

Ping An (2318 HK)

3Q22 results in line

In 9M22, Ping An's OPAT grew 3.8% YoY to RMB123bn, translating into 2.8% YoY OPAT growth in 3Q22. Life OPAT growth remained stable at 15% YoY, with VNB decline marginally narrowed to 20% YoY in 3Q22 from the 28.5% YoY decrease in 1H22. P&C OPAT declined 17% YoY in 3Q22 largely due to lower investment return. Ping An Bank's profit growth remained strong at 26% YoY in 3Q22, with NIM edged up to 2.77% in 3Q22 vs 2.76% in 1H22. Bank's asset quality and capital position remained largely stable in 3Q22. Asset management segment OPAT turned positive in 3Q22 from RMB6bn losses, due to impairment in 3Q21. OPAT from technology segment was dragged by RMB1.5bn revaluation losses from Lufax CB, as Lufax's share price plummeted 58% in 3Q22. Core solvency margin of life/P&C arms both improved QoQ despite investment volatilities. Insurance investment exposure to real estate sector narrowed to 4.8% at end-3Q22 from 5.2% at end-1H22. Ping An targets to launch the 2023 jumpstart pre-sale in mid-Nov 2022. We expect enhanced agency productivity and growing demand of savings products will support the jumpstart sales. Reiterate BUY.

- Mr. Yao Bo will remain as co-CEO of Ping An Group.** On 25 Oct, Ping An announced that Mr. Yao would hand over his CFO responsibility to Ms. Zhang Zhichun. In 3Q22 analyst briefing, Mr. Yao clarified that he would retain his position as the co-CEO of Ping An Group, and Ms. Zhang, the new CFO, would report to him going forward. Albeit the top management change, we expect that the management stability will be maintained within the Group.
- Life agency scale further slid in 3Q22 due to COVID headwinds, but quality improved.** Although total agent headcount declined 6% QoQ in 3Q22 to 488k, agent productivity increased over 22% YoY in 9M22. And the number of high quality new recruits, "Talent+" agents, grew 120% YoY in 9M22, accounting for 20% of total new agents (vs approx. 7% in 9M21). The channel reform is well on track to expand nationwide by the end of 2022.
- We estimate P&C combined ratio improved YoY in 3Q22.** Ping An P&C's combined ratio edged up 0.6ppt YoY to 97.9% in 9M22, vs a 1.4ppt YoY uptick in 1H22. With a marginal decrease in combined ratio in 3Q22, we estimate that the year-on-year improvement, implying higher efficiency, is possibly due to stabilizing asset quality of credit guarantee insurance.
- Valuation.** Ping An-H is trading at 0.3x P/EV FY23E and 0.6x P/BV FY23E with operating ROE of 20%, at a historical trough valuation. We believe the worst period is over and expect the recovery of new business growth to support the company's future share price performance.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit (RMB mn)	143,099	101,618	100,652	128,729	147,605
EPS (Reported)(RMB)	8.1	5.8	5.5	7.0	8.1
YoY growth (%)	(3.7)	(29.0)	(4.2)	27.9	14.7
Consensus EPS (RMB)	n.a	5.8	6.5	8.1	9.0
VNB/share (RMB)	2.71	2.07	1.61	1.85	2.05
Group embedded value / share (RMB)	72.7	76.3	82.0	91.4	101.7
Combined ratio (%)	99.1	98.0	98.0	98.0	98.0
P/B (x)	0.7	0.7	0.6	0.6	0.5
P/Embedded value (x)	0.4	0.4	0.4	0.3	0.3
Dividend yield (%)	7.4	8.0	7.2	9.2	10.6
ROE (%)	19.9	12.9	11.9	14.1	14.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$75.55
(Previous TP)	HK\$75.55)
Up/Downside	125.5%
Current Price	HK\$33.50

China Insurance

Gigi CHEN, CFA

(852) 3916 3739

gigichen@cmbi.com.hk

Nika MA

(852) 3900 0805

nikama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	249,508.0
Avg 3 mths t/o (HK\$ mn)	42.7
52w High/Low (HK\$)	69.30/32.75
Total Issued Shares (mn)	7448.0

Source: FactSet

Shareholding Structure

Charoen Pokphand Group	6.8%
Shenzhen Investment Holdings	5.3%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-19.4%	-6.0%
3-mth	-31.4%	-6.3%
6-mth	-32.1%	-11.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

Recent Reports:

- China Insurance Sector – FY21 results preview ([link](#))
- China Insurance – P&C growth rebound; Life slow momentum into 1Q22; Prefer P&C over life insurance in 1H22 ([link](#))
- Ping An – Agency reform well on track – Mar 21, 2022 ([link](#))
- Ping An – Stabilizing agency scale – Apr 29, 2022 ([link](#))
- Ping An – Channel reform is close to the finish line – Aug 25, 2022 ([link](#))

Company Overview

Figure 1. Ping An: 3Q22 results at a glance

(RMBmn)	9M21	9M22	YoY chg	3Q21	3Q22	YoY chg	1H21	1H22	YoY chg
Net profit attribute to shareholders	81,638	76,463	-6.3%	23,633	16,190	-31.5%	58,005	60,273	3.9%
OPAT attribute to shareholders	118,737	123,287	3.8%	36,901	37,947	2.8%	81,836	85,340	4.3%
Life insurance	72,701	85,056	17.0%	23,206	26,658	14.9%	49,495	58,398	18.0%
P&C insurance	13,221	10,405	-21.3%	2,480	2,062	-16.9%	10,741	8,343	-22.3%
Bank	16,887	21,247	25.8%	6,696	8,445	26.1%	10,191	12,802	25.6%
AMC	1,869	5,582	198.7%	(6,139)	1,182	-119.3%	8,008	4,400	-45.1%
Technology	7,437	5,656	-23.9%	1,201	747	-37.8%	6,236	4,909	-21.3%
Others	(3,378)	(4,659)	37.9%	(543)	(1,147)	111.2%	(2,835)	(3,512)	23.9%
	118,737	123,287	3.8%	36,901	37,947	2.8%	81,836	85,340	4.3%
Operating ROE	20.3	19.9	(0.4) ppt						
Net investment yield (%)	4.2	4.2	-						
Total investment yield (%)	3.7	2.7	(1.0) ppt						
# of individual customers (mn)	225.3	228.0	1%	-	-				
Avg. # of contracts per customer (mn)	3.20	2.96	-8%						
# of cross-selling customers (mn)	87.7	91.2	4%	-	-				
% of cross-selling customers	39.0	40.0	1.0ppt						

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2. Ping An Life – 3Q22 results

(RMBmn)	9M21	9M22	YoY chg	3Q21	3Q22	YoY chg	1H21	1H22	YoY chg
VNB	35,237	25,848	-26.6%	7,850	6,275	-20.1%	27,387	19,573	-28.5%
FYP	114,749	100,001	-12.9%	27,108	23,869	-11.9%	87,641	76,132	-13.1%
VNB margin (FYP)	30.7%	25.8%	(4.9) ppt	29.0%	26.3%	(2.7) ppt	31.2%	25.7%	(5.5) ppt
VNB margin (FYP APE)	0.0%	0.0%	-						
# of agents (mn)	0.71	0.49	-31%	0.71	0.49	-31%	0.88	0.52	-41%
Net investment yield (%)	4.2	4.2	-						
Total investment yield (%)	3.7	2.7	(1.0) ppt						
Total investment income	103,564	n.a	37,510						
Agent productivity (FYP/month/agent)	14,739	20,415	39%	11,409	15,798	38%	15,363	22,670	48%

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3. Ping An P&C – 3Q22 results

(RMBmn)	9M21	9M22	YoY chg	3Q21	3Q22	YoY chg	1H21	1H22	YoY chg
Combined ratio (%)	97.3	97.9	0.6 ppt	-	-	-	95.9	97.3	1.4ppt
Premium income	199,343	222,024	11%	66,030	75,232	14%	133,313	146,792	10%
Auto	135,468	145,692	8%	46,453	50,190	8%	89,015	95,502	7%
Non-auto	63,875	76,332	20%	19,577	25,042	28%	44,298	51,290	16%

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4. Ping An Bank – 3Q22 results

(RMBmn)	9M21	9M22	YoY chg	3Q21	3Q22	YoY chg	1H21	1H22	YoY chg
NIM	2.81	2.77	(0.04) ppt				2.83	2.76	(0.07) ppt
Cost to Income ratio	27.8	26.4	(1.4) ppt						
NPL ratio	1.05	1.03	(0.02) ppt	1.05	1.03	(0.02) ppt	1.08	1.02	(0.06) ppt
Special mention ratio	1.37	1.49	0.12 ppt	1.37	1.49	0.12 ppt	0.96	1.32	0.36 ppt
Broad NPL ratio	2.42	2.52	0.10 ppt	2.42	2.52	0.10 ppt	2.04	2.34	0.30 ppt
Credit cost (annualized)	-	-	-						
Provision coverage ratio	268.4	290.3	21.9 ppt	268.4	290.3	21.9 ppt	259.5	290.1	30.5 ppt
60 days overdue coverage ratio	330.5	326.4	(4.1) ppt	330.5	326.4	(4.1) ppt	306.1	327.2	21.1 ppt
Core T1 (>7.5%)	8.56	8.81	0.25 ppt	8.56	8.81	0.25 ppt	8.49	8.53	0.04 ppt
T1 (>8.5%)	10.58	10.65	0.07 ppt	10.58	10.65	0.07 ppt	10.58	10.39	(0.19) ppt
Capital adequacy ratio (>10.5%)	12.55	13.33	0.78 ppt	12.55	13.33	0.78 ppt	12.58	13.09	0.51 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Total income	1,273,091	1,321,418	1,287,675	1,250,273	1,349,089	1,432,406
Premiums written (gross)	795,064	797,880	760,843	758,964	789,764	830,422
Premiums earned (net)	748,779	757,599	739,933	734,528	764,237	803,491
Investment income	201,738	225,046	203,513	161,850	199,893	209,810
Realized gains (losses)	238,993	257,109	270,871	283,198	310,434	340,390
Other operating income	83,581	81,664	73,358	70,698	74,525	78,716
Losses	(1,088,352)	(1,133,654)	(1,148,095)	(1,086,440)	(1,150,098)	(1,209,373)
Selling	(578,313)	(614,751)	(618,662)	(581,996)	(597,648)	(607,176)
Other selling	(177,164)	(181,166)	(177,061)	(167,901)	(181,841)	(200,025)
Underwriting & commissions	(125,336)	(114,237)	(90,651)	(109,316)	(113,686)	(119,479)
Other operating expense	(207,539)	(223,500)	(261,721)	(227,227)	(256,923)	(282,693)
Operating income before interest expense	184,739	187,764	139,580	163,833	198,991	223,034
Pretax income	184,739	187,764	139,580	163,833	198,991	223,034
Income taxes	(20,374)	(28,405)	(17,778)	(37,651)	(42,483)	(43,928)
Consolidated net income	164,365	159,359	121,802	126,182	156,508	179,106
Minority interest	(14,958)	(16,260)	(20,184)	(25,531)	(27,779)	(31,501)
Net income	149,407	143,099	101,618	100,652	128,729	147,605
Net income available to common	149,407	143,099	101,618	100,652	128,729	147,605

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	508,706	587,391	584,995	637,102	695,261	759,797
Investments	204,135	267,819	284,061	312,467	343,714	378,085
Total fixed income securities investment	3,496,829	4,133,300	4,253,940	4,468,077	4,693,411	4,922,575
Total equity securities investment	721,602	795,812	878,204	922,412	968,931	1,016,240
Real estate assets	86,819	89,671	135,799	142,618	149,788	157,166
Mortgage	18,957	37,661	30,957	30,957	30,957	30,957
Other investments	2,240,396	2,599,510	2,980,975	3,428,121	3,942,339	4,533,690
Premium balance receivables	146,250	167,281	142,688	160,907	181,699	205,442
Net property	259,272	292,738	320,954	337,110	354,112	371,402
Deferred tax assets	50,301	61,901	65,360	68,628	72,059	75,662
Intangible assets	63,333	64,290	68,462	75,308	82,839	91,123
Other assets	426,329	430,496	395,631	454,976	523,222	601,705
Total assets	8,222,929	9,527,870	10,142,026	11,038,683	12,038,331	13,143,845
Liabilities & shareholders' equity						
Insurance policy liabilities						
Insurance reserves	1,718,201	1,994,341	2,252,472	2,481,387	2,708,693	2,929,813
Unearned premiums	158,680	177,041	170,420	160,462	149,654	137,889
Policy claims	98,147	109,943	118,926	130,819	143,900	158,291
Other insurance liabilities	690,277	754,453	788,220	754,261	797,934	846,046
ST debt & curr. portion LT debt	3,456,788	3,979,189	3,962,221	4,454,861	5,009,953	5,635,503
Deferred tax liabilities	22,282	19,267	13,605	14,285	15,000	15,749
Other liabilities	1,221,816	1,501,468	1,754,284	1,874,185	1,939,041	2,025,510
Total liabilities	7,370,559	8,539,965	9,064,303	9,875,038	10,769,671	11,755,120
Common stock/ordinary capital	18,280	18,280	18,280	18,280	18,280	18,280
Retained earnings	433,971	522,004	569,834	630,225	707,463	796,026
Equity reserves	220,910	222,276	224,291	224,291	224,291	224,291
Total shareholders' equity	673,161	762,560	812,405	872,796	950,034	1,038,597
Minority interest	179,209	225,345	265,318	290,849	318,627	350,129
Total equity	852,370	987,905	1,077,723	1,163,645	1,268,661	1,388,725
Total liabilities & shareholders' equity	8,222,929	9,527,870	10,142,026	11,038,683	12,038,331	13,143,845

PER SHARE DATA	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
DPS	2.10	2.27	2.44	2.20	2.82	3.23
EPS (Reported)	8.41	8.10	5.75	5.51	7.04	8.07
Group embedded value/share (HK\$)	65.67	72.65	76.34	82.04	91.36	101.69
VNB/share (HK\$)	4.15	2.71	2.07	1.61	1.85	2.05
No. of shares basic	18,280	18,280	18,280	18,280	18,280	18,280
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Return on equity (ROE)	24.3%	19.9%	12.9%	11.9%	14.1%	14.8%
Return on asset (ROA)	1.9%	1.6%	1.0%	1.0%	1.1%	1.2%
Return on life embedded Value	76.6%	(7.4%)	(37.2%)	(35.3%)	51.9%	25.8%
VNB margin (FYP APE basis)	56.0%	47.6%	37.2%	31.0%	33.0%	34.0%
Combined ratio	96.4%	99.2%	98.0%	98.0%	98.0%	98.0%
Loss ratio	57.3%	60.5%	67.1%	67.1%	67.1%	67.1%
Expense ratio	39.1%	38.6%	30.9%	30.9%	30.9%	30.9%
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	9.3	9.2	10.8	5.7	4.4	3.9
P/B	2.1	1.8	1.4	0.7	0.6	0.5
Div yield (%)	2.7	3.0	3.9	7.1	9.0	10.4
Div payout (%)	25.0	28.0	42.5	40.0	40.0	40.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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