

PICC P&C (2328 HK)

1Q24 catastrophe-induced claims fully released; FY24 CoR guidance sustained; exp. >40% payout

PICC P&C reported weaker-than-expected first-quarter results given the 1Q24 CoR slightly increased to 97.9% (vs: FY23: 97.8%) and auto/non-auto premium growth dropped to +1.9%/+5.0% YoY (1Q23: +6.5%/+12.8% YoY). Dragged by increased claims for low-temperature and freezing rain in 1-2M24, transportation recovery and premium slowdown, the insurer's underwriting profit (UWP) slid by 49.1% YoY to RMB2.4bn, adversely impacting net profit by -38.3% YoY to RMB 5.9bn. Investment result concerned market as net investment yield (not annualized) was 0.8%, lower than that of some life peers. We regard the weaker-than-expected investment more of an issue of asset allocation than of investment capability, given 1) most equity-type investments were allocated into funds, i.e. FOFs, which were designated into FVTPL under IFRS 9, with their value fluctuations directly offsetting net profit; 2) 21% (out of 40% in total) of bond investments was assigned to FVOCI, for which the fair value gains were recorded in OCI, not P/L net profit. Despite a weak 1Q print, we remain confident on the insurer's UW resilience given 1) catastrophe-induced claims were fully released in first quarter, and 2) monthly premium growth recovered as 1Q seasonality faded out. Considering the persisting effect of asset allocation and market fluctuations, we revise down FY24-26E EPS by 2%-6% for investment volatilities. Maintain BUY, with TP at HK\$11.9, implying 1.0x FY24E P/BV.

■ **Auto/non-auto growth dipped for seasonality.** In 1Q24, auto premium growth slid to +1.9% YoY (vs 1Q23: +6.5% YoY), lower than our long-run projection of 5% ([link](#)), primarily dragged by lower avg. ticket size offered by small- to mid-sized peers who intended to gain more share at year-start, causing the industry pricing level to decline. Non-auto was tugged by postponed tenders of policy-backed biz, i.e. agriculture insurance, which was +3.2% YoY (vs 1Q23: +23.2% YoY). With increased claims paid for freezing rain and recovered transportation in 1Q24, we expect the reserve surplus of small- to mid-sized insurers' to be used up, which would bring the industry's auto pricing back to normal. Looking ahead, we think the insurer has stronger-than-peers' upside in auto expansion even if new car sales paced down because of an optimized structure, where 65% of NEVs were home-owned with CoR less than 100%, and claims for commercial vehicles could be compensated by repricing. With contracted expense rates, we expect FY24E auto CoR to be 96.7% (CMBI est), meeting year-start guidance of <97%. For non-auto, agriculture premium increased by +14.7% YoY in Mar, reflecting strong momentum once the government tender projects recovered. We remain positive on growth of A&H and expect non-auto CoR at 98.9% (CMBI est).

■ **Investment weighed on NP.** The insurer's investment missed in 1Q24, with rpt. investment income (incl. contributions from AJVs) -36% YoY to RMB2.15bn; if excl. profit from AJVs, the figure was -52.5% to RMB1.23bn. Despite low interest rates, the insurer realized a fair value loss of RMB164mn (vs 1Q23: RMB1.2bn gain). We view the weaker-than-expected result more of an issue of allocation rather than the insurer's investment capability, given 1) most equity-type assets were allocated to funds, i.e. FOFs, which were designated to FVTPL under IFRS 9, with value fluctuations directly offsetting net profit; 2) 21% (out of 40%) of bonds was assigned to FVOCI, for which the fair value gain was recorded in OCI, not in P/L net profit. As the change in investment structure may take longer, we revise down our EPS forecast by 2%-6% to RMB1.32/RMB1.43/RMB1.55 in FY24-26E to imply current allocation and investment volatilities.

■ **Valuation:** The stock is now trading at 0.8x FY24E P/BV, with price dipping after worse-than-expected 1Q24 results. We remain positive on the P&C leader given 1) its UW resilience on the back of the biggest market share at 35.5% by 1Q24; and 2) a defensive play delivering >40% payout and an est. 6.0% FY24E dividend yield. Maintain BUY with TP at HK\$11.9, implying 1.0x FY24E P/BV.

BUY (Maintain)

Target Price HK\$11.90
Up/Downside 25.9%
Current Price HK\$9.45

China Insurance

Nika MA

(852) 3900 0805
 nikama@cmbi.com.hk

Miao ZHANG

(852) 3761 8910
 zhangmiao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	210,186.9
Avg 3 mths t/o (HK\$ mn)	308.1
52w High/Low (HK\$)	11.28/8.17
Total Issued Shares (mn)	22242.0

Source: FactSet

Shareholding Structure

Citigroup Inc.	9.2%
BlackRock, Inc.	5.6%

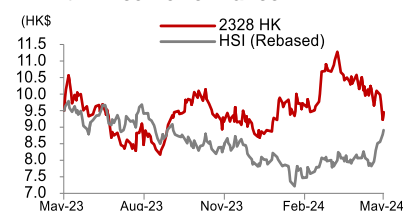
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.2%	-18.7%
3-mth	-2.4%	-17.9%
6-mth	2.5%	-2.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Deloitte

Related reports:

- 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](#))
- PICC P&C (2328 HK) - Non-auto CoR better than expected; sustain 40%+ payout in next two years, Apr 02, 2024 ([link](#))
- China Insurance - 1Q24 listed life insurers' growth dwindled; P&C rebounded in 3M24 driven by non-auto, Apr.22, 2024 ([link](#))

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	29,109	24,566	29,222	31,718	34,322
EPS (Reported)(RMB)	1.31	1.11	1.32	1.43	1.55
Consensus EPS (RMB)	n.a	n.a	1.32	1.46	1.58
Combined ratio (%)	96.6	97.8	97.6	97.3	97.1
P/B (x)	0.9	0.8	0.8	0.7	0.7
Dividend yield (%)	5.5	5.6	6.0	6.5	7.1
ROE (%)	13.5	10.8	12.0	11.9	11.9

Source: Company data, Bloomberg, CMBIGM estimates

PICC P&C (2328 HK): 1Q24 key operating metrics

Fig 1: PICC P&C profitability analysis under IFRS 9 & 17

(RMB mn, %)	1Q24	1Q23	Y/Y %
Insurance service revenue	113,843	107,520	5.9%
Insurance service expense	(105,587)	(96,875)	9.0%
Net reinsurance contract gains/(losses)	(3,076)	(3,343)	-8.0%
Insurance service result	5,181	7,302	-29.0%
Net finance income/(expenses)	(2,282)	(2,164)	5.5%
Interest income, net	2,487	2,669	-6.8%
Investment income, incl. AJVs	2,154	3,350	-35.7%
Fair value gains/(losses)	(164)	1,225	n.a
Credit impairment loss	123	(62)	n.a
Net investment result	2,319	5,018	-53.8%
Other results	(675)	(711)	-5.1%
Underwriting profit	2,351	4,622	-49.1%
Operating profit before tax	6,826	11,609	-41.2%
Net profit to equity S/H (IFRS 9 & 17)	5,871	9,508	-38.3%

Source: Company data, HKEx, CMBIGM

Fig 2: PICC P&C core metrics – underwriting CoR & premium income

Premium Income	1Q24	1Q23	Y/Y %	4Q23	4Q22	Y/Y %	3Q23	3Q22	Y/Y %
Auto	69,240	67,933	1.9%	78,904	75,132	5.0%	70,823	67,220	5.4%
Non-auto	104,737	99,708	5.0%	27,333	29,278	-6.6%	37,817	37,133	1.8%
A&H	56,813	53,506	6.2%	7,858	8,630	-8.9%	11,923	11,487	3.8%
Agro	19,964	19,351	3.2%	4,901	6,130	-20.0%	9,240	9,203	0.4%
Liability	11,603	11,449	1.3%	6,190	6,526	-5.1%	7,042	7,981	-11.8%
Credit	1,741	1,885	-7.6%	1,061	2,574	-58.8%	1,247	10,248	-87.8%
Property	6,142	5,519	11.3%	2,889	1,123	157.3%	3,662	(5,368)	-168.2%
Cargo	1,532	1,400	9.4%	1,273	1,117	14.0%	1,314	1,133	16.0%
Others	6,942	6,598	5.2%	3,161	3,178	-0.5%	3,389	2,449	38.4%
P&C total	173,977	167,641	3.8%	106,237	104,410	1.7%	108,640	104,353	4.1%

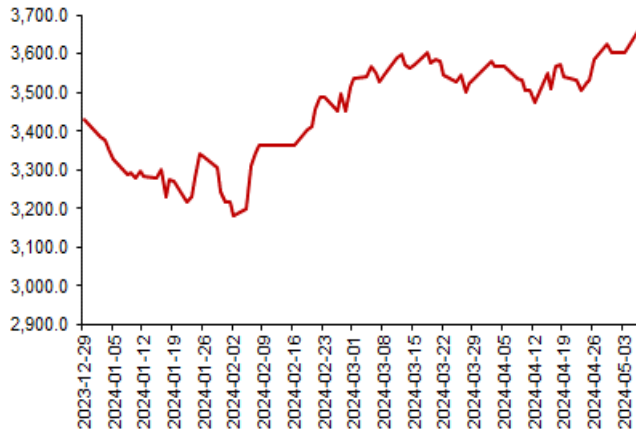
Insurance revenue	1Q24	1Q23	Y/Y %	4Q23	4Q22	Y/Y %	3Q23	3Q22	Y/Y %
Auto	72,288	67,876	6.5%	72,522	68,733	5.5%	71,676	68,133	5.2%
Non-auto	41,555	39,614	4.9%	35,507	35,737	-0.6%	49,994	45,405	10.1%

Combined ratio %	1Q24	1Q23	Y/Y %	4Q23	4Q22	Y/Y %	3Q23	3Q22	Y/Y %
Underwriting CoR (%)	97.9	95.7	2.2 pct	100.4	100.7	-0.3 pct	99.0	97.5	1.6 pct

Source: Company data, HKEx, CMBIGM

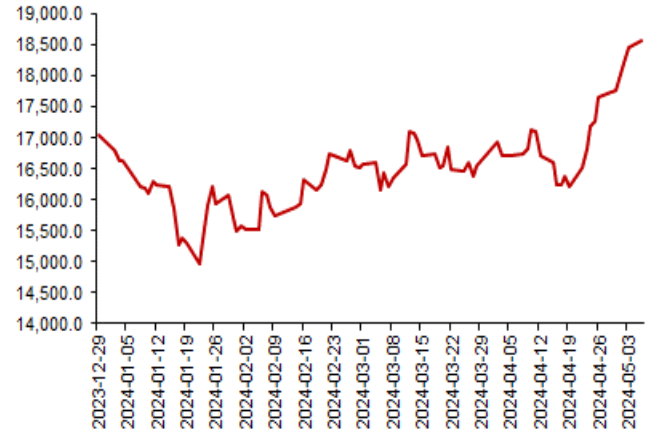
Focus Charts

Fig 3: CSI 300 YTD rose by 6.6%, vs +2.6% in 1Q24



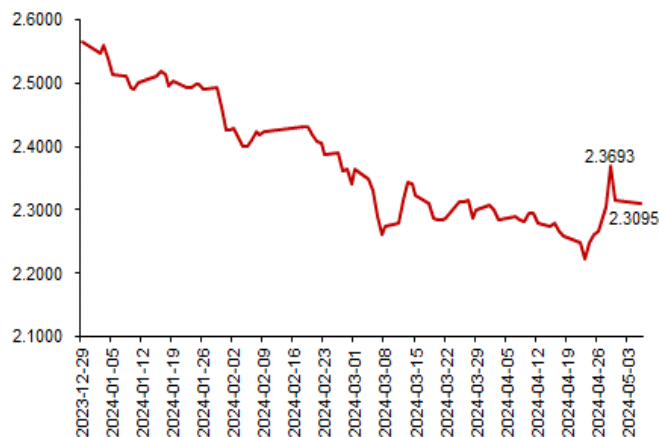
Source: Wind, CMBIGM

Fig 4: HSI YTD rose by 9.0%, vs -3.0% in 1Q24



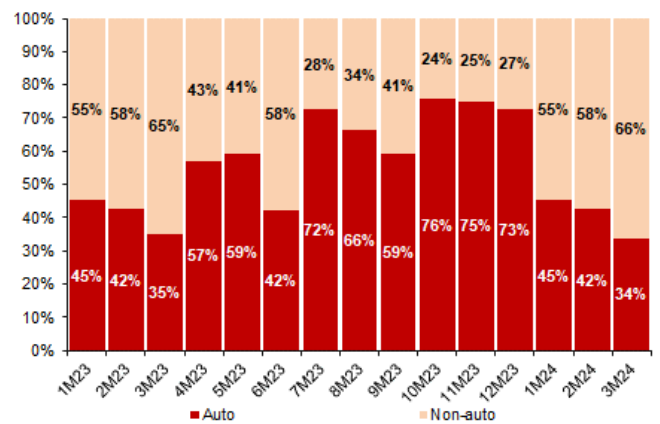
Source: Wind, CMBIGM

Fig 5: CN 10Yr gov. bond yield surged >2.3% in Apr.



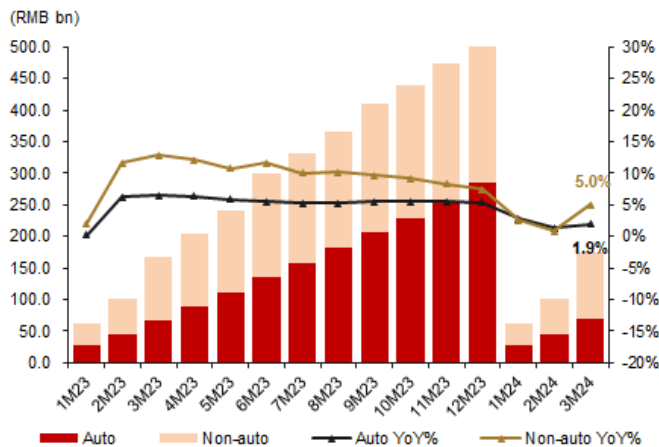
Source: Wind, CMBIGM

Fig 6: Auto comprising 34% of total premiums in 3M24



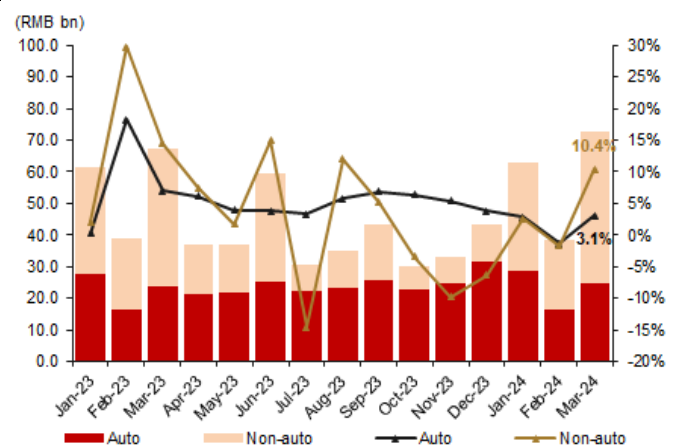
Source: Company data, HKEx, CMBIGM

Fig 7: Auto & non-auto cum. premium growth, %



Source: Company data, HKEx, CMBIGM

Fig 8: Auto & non-auto monthly premium growth, %



Source: Company data, HKEx, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		424,355	457,203	486,367	517,400	552,492
Insurance service expenses		(395,965)	(431,991)	(459,137)	(487,723)	(520,095)
Net expenses from reinsurance contracts held		(5,993)	(6,142)	(6,288)	(6,438)	(6,593)
Insurance service results		22,397	19,070	20,941	23,239	25,804
Net finance (expenses)/income from insurance contracts		(9,333)	(10,127)	(10,370)	(10,906)	(11,322)
Net finance (expenses)/income from reinsurance contracts		1,301	1,246	1,315	1,446	1,591
Interest income		20,180	11,710	10,667	10,953	11,377
Net investment income		(3,706)	4,077	7,455	8,088	8,249
Credit impairment losses		(500)	(423)	0	0	0
Net investment results		7,942	6,483	9,066	9,581	9,894
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	32,523	35,367	38,322
Income taxes		(4,912)	(3,469)	(3,301)	(3,649)	(4,001)
Net profit		29,109	24,566	29,222	31,718	34,322
Net profit attributable to shareholders		29,164	24,585	29,263	31,760	34,364

Note: data in 2021 was not restated under the IFRS 9 & 17 and thus not included for a comparative basis.

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
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 amortized 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
Total assets	619,309	672,462	703,623	737,062	774,015	814,841
LIABILITIES						
Insurance contract liabilities	317,513	351,254	371,829	376,115	402,682	435,767
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	53,239	40,028	22,221
Liabilities in disposal group held for sale	407,735	450,857	469,319	482,212	496,986	513,730
EQUITIES						
Share capital	22,242	22,242	22,242	22,242	22,242	22,242
Reserves	186,570	196,471	209,178	229,472	251,377	275,163
Retained profits	64,966	79,782	78,496	86,801	106,772	128,303
Total shareholders' equity	208,812	218,713	231,420	251,714	273,619	297,405
Non-controlling interests	2,762	2,892	2,884	3,137	3,410	3,706
Total equity	211,574	221,605	234,304	254,851	277,029	301,111
Total liabilities & equity	619,309	672,462	703,623	737,062	774,015	814,841

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	0.41	0.48	0.49	0.53	0.57	0.62
EPS (Reported)	1.01	1.31	1.11	1.32	1.43	1.55
Consensus EPS	n.a	n.a	n.a	1.32	1.46	1.58
No. of shares basic	22,242	22,242	22,242	22,242	22,242	22,242
No. of shares diluted	22,242	22,242	22,242	22,242	22,242	22,242
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Return on equity (ROE)	10.6%	13.5%	10.8%	12.0%	11.9%	11.9%
Return on asset (ROA)		4.5%	3.6%	4.1%	4.2%	4.3%
Combined ratio		96.6%	97.8%	97.6%	97.3%	97.1%
Loss ratio		69.4%	70.6%	70.9%	71.1%	71.4%
Expense ratio		27.2%	27.2%	26.7%	26.2%	25.7%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/B (x)	0.9x	0.9x	0.8x	0.8x	0.7x	0.7x
Dividend yield (%)	4.6	5.5	5.6	6.0	6.5	7.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. Data in 2021 was not restated under the IFRS 9 & 17 and thus not included for a comparative basis.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.