

Company Report

CPIC (2601 HK)

Agent channel FYRP dropped yoy in 3Q

- Net profit and total comprehensive income up significantly yoy
- Agent channel FYRP down 25.8% yoy in 3Q, partly due to a high base
- Maintain BUY on valuation

May struggle with NBV growth despite increased profits

1) 3Q19 shareholders' recurring net profit totaled ~RMB18.1bn, UP ~42.6% yoy, and total comprehensive income rose to RMB29.7bn through 3Q19 from RMB12.7bn for 3Q18. The sharp increase in profits is mainly attributable to increased investment gains and an one-off favorable tax policy; 2) For life insurance segment, agent channel first year regular premium (FYRP) dropped by 25.8% yoy in the 3rd quarter alone per our calculation, meaning the company might have struggled with NBV growth in 3Q; 3) For P&C insurance segment, growth of non-auto premium remained fast, with 34.3% yoy in 3Q. Overall, CPIC's NBV growth for 2019 will likely be lower than expectation of the market and ours. As per our discussion with CPIC's IR team in September: CPIC's overall agent headcount is expected to remain stable in 2H19; pressure on CPIC's NBV growth may persist partly due to a high base from 2H18; cumulative NBV growth in Jan - Aug of 2019 is expected to be similar to that growth in 1H19 for CPIC (-8.4% yoy in 1H19); on the other hand, the combined ratio of P&C segment is expected to be largely unchanged from that of 1H19.

"Transformation 2.0" strategic initiative

Management reiterated in the presentation packages for the company's Investor Day event to be held on October 31, that it would press ahead with the "Transformation 2.0" strategic initiative, which encompasses initiatives to structurally upgrade the company's agent force, to add value to services within the customer ecosystem, and to be more technology-driven every step of the business, in a bid to enhance the company's capabilities for long-term growth.

Valuation and risks

The company is currently trading at ~0.58x 2019E P/EV (close to its historical low), or ~1.4x 2019E P/B. Considering the company's low current valuation, we maintain our BUY rating for CPIC, with a TP of HK\$44.0, equivalent to 0.9x 2019E P/EV (a ~28% discount to its average historical P/EV of ~1.24x), or ~2.1x 2019E P/B. We also note that the company has proposed a GDR issuance, with the purpose to "further optimize the shareholding structure, improve the corporate governance and promote internationalization of the company". The issuance size will be no more than ~7% of the company's total share capital (10% of the total A shares of the company), meaning likely limited impact on H share's valuation in a long-term perspective. Key catalyst: better-than-expected NBV growth for 4Q19. Key downside risks: an adverse capital market, lower-than-expected NBV growth for 4Q19.

Financials

Year ended 31 Dec (RMB mn)	2017	2018	2019E	2020E	2021E
Total revenues	319,405	353,103	386,736	417,113	450,874
Shareholders' net profit	14,662	18,019	27,840	24,455	26,702
EPS (RMB)	1.62	1.99	3.07	2.70	2.95
BVPS (RMB)	15.17	16.51	18.58	19.74	21.34
P/E (x)	15.9	12.9	8.4	9.5	8.7
P/B (x)	1.7	1.6	1.4	1.3	1.2
P/EV (x)	0.81	0.69	0.58	0.50	0.44
ROE (%)	10.9	12.6	17.5	14.1	14.3

Sources: Company data, CMS (HK) estimates; Price as of October 30 2019

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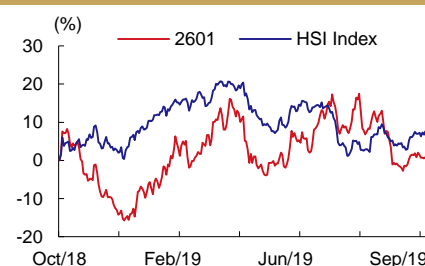
WHAT'S NEW

3Q19 results

BUY

Previous	BUY
Price	HK\$28.6
12-month Target Price (Potential up/downside)	HK\$44.0 (+54%)
Previous	HK\$44.0

Price Performance



Source: Bigdata

%	1m	6m	12m
2601 HK	1.4	(7.7)	2.6
HSI	3.2	(10.4)	8.0

Sector: Insurance

Hang Seng Index	26668
HSCEI	10479

Key Data

52-week range (HK\$)	24.2-34.75
Market cap (HK\$ mn)	1286015
Avg. daily volume (mn)	51.93

Shareholding Structure

Shenergy (Group) Co., Ltd.	14.64%
Fortune Investment Co., Ltd.	14.17%
No. of shares outstanding (mn)	9062

Source: Bloomberg

Focus charts

Figure 1: Life segment key 1H19 performance metrics

	PING AN (2318 HK)	CHINA LIFE (2628 HK)	CPIC (2601 HK)	NCI (1336 HK)
Life NBV growth (yoy)	4.7%	22.7%	-8.4%	-8.7%
Life EV growth (hoh)	16.3%	11.5%	7.8%	10.5%
Aggregate NBV margin on FYP	44.7%	27.0%	39.0%	38.0%
Growth of monthly average number of agents (hoh) *	-6.4%	9.3%	-6.0%	4.3%
1H19 NBV per agent (RMB) **	29,314	19,312	18,753 ***	14,940
Growth of agent productivity, defined as NBV per agent (yoy) **	8.5%	16.0%	2.9%	-21.0%

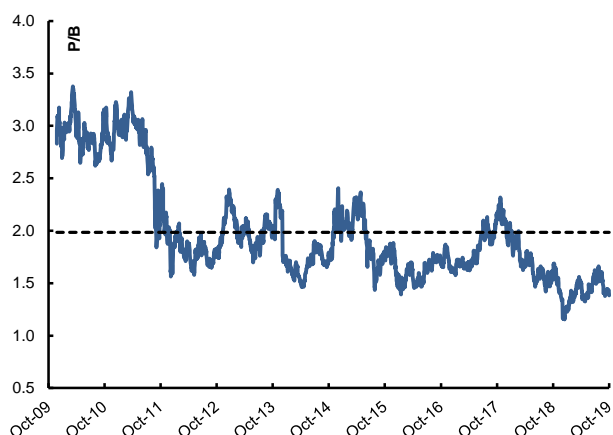
Sources: Company data, CMS (HK); *Note: growth of total number of agents at period end for CHINA LIFE and NCI; **Note: NCI and CHINA LIFE's per-agent NBV was estimated based on total number of agents at period end; ***Note: CPIC's per-agent NBV was estimated based on life business's total NBV

Figure 2: CPIC key 1H19 results

(RMB mn)	3Q19	3Q18	1H19	yoy	yoy (3Q only)
Total Life GWP	185,880	176,996	138,428	5.0%	3.2%
Total life agency channel FYP	34,733	39,591	26,305	-12.3%	-18.5%
Life agency channel regular FYP	29,635	36,404	22,800	-18.6%	-25.8%
Life agency channel renewal Premiums	136,101	120,321	100,674	13.1%	12.1%
Average number of agents (in thousand)			796		
Per-agent commission income			1,247		
Life NBV			14,927		
Life NBV margin on FYAP			39.00%		
Life EV			278,487		
Total P&C GWP	100,456	88,983	68,247	12.9%	13.8%
Auto	67,447	64,041	46,133	5.3%	5.6%
Non-auto	33,009	24,942	22,114	32.3%	34.3%
Auto-insurance combined ratio (%)			98.4		
Aggregate combined ratio (%)			98.6		
Shareholders' net profit	18,078	12,677	11,302	42.6%	51.9%
Shareholders' total comprehensive income	29,710	12,734	22,012	133.3%	87.3%
Net investment yield (%)	4.8	4.8	4.6		
Total investment yield (%)	5.1	4.7	4.8		
Operating profit margin (%)	7.4	7.1	6.6		
ROE (not annualized, %)	14.2	9.0	10.4		

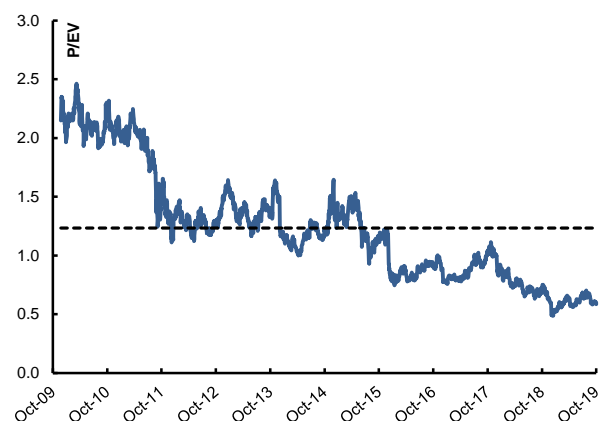
Sources: Company data, CMS (HK)

Figure 3: P/B of CPIC



Sources: Company data, CMS (HK)

Figure 4: P/EV of CPIC



Sources: Company data, CMS (HK)

Peer comparison

Company	Ticker	Rating	Price	TP (HK\$)	Mkt Cap	P/EV (x)		P/E (x)		P/B (x)		ROE (%)		Dividend Yield (%)	
			Local ccy	(USD mn)		2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
HK Listed Peers															
Ping An	2318 HK	BUY	90.5	107.1	220,963.9	1.31	1.11	10.1	9.8	2.2	1.9	24.2	20.8	2.2	2.3
China Life	2628 HK	BUY	20.1	26.2	114,656.6	0.55	0.48	11.4	11.9	1.4	1.3	12.9	10.9	3.1	2.9
China Pacific	2601 HK	BUY	28.6	44.0	40,882.7	0.58	0.50	8.4	9.5	1.4	1.3	17.5	14.1	6.0	5.3
New China Life	1336 HK	NEUTRAL	31.4	34.6	18,714.6	0.43	0.37	6.4	7.5	1.1	1.0	18.9	14.1	4.7	4.0
AIA *	1299 HK	NR	76.7	n.a.	118,264.4	n.a.	n.a.	18.6	16.6	2.4	2.2	14.9	15.0	1.7	2.0
PICC Group *	1339 HK	NR	3.3	n.a.	47,230.7	n.a.	n.a.	6.4	6.6	0.8	0.7	12.2	10.8	2.6	3.0
PICC P&C *	2328 HK	NR	9.8	n.a.	27,774.7	n.a.	n.a.	8.1	8.3	1.2	1.1	16.0	14.0	4.2	4.5
China Taiping *	966 HK	NR	17.7	n.a.	8,123.1	n.a.	n.a.	6.6	6.3	0.8	0.7	14.0	12.6	0.9	1.1
China Re *	1508 HK	NR	1.3	n.a.	6,988.6	n.a.	n.a.	9.0	8.1	0.6	0.6	7.0	7.2	5.0	5.3
ZA Online *	6060 HK	NR	27.6	n.a.	5,174.3	n.a.	n.a.	n.a.	207.0	2.4	2.3	(3.2)	0.7	-	-
Arithmetic Average						0.72	0.62	9.4	29.2	1.4	1.3	13.4	12.0	3.0	3.0
Weighted Average						0.97	0.83	11.2	12.7	1.8	1.6	17.8	15.6	2.7	2.7
China A-share Listed Peers *															
Ping An	601318 CH	NR	88.0	n.a.	220,962.3	n.a.	n.a.	10.2	9.7	2.4	2.0	24.9	22.0	2.5	2.8
China Life	601628 CH	NR	32.4	n.a.	114,655.7	n.a.	n.a.	18.2	19.9	2.5	2.3	14.2	10.9	1.9	1.8
China Pacific	601601 CH	NR	34.6	n.a.	40,882.4	n.a.	n.a.	11.2	11.0	1.8	1.7	17.1	15.1	4.1	4.2
New China Life	601336 CH	NR	49.3	n.a.	18,714.4	n.a.	n.a.	11.5	11.5	2.0	1.8	17.7	16.2	2.1	2.2
PICC Group	601319 CH	NR	8.7	n.a.	47,230.3	n.a.	n.a.	19.9	19.7	2.2	2.0	11.9	10.9	0.8	0.9
Arithmetic Average								14.2	14.3	2.2	1.9	17.2	15.0	2.3	2.4
Weighted Average								13.5	13.6	2.3	2.1	19.7	17.0	2.3	2.5
Global Peers *															
ALLIANZ SE-VINK	ALV GR	NR	221.8	n.a.	104,137.9	n.a.	n.a.	11.6	10.9	1.3	1.3	12.2	12.0	4.3	4.6
AXA SA	CS FP	NR	24.2	n.a.	64,042.0	n.a.	n.a.	9.1	8.3	0.9	0.9	10.2	10.5	6.2	6.5
PRUDENTIAL PLC	PRU LN	NR	1380.0	n.a.	45,723.7	n.a.	n.a.	9.1	9.2	2.0	1.7	22.9	19.9	3.1	2.9
METLIFE INC	MET US	NR	46.7	n.a.	43,713.4	n.a.	n.a.	8.3	7.7	0.7	0.7	11.2	10.9	3.7	3.9
MUENCHENER RUE-R	MUV2 GR	NR	250.7	n.a.	40,192.9	n.a.	n.a.	13.1	12.5	1.2	1.2	9.9	9.7	3.9	4.1
AFLAC INC	AFL US	NR	53.6	n.a.	39,328.7	n.a.	n.a.	12.1	12.0	1.4	1.3	13.6	13.0	2.0	2.2
MANULIFE FIN	MFC CN	NR	24.6	n.a.	36,623.3	n.a.	n.a.	8.3	7.8	1.1	1.0	13.0	12.6	4.1	4.4
GREAT-WEST LIFEC	GWO CN	NR	31.1	n.a.	22,063.0	n.a.	n.a.	11.1	9.7	1.4	1.3	12.4	14.5	5.2	5.3
HANNOVER RUECK S	HNR1 GR	NR	159.9	n.a.	21,448.8	n.a.	n.a.	15.3	15.1	1.9	1.8	13.3	12.5	3.5	3.7
DAI-ICHI LIFE	8750 JP	NR	1832.0	n.a.	19,990.6	n.a.	n.a.	9.6	9.0	0.5	0.5	5.7	5.8	3.0	3.4
CNP ASSURANCES	CNP FP	NR	18.2	n.a.	13,668.7	n.a.	n.a.	8.8	8.3	0.7	0.7	8.2	8.3	5.2	5.5
SAMSUNG LIFE INS	032830 KS	NR	70700.0	n.a.	12,116.3	n.a.	n.a.	10.9	10.5	0.4	0.4	3.7	3.5	3.9	4.1
AEGON NV	AGN NA	NR	4.0	n.a.	9,325.2	n.a.	n.a.	6.4	5.7	0.4	0.4	6.8	7.5	7.7	8.1
CHINA LIFE	2823 TT	NR	25.1	n.a.	3,685.2	n.a.	n.a.	9.3	9.1	1.0	1.0	13.0	10.7	1.8	2.6
Average								10.2	9.7	1.1	1.0	11.2	10.8	4.1	4.4

Sources: Company data, Bloomberg, CMS (HK) estimates; Price as of October 30 2019; * forecast based on Bloomberg consensus

Financial Summary

Consolidated Statement of Financial Position

Year ended 31 Dec (RMB mn)	2017	2018	2019E	2020E	2021E
Property, plant and equipment	17,950	19,301	20,266	21,279	22,343
Investment properties	8,727	8,542	8,753	9,836	10,995
Intangible assets	2,452	3,899	3,899	3,899	3,899
Investments in associates and joint ventures	5,271	17,472	17,472	17,472	17,472
Debt financial assets	735,571	840,516	998,419	1,121,990	1,254,163
Equity financial assets	153,729	143,946	191,283	214,957	240,279
Term deposits	103,989	128,396	153,510	172,509	192,831
Statutory deposits	6,566	6,738	6,738	6,738	6,738
Policy loans	38,643	49,194	54,113	59,525	65,477
Financial assets purchased under agreements to resell	17,126	23,095	(66,955)	(60,224)	(53,146)
Interest and insurance receivables	33,090	38,294	38,294	38,294	38,294
Prepaid land lease payments	55	344	344	344	344
Deferred tax assets	1,742	2,379	2,379	2,379	2,379
Reinsurance assets	22,575	23,467	24,640	25,872	27,166
Other assets	12,078	15,053	15,053	15,053	15,053
Cash and short-term time deposits	11,660	15,323	43,392	48,763	54,507
Total assets	1,171,224	1,335,959	1,511,601	1,698,687	1,898,795
Insurance contracts	802,239	919,671	1,057,712	1,213,454	1,376,039
Investment contracts	56,268	62,255	71,593	82,332	94,682
Financial assets sold under agreements to repurchase	66,243	75,075	78,829	82,770	86,909
Policyholder dividends payable	24,422	26,501	29,151	32,066	35,273
Premiums received in advance	21,156	16,384	16,384	16,384	16,384
Payables to reinsurers	6,002	6,233	6,233	6,233	6,233
Bonds payable	3,999	13,985	13,985	13,985	13,985
Other liabilities	43,922	53,308	55,973	58,772	61,711
Current income tax liabilities	4,934	7,331	7,331	7,331	7,331
Deferred tax liabilities	920	1,168	1,168	1,168	1,168
Total liabilities	1,030,105	1,181,911	1,338,359	1,514,496	1,699,714
Share capital	9,062	9,062	9,062	9,062	9,062
Reserves and retained earnings	128,436	140,514	159,292	169,827	184,302
Shareholders' equity	137,498	149,576	168,354	178,889	193,364
Total equity	141,119	154,048	173,241	184,191	199,081

Consolidated Statement of Income

Year ended 31 Dec (RMB mn)	2017	2018	2019E	2020E	2021E
Gross written premiums and policy fees	281,644	321,895	342,825	366,614	393,405
Net premiums earned and policy fees	263,554	299,724	319,830	341,839	366,657
Investment income	52,657	49,999	63,086	71,122	79,700
Other income	3,194	3,380	3,821	4,152	4,516
Total revenues	319,405	353,103	386,736	417,113	450,874
Insurance benefits and claims	(201,184)	(215,181)	(247,003)	(264,747)	(284,596)
Other operating and administrative expenses	(82,634)	(93,496)	(93,908)	(102,283)	(111,512)
Interest credited to investment contracts	(1,910)	(2,531)	(2,784)	(3,063)	(3,369)
Policyholder dividends resulting from participation in profits	(8,946)	(11,263)	(12,389)	(13,628)	(14,991)
Total benefits, claims and expenses	(294,674)	(322,471)	(356,084)	(383,721)	(414,468)
Share of profits and losses of associates and joint ventures	74	335	335	335	335
Finance costs	(3,703)	(2,959)	(3,076)	(3,305)	(3,556)
Profit before income tax	21,102	28,008	27,911	30,422	33,184
Income tax expense	(6,111)	(9,574)	344	(5,552)	(6,067)
Net profit for the year	14,991	18,434	28,255	24,870	27,117
Attributable to:					
– Owners of the parent	14,662	18,019	27,840	24,455	26,702

Financial Ratios

	2017	2018	2019E	2020E	2021E
EPS for ordinary shares (RMB)	1.62	1.99	3.07	2.70	2.95
BVPS for ordinary shares (RMB)	15.17	16.51	18.58	19.74	21.34
Life NBV per share (RMB)	2.95	2.99	2.98	3.23	3.49
Life EV per share (RMB)	23.62	28.52	34.04	40.30	47.38
ROE (%)	10.9	12.6	17.5	14.1	14.3
GWP and policy fees growth YoY	20.4%	14.3%	6.5%	6.9%	7.3%
New business value growth YoY	40.3%	1.5%	-0.4%	8.2%	8.2%
NBV margin on FYP	39.4%	43.7%	43.7%	43.7%	43.7%
P&C combined ratio	98.8%	98.1%	98.5%	98.5%	98.5%

Sources: Company data, CMS (HK) estimates

Consolidated Statement of Cash Flows

Year ended 31 Dec (RMB mn)	2017	2018	2019E	2020E	2021E
Net cash from operating activities	86,049	89,449	111,510	118,280	119,318
Net cash from investing activities	(104,209)	(91,748)	(36,523)	(95,556)	(97,549)
Net cash from financing activities	10,629	11,554	(4,627)	(9,298)	(7,408)
Effect of foreign exchange rate changes	(80)	80	-	-	-
Net increase in cash and cash equivalents	(7,611)	9,335	70,359	13,426	14,361
Cash and cash equivalents at end of year	28,786	38,121	108,480	121,907	136,267
Attributable to:					
Cash and short term deposits	11,660	15,323	43,392	48,763	54,507

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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