

China / Hong Kong Company Update

China Pacific Insurance Group

Bloomberg: 2601 HK EQUITY | 601601 CH Equity | Reuters: 2601.HK | 601601.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Jan 2024

H: BUY

Last Traded Price (H) (24 Jan 2024): HK\$14.02 (HSI: 15,900)
Price Target 12-mth (H): HK\$24.00 (71.2% upside) (Prev HK\$30.00)

A: HOLD

Last Traded Price (A) (24 Jan 2024): RMB22.90 (CSI300 Index: 3,277)
Price Target 12-mth (A): RMB24.62 (7.5% upside) (Prev RMB32.59)

Analyst

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What's New

- Positive VNB growth expected in FY24F/25F, driven by strong demand for saving products
- P&C underwriting profit expected to improve on robust non-auto premium growth, stable COR
- Despite headwinds on bottom line due to weak investment performance, DPS expected to maintain a solid growth trend
- TP cut to HK\$24 on lower P/EV multiple due to weak sentiment towards China life insurers. With attractive dividend yield of 8%, maintain BUY

Solid progress in new business

Investment Thesis

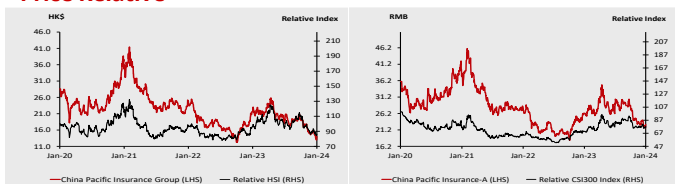
Strong growth momentum expected with negatives gradually diminishing. Following a recent discussion with the management, several positive signs have already emerged, including 1) bancassurance sales resuming by end-'23 with completion of negotiations with bank partners and contract signings, 2) returns of insurance products remaining attractive compared to bank deposits and WMP and 3) product mix continuing to improve in both agency and bancassurance channels with VNB margin to bottom out. We expect negatives from strict regulations which rolled out in 2H23 to have gradually diminished, and for a solid demand for saving products to drive CPIC's VNB growth at a mid single-digit CAGR in FY24F/25F.

P&C growth mainly driven by non-auto lines. We expect CPIC P&C's underwriting profit to improve in FY24F/25F, mainly driven by 1) strong demand for non-auto lines benefiting from policy supports such as agriculture and health products, and 2) combined ratio to remain stable, with improving non-auto COR to offset losses from new energy vehicle (NEV) auto insurance.

Limited earnings downside with attractive dividend yield of 8%. Upon IFRS 9 adoption, CPIC's net profit has turned more volatile due to a higher portion of investment portfolio being booked under fair value through profit or loss (FVTPL). Due to weak performance of A shares in 2H23 and the beginning of 2024, CPIC may face bottom-line headwinds, partially offset by good performance in bond investment. We see minimal downside risk on DPS as CPIC plans to link DPS to operating profit, and management is more willing to maintain a resilient growth trend for DPS.

Maintain BUY, cut TP to HK\$24. We roll over valuation base to FY24F and introduce our IFRS 17 forecast. By lowering our multiple to 0.32x P/EV (previously 0.42x) to reflect weak sentiment towards China life insurance sector, we cut TP to HK\$24/Rmb24.6 for H/A share, respectively. With an attractive dividend yield of 8% and limited downside risk, we maintain BUY.

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Ins. service result	N/A	43,809	46,338	48,527
Net investment result	N/A	(5,791)	635	3,769
Net Profit	24,609	24,653	31,401	35,356
EPS (RMB)	2.56	2.56	3.26	3.68
EPS (HK\$)	2.80	2.80	3.57	4.01
EPS Gth (%)	(8.2)	0.1	27.4	12.6
PE (X)	5.0	5.0	3.9	3.5
DPS (HK\$)	1.11	1.12	1.21	1.36
Net Div Yield (%)	7.9	8.0	8.6	9.7
BV Per Share (HK\$)	22.31	24.71	27.31	30.23
P/Book Value (X)	0.6	0.6	0.5	0.5
P/EV (X)	0.2	0.2	0.2	0.2
ROAE (%)	11.6	11.9	13.7	14.0

Earnings Rev (%): (11) 2 New
Consensus EPS (RMB) 2.71 3.18 3.44
Other Broker Recs: B:23 S:2 H:2

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

Key Risks

Some of the key risks are i) intensifying market competition, ii) downward interest rate trend, iii) rising market volatility, and iv) slower-than-expected economic growth in China.

At A Glance

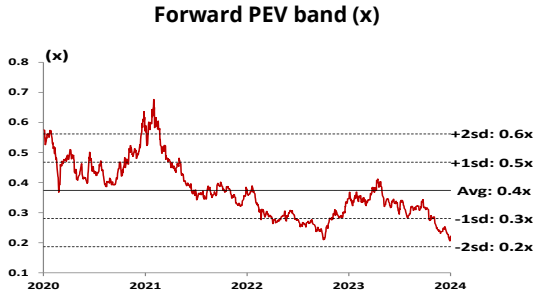
Issued Capital - H shares (m shs)	2,775
- Non H shrs (m shs)	6,845
H shs as a % of Total	29
Total Mkt Cap (HK\$m/US\$m)	199,665 / 25,526
Major Shareholders (%)	
Shenergy (Group) Company Limited	19.8
Hwabao Investment Co., Ltd.	18.8
Shanghai State-owned Assets Management Co., Ltd.	8.9
Shanghai Haiyan Investment Management Co. Ltd.	6.8
Major H Shareholders (As % of H shares)	
Shanghai International Group Co., Ltd.	7.2
Schroder Investment Management Ltd. (SIM)	5.7
H Shares-Free Float (%)	87.1
3m Avg. Daily Val. (US\$m)	22.53
GICS Industry: Financials / Insurance	

China Pacific Insurance Group

Company Background

China Pacific Insurance (CPIC) was established in April 1994. It was listed on the HKEX in December 2009. The company mainly provides life, P&C, and health insurance products through CPIC Life, CPIC P&C, CPIC HK, and CPIC Allianz Health. In FY22, its total assets and equity stood at Rmb2,176bn and Rmb234bn, respectively.

Historical PEV and PB band



Source: Bloomberg Finance L.P. DBS HK

China Pacific Insurance Group

Key Assumptions (%)

FY Dec	2021A	2022A	2023F	2024F	2025F
Gross written premium growth	1.3	8.6	7.5	7.5	7.6
Agency growth	(29.9)	(54.1)	(8.0)	0.0	0.0
Agency productivity growth	42.3	71.0	35.0	8.0	2.0
Expense ratio	29.7	30.1	27.4	27.4	27.4
Loss ratio	69.8	68.4	71.3	70.7	70.5
Combined ratio	99.4	98.4	98.7	98.1	97.9
VNB margin	23.5	11.6	12.6	12.6	12.6
Net investment return	4.2	4.1	3.5	3.5	3.5
Total investment return	4.2	4.1	3.1	3.5	3.7
EV growth	5.1	1.4	6.5	6.7	4.8
Solvency ratio	218.2	218.1	202.2	188.4	180.0
CSM amortization rate	N/A	N/A	7.8	7.8	7.8
New business CSM (in Rmb m)	N/A	N/A	11,128	11,666	12,274
CSM closing balance (in Rmb m)	N/A	N/A	325,657	324,222	323,402

Source: Company, DBS HK

China Pacific Insurance Group

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Insurance revenue	N/A	N/A	249,931	271,051	294,290
Insurance service expenses	N/A	N/A	(204,580)	(223,040)	(243,947)
Net expenses from reins. contract held	N/A	N/A	(1,542)	(1,673)	(1,815)
Insurance service result	N/A	N/A	43,809	46,338	48,527
Investment return	N/A	N/A	68,542	78,813	90,165
Net finance expenses	N/A	N/A	(72,505)	(76,553)	(84,941)
Other movements	N/A	N/A	(1,827)	(1,625)	(1,455)
Net investment result	N/A	N/A	(5,791)	635	3,769
Other revenues	N/A	N/A	3,666	3,072	3,084
Other expenses	N/A	N/A	(11,885)	(12,438)	(12,975)
Share of profit of associated and JVs	799	401	759	1,316	1,421
Profit before tax	30,796	25,176	30,559	38,924	43,826
Income tax expense	(3,178)	64	(5,348)	(6,812)	(7,670)
Minority interest	(784)	(631)	(558)	(711)	(800)
Net income attributable to shareholders	26,834	24,609	24,653	31,401	35,356

Source: Company, DBS HK

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Total Investment	1,808,100	2,021,933	2,182,216	2,356,793	2,545,336
Property, plant and equipment	20,142	19,756	21,732	23,905	26,295
Other assets	118,703	29,647	100,776	157,400	220,049
Total assets	1,946,945	2,071,336	2,304,723	2,538,098	2,791,681
Net life reserves - traditional	1,385,333	1,664,848	1,876,529	2,086,286	2,313,377
- Life insurance contract liabilities	1,367,723	1,539,284	1,744,752	1,939,892	2,150,758
Other Liabilities	328,426	277,323	204,816	204,816	204,816
Total liabilities	1,713,759	1,942,171	2,081,345	2,291,102	2,518,193
Shareholder's equity	226,741	196,477	217,625	240,532	266,224
Minority interest	6,445	5,195	5,753	6,464	7,264
Total equity	233,186	201,672	223,378	246,996	273,488

Source: Company, DBS HK

China Pacific Insurance Group

Key Financials & Ratios

FY Dec	2021A	2022A	2023F	2024F	2025F
Du Pont analysis (%)					
Net profit / insurance revenue	N/A	N/A	9.9	11.6	12.0
Insurance revenue / total asset	N/A	N/A	10.8	10.7	10.5
Total asset / total equity	8.3	10.3	10.3	10.3	10.2
Return on equity	12.1	11.6	11.9	13.7	14.0
Embedded value (RMB m)					
Book value	93,169	105,205	119,739	128,751	146,329
Adjusted items	68,711	67,660	66,562	71,571	81,343
Adjusted book value	161,880	172,865	186,300	200,323	227,672
Value-in-force	214,763	225,327	237,697	251,268	253,001
Adjustment (if any)	121,661	121,424	129,483	138,847	137,960
Group embedded value	498,304	519,616	553,481	590,437	618,633
Per share analysis (RMB)					
EPS	2.79	2.56	2.56	3.26	3.68
BPS	24.24	20.42	22.62	25.00	27.67
DPS	1.00	1.02	1.03	1.11	1.25
EVPS	53.28	54.01	57.53	61.38	64.31
Capital Strength (%)					
Leverage ratio	8	10	10	10	10
Solvency ratio	218.2	218.1	202.2	188.4	180.0

Source: Company, DBS HK

China Pacific Insurance Group

H Share - Target Price & Ratings 12-mth History

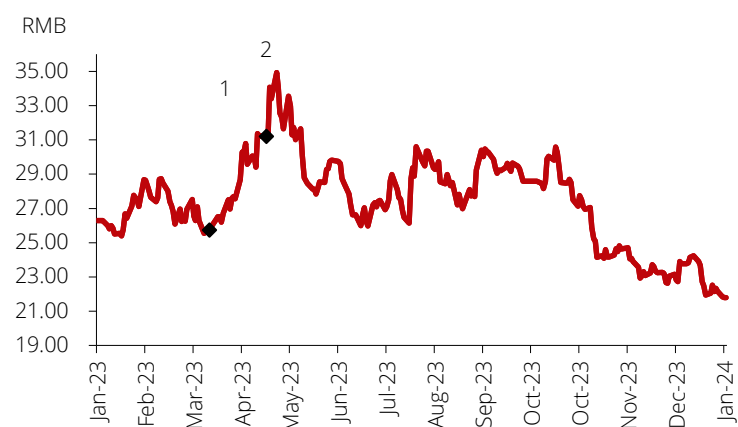


S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	30-Mar-23	HK\$21.20	HK\$25.50	Buy
2:	2-May-23	HK\$23.35	HK\$30.00	Buy

Source: DBS HK

Analyst: Ken Shih
Iris GAO

A Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	30-Mar-23	RMB25.70	RMB27.51	Hold
2:	2-May-23	RMB31.21	RMB32.59	Hold

Source: DBS HK

Analyst: Ken Shih
Iris GAO

China Pacific Insurance 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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