

Prudential Plc. (2378 HK)

NBP beat driven by better 2H margin; expect FY24 DPS to continue growing by 7%-9%

Prudential reported strong FY23 results with new business profit (NBP) jumping by 45% YoY (CER) to US\$3.13bn, beating consensus by 6.4%, thanks to +3ppt NBP margin expansion to 53% in full year. The Group's NBP margin (NBM) sequentially improved in 2H23 to 57% from 49% in 1H23, driven by a trend of margin recovery in 2H in almost all key markets, except the mainland JV CPL, whose NBP fell by 70% YoY in 2H23, adversely affected by tanked bancassurance sales and unfavourable economic sentiment that dragged down demand for protections. Hong Kong sustained strong momentum into 4Q23 with NBP up by 3.3x YoY in 2H23, reflecting its market-first position for mainland Chinese visitors (MCVs). On par with the Group's 5-year growth strategy through 2027, the strong NBP figure fuelled a swing in IFRS profit after-tax to US\$1.7bn in FY23, vs a US\$1.0bn loss in FY22. To highlight, the board approved full-year dividend of US\$0.2 per share, implying a 9% increase over FY22, and guided continued DPS growth by 7%-9% in FY24. Looking ahead, we are positive on the insurer's continued capex on new business growth, improved H&P (Health & Protections) focus, and balance b/w capital allocation and shareholders' return. The trading liquidity in HK and China macro exposure might have suppressed the stock price; yet in the long term, we believe the company's fundamentals should stay intact. Maintain BUY with TP adjusted to HK\$137.8 to reflect mark-to-market discount rates and EEV sensitivity.

■ **Strong NBP by market and distribution channel.** Agency NBP saw a significant increase by +75% YoY to US\$2.1bn, driven by 1) 37% YoY NBP growth from H&P, and 2) a 59% increase in active agent productivity, measured by avg. monthly NBP per agent. The bancassurance slid by 8% to US\$793mn, dragged by worsened performance in China and Vietnam. The NBP of CITIC Prudential Life (CPL), the China JV, dropped by 43% YoY to US\$222mn in FY23 under joint effects of a 40% YoY APE sales decline and 2ppt margin contraction. Excluding the effects of interest rate and economic movement, NBM would rise by 6ppt YoY, pulled by +2ppt growth in agency and +8ppt uptick in bancassurance, as a result of product re-pricing and a more balanced product proposition under an industry-wide re-rating of premium rates in 2H23.

■ **Expect US\$1bn capital deployment in FY24E.** Despite a 33% increase in investment to new business, the Group maintained solid capital flexibility and a with-target total leverage ratio at 20%. The IFRS adjusted operating profit grew by 8% YoY (CER) to US\$2.9bn due to lower central costs (-23%) and restructuring costs (-31%), and a profit increase of Eastspring by 10.4% YoY. The operating free surplus generation from in-force insurance and AM flattened at US\$2.7bn as negative changes in operating assumptions and experience variances enlarged. The Group proposed to deploy US\$1bn on distribution for organic growth by reinforcing technology infrastructure and optimizing H&P mix.

■ **Valuation:** The stock is now trading at FY24E 0.54x P/EV, near the historical trough, reflecting ongoing concerns surrounding the China exposure and lack of trading liquidity for shares listed in HK. By including mark-to-market risk discount rates and the EEV sensitivity to Group in-force insurance business, we moderately adjust our price target to HK\$137.8, implying FY24E 0.94x P/EV.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (US\$ mn)	(997)	1,712	2,152	2,452	2,805
EPS, reported (US\$)	(0.37)	0.62	0.78	0.89	1.02
Consensus EPS (US\$)	n.a	n.a	0.79	0.89	1.04
Group EEV / share (US\$)	15.34	16.43	17.93	19.68	21.75
P/Embedded value (x)	0.6	0.6	0.5	0.5	0.4
Dividend yield (%)	1.5	1.6	2.3	2.5	2.7
ROE (%)	(5.6)	9.8	11.5	12.0	12.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$137.8
 (Previous TP) HK\$143.00
Up/Downside 81.9%
Current Price HK\$75.75

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Stock Data

Mkt Cap (HK\$ mn) 208,579.2
 Avg 3 mths t/o (HK\$ mn) 7.8
 52w High/Low (HK\$) 118.60/75.00
 Total Issued Shares (mn) 2753.5

Source: FactSet

Shareholding Structure

BlackRock Inc 8.1%
 Vanguard Group Inc 6.7%

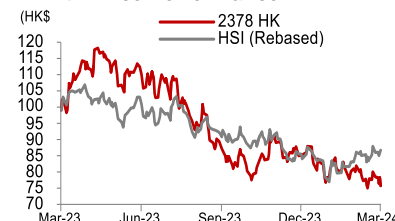
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-5.4%	-7.4%
3-mth	-11.0%	-12.3%
6-mth	-13.1%	-9.0%

Source: FactSet

12-mth Price Performance

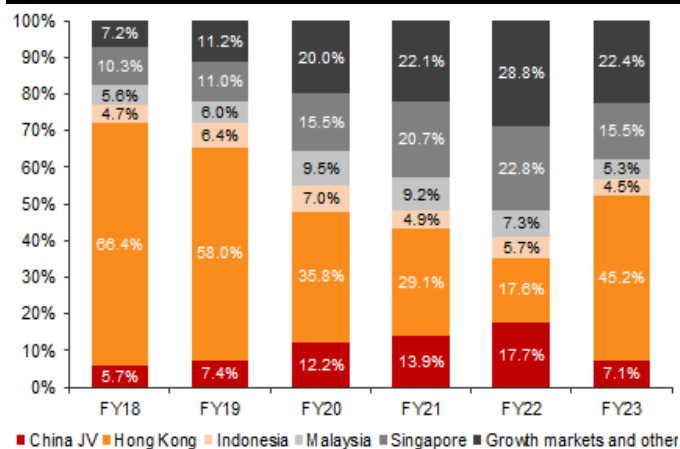


Source: FactSet

Auditor: KPMG

Focus Charts

Figure 1: NBP breakdown by geographies



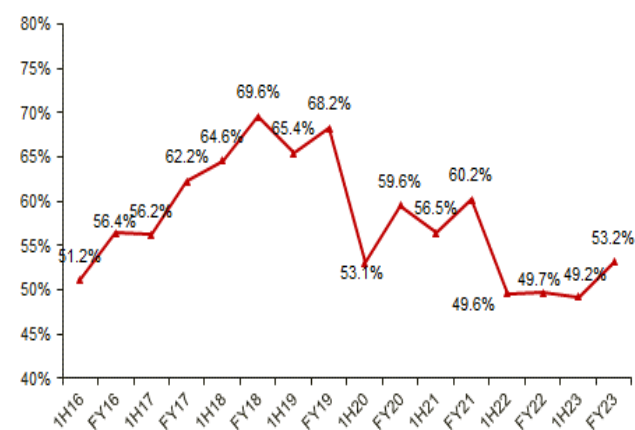
Source: Company data, CMBIGM

Figure 2: Group NBP & YoY, semi-annually



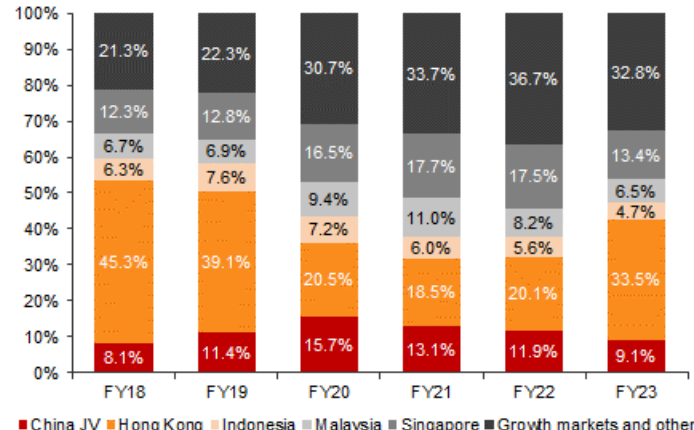
Source: Company data, CMBIGM

Figure 3: Group NBP margin, semi-annually



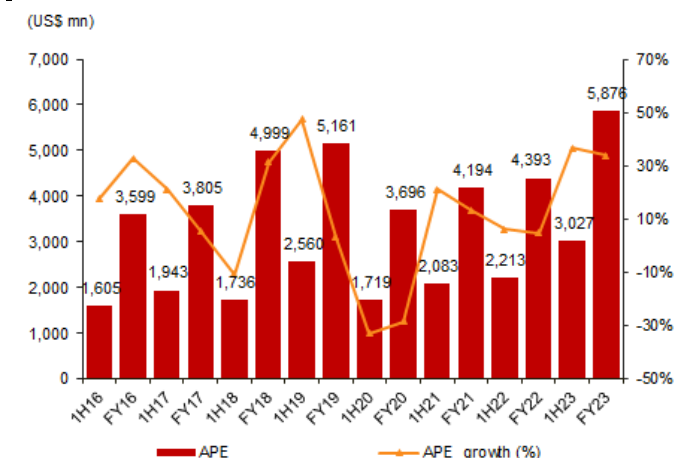
Source: Company data, CMBIGM

Figure 4: APE breakdown by geography



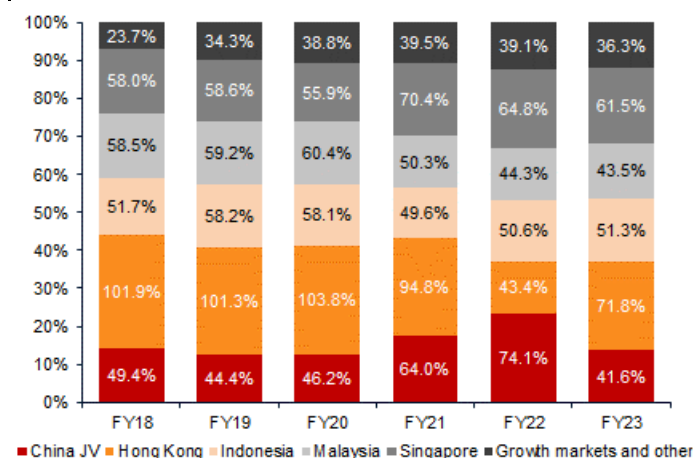
Source: Company data, CMBIGM

Figure 5: Group APE & YoY, semi-annually



Source: Company data, CMBIGM

Figure 6: NBP margin breakdown by market



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Insurance revenue		8,549	9,371	9,890	10,334	10,825
Contracts not measured under PAA:		8,549	9,371	9,890	10,334	10,825
Insurance service expenses		(6,267)	(7,113)	(7,159)	(7,423)	(7,700)
Contracts not measured under PAA:		(6,267)	(7,113)	(7,159)	(7,423)	(7,700)
Net expenses from reinsurance contracts held		(105)	(171)	(174)	(178)	(181)
Insurance service results		2,177	2,087	2,557	2,732	2,943
Net finance (expenses)/income from insurance contracts		28,623	(8,839)	(9,175)	(9,524)	(9,885)
Net finance (expenses)/income from reinsurance contracts		(1,193)	191	201	205	209
Interest income		237	340	357	375	394
Net investment income		(29,617)	9,423	9,894	10,389	10,908
Other gains/(losses) from changes in fair value		67	(24)	26	(11)	(48)
Net investment results		(1,883)	1,091	1,303	1,433	1,577
Other income		436	369	376	384	392
Other expenses		(1,019)	(990)	(1,010)	(1,030)	(1,051)
Other results		(728)	(815)	(1,077)	(1,006)	(917)
Profit before tax		(519)	2,272	2,690	3,065	3,507
Income taxes		(478)	(560)	(538)	(613)	(701)
Net profit		(997)	1,712	2,152	2,452	2,805
Net profit attributable to shareholders		(1,007)	1,701	2,138	2,436	2,787

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
ASSETS						
Intangible assets		3,884	3,986	4,066	4,147	4,230
Investments in associates and joint ventures		2,259	1,940	2,071	2,214	2,367
Property		437	374	383	393	403
Investment property		37	39	42	45	48
Insurance contract assets		1,134	1,180	1,260	1,346	1,440
Reinsurance contract assets		1,856	2,426	2,590	2,768	2,961
Financial investments:		144,425	157,999	169,059	180,893	193,556
Loans and advances to customers		590	578	617	660	705
Fixed maturity investments		77,016	83,064	88,694	94,779	101,366
Equity investments		57,679	64,753	69,142	73,886	79,020
Derivative financial assets		569	1,855	1,981	2,117	2,264
Other assets		2,999	3,350	3,784	4,257	4,776
Cash and cash equivalents		11,789	10,521	11,234	12,005	12,839
Total assets		160,249	174,066	185,865	198,616	212,418
LIABILITIES						
Insurance contract liabilities		126,242	139,840	149,629	160,103	171,310
Investment contract liabilities		663	769	823	880	942
Borrowings		5,076	4,874	4,953	5,033	5,115
Other liabilities		10,195	9,449	9,685	9,927	10,176
Total liabilities		143,351	156,083	166,323	177,263	188,954
EQUITIES						
Total shareholders' equity		16,731	17,823	19,382	21,193	23,304
Non-controlling interests		167	160	160	160	160
Total equity		16,898	17,983	19,542	21,353	23,464
Total liabilities & equity		160,249	174,066	185,865	198,616	212,418

PER SHARE DATA						
	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS (US\$)		0.19	0.20	0.22	0.24	0.26
EPS (Reported) (US\$)		(0.37)	0.62	0.78	0.89	1.02
Diluted EPS (US\$)		(0.37)	0.62	0.78	0.89	1.02
Consensus EPS (US\$)		n.a	n.a	0.79	0.89	1.04
Group embedded value/share (HK\$)		15.34	16.43	17.93	19.68	21.75
VNB/share (US\$)		0.79	1.13	1.13	1.30	1.47
No. of shares basic		2,750	2,754	2,759	2,764	2,769
No. of shares diluted		2,749	2,753	2,743	2,748	2,753
PROFITABILITY						
	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Return on equity (ROE)		(5.6%)	9.8%	11.5%	12.0%	12.5%
Return on asset (ROA)		(0.6%)	1.0%	1.2%	1.3%	1.4%
Return on EEV		(2.2%)	3.9%	4.5%	4.7%	4.9%
NBP margin (ANP basis)		49.7%	53.2%	47.4%	49.0%	49.9%
VALUATION						
	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)		0.6	0.6	0.5	0.5	0.4
P/B		2.1	2.0	1.4	1.3	1.2
Dividend yield (%)		1.5	1.6	2.3	2.5	2.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: financial figures restated in FY23 under the adoption of IFRS 9 and IFRS 17. FY21 data not presented as part of them not disclosed by the company.

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