

Ping An (2318 HK)

Expect \$3.5bn CB dilutive effect to be short-term

The insurer announced the issuance of US\$3.5bn convertible bonds (CB) to offshore professional investors outside the US on 15 Jul 2024, at 0.0875% par per annum due in Jul 2029. The proposed principal amount is within the range of an estimated US2bn-5bn, according to the Bloomberg news ([link](#)). Against the closing price on 15 Jul of HK\$36.05, the initial conversion price of HK\$43.71 implies a premium rate of 21.2% ([Fig.1](#)). Upon full conversion of the bonds, 625.2mn new H-shares will be issued, representing 8.39% of existing listed H-shares (7.45bn) and 3.43% of current share capital (18.21bn, [Fig.2](#)). We reckon the CBs' dilutive impact to be limited at roughly 3.43%, and the stock price fluctuation shall be short-term only, given 1) relatively low financing costs of raising the US\$3.45bn net proceeds; 2) increased listed H-shares underpinning offshore liquidity; and 3) potential use of proceeds for capital injection into the Group's core business, such as Ping An Life, which is likely to boost the pro-forma life core solvency ratio in 1Q24 by 6.4pct to 125% ([CMBI est.](#)) assuming all capital injected and the minimum capital unchanged.

■ **Increased H-share proportion + improved offshore liquidity.** The CB scheme is convertible to 625.2mn new H-shares based on the initial conversion price at HK\$43.71. Assuming full conversion of the bonds and no further share issuance, the total number of H-shares will increase to 8.07bn, accounting for 42.9% of the enlarged share capital of 18.84bn (vs now: 40.9%, [Fig.2](#)). On 16 Jul, the insurer announced the proposal of cancellation on 102.6mn A-shares repurchased from 27 Aug 2021 to 26 Aug 2022, partially offsetting the dilutive effect of future shares conversion and raising the H-share proportion to 43.1% ([Fig.2](#), [CMBI est.](#)). We reckon the dilutive equity impact of CB sales to be 3.43%.

■ **Potential use of proceeds to boost the core solvency of Ping An Life.** Under CROSS-II, the issuance of capital supplementary bonds can only boost tier-1 supplementary capital, transferring to a pick-up in comprehensive solvency ratio yet leaving the core solvency intact. In 1Q24, Ping An Life's core solvency ratio was 118.8%, slightly beating industry average of 113.5% and ranking the second lowest among listed life peers ([Fig.7](#)). We believe the potential capital injection from the Group to Life and/or P&C subsidiaries is possible, given the fact that the Group's increasing stakes in subsidiaries can be counted into core capital, and thus enhance the entity's core solvency ratio. We estimate the pro-forma 1Q24 life core solvency ratio to rise by 6.4pct to 125.2%, assuming all proceeds are injected and the minimum capital remains unchanged at RMB389.4mn ([Fig.4](#)).

■ **Valuation:** The stock is trading at FY24E 0.48x P/EV and 0.70x P/B, implying a dividend yield of 8.0% and FY24E ROE at 13.2%. The stock price dipped 5.41% on 16 Jul after the CB announcement. We expect the fluctuation to be short-term, given limited equity dilutive impact and potential use of proceeds for capital injection to core subsidiaries, i.e. Ping An Life, with relatively low financing costs. We maintain BUY with TP unchanged at HK\$52.0, implying FY24E 1.0x P/EV.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	134,817	109,274	154,021	161,037	165,493
EPS (Reported)(RMB)	4.80	4.84	7.18	7.77	8.40
Consensus EPS (RMB)	n.a	n.a	6.33	6.99	7.48
Group EV / share (RMB)	77.9	76.3	80.1	84.3	88.9
P/B (x)	0.8x	0.7x	0.7x	0.6x	0.6x
P/Embedded value (x)	0.5x	0.5x	0.5x	0.4x	0.4x
Dividend yield (%)	7.6	7.8	8.0	8.1	8.3
ROE (%)	9.9	9.7	13.2	13.4	13.6

Source: Company data, Bloomberg, CMBIGM estimates | Note: stock price quoted by market close on July 16, 2024.

BUY (Maintain)

Target Price	HK\$52.00
Up/Downside	52.5%
Current Price	HK\$34.10

China Insurance

Nika MA

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

Stock Data

Mkt Cap (HK\$ mn)	620,961.0
Avg 3 mths t/o (HK\$ mn)	1,784.7
52w High/Low (HK\$)	56.25/29.80
Total Issued Shares (mn)	18,210.0

Source: FactSet

Shareholding Structure

Charoen Pokphand Group	14.0%
Company Ltd	
UBS Group AG	9.1%

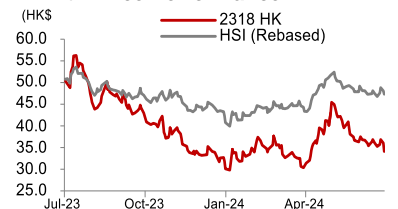
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.4%	-5.3%
3-mth	14.0%	4.5%
6-mth	7.1%	-4.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

Related reports:

- Ping An (2318 HK) - 1Q24 NBV beat; Life OPAT y/y turned positive, Apr.15, 2024 ([link](#))
- Ping An (2318 HK) - Resilient DPS despite OPAT decline; EV assumptions change cut VNB more than expected, Mar 27, 2024 ([link](#))
- Ping An (2318 HK) - 1H23 NBV beat consensus; interim dividend up 1.1% YoY reinforcing a long-run growth story, Sep 4, 2023 ([link](#))
- 5M24 Monthly: life growth stayed resilient; P&C auto premiums sequentially rebounded, Jun 19 ([link](#))
- 4M24 Monthly: life diverged in face of high base; P&C top players dragged by non-auto, May 20 ([link](#))

Fig. 1: US\$3.5bn convertible bonds issued at 0.875% per annum

Ping An US\$3.5bn convertible bonds issuance:	HK\$ per share, %
Close price, July 15, 2024	36.05
Avg. closing price for last five consecutive trading days	35.75
Conversion price	43.71
<i>Conversion price, net</i>	43.11
Conversion premium %	21.2%
<i>Conversion premium % over avg. closing price</i>	22.3%
No. of shares outstanding (mn)	18,210.2
Market cap, July 15, 2024 (HK\$ mn)	656,479
Conversion shares (mn)	625.2
No. of shares outstanding, upon full conversion (mn)	18,835.4
CB equity dilution effect (%)	3.43%
Interest rate (%)	0.875%
Net proceeds (US\$ mn)	3,452

Source: Company data, CMBIGM estimates

Fig.2: Share capital - increasing H-share proportion (%)

As at the date of CB announcement, July 15, 2024:	(in millions)	%
No. of existing issued H-shares (mn)	7,447.6	40.9%
No. of existing issued A-shares (mn)	10,762.6	59.1%
Existing share capital (mn)	18,210.2	
Conversion shares percentage (%):		
<i>As a % of existing issued H-shares</i>	8.39%	
<i>As a % of share capital</i>	3.43%	
Upon full conversion of the bonds:	(in millions)	%
No. of issued H-shares (mn)	8,072.8	42.9%
No. of issued A-shares (mn)	10,762.6	57.1%
Total share capital (mn), after CB full conversion	18,835.4	
Conversion shares percentage (%):		
<i>As a % of total issued H-shares</i>	7.74%	
<i>As a % of enlarged share capital</i>	3.32%	
Cancellation of 103mn repurchased A-shares, July 16, 2024:	(in millions)	%
No. of issued H-shares (mn)	8,072.8	43.1%
No. of issued A-shares (mn), after cancellation	10,660.1	56.9%
Total share capital, after CB and repurchase (mn)	18,732.8	
Conversion shares percentage (%):		
<i>As a % of total issued H-shares</i>	7.74%	
<i>As a % of total share capital</i>	3.34%	

Source: Company data, CMBIGM estimates | Note: Ping An announced cancellation of repurchased 102.592.612 A-shares during the period from Aug 27, 2021 to Aug 26, 2022, implying approx. 0.56338% of total share capital on July 16, 2024 ([link](#)).

Fig.3: Ping An Life Core and Comprehensive solvency ratio (%)

(RMB mn, %)	4Q23	1Q24	2Q24E*
Actual capital	770,771	802,108	805,668
Core capital	415,458	462,586	462,321
Supplementary capital	355,312	339,523	343,346
Minimum capital (MC)	395,781	389,357	401,156
Core solvency ratio %	105.0%	118.8%	115.2%
Comprehensive solvency ratio %	194.7%	206.0%	200.8%

Source: Insurance Association of China, NFRA, and CMBIGM | Note: 2Q24E capital and solvency ratios are quoted from the solvency reports available for each insurance company, with data provided by the companies.

Estimation of pro-forma 1Q24 life core solvency upon full conversion of CBs (Assuming all proceeds are injected into Ping An Life with minimum capital unchanged.)

Fig.4: CMBI estimation on chg. of Ping An Life core & comprehensive solvency (%)

(RMB mn, %)	1Q24	Chg. (pct)
Core capital	487,668	5.4%
Core solvency ratio, pro-forma	125.2%	6.4 pct
Actual capital	827,191	3.1%
Comprehensive solvency ratio %	212.5%	6.4 pct
USD/HKD spot (as reported on July 15)	7.8079	

Source: Company data, CMBIGM estimates

Fig.5: Ping An P&C Core and Comprehensive solvency ratio (%)

(RMB mn, %)	4Q23	1Q24	2Q24E*
Actual capital	126,230	123,053	120,465
Core capital	102,875	107,397	106,339
Supplementary capital	23,355	15,656	14,126
Minimum capital (MC)	60,734	61,797	61,274
Core solvency ratio %	169.4%	173.8%	173.5%
Comprehensive solvency ratio %	207.8%	199.1%	196.6%

Source: Insurance Association of China, NFRA, and CMBIGM | Note: 2Q24E capital and solvency ratios are quoted from the solvency reports available for each insurance company, with data provided by the companies.

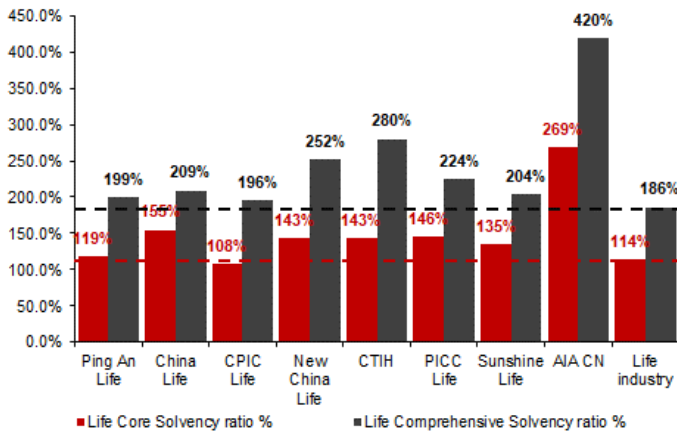
Fig.6: Ping An Group Core and Comprehensive solvency ratio (%)

(RMB mn, %)	FY22	FY23
Actual capital	1,783,772	1,714,110
Core capital	1,363,413	1,320,654
Minimum capital	819,568	823,985
Core solvency ratio %	166.4%	160.3%
Comprehensive solvency ratio %	217.6%	208.0%

Source: Insurance Association of China, NFRA, and CMBIGM | Note: Group solvency is semi-annually provided.

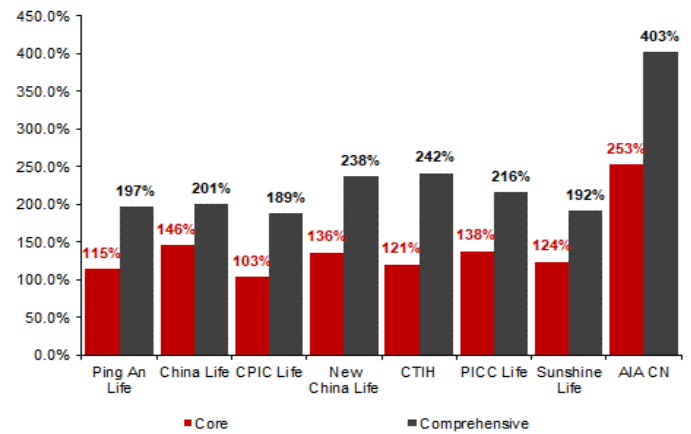
Focus Charts

Fig 7: 1Q24 major insurers' solvency ratios (%)



Source: Insurance Association of China, NFRA, and CMBIGM | Note: lines imply the industry average of core and comprehensive solvency ratios.

Figure 8: 2Q24E major insurers' solvency ratios (%)



Source: Insurance Association of China, NFRA, and CMBIGM | Note: 2Q24E capital and solvency quoted from solvency reports available for each insurance company, with data provided by the companies.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		525,981	536,440	528,420	539,975	555,161
Insurance service expenses		(422,221)	(440,178)	(435,983)	(448,025)	(463,184)
Net expenses from reinsurance contracts held		(4,314)	(3,731)	(4,115)	(4,276)	(4,474)
Insurance service results		99,368	92,301	88,144	87,487	87,306
Net finance (expenses)/income from insurance contracts		(99,933)	(123,959)	(130,472)	(135,382)	(141,904)
Net finance (expenses)/income from reinsurance contracts		564	542	0	0	0
Interest income		115,933	118,503	191,494	199,914	211,366
Net investment income		(2,311)	33,324	27,749	28,414	29,778
Other gains/(losses) from changes in fair value		(17,752)	(16,238)	(33,157)	(35,698)	(39,643)
Net investment results		(3,499)	12,172	55,614	57,248	59,597
Net interest income from banking operations		131,096	118,947	126,316	133,090	137,884
Net interest income/(expenses) from non-banking operations		(22,698)	(24,346)	(23,805)	(23,655)	(25,588)
Loan loss provisions		(64,168)	(62,833)	(59,904)	(62,451)	(64,324)
Other fee and commission income/(expenses)		(9,928)	(8,773)	(9,613)	(9,500)	(9,679)
Other income		60,652	68,804	88,018	107,477	129,930
Other expenses		(107,779)	(123,515)	(136,504)	(152,904)	(173,279)
Foreign exchange gains/losses		3,144	120	(66)	(66)	(66)
Other results		36,301	14,210	29,351	38,655	43,856
Profit before tax		142,335	120,117	174,686	185,074	192,522
Income taxes		(7,518)	(10,843)	(20,665)	(24,037)	(27,028)
Net profit		134,817	109,274	154,021	161,037	165,493
Net profit attributable to shareholders		111,008	85,665	127,647	138,146	148,629

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions		774,841	804,077	947,870	965,145	988,959
Balances with central bank and statutory deposits		295,559	285,879	194,999	133,010	90,727
Intangible assets		99,411	99,078	100,019	100,968	101,927
Investments in associates and joint ventures		280,793	258,877	264,080	269,388	274,803
Property		53,657	50,401	48,989	47,617	46,284
Investment property		114,763	121,406	131,282	141,430	153,782
Reinsurance contract assets		20,615	22,215	24,829	26,555	28,376
Loans and advances to customers		3,242,258	3,320,110	3,707,045	3,982,048	4,327,092
Fixed maturity investments		4,729,856	4,976,779	5,458,181	5,896,572	6,429,464
Equity investments		1,073,763	1,130,853	1,069,771	1,193,688	1,342,764
Derivative financial assets		29,278	44,978	46,795	48,686	50,653
Deferred tax assets		89,321	101,337	134,345	178,104	236,116
Other assets		205,825	367,427	262,025	14,245	(488,356)
Total assets		11,009,940	11,583,417	12,390,231	12,997,456	13,582,589
LIABILITIES						
Due to banks and other financial institutes		923,088	963,718	1,139,718	1,199,145	1,259,103
Customer deposits and payables to brokerage customers		3,431,999	3,534,539	3,745,312	3,970,031	4,130,420
Insurance contract liabilities		3,671,177	4,159,801	4,638,291	4,960,682	5,300,858
Obligations under repurchase agreements		271,737	241,803	197,229	160,872	131,217
Derivative financial instruments		39,738	44,531	45,426	46,339	47,271
Deferred tax liabilities		14,217	14,148	13,116	12,159	11,273
Current tax liabilities		16,076	7,117	8,480	10,104	12,039
Other liabilities		1,455,807	1,388,743	1,299,363	1,215,735	1,137,489
Total liabilities		9,823,944	10,354,453	11,086,936	11,575,068	12,029,670
EQUITIES						
Share capital		18,280	18,210	18,210	18,210	18,210
Reserves		257,728	258,751	232,463	240,510	249,353
Retained profits		593,183	622,050	705,285	798,032	900,455
Total shareholders' equity		869,191	899,011	955,958	1,056,751	1,168,017
Non-controlling interests		316,805	329,953	347,337	365,637	384,901
Total equity		1,185,996	1,228,964	1,303,295	1,422,388	1,552,919
Total liabilities & equity		11,009,940	11,583,417	12,390,231	12,997,456	13,582,589

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	2.36	2.40	2.48	2.53	2.58	2.64
EPS (Reported)	5.77	4.80	4.84	7.18	7.77	8.41
Consensus EPS	n.a	n.a	n.a	6.33	6.99	7.48
Group embedded value/share (HK\$)	76.34	77.89	76.34	80.13	84.30	88.88
VNB/share (HK\$)	2.01	1.58	1.71	1.88	2.12	2.39
No. of shares basic	18,280	18,280	18,210	18,210	18,210	18,210
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Return on equity (ROE)		9.9%	9.7%	13.2%	13.4%	13.6%
Return on asset (ROA)		0.8%	0.8%	1.1%	1.1%	1.1%
VNB margin (FYP APE basis)		20.7%	15.5%	16.1%	16.6%	17.1%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)	0.48x	0.47x	0.48x	0.46x	0.43x	0.41x
P/B (x)	0.82x	0.77x	0.74x	0.70x	0.63x	0.57x
Dividend yield (%)	7.4	7.6	7.8	8.0	8.1	8.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: stock price data quoted by market close on July 16, 2024.

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CMB International Global Markets Limited

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

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