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Markets Research

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Banking / Finance
Insurance

Industry
CPIC alert

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Forecast Change

1H17 - Key takeaways from analyst meeting

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Key Changes

Company	Target Price	Rating
2601.HK	44.00 to 47.50(HKD)	-
601601.SS	40.00 to 43.30(CNY)	-

Source: Deutsche Bank

Focus stocks

CPIC (2601.HK),HKD38.10 Buy Price Target HKD47.50	
CPIC (601601.SS),CNY38.35 Buy Price Target CNY43.30	

Source: Deutsche Bank

New management stays committed to the core insurance business

CPIC held a conference call on their 1H17 results today. The key questions focused on the company strategy after the management change. The new chairman, Mr. Kong, reconfirmed the unchanged strategy to focus on core insurance business, and identified five initiatives (talent, digitalization, synergy, control and diversification) to enhance business development. Key takeaways as follow:

- **On Life business,** management noted the improvement in NB margin (from 15.4% in 1H12 to 40.6% in 1H17) to continue going forward, albeit at slower rate given the high base. The company will continue to increase the proportion of LT protection policies (by increasing product diversity and improving sales tactics) and lengthen the payment duration. In terms of products, the company believes customers' demand for protection is for both life and wealth, and the strong growth in par products in 1H17 catered to customers' need for financial protection. For reserve charges in 2H17E, the management noted if interest rate were to stay at current level, the impact from reserve charges should be small.
- **On agency,** with strong agency expansion in 1H17 (+33.2% hoh), the company will focus more on quality in 2H17E. The key focus would be productivity improvement, self-operation of managers and targeting sales technique.
- **On auto,** the management expects further auto deregulations to lead to moderate deterioration in combined ratio. The company will stick to disciplined underwriting, and focus more on core channels (telemarketing & internet, cross-selling and dealerships) to improve efficiency.
- **On investments,** the significant increase in WMPs in 1H17 (+79.5% hoh) was a strategic move to take advantage of the ST interest rate hike, and has average yield of ~5%. CPIC has lagged peers in NSI over the past few years, and the strong growth in 1H17 was a catch-up.

Forecast revisions

Following a strong 1H17 results, we lift our 2017/18E VNB by 10.2%/9.0% to Rmb28,407mn/35,771mn and are raising our Group EV by 6.1%/6.0%, Life EV by 3.2%/3.9%, respectively, resulting in a 8.0% increase in our target price to HK$47.5/shr. Our revised forecasts imply 2017E/18E VNB growth of 49.2%/25.9% (2H17E: +30.8% yoy) and Group EV growth of 19.7%/16.8%, Life EV growth of 22.5%/24.0%. We see current valuation at 1.3x/1.4x for H/A-shr undemanding. Maintain Buy.

Valuation & Risks

We value CPIC at Rmb392.1bn, which is based on sum-of-the-parts valuation. 76% of our valuation comes from its life insurance business, which we value on 6.5x 2017E NB multiple with 4% LT investment assumption. We value CPIC's P&C business (13%) at 1.3x 2017E P/B and group capital (11%) at 1.0x 2017E P/B. Key risks include China's macro development, weak-than-expected inv markets and VNB growth