An business entities</b>		
Ping An Life FY24 EV per share	66.6	
P/EV (x)	0.9	
<b>Ping An Life fair value</b>	<b>59.4</b>	<b>77%</b>
Ping An P&C FY24 BVPS	9.1	
P/B (x)	0.8	
<b>Ping An P&amp;C fair value</b>	<b>7.3</b>	<b>9%</b>
Ping An Bank DBSV @ TP Rmb14	10.0	
% share owned by Ping An	58%	
<b>Ping An Bank fair value</b>	<b>5.8</b>	<b>7%</b>
Ping An Trust FY24 BVPS	5.7	
P/B (x)	0.4	
<b>Ping An Asset Management fair value</b>	<b>2.3</b>	<b>3%</b>
<b>Ping An Fintech platforms fair value</b>	<b>2.8</b>	<b>4%</b>
<b>Sub-total</b>	<b>77.6</b>	
Conglomerate discount @15%	15%	
<b>Ping An fair value - H share</b>	<b>66.00</b>	
Share price (as of 11/6/2023)	40.5	
% of upside/(downside)	63%	
<b>Ping An fair value - A share</b>	<b>52.7</b>	
Share price (as of 11/6/2023)	46.1	
% of upside/(downside)	15%	

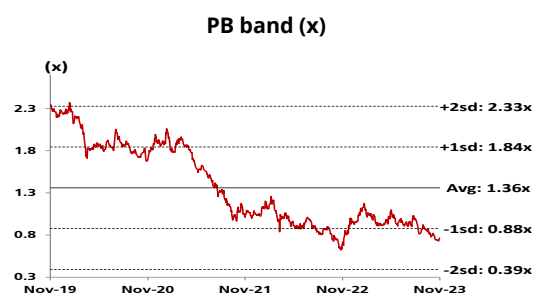
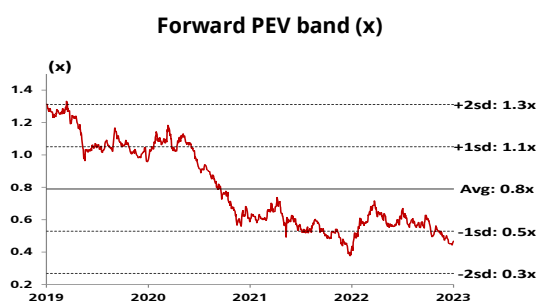
Source: Company data. DBS HK

## Ping An Insurance

### Company Background

Ping An Insurance (Ping An) was established in May 1988 as the first joint-stock insurance company in China. It was listed on the HKEX and SHEX in June 2004 and March 2007, respectively. Ping An is a conglomerate involved in life insurance, P&C, banks, trusts, and securities. In FY22, its total assets and equity reached Rmb11.1tn and Rmb1.2tn, respectively.

### Historical PEV and PB band



Source: Bloomberg Finance L.P. DBS HK

### Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Gross written premium growth	(4.6)	1.2	5.4	4.3	5.4
Agency growth	(41.4)	(19.9)	(20.0)	3.0	2.0
Agency productivity growth	26.9	45.4	78.0	15.0	5.0
Expense ratio	30.5	30.4	29.8	29.8	29.8
Loss ratio	67.1	69.9	70.6	70.6	70.6
Combined ratio	97.6	99.6	100.4	99.9	99.7
VNB margin	27.2	22.4	21.3	21.7	22.0
Net investment return	5.0	5.0	3.6	3.6	3.6
Total investment return	5.7	3.2	3.2	3.6	3.8
EV growth	5.1	2.0	8.8	9.3	9.8
Solvency ratio	230.4	219.7	210.3	201.9	194.1
CSM amortization rate	N/A	9.0	9.0	9.0	9.0
New business CSM (in Rmb m)	N/A	35,122	39,351	41,826	45,801
CSM closing balance (in Rmb m)	N/A	818,683	790,673	773,388	768,186

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Insurance revenue	N/A	525,981	532,069	553,728	582,738
Insurance service expenses	N/A	(422,221)	(433,045)	(453,920)	(481,576)
Net expenses from reins. contract held	N/A	(4,314)	(4,159)	(4,389)	(4,685)
<b>Insurance service result</b>	<b>N/A</b>	<b>99,446</b>	<b>94,865</b>	<b>95,419</b>	<b>96,478</b>
Investment return	N/A	88,232	149,807	184,020	213,018
Net finance expenses	N/A	(99,369)	(125,412)	(143,606)	(160,917)
Other movements	N/A	(660)	(2,088)	(1,767)	(1,555)
<b>Net investment result<sup>0</sup></b>	<b>N/A</b>	<b>(11,797)</b>	<b>22,307</b>	<b>38,647</b>	<b>50,547</b>
Other revenues	1,163,830	360,808	373,381	395,879	429,190
Other expenses	(1,031,596)	(316,287)	(328,843)	(339,594)	(362,770)
Share of profit of associated and JVs	7,346	10,165	4,158	4,467	4,961
Profit before tax	139,580	142,335	165,867	194,817	218,404
Income tax expense	(17,778)	(7,518)	(25,524)	(30,308)	(34,505)
Minority interest	(20,184)	(23,809)	(25,679)	(30,120)	(34,030)
Preferred dividend	0	0	0	0	0
<b>Net income attributable to shareholders</b>	<b>101,618</b>	<b>111,008</b>	<b>114,664</b>	<b>134,389</b>	<b>149,869</b>

Source: Company, DBS HK

## Ping An Insurance

### Balance Sheet(RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Total Investment	3,916,412	4,332,918	4,766,210	5,242,831	5,767,114
Property, plant and equipment	49,758	53,657	53,657	53,657	53,657
Other assets	6,175,856	6,623,365	7,121,840	7,647,287	8,235,504
<b>Total assets</b>	<b>10,142,026</b>	<b>11,009,940</b>	<b>11,941,707</b>	<b>12,943,775</b>	<b>14,056,275</b>
Net life reserves - traditional	3,261,354	3,671,177	4,088,141	4,458,510	4,868,173
- Life insurance contract liabilities	N/A	N/A	3,832,961	4,187,616	4,577,821
Other Liabilities	5,730,110	6,152,767	6,572,862	7,086,143	7,654,831
<b>Total liabilities</b>	<b>9,064,303</b>	<b>9,823,944</b>	<b>10,661,003</b>	<b>11,544,654</b>	<b>12,523,003</b>
Shareholder's equity	812,405	869,191	943,442	1,033,906	1,136,545
Minority interest	265,318	316,805	337,262	365,215	396,726
<b>Total equity</b>	<b>1,077,723</b>	<b>1,185,996</b>	<b>1,280,704</b>	<b>1,399,121</b>	<b>1,533,271</b>

Source: Company, DBS HK

### Key Financials & Ratios

FY Dec	2021A	2022A	2023F	2024F	2025F
<b>Du Pont analysis (%)</b>					
Net profit / insurance revenue	13.9	21.1	21.6	24.3	25.7
Insurance revenue / total asset	7.2	4.8	4.5	4.3	4.1
Total asset / total equity	9.4	9.3	9.3	9.3	9.2
Return on equity	12.9	12.8	12.7	13.6	13.8
<b>Embedded value(RMB m)</b>					
Book value	812,405	869,191	943,442	1,033,906	1,136,545
Adjusted items	57,234	53,866	60,671	68,584	77,199
Adjusted book value	869,639	923,057	1,004,113	1,102,491	1,213,745
Value-in-force	525,869	500,705	545,257	591,650	646,391
Group embedded value	1,395,508	1,423,762	1,549,370	1,694,141	1,860,135
<b>Per share analysis(RMB)</b>					
EPS	5.77	6.36	6.59	7.73	8.62
BPS	44.44	47.55	51.81	56.78	62.41
DPS	2.38	2.42	2.51	2.73	2.96
EVPS	76.34	77.89	85.08	93.03	102.15
<b>Capital Strength (%)</b>					
Leverage ratio	9	9	9	9	9
Solvency ratio	230.4	219.7	210.3	201.9	194.1

Source: Company, DBS HK

**Ping An Insurance**

**H Share - Target Price & Ratings 12-mth History**

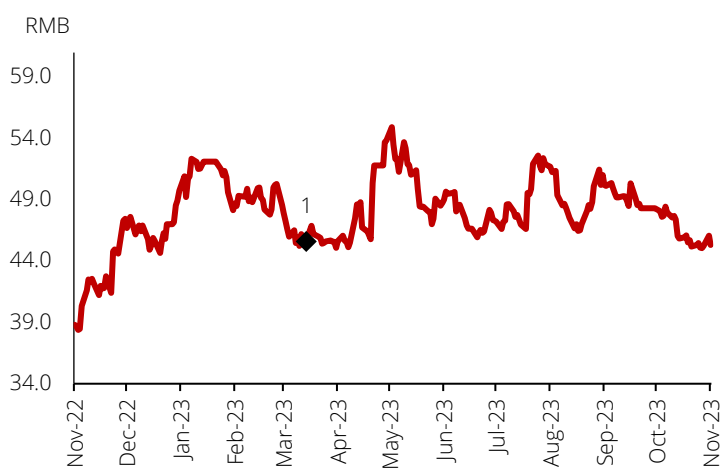


S.No.	Date	Closing Price	Target Price	Rating
1	20-Mar-23	HK\$51.60	HK\$72.00	BUY

Source: DBS HK

Analyst: Ken Shih  
Iris GAO

**A Share - Target Price & Ratings 12-mth History**



S.No.	Date	Closing Price	Target Price	Rating
1	20-Mar-23	RMB46.20	RMB57.54	BUY

Source: DBS HK

Analyst: Ken Shih  
Iris GAO



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**

13<sup>th</sup> Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

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

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**DBS Regional Research Offices**

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**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

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