

Prudential Plc. (2378 HK)

US\$2bn share buybacks brace for sustainable shareholders return; supportive to HK liquidity

Prudential unveiled the long-awaited capital management update of US\$2.0bn share buyback plan which will be completed no later than mid-2026, in addition to the annual dividend growth of 7%-9% in FY24E, as announced at year start ([link](#)). The first tranche of US\$700mn buyback will operate from 24 Jun 2024 to no later than 27 Dec 2024 throughout 2H24. Under our estimates, this would reduce the company's ordinary shares by c.78mn in FY24E, and c.224mn in total to 2,530mn shares outstanding by mid-2026, not taking into account of other buybacks, if any, relevant to employee and agent share schemes and/or scrip dividends in future. The repurchased c.224mn shares (*CMBI est*), representing 8.1% of total shares outstanding as of 21 Jun 2024, will be cancelled on the London listing (PRU.LN), while the shares on HK line (2378.HK) and the US ADR (PUK.US) will stay intact. We view the timely executed buyback is indicative of the company's emphasis on capital return to shareholders, while maintaining sufficient surplus on top of the regulatory capital requirements and internal stress buffers. Moreover, consistent to the Group's long pursuit of boosting HK shares' liquidity, the buybacks centring on the London line (PRU.LN) provide tailwinds for turnover of HK listing (2378.HK), of which the trading volume hiked 17.7x on 24 Jun, with turnover rising to 0.16% (vs 21 Jun: 0.01%, [Fig.1](#)). That said, the company's share structure still reckons heavily on the overseas markets, since the floating shares of Hong Kong only accounted for 6.73% of total shares outstanding as of 17 Jun 2024 ([Fig.2](#)).

■ **Strong capital base with free surplus ratio stayed at >200%.** Given US\$8.5bn group free surplus excl. distribution rights and intangibles in 2023, the insurer managed to derive a free surplus ratio at 242% on top of the EEV required capital of US\$6.0bn ([Fig.3](#)). If taking into account of the second interim dividends (US\$0.1421 per share) in 2023 and the forthcoming US\$2bn share buyback, we estimate the Group's free surplus ratio to remain solid at 202% on a pro-forma basis, staying above the operating range of 175%-200% as guided by the management. ([Fig.3](#)). We think gross operating free surplus generation (Gross OFSG) will lead the growth of group free surplus going forward, and OFSG will be driven by the rise of NBV at core. We expect the NBV growth in FY24E to be driven by volumes along with limited downside to margins. The capital policy re-emphasized the targets of five-year strategic plan, which called for a double-digit 5Yr CAGR of gross OFSG to reach >US\$4.4bn by 2027. In our model, we forecast the gross OFSG to be US\$4.5bn in FY27E, implying a 10.4% five-year CAGR from an aggregate of US\$2.8bn by end-FY22 ([Fig.4](#)).

■ **London-based repurchase supportive to HK liquidity improvement.** The insurer centring the US\$2bn buyback on London Stock Exchange (LSE) will repurchase and cancel c.224mn shares in total, based on our estimate. Given a structure of >93% floating shares traded in overseas markets ([Fig.2](#)), the Group has long been willing to improve shares' trading liquidity for the HK-listed name 2378.HK. We expect the proportion of HK floating shares to marginally increase from 6.7% to 7.3% (*CMBI est*, [Fig.5](#)) upon completion of buybacks, presuming no future capital movements. In our view, an improved floating share structure will provide tailwinds for subsequent stock issuance in HK market, offsetting the dilutive effect while boosting liquidity of the respective shares.

■ **Valuation:** Despite a slower new business profit (NBP) growth in 1Q24 and mixed economic data adding to macro uncertainty, we regard the insurer's US\$2bn capital return through buybacks a driver for mid-to-long term re-rating. Together with the US\$1bn investment plan for organic growth, we forecast the insurer's NBP to be US\$4.9-5.0bn by FY27E, implying 18% five-year CAGR ([Fig.6](#)), in line with the guidance of 15-20%. The stock is now trading at FY24E 0.52x P/EV. Maintain BUY with TP at HK\$137.8, implying 0.95x FY24E P/EV.

BUY (Maintain)

Target Price **HK\$137.8**
 (Previous TP **HK\$137.8**)
Up/Downside **83.7%**
Current Price **HK\$75.00**

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Stock Data

Mkt Cap (HK\$ mn)	206,514.1
Avg 3 mths t/o (HK\$ mn)	10.3
52w High/Low (HK\$)	110.90/67.25
Total Issued Shares (mn)	2753.5

Source: FactSet

Shareholding Structure

BlackRock Inc	7.8%
Vanguard Group Inc	5.1%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.0%	4.2%
3-mth	0.0%	-8.8%
6-mth	-11.3%	-19.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: KPMG

Related reports:

1. Prudential Plc. (2378 HK) – NBP beat driven by better 2H margin; expect FY24 DPS to continue growing by 7%-9%, Mar 22, 2024 ([link](#))

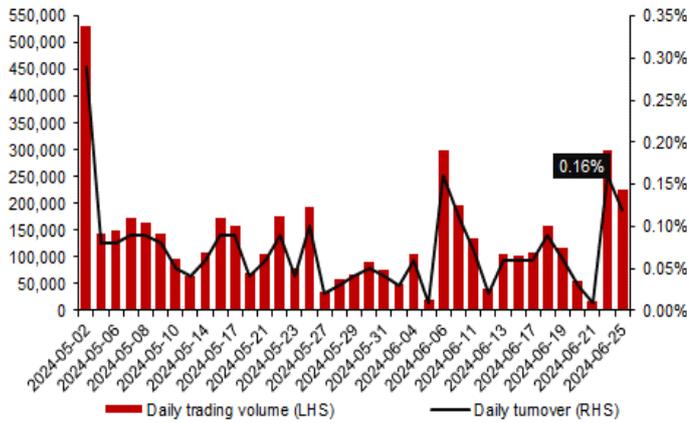
Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (US\$ mn)	(997)	1,712	2,149	2,448	2,805
Operating EPS (US\$)	0.82	0.85	0.95	0.93	1.10
Consensus Op. EPS (US\$)	n.a	n.a	0.96	1.10	1.27
Group EEV / share (US\$)	15.3	16.4	18.4	21.2	24.2
P/Embedded value (x)	0.6x	0.6x	0.5x	0.4x	0.4x
Dividend yield (%)	2.0	2.1	2.3	2.5	2.7
ROE (%)	(5.6)	9.8	11.5	12.0	12.5

Source: Company data, Bloomberg, CMBIGM estimates | Note: stock price is quoted by market close at 4:00pm on 25 Jun 2024.

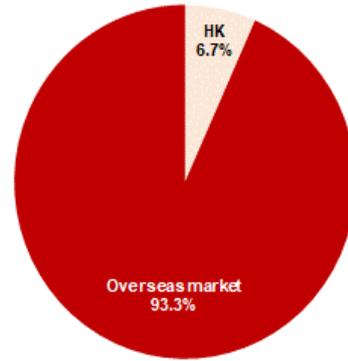
Focus Charts

Fig. 1: Prudential (2378.HK)'s daily turnover (%)



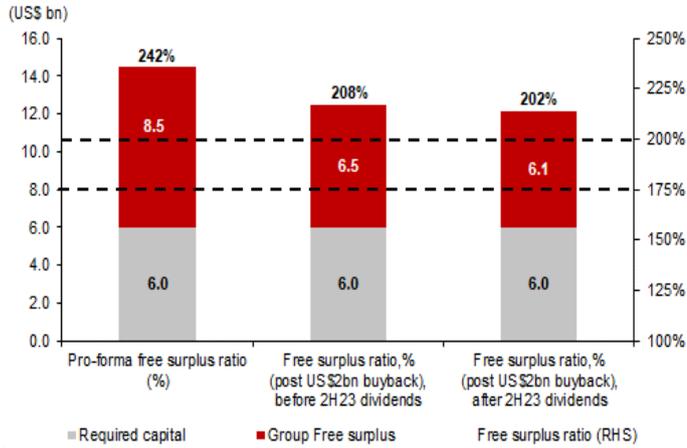
Source: Wind, CMBIGM | Note: stock price is quoted by market close at 4:00pm on 25 Jun 2024.

Fig. 2: Prudential floating share structure by listing



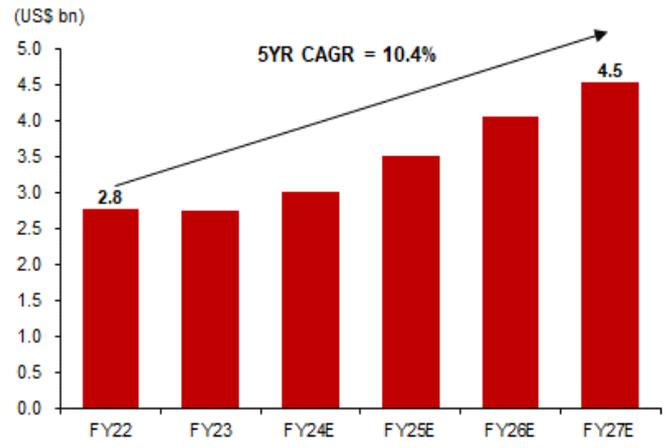
Source: Wind, CMBIGM | Note: Prudential's latest floating share structure dated to 18 Jun 2024.

Fig. 3: Free surplus ratio remains solid at >200%



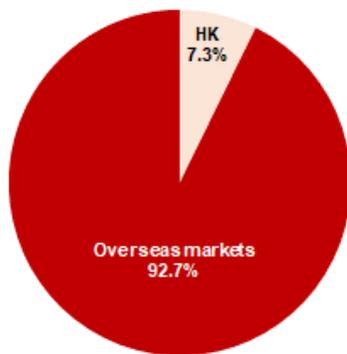
Source: Company data, CMBIGM | Note: Free surplus ratio is calc. as group free surplus excl. intangibles plus the EEV required capital of the life business, divided by the EEV required capital for the life business.

Fig. 4: Gross OFSG's double-digit five-year CAGR



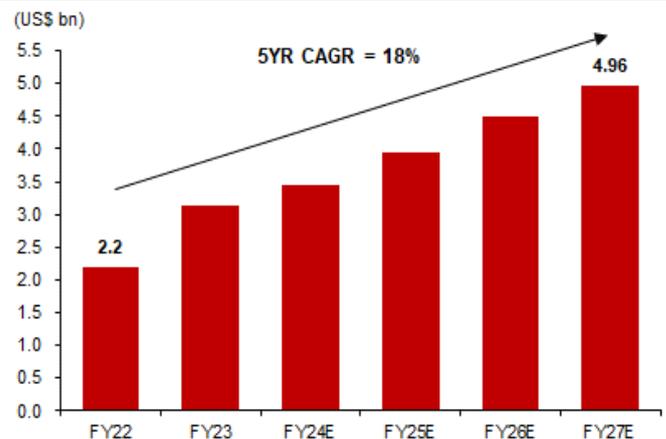
Source: Company data, CMBIGM estimates | Note: the company's financial objective incl. gross OFSG to grow in double-digit of five-year CAGR in FY22-FY27E.

Fig. 5: Floating share structure after US\$2bn buyback



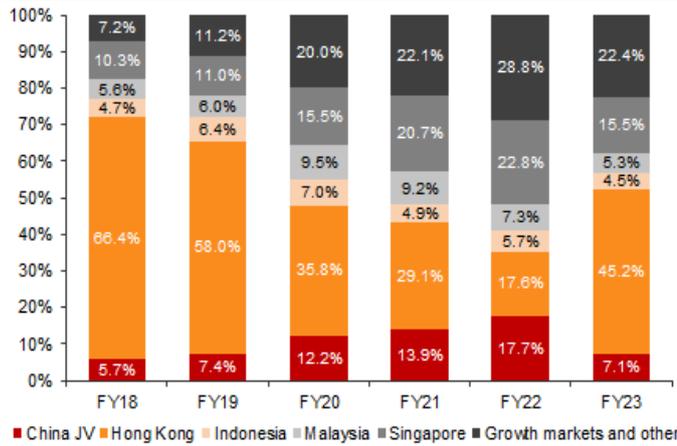
Source: Wind, CMBIGM estimates

Fig. 6: NBP to grow by 15%-20% of five-year CAGR



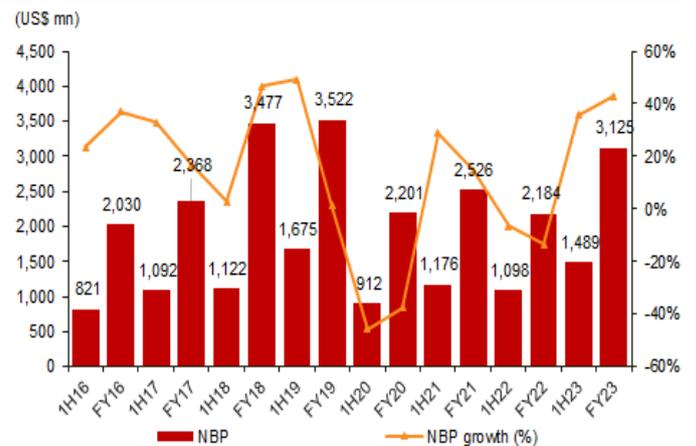
Source: Company data, CMBIGM estimates | Note: the company's financial objective incl. NBP to grow by 15%-20% of five-year CAGR.

Fig. 7: NBP Breakdown by geographies, FY18-FY23



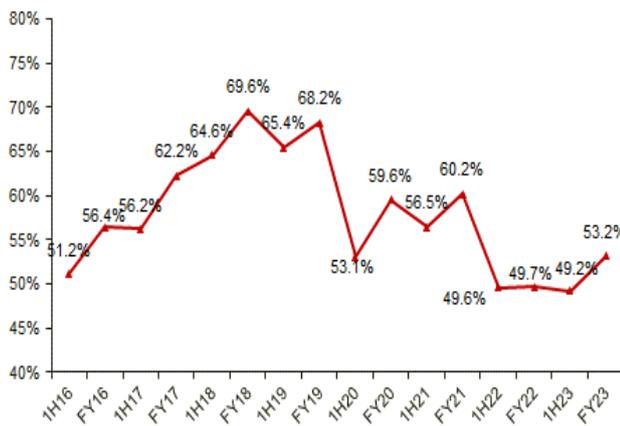
Source: Company data, CMBIGM

Fig. 8: Group NBP & YoY% (semi-annual)



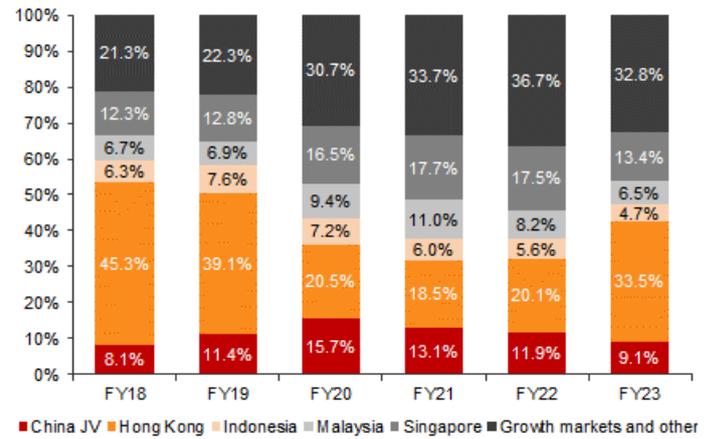
Source: Company data, CMBIGM

Fig. 9: Group NBP margin% (semi-annual)



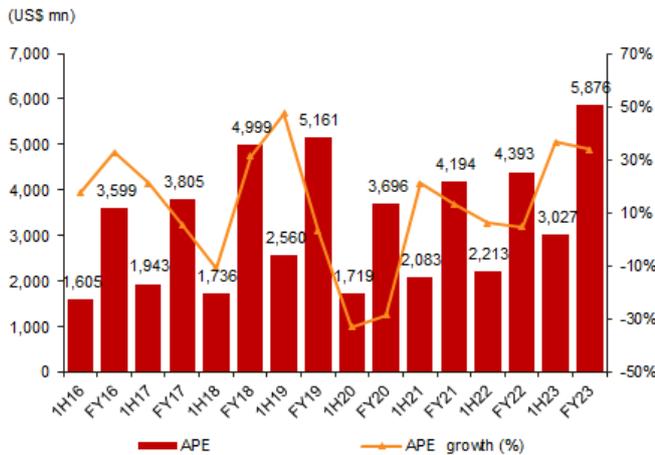
Source: Company data, CMBIGM

Fig. 10: APE Breakdown by geographies, FY18-FY23



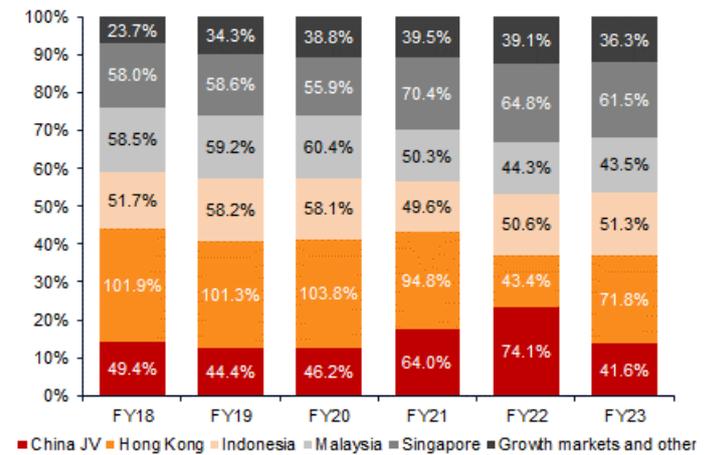
Source: Company data, CMBIGM

Fig. 11: Group APE & YoY% (semi-annual)



Source: Company data, CMBIGM

Fig. 12: NBP Margin Breakdown by markets, FY18-23



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	10,333	10,824
Contracts not measured under PAA:		8,549	9,371	9,890	10,333	10,824
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	2,556	2,731	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)	(1,080)	(1,010)	(917)
Profit before tax		(519)	2,272	2,686	3,060	3,506
Income taxes		(478)	(560)	(537)	(612)	(701)
Net profit		(997)	1,712	2,149	2,448	2,805
Net profit attributable to shareholders		(1,007)	1,701	2,135	2,432	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	2,368
Property		437	374	383	393	403
Investment property		37	39	42	45	48
Insurance contract assets		1,134	1,180	1,260	1,347	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	706
Fixed maturity investments		77,016	83,064	88,693	94,785	101,393
Equity investments		57,679	64,753	69,141	73,890	79,042
Derivative financial assets		569	1,855	1,981	2,117	2,264
Other assets		2,999	3,350	3,783	4,258	4,779
Cash and cash equivalents		11,789	10,521	11,234	12,006	12,843
Total assets		160,249	174,066	185,862	198,629	212,476
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	19,379	21,206	23,362
Non-controlling interests		167	160	160	160	160
Total equity		16,898	17,983	19,539	21,366	23,522
Total liabilities & equity		160,249	174,066	185,862	198,629	212,476

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS		0.19	0.20	0.22	0.24	0.26
EPS (Reported)		(0.37)	0.62	0.79	0.93	1.10
Diluted EPS		(0.37)	0.62	0.79	0.93	1.10
Consensus EPS		n.a	n.a	0.96	1.04	1.17
Group embedded value/share (HK\$)		15.34	16.43	18.62	21.38	24.30
VNB/share (HK\$)		0.79	1.13	1.29	1.53	1.77
No. of shares basic		2,750	2,754	2,675	2,579	2,530
No. of shares diluted		2,749	2,753	2,715	2,628	2,555
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 life embedded Value		(2.2%)	3.9%	4.5%	4.6%	4.8%
VNB margin (FYP APE basis)		49.7%	53.2%	52.5%	53.7%	55.0%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)		0.6	0.6	0.5	0.4	0.4
P/B		1.6	1.5	1.3	1.2	1.0
Dividend yield (%)		2.0	2.1	2.3	2.5	2.5

Source: Company data, CMBIGM estimates. 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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