

# PICC P&C (2328 HK)

## Non-auto CoR better than expected; sustain 40%+ payout in next two years

PICC P&C reported solid underwriting combined ratio (CoR) at 97.8%, 0.3pct lower than our estimate (98.1%), primarily driven by better-than-expected non-auto CoR at 99.1%, 0.7pct lower than our forecast (99.8%, [link](#)). Within the non-auto segment, both individual and corporate businesses implied optimized CoR by -4.3pct and -3.4pct, respectively. We regard this a result of proactive mgt. of the P&C forerunner to refocus on businesses of high underwriting profits to compensate for the RMB 13.3bn net loss from natural catastrophes in 3Q23. The auto CoR was 96.9%, same to our forecast, which met the guidance of lower than 97%. Looking ahead, with a benign competitive landscape and economic recovery, we expect a lift on auto comprehensive loss ratio and a contracted comprehensive expense ratio at 70.6%/26.1% in FY24E, +0.2pct/-0.4%pct than that of FY23 ([Fig. 2](#)). Maintain BUY, with new TP (TTM) at HK\$11.9 implying 1.0x FY24E P/B.

■ **Auto in-line; non-auto outperformed by individual A&H.** Auto premiums grew by 5.3% YoY to RMB285.6bn raising the insurance revenue by 5.3% YoY to RMB282.1bn, representing a conversion rate at 98.8%. Despite severe natural catastrophes in 3Q23, the insurer still met the year-beg. guidance on auto CoR (97%), to land at 96.9%, +2.4pct YoY given the comprehensive loss +2.1pct YoY to 70.4% and comprehensive expense +0.3pct YoY to 26.5%. This matched with our Feb preview ([link](#)), as we expected the auto expense ratio to drop in 2H (-1.0pct), esp. in 4Q23 under tightened regulations. Given the long-run auto premium growth driven by new electric vehicles (NEVs), we expect the NEV profitability turnaround, namely NEV CoR <100%, will unleash a new round of momentum, whereas now NEV commercial CoR is 7pct higher than that of fuel vehicles. We adjust our long-run auto premium growth to 5%. On non-auto front, individual A&H achieved RMB1.0bn underwriting profits in first year given the CoR -2.8pct to 97.7%. The line composed of 18% of total premiums and 25% of non-auto insurance revenue to RMB43.7bn, +23.8% YoY by end 2023 ranking the highest growth among all lines. We expect A&H CoR further contract to <97%, given improved efficiency on expense savings.

■ **Sustain 40%+ promising payout in next two years.** The insurer raised DPS by 2.3% YoY to RMB 0.489 per share by end-2023, implying a resilient payout to 44.2%, for the fifth consecutive year of >40%. The mgt. guided to maintain a robust payout of >40% in next two years. As a P&C forerunner, the insurer enjoys natural advantages on A/L mgt. given shorter durations on liability (~1year) vs longer-dated assets (~5years), and resulted in higher-than-peers total investment yield at 3.5% in 2023. Looking ahead, we expect the FY24E dividend yield to reach 5.7%, underpinned by a 12.3% FY24E ROE.

■ **Maintain BUY.** The stock is now trading at 0.84x FY24 P/B. We continue to value the stock as a defensive play against macro headwinds amid prolonged low interest rates, and reiterate it as our sector top-pick. We modestly guide down the long-term ROE from 13.0% to 12.8% concerning investment volatilities. The new TP from P/B-ROE is HK\$11.9, implying 1.0x FY24E P/B.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	29,109	24,566	30,045	33,053	36,393
EPS (Reported)(RMB)	1.31	1.11	1.35	1.49	1.64
Consensus EPS (RMB)	n.a	n.a	1.38	1.53	1.62
Combined ratio (%)	96.6	97.8	97.6	97.3	96.9
P/B (x)	1.0	0.9	0.8	0.8	0.7
Dividend yield (%)	5.0	5.1	5.7	6.2	6.9
ROE (%)	13.5	10.8	12.3	12.4	12.6

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>HK\$11.90</b>
(Previous TP)	HK\$11.70
<b>Up/Downside</b>	<b>15.3%</b>
<b>Current Price</b>	<b>HK\$10.32</b>

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### Stock Data

Mkt Cap (HK\$ mn)	229,537.4
Avg 3 mths t/o (HK\$ mn)	280.8
52w High/Low (HK\$)	11.28/7.90
Total Issued Shares (mn)	22242.0

Source: FactSet

### Shareholding Structure

Citigroup Inc.	9.2%
BlackRock, Inc.	5.8%

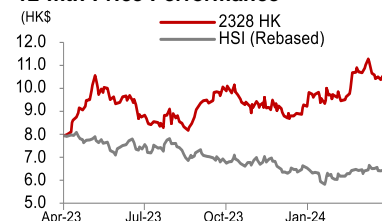
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-4.3%	-4.0%
3-mth	11.2%	14.6%
6-mth	2.6%	10.4%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Auditor: Deloitte

### Recent report:

1. PICC P&C (2328 HK) - Expect FY23E CoR guidance met; underwriting of NEVs and individual A&H to drive new growth Feb 05, 2024 ([link](#))

## Valuation

### P/B-ROE based on Gordon Growth Model

We derive our base case valuation for PICC P&C based on P/B-ROE, with key assumptions of 1) long-term growth by 3%, 2) long-term ROE revised down from 13% to 12.8% due to investment volatilities, 3) cost of equity based on capital asset-pricing model at 9.7%, and 4) 35% underwriting cycle discount for the sake of prudence.

The new target price (TTM) lands at HK\$11.9, mildly up from previous HK\$11.7, given a consideration of timing effects in two years, implying 1.0x FY24E P/B vs 0.84x current P/B.

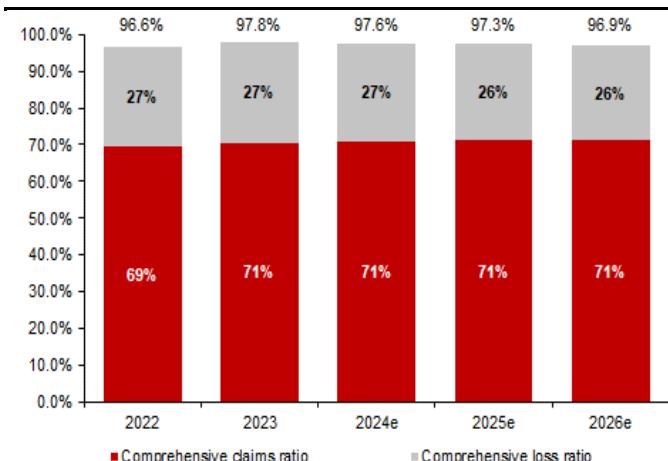
P&C insurance (RMB bn, %)	FY24E	FY25E
<b>Shareholders' equity</b>	<b>251.9</b>	<b>274.0</b>
<b>Fair value P/B (x)</b>	<b>0.95</b>	<b>0.93</b>
Cost of equity	9.7%	9.8%
3-year avg. ROE rolling forward	12.4%	12.5%
Long-term ROE	12.8%	12.8%
Long-term growth	3.0%	3.0%
Underwriting cycle discount	-35%	-35%
<b>Target valuation (RMB mn)</b>	<b>239.4</b>	<b>255.1</b>
Number of shares (mn)	22,242	
RMB/HKD	1.08	
<b>Valuation after volatility discount (HK\$)</b>	<b>11.7</b>	<b>12.4</b>
<b>Price Target (TTM), HK\$</b>	<b>11.9</b>	
<b>P/B (x)</b>	<b>1.0x</b>	<b>0.9x</b>

Source: CMBIGM estimates

**Key risks:** auto insurance premium growth lower than expected; NEVs underwriting profit worsened; non-auto corporate lines CoR lifted with individual lines lowered in capitalization; increased equity market volatilities and prolonged low interest rate amid macro headwinds.

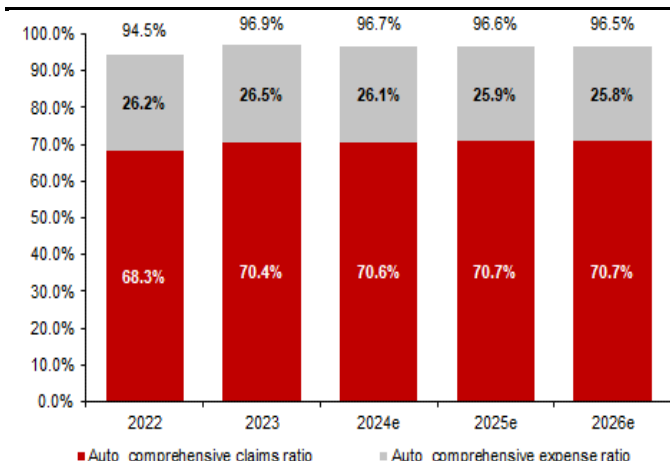
## Focus Charts

**Fig 1: PICC P&C underwriting combined ratio (%)**



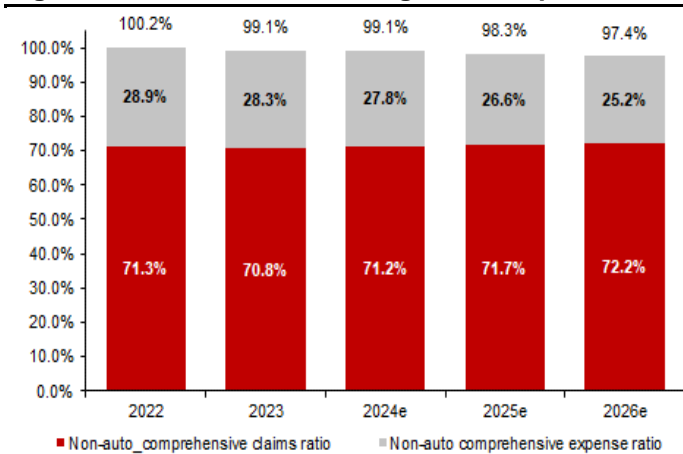
Source: Company data, CMBIGM estimates

**Fig 2: Auto underwriting CoR composition (%)**



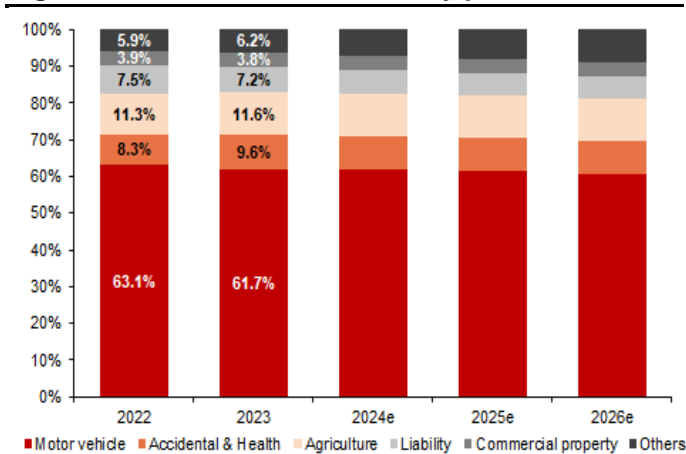
Source: Company data, CMBIGM estimates

**Figure 3: Non-auto underwriting CoR composition %**



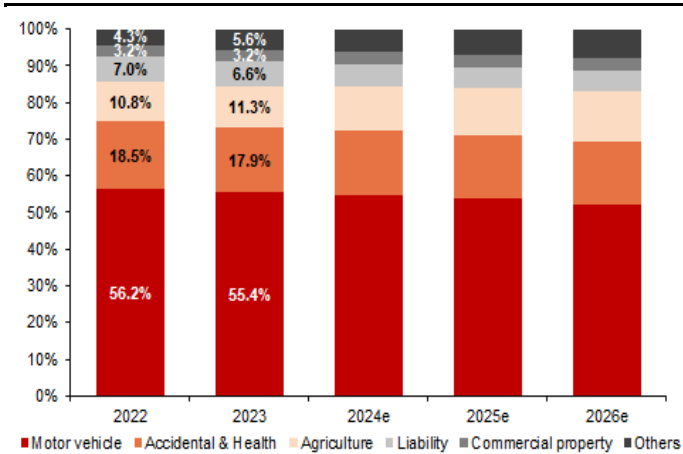
Source: Company data, CMBIGM estimates

**Figure 4: Insurance revenue mix by product lines, %**



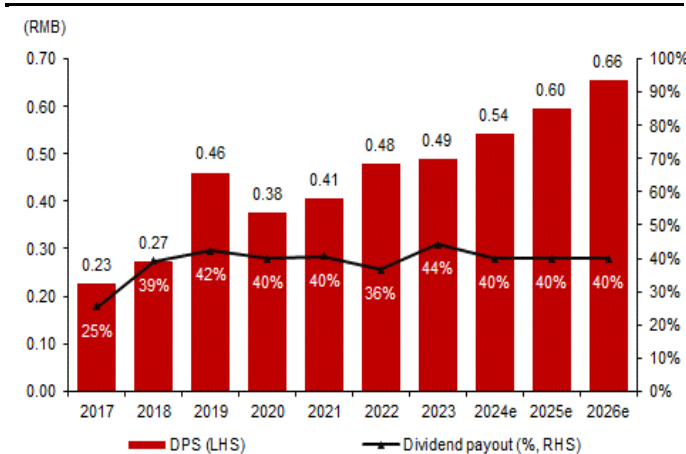
Source: Company data, CMBIGM estimates times

**Figure 5: Premium income mix by product lines, %**



Source: Company data, CMBIGM estimates

**Figure 6: Promising >40% div. payout to sustain**



Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
Insurance revenue		424,355	457,203	480,691	509,853	542,931
Insurance service expenses		(395,965)	(431,991)	(454,095)	(480,327)	(509,928)
Net expenses from reinsurance contracts held		(5,993)	(6,142)	(6,288)	(6,438)	(6,593)
Insurance service results		22,397	19,070	20,307	23,088	26,410
Net finance (expenses)/income from insurance contracts		(9,333)	(10,127)	(10,209)	(10,698)	(11,065)
Net finance (expenses)/income from reinsurance contracts		1,301	1,246	1,315	1,446	1,591
Interest income		20,180	11,710	11,555	12,029	12,606
Net investment income		(3,706)	4,077	7,887	8,338	8,316
Credit impairment losses		(500)	(423)	0	0	0
Net investment results		7,942	6,483	10,547	11,116	11,447
Other income		1,064	195	205	215	230
Other expenses		(1,818)	(2,203)	(2,313)	(2,429)	(2,467)
Foreign exchange gains/losses		759	111	113	115	121
Other results		(1,000)	(3,048)	(3,181)	(3,319)	(3,353)
Profit before tax		34,021	28,035	33,369	36,751	40,481
Income taxes		(4,912)	(3,469)	(3,325)	(3,698)	(4,087)
Net profit		29,109	24,566	30,045	33,053	36,393
Net profit attributable to shareholders		29,164	24,585	30,088	33,100	36,440

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>ASSETS</b>						
Investments in associates and joint ventures	55,731	58,085	62,601	66,177	70,157	73,892
Property	29,669	30,332	29,527	31,003	32,554	34,181
Investment property	5,851	7,440	7,576	7,933	8,331	8,774
Insurance contract assets	442	611	2,885	3,029	3,181	3,340
Reinsurance contract assets	31,600	36,827	38,891	40,836	42,877	45,021
Financial investments:	375,293	405,001	450,381	479,129	508,446	536,912
At amortised cost:	0	113,790	126,192	134,247	142,461	150,437
At fair value through other comprehensive income:	0	154,285	180,142	191,641	203,367	214,753
At fair value through profit or loss:	0	140,730	144,047	153,242	162,618	171,723
Loans and advances to customers	73,574	73,657	57,785	54,147	52,240	53,940
Deferred tax assets	4,749	12,083	10,139	10,646	11,178	11,737
Other assets	24,986	27,176	27,312	28,678	30,111	31,617
Cash and cash equivalents	17,414	21,250	16,526	15,485	14,940	15,426
<b>Total assets</b>	<b>619,309</b>	<b>672,462</b>	<b>703,623</b>	<b>737,062</b>	<b>774,015</b>	<b>814,841</b>
<b>LIABILITIES</b>						
Insurance contract liabilities	317,513	351,254	371,829	375,105	399,906	431,376
Investment contract liabilities	1,748	1,741	1,736	1,823	1,914	2,010
Obligations under repurchase agreements	37,985	41,690	40,037	40,838	41,654	42,488
Current tax liabilities	856	3,446	8	8	9	9
Bonds payable	8,058	8,097	8,365	8,783	9,222	9,684
Lease liabilities	1,786	1,484	1,316	1,382	1,451	1,523
Other liabilities	39,789	43,145	46,007	54,110	42,468	26,019
Liabilities in disposal group held for sale	407,735	450,857	469,319	482,072	496,650	513,136
<b>EQUITIES</b>						
Share capital	22,242	22,242	22,242	22,242	22,242	22,242
Reserves	186,570	196,471	209,178	229,610	251,708	275,749
Retained profits	64,966	79,782	78,496	87,621	108,593	131,657
<b>Total shareholders' equity</b>	<b>208,812</b>	<b>218,713</b>	<b>231,420</b>	<b>251,852</b>	<b>273,950</b>	<b>297,991</b>
Non-controlling interests	2,762	2,892	2,884	3,139	3,414	3,714
<b>Total equity</b>	<b>211,574</b>	<b>221,605</b>	<b>234,304</b>	<b>254,990</b>	<b>277,364</b>	<b>301,705</b>
<b>Total liabilities &amp; equity</b>	<b>619,309</b>	<b>672,462</b>	<b>703,623</b>	<b>737,062</b>	<b>774,015</b>	<b>814,841</b>

<b>PER SHARE DATA</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
DPS	0.41	0.48	0.49	0.54	0.60	0.66
EPS (Reported)	1.01	1.31	1.11	1.35	1.49	1.64
Consensus EPS				1.38	1.53	1.62
No. of shares basic		22,242	22,242	22,242	22,242	22,242
No. of shares diluted		22,242	22,242	22,242	22,242	22,242
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Return on equity (ROE)		13.5%	10.8%	12.3%	12.4%	12.6%
Return on asset (ROA)		4.5%	3.6%	4.2%	4.4%	4.6%
Combined ratio		96.6%	97.8%	97.6%	97.3%	96.9%
Loss ratio		69.4%	70.6%	70.8%	71.1%	71.3%
Expense ratio		27.2%	27.2%	26.8%	26.2%	25.6%
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/B (x)	1.0	1.0	0.9	0.8	0.8	0.7
Dividend yield (%)	4.3	5.0	5.1	5.7	6.2	6.9
Dividend payout (%)	40.5	36.5	44.2	40.0	40.0	40.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: data in 2021 was not restated under IFRS 9 & 17 and thus not included on comparable basis.

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