

CPIC (2601 HK)

VNB growth turned positive in 3Q22

CPIC delivered 2.5% VNB growth YoY in 3Q22 (vs. 45.3% YoY decline in 1H22, as the insurer proactively upgraded its agency model. The momentum of both agency first-year premiums (FYP) and agency first-year regular premiums (FYRP) turned positive to 24.7% YoY and 37.5% YoY respectively in 3Q22, given enhanced agency productivity and stabilizing scale of high productivity agents. On P&C front, combined ratio decreased 1.9ppt YoY to 97.8% in 9M22 (vs. 97.9% of Ping An and 96.5% of PICC P&C), translating into approx. 1.5ppt YoY improvement in 3Q22. Group net profit increased 30% YoY in 3Q22, outperforming listed peers, thanks to the turnaround in life new business momentum and stable investment yields. Looking forward, we expect the recovery of life new business momentum to sustain in 4Q22 and 2023. We believe the recovery of life new business momentum may support valuation. Reiterate BUY on CPIC-H.

- VNB momentum turned positive in 3Q22, as the agency FYP turned positive.** 3Q22 VNB growth turned positive to 2.5% YoY, narrowing the accumulative VNB decline to 37.8% YoY in 9M22 from 45.3% YoY in 1H22. Agency FYP and FYRP grew 25%/38% YoY in 3Q22, up from the 35%/35% YoY decreases in 1H22 and 9%/6% YoY drop in 2Q22. Bancassurance and group FYP growth remained strong in 3Q22. The 13-month persistency ratio rebounded to 88.0% in 9M22 (vs 87.8% in 1H22, 80.5% in 9M21), indicating a recovery in business quality. Agency productivity and agency first-year commission both increased on a YoY basis.
- P&C combined ratio improved by 1.9ppt YoY to 97.8%, with 0.6ppt YoY reduction of loss ratio and 1.3ppt YoY decline of expense ratio.** We estimate underwriting margin expanded by around 1.5ppt YoY in 3Q22, likely thanks to 1) less natural catastrophe losses, 2) improved auto insurance profitability on the back of less loss events amid COVID restrictions, 3) more disciplined expense management of non-auto lines. The premiums growth of auto and non-auto segment stood at 7.6% YoY and 20.7% YoY respectively in 3Q22, both outperforming industry average.
- Valuation.** CPIC-H is trading at 0.2x P/EV FY23E and 0.4x P/BV FY23E, at a historical trough valuation. We believe the downside is limited, and expect the recovery of new business momentum will sustain into 4Q22 and 2023. We think the sequential improvement in VNB growth will support share price performance. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit (RMB mn)	24,584	26,834	22,741	27,284	33,150
EPS (Reported)(RMB)	2.63	2.79	2.36	2.84	3.45
YoY growth (%)	(14.1)	6.1	(15.3)	20.0	21.5
Consensus (RMB)	n.a	2.79	2.49	2.99	3.46
Combined ratio (%)	99.0	99.0	99.0	99.0	99.0
P/B (x)	0.5	0.5	0.5	0.4	0.4
P/Embedded value (x)	0.2	0.2	0.2	0.2	0.2
Dividend yield (%)	11.5	8.8	7.5	9.0	10.9
ROE (%)	12.5	12.1	9.9	11.3	12.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$25.19
(Previous TP)	HK\$25.19)
Up/Downside	105.1%
Current Price	HK\$12.28

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Stock Data

Mkt Cap (HK\$ mn)	34,077.0
Avg 3 mths t/o (HK\$ mn)	15.3
52w High/Low (HK\$)	25.50/12.20
Total Issued Shares (mn)	2775.0

Source: FactSet

Shareholding Structure

China Baowu Steel Group	14.1%
Shenergy (Group)	13.8%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-14.1%	-0.3%
3-mth	-28.1%	-0.2%
6-mth	-28.9%	-3.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PwC

Related Reports:

- CPIC (2601 HK) - Re-energizing agency force ([link](#))
- CPIC (2601 HK) - VNB growth turned positive in June ([link](#))

Company Overview

CPIC: 3Q22 results at a glance

(RMBmn)	9M21	9M22	YoY chg	3Q21	3Q22	YoY chg	1H21	1H22	YoY chg
Net profit attribute to shareholders	22,686	20,272	-10.6%	5,382	6,971	29.5%	17,304	13,301	-23.1%
Net investment yield (%)	4.3	4.1	(0.2) ppt				4.1	3.9	(0.2) ppt
Total investment yield (%)	5.3	4.1	(1.2) ppt				5.0	3.9	(1.1) ppt
Total investment assets	1,772,297	1,962,865	10.8%	1,772,297	1,962,865	10.8%	1,752,116	1,941,167	10.8%
Total investment income	69,528	58,152	-16.4%	20,188	19,602	-2.9%	49,340	38,550	-21.9%
CPIC Life:									
VNB	12,135	7,548	-37.8%	1,904	1,952	2.5%	10,231	5,596	-45.3%
Agency FYP	26,505	19,665	-25.8%	3,918	4,885	24.7%	22,587	14,780	-34.6%
Agency FYRP	22,757	17,087	-24.9%	3,046	4,187	37.5%	19,711	12,900	-34.6%
CPIC P&C:									
Premium income	118,994	133,885	12.5%	37,433	42,314	13.0%	81,561	91,571	12.3%
Auto	66,522	71,708	7.8%	21,880	23,539	7.6%	44,642	48,169	7.9%
Non-auto	52,472	62,177	18.5%	15,553	18,775	20.7%	36,919	43,402	17.6%

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Total income	382,682	418,964	436,331	422,576	446,700	471,515
Premiums written (gross)	347,517	362,064	366,782	383,545	397,652	418,838
Premiums earned (net)	313,246	331,639	339,535	353,899	365,778	384,346
Investment income	65,730	82,740	91,643	63,306	75,371	81,336
Other operating income	3,706	4,585	5,153	5,371	5,551	5,833
Losses	(355,210)	(390,238)	(406,334)	(397,317)	(416,269)	(434,395)
Selling	(38,021)	0	0	0	0	0
Underwriting & commissions	(46,853)	0	0	0	0	0
Other operating expense	(363,903)	(93,479)	(80,473)	(83,071)	(85,203)	(89,383)
Operating income before interest expense	30,477	32,070	34,004	29,772	35,304	42,383
Interest expense	(3,005)	(3,344)	(4,007)	(4,512)	(4,873)	(5,263)
Operating income after interest expense	27,966	29,238	30,796	26,098	31,312	38,045
Pretax income	27,966	29,238	30,796	26,098	31,312	38,045
Income taxes	388	(3,886)	(3,178)	(2,693)	(3,231)	(3,926)
Minority interest	613	768	784	664	797	969
Net income	28,354	25,352	27,618	23,405	28,081	34,119
Net income available to common	27,741	24,584	26,834	22,741	27,284	33,150

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	14,872	20,878	32,545	0	0	0
Investments	601,992	685,322	738,116	0	0	0
Total fixed income securities investment	773,674	909,358	1,006,651	0	0	0
Total equity securities investment	20,442	24,443	26,984	0	0	0
Real estate assets	27,648	27,159	27,656	8,567	8,542	8,508
Other investments	0	0	0	0	0	0
Premium balance receivables	42,749	50,435	57,321	0	0	0
Deferred tax assets	860	845	1,998	0	0	0
Intangible assets	1,357	1,357	1,372	1,372	1,372	1,372
Goodwill	2,972	3,323	3,479	0	0	0
Other assets	36,957	47,884	50,042	0	0	0
Total assets	1,528,333	1,771,004	1,946,164	2,126,372	2,295,723	2,471,956
Liabilities & shareholders' equity						
Insurance policy liabilities						
ST debt & curr. portion LT debt	85,564	97,117	112,838	121,060	129,939	139,529
Long-term debt	3,668	3,430	3,105	3,105	3,105	3,105
Deferred tax liabilities	2,911	5,055	3,601	na	0	0
Other liabilities	184,849	219,391	208,882	220,928	235,432	252,936
Total liabilities	1,345,013	1,550,169	1,713,759	1,888,227	2,034,133	2,182,244
Total common equity						
Common stock/ordinary capital	9,062	9,620	9,620	9,620	9,620	9,620
Retained earnings	70,602	81,533	93,169	110,442	133,035	160,130
Equity reserves	98,763	124,071	123,952	110,474	110,474	110,474
Total shareholders' equity	178,427	215,224	226,741	230,536	253,129	280,224
Minority interest	4,893	5,611	5,664	7,609	8,461	9,487
Total equity	183,320	220,835	232,405	238,146	261,589	289,712
Total liabilities & shareholders' equity	1,528,333	1,771,004	1,946,164	2,126,372	2,295,723	2,471,956

PER SHARE DATA	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
DPS	1.20	1.30	1.00	0.85	1.02	1.24
EPS (Reported)	3.06	2.63	2.79	2.36	2.84	3.45
Diluted EPS	3.06	2.63	2.79	2.36	2.84	3.45
Group embedded value/share (HK\$)	43.70	47.75	51.80	56.00	61.88	68.44
No. of shares basic	9,062	9,620	9,620	9,620	9,620	9,620
No. of shares diluted	9,062	9,353	9,620	9,620	9,620	9,620
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Return on equity (ROE)	16.9%	12.5%	12.1%	9.9%	11.3%	12.4%
Return on asset (ROA)	1.9%	1.5%	1.4%	1.1%	1.2%	1.4%
Return on life embedded Value	16.3%	14.8%	8.1%	7.8%	10.0%	10.1%
VNB margin (FYP APE basis)	73.1%	77.9%	53.2%	45.7%	45.6%	45.0%
Combined ratio	98.3%	99.0%	99.0%	99.0%	99.0%	99.0%
Loss ratio	60.2%	61.4%	69.6%	69.6%	69.6%	69.6%
Expense ratio	38.1%	37.6%	29.4%	29.4%	29.4%	29.4%
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	8.7	8.4	8.1	4.8	4.0	3.3
P/B	1.4	1.0	1.0	0.5	0.4	0.4
Div yield (%)	4.5	5.9	4.4	7.5	9.0	10.9
Div payout (%)	39.2	49.5	35.9	35.9	35.9	35.9

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

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