

# AIA Group Ltd. (1299 HK)

## 1H24 VNB beat with margin recovery; expect total >US\$7bn cash returns to shareholders in FY24

The pan-Asian insurer disclosed 1H24 results with robust VNB growth of +25% YoY (CER basis) to US\$2,455mn, beating our estimate and Bloomberg consensus by 1.4%/1.4%, driven by a sequential rebound of VNB margin by +4.5pct YoY (CER basis, *CMBI* est.) in 2Q24, on top of a 2.1pct YoY (CER basis) increase in 1Q24. We see continued margin recovery in HK and mainland China by +8.8pct/+6.4pct YoY (CER basis) to 65.7%/56.6% in 1H24 (vs 1Q24: 64.3%/54.6%), leading to a solid VNB increase by +26%/+36% YoY (CER basis), making up 67% of total VNB. Group OPAT and OPAT per share was +7%/+10% YoY (CER basis) in 1H24, contributing to an improved operating ROE at 15.3% (+1.4pct YoY). We regard this output as a derivative of the Group's capital mgt. program launched in April 2024, which poised for an improved ROE through new business accretion and in-force mgt. to drive growth in free surplus, and back for enhanced shareholders' returns. The company guided a three-year OPAT per share CAGR at 9-11% in FY23-26E, signalling a mid-term earnings growth prospect to support underlying free surplus generation (UFSG), and successive S/H returns amounted to US\$7.13bn (*CMBI* est) in FY24. Looking ahead, we expect 1) product mix will continue to drive VNB margin increase since the proportion of par products in AIA China is still enjoying room for improvement (1H24: 10% of AIA China VNB); and 2) Group's strong capital position will buttress S/H returns given an est. US\$2.9bn total payout target (75% of NFSG) in FY24e. Reiterate BUY, with TP at HK\$94.0, implying 1.85x FY24E P/EV.

■ **AIA HK and China saw margin recovery.** VNB margin decline in AIA HK and AIA China was a key concern lingering in market after 1H23 earnings release. We see sequential margin rebounds in AIA HK and AIA China to 65.7%/56.6% in 1H24, +8.8pct/+6.4pct YoY (CER basis), on top of levels at 64.3%/54.6% in 1Q24, underpinning robust VNB growth of these two markets by +26%/+36% YoY (CER basis). For AIA China, margin expansion was driven by both product and channel mix. Agency VNB grew 20% YoY, making up 84% of total VNB backed by >60% margin, thanks to a mix of traditional protections, private pension and retirement, other long-term savings and participating products at 45%/25%/17%/10%. Bancassurance VNB margin was >40% given a selective strategy on HNW clients. AIA HK saw resilient MCV and domestic VNB growth by +24%/28% YoY in 1H24. Looking ahead, we expect to see higher proportion of VNB from par products in China, as recent pricing interest rate cut for traditional protections to 3.0% will likely give rise to a shift from traditional life to participating, in our view.

■ **OPAT per share CAGR target at 9%-11% in mid-term.** In 1H24, Group's OPAT per share was +10% YoY (CER basis) to US\$30.18, driven by +10% YoY in CSM release to US\$ 2.8bn and more efficient operating variances by +58% YoY to US\$71mn. Operating ROE rose to 15.3%, up from 13.5% in FY23, thanks to solid new business growth. The insurer guided a 9%-11% CAGR for OPAT per share in FY23-26E, which implied a sustainable mid-term growth prospect on dividends, in our view, as the payout is based on operating profit. The interim dividend was US\$0.445 per share, +5.2% YoY, with a full-year payout to 38.5% (*CMBI* est).

■ **Expect US\$7.13bn shareholder returns in FY24.** The Group's net free surplus generation was US\$2.2bn, +9% YoY (CER basis) in 1H24. Successive new business layers continue to grow UFSG and pave way for total S/H returns. We expect the pro-forma FY24 S/H returns to reach US\$7.13bn, incl. 1) US\$1.71bn FY23 final dividends; 2) US\$1.67bn 1H24 share buybacks; 3) US\$0.64bn interim dividends and 4) remaining US\$3.12bn of total US\$12bn buyback program due in April 2025, equivalent to 8.5% of market cap. We look positive on AIA's strong capital position to boost long-term shareholder returns in addition to fundamental.

■ **Valuation:** The stock is trading at 1.07x FY24E P/EV, below 1-std of 5-year avg. We remain positive on the Group's organic growth and sustained focus on S/H returns backed by strong capital position. We revised our price target to HK\$94.0 (last: HK\$96.5) based on appraisal value approach, implying 1.85x FY24 P/EV. Changes mainly reflect exp. movements in bond yields and forex. Reiterate BUY.

**BUY (Maintain)**

**Target Price** **HK\$94.00**  
 (Previous TP) HK\$96.50  
**Up/Downside** **72.6%**  
**Current Price** **HK\$54.45**

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### Stock Data

Mkt Cap (HK\$ mn)	620,675.6
Avg 3 mths t/o (HK\$ mn)	1,647.8
52w High/Low (HK\$)	73.80/46.00
Total Issued Shares (mn)	11399.0

Source: FactSet

### Shareholding Structure

Bank of New York Mellon Corp.	10.0%
JPMorgan Chase & Co.	9.0%

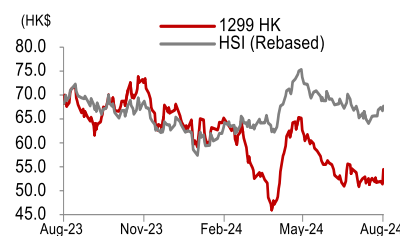
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	1.2%	1.2%
3-mth	-12.6%	-4.9%
6-mth	-16.7%	-21.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Auditor: PwC**

### Recent Reports:

- AIA Group (1299 HK) - FY23 VNB +33% in line; strong MCV momentum sustained to 1-2M24, Mar 18, 2024 ([link](#))

## Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating profit (US\$ mn)	6,421	6,213	6,555	7,153	7,952
Operating EPS (US\$)	0.54	0.54	0.59	0.66	0.75
Consensus Op. EPS (US\$)	n.a	n.a	0.58	0.65	0.74
P/Embedded value (x)	1.19	1.18	1.07	0.94	0.82
Dividend yield (%)	2.8	3.0	3.2	3.7	4.2
Operating ROE (%)	12.8	14.5	16.0	16.5	16.1

Source: Company data, Bloomberg, CMBIGM estimates

## Changes in forecast and valuation

(US\$ mn, %)	Current			Previous			Change (% , pct)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
VNB	4,686	5,475	6,455	4,641	5,316	6,109	1.0%	3.0%	5.7%
VNB margin	54.2%	55.9%	57.5%	54.4%	55.4%	56.4%	-0.2 pct	0.5 pct	1.2 pct
ANP	8,625	9,785	11,219	8,489	9,497	10,648	1.6%	3.0%	5.4%
Group OPAT	6,555	7,153	7,952	6,559	7,156	7,922	-0.1%	0.0%	0.4%
EV	71,442	79,600	89,402	71,959	78,218	85,548	-0.7%	1.8%	4.5%
Operating ROE	16.0%	16.5%	16.1%	15.8%	16.5%	17.3%	0.3 pct	-0.1 pct	-1.2 pct
Operating ROEV	15.6%	16.7%	17.1%	14.4%	15.1%	15.6%	1.2 pct	1.6 pct	1.5 pct

Source: Company data, CMBIGM estimates

## Pro-forma FY24E shareholder returns and capital ratio (%)

### Pro-forma shareholder returns to reach US\$7.13bn

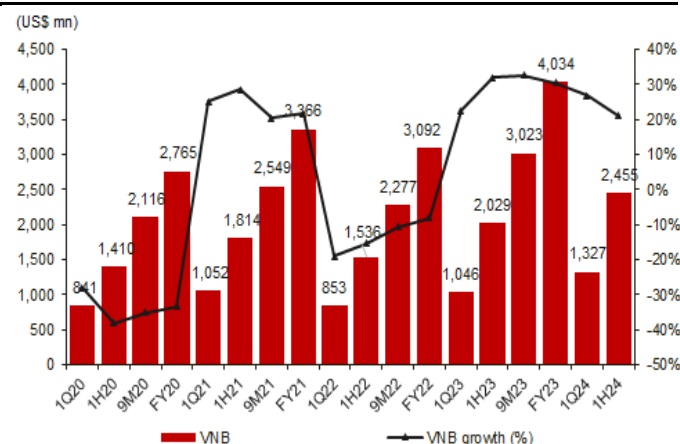
(US\$ mn, %)

FY23 final dividends (1)	1,705	
1H24 total share buybacks (2)	1,673	
1H24 interim dividends (3)	636	US\$44.50 cents per share
<b>Total cash returns to S/H from dividends and buybacks</b>	<b>4,014</b>	
US\$12bn buyback program excess capital (4)	3,120	
<b>Pro-forma total cash returns to shareholder, FY24E</b>	<b>7,134</b>	
<b>Market cap (23/8/2024)</b>	<b>84,343</b>	
<i>~ as a % to mkt cap</i>	<i>8.5%</i>	
FY23 total shareholder returns	5,930	
<b>Pro-forma FY24 shareholder returns YoY%</b>	<b>20.3%</b>	

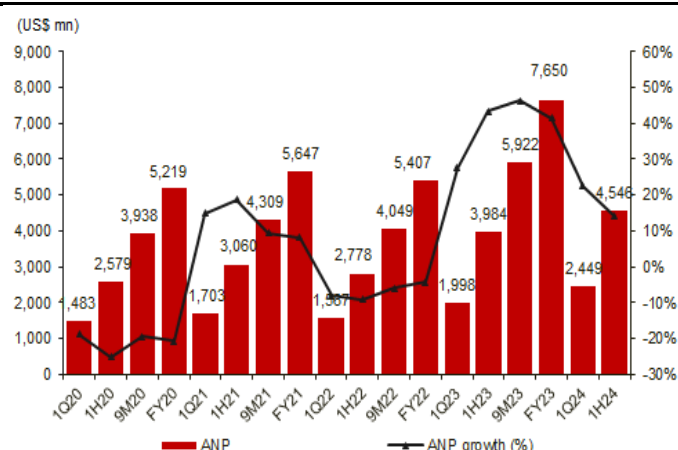
FY24 shareholder capital ratio (%)	Pro-forma estimate	1H24	FY23
<b>S/H capital resources</b>	<b>37,020</b>	<b>40,140</b>	<b>40,847</b>
Free surplus	11,440	14,560	16,329
Required capital	15,307	15,307	15177
Eligible Tier-2 debt capital	10,273	10,273	9341
<b>Shareholder capital ratio (%)</b>	<b>241.9%</b>	<b>262.2%</b>	<b>269.1%</b>

Source: Company data, Wind, CMBIGM estimates

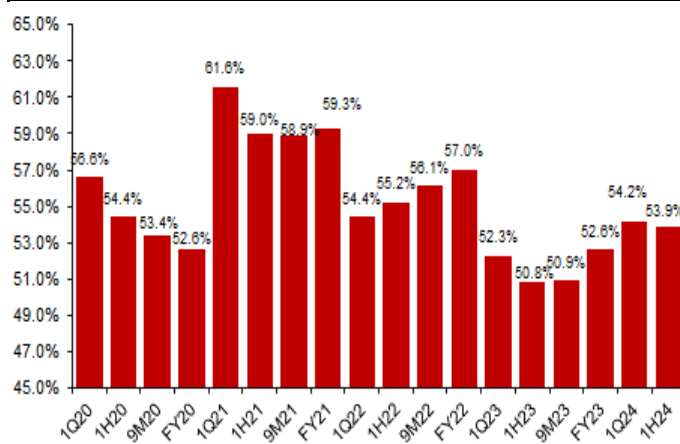
## Focus Charts

**Figure 1: AIA Group VNB and VNB YoY % (CER basis)**


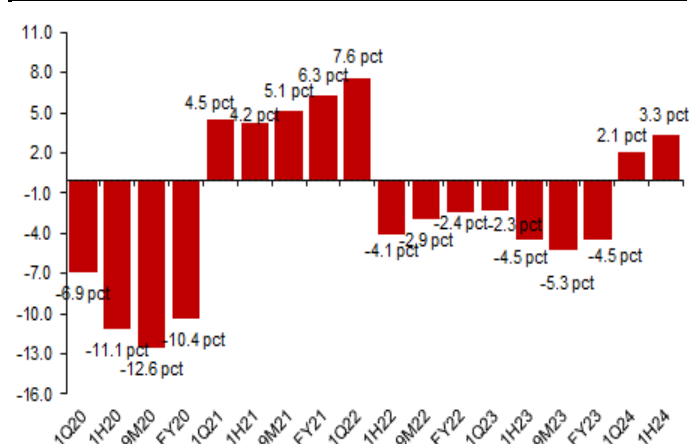
Source: Company data, CMBIGM estimates

**Figure 2: AIA Group ANP and ANP YoY % (CER basis)**


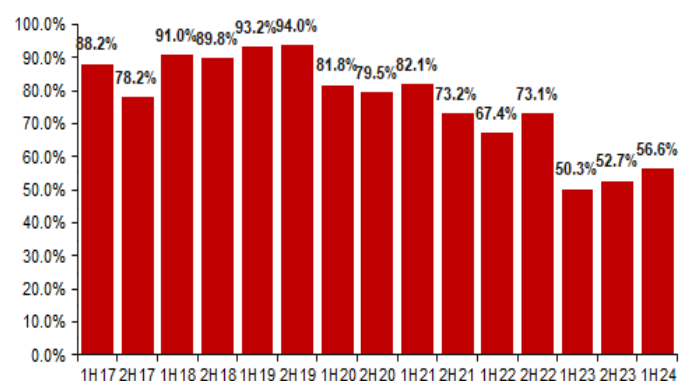
Source: Company data, CMBIGM estimates

**Figure 3: AIA Group VNB margin, 1Q20-1H24**


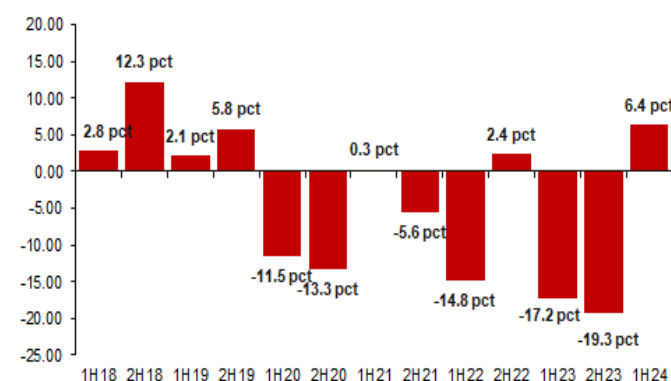
Source: Company data, CMBIGM estimates

**Figure 4: AIA Group VNB margin chg. (CER basis)**


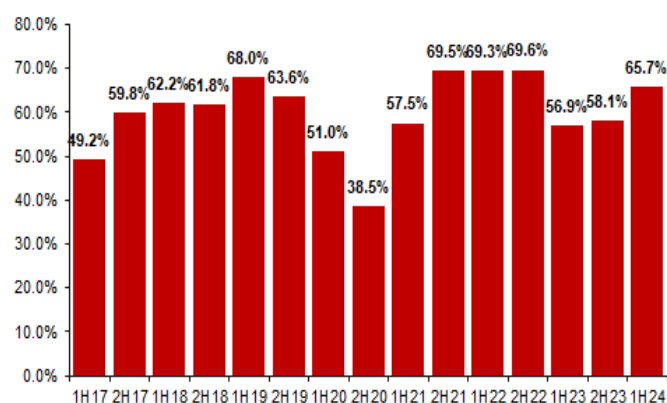
Source: Company data, CMBIGM estimates

**Figure 5: AIA China VNB margin, 1H17-1H24**


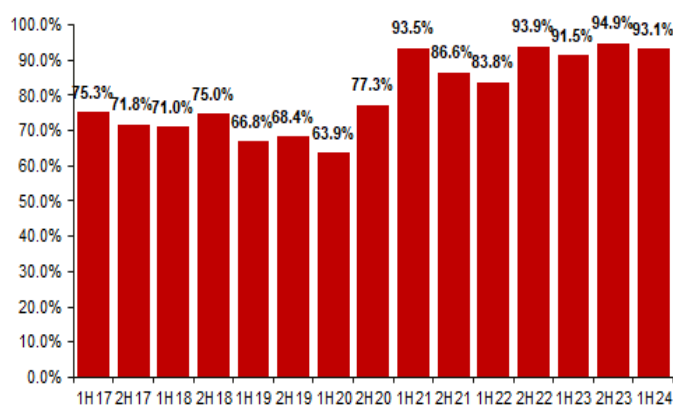
Source: Company data, CMBIGM estimates

**Figure 6: AIA China VNB margin chg. (CER basis)**


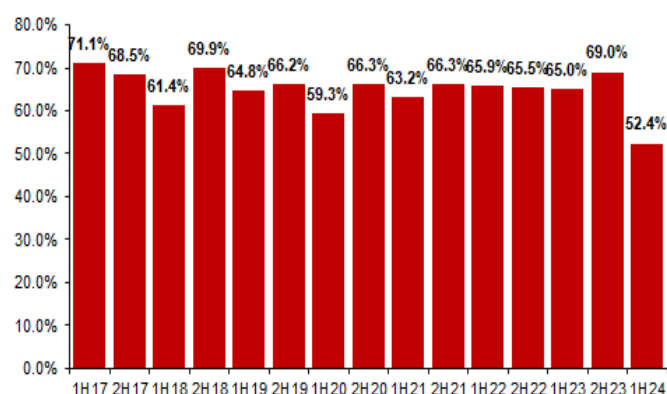
Source: Company data, CMBIGM estimates

**Figure 7: AIA HK VNB margin, 1H17-1H24**

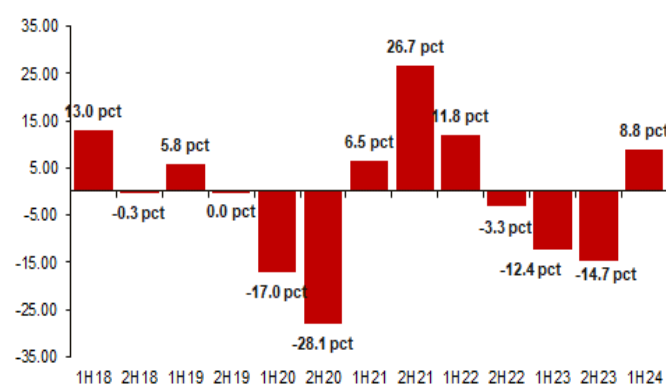
Source: Company data, CMBIGM estimates

**Figure 9: AIA Thailand VNB margin, 1H17-1H24**

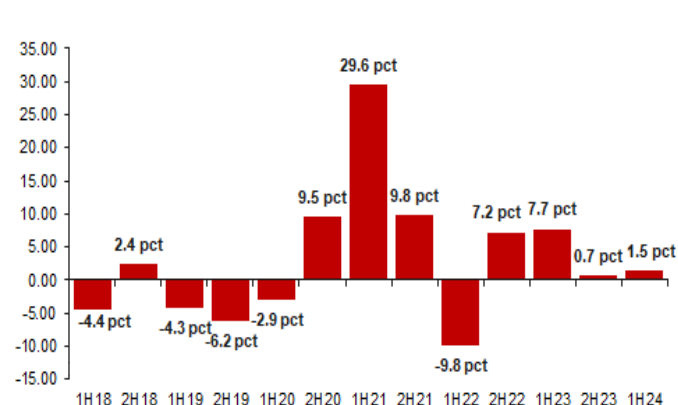
Source: Company data, CMBIGM estimates

**Figure 11: AIA Singapore VNB margin, 1H17-1H24**

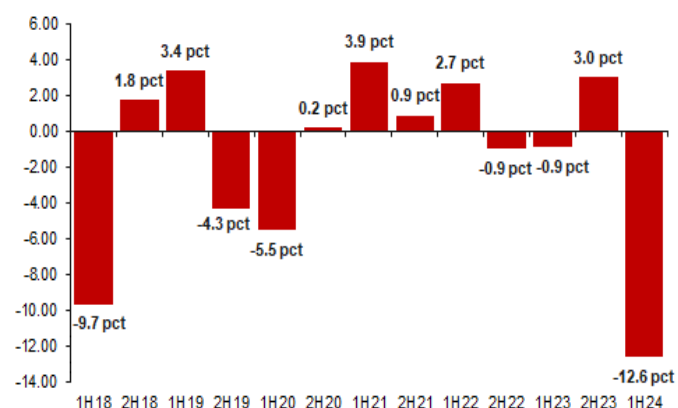
Source: Company data, CMBIGM estimates

**Figure 8: AIA HK VNB margin chg. (CER basis)**

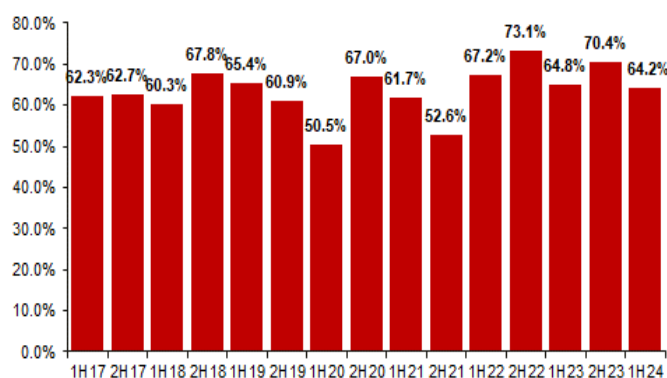
Source: Company data, CMBIGM estimates

**Figure 10: AIA Thailand VNB margin chg. (CER basis)**

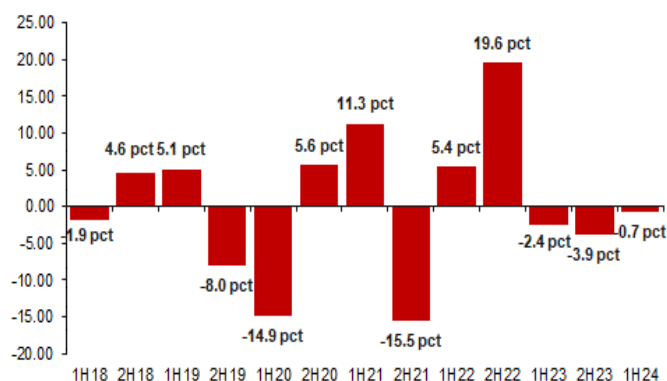
Source: Company data, CMBIGM estimates

**Figure 12: AIA Singapore VNB margin chg. (CER basis)**

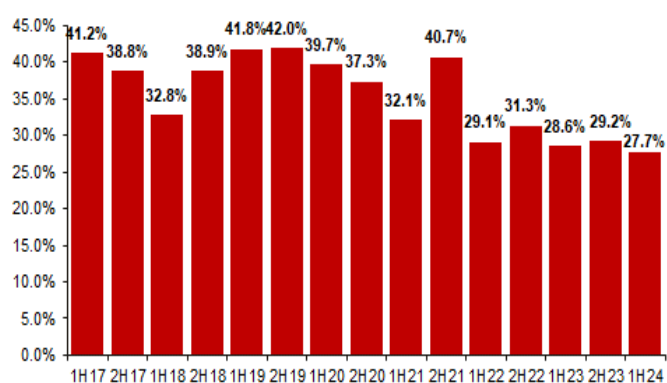
Source: Company data, CMBIGM estimates

**Figure 13: AIA Malaysia VNB margin, 1H17-1H24**

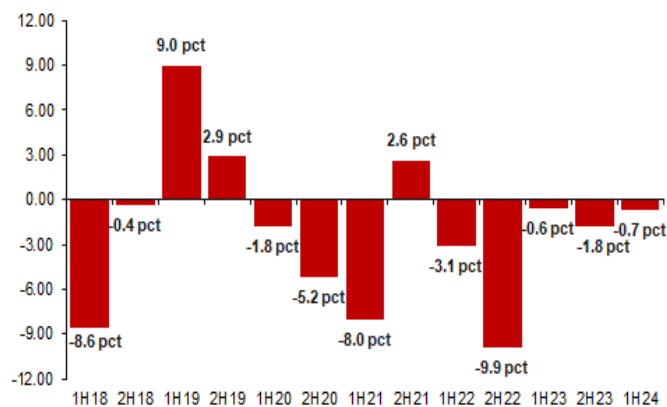
Source: Company data, CMBIGM estimates

**Figure 14: AIA Malaysia VNB margin chg. (CER basis)**

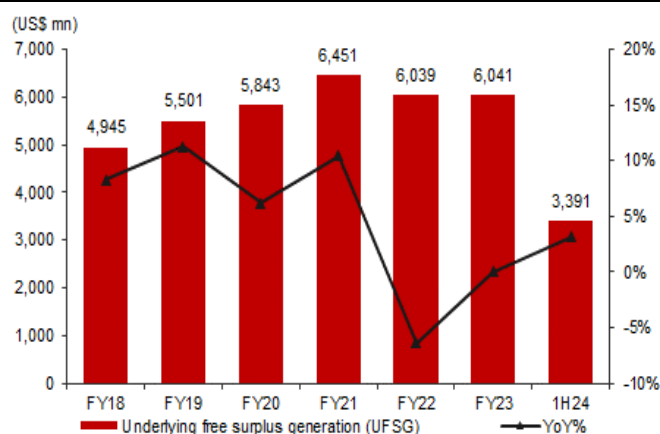
Source: Company data, CMBIGM estimates

**Figure 15: AIA Other markets VNB margin, 1H17-1H24**

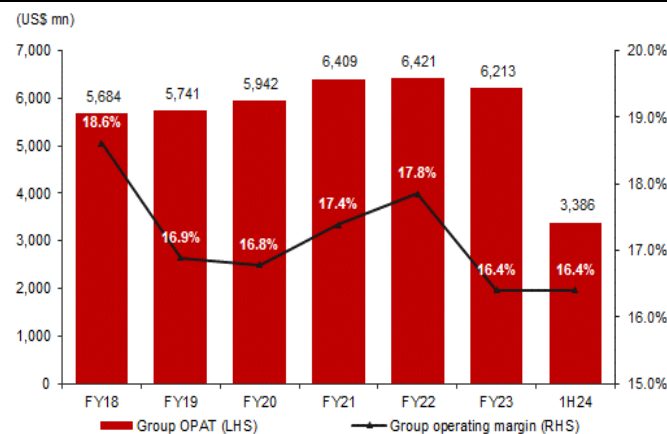
Source: Company data, CMBIGM estimates

**Figure 16: AIA Other markets VNB margin chg. (CER basis)**

Source: Company data, CMBIGM estimates

**Figure 17: Group underlying free surplus & YoY%**

Source: Company data, CMBIGM estimates

**Figure 18: Group OPAT and operating margin (%)**

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
<b>Insurance revenue</b>		<b>16,319</b>	<b>17,514</b>	<b>19,263</b>	<b>21,081</b>	<b>23,455</b>
Contracts not measured under PAA		14,524	15,107	16,206	17,413	19,054
Contracts measured under PAA		1,795	2,407	3,056	3,668	4,401
<b>Insurance service expenses</b>		<b>(10,434)</b>	<b>(12,078)</b>	<b>(13,221)</b>	<b>(14,512)</b>	<b>(16,053)</b>
Contracts not measured under PAA		(8,869)	(9,775)	(10,209)	(10,897)	(11,715)
Contracts measured under PAA		(1,565)	(2,303)	(3,013)	(3,615)	(4,338)
Net expenses from reinsurance contracts held		(419)	(345)	(378)	(416)	(458)
<b>Insurance service results</b>		<b>5,466</b>	<b>5,091</b>	<b>5,663</b>	<b>6,152</b>	<b>6,944</b>
Net finance (expenses)/income from insurance contracts		31,122	(10,301)	(8,903)	(7,708)	(8,491)
<b>Net investment results</b>		<b>3,597</b>	<b>3,792</b>	<b>3,657</b>	<b>3,825</b>	<b>4,110</b>
Other expenses		(1,512)	(1,534)	(1,541)	(1,587)	(1,635)
<b>Other results</b>		<b>(1,438)</b>	<b>(1,555)</b>	<b>(1,549)</b>	<b>(1,596)</b>	<b>(1,644)</b>
<b>Profit before tax</b>		<b>4,414</b>	<b>4,881</b>	<b>7,007</b>	<b>7,916</b>	<b>8,985</b>
Income taxes		(689)	(783)	(986)	(1,124)	(1,356)
<b>Net profit</b>		<b>3,364</b>	<b>3,779</b>	<b>5,923</b>	<b>6,734</b>	<b>7,576</b>
Net profit attributable to shareholders		3,331	3,764	5,804	6,709	7,547

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
<b>ASSETS</b>						
Intangible assets	2,914	3,277	3,615	3,558	3,630	3,703
Investments in associates and joint ventures	831	2,056	1,331	1,568	1,631	1,697
Property	2,744	2,844	4,058	4,571	4,662	4,756
Investment property	4,716	4,600	4,504	4,507	4,689	4,879
Insurance contract assets	3,681	2,037	1,457	1,530	1,606	1,687
Reinsurance contract assets	6,436	5,763	6,047	6,349	6,667	7,000
<b>Financial investments:</b>	<b>278,231</b>	<b>232,711</b>	<b>248,958</b>	<b>264,230</b>	<b>285,977</b>	<b>312,528</b>
At amortized cost	6,910	6,353	5,888	6,249	6,764	7,391
At FVOCI	103,580	86,060	88,612	94,048	101,788	111,239
At FVTPL	167,741	140,298	154,458	163,933	177,425	193,898
Deferred tax assets	104	229	301	334	341	348
Current tax recoverable	120	117	207	194	198	202
Other assets	6,486	4,524	4,316	4,450	4,540	4,631
Cash and cash equivalents	4,989	8,020	11,525	9,684	10,475	11,438
Assets in disposal group held for sale	0	4,293	0	0	0	0
<b>Total assets</b>	<b>311,252</b>	<b>270,471</b>	<b>286,319</b>	<b>300,976</b>	<b>324,416</b>	<b>352,869</b>
<b>LIABILITIES</b>						
Insurance contract liabilities	217,773	181,851	203,271	217,846	234,216	252,469
Investment contract liabilities	13,896	9,092	9,170	9,598	10,582	11,666
Borrowings	9,588	11,206	11,800	12,519	13,802	15,217
Obligations under repurchase agreements	1,588	1,748	3,461	3,370	3,506	3,648
Derivative financial instruments	1,392	8,638	8,035	8,406	8,745	9,099
Provisions	186	153	174	176	184	191
Deferred tax liabilities	4,103	3,409	3,204	3,461	3,601	3,746
Current tax liabilities	389	467	387	403	419	436
Other liabilities	5,121	4,264	4,887	3,789	2,611	3,183
Liabilities in disposal group held for sale	0	4,111	0	0	0	0
<b>Total liabilities</b>	<b>254,745</b>	<b>225,323</b>	<b>244,725</b>	<b>259,847</b>	<b>277,966</b>	<b>299,978</b>
<b>EQUITIES</b>						
Share capital	14,160	14,171	14,176	14,183	14,190	14,198
Reserves	(7,134)	(15,998)	(17,398)	(17,638)	(14,299)	(10,663)
Retained profits	48,997	46,499	44,333	44,255	46,180	48,923
<b>Total shareholders' equity</b>	<b>56,023</b>	<b>44,672</b>	<b>41,111</b>	<b>40,799</b>	<b>46,071</b>	<b>52,457</b>
Non-controlling interests	484	476	483	330	379	434
<b>Total equity</b>	<b>56,507</b>	<b>45,148</b>	<b>41,594</b>	<b>41,129</b>	<b>46,450</b>	<b>52,890</b>
<b>Total liabilities &amp; equity</b>	<b>311,252</b>	<b>270,471</b>	<b>286,319</b>	<b>300,976</b>	<b>324,416</b>	<b>352,869</b>



PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
DPS	0.19	0.20	0.21	0.23	0.25	0.29
Operating EPS	0.53	0.54	0.54	0.59	0.66	0.75
Operating EPS (diluted)	0.53	0.54	0.54	0.59	0.66	0.75
Consensus EPS	n.a	n.a	n.a	0.58	0.65	0.74
Group embedded value/share (US\$)	6.03	5.85	5.92	6.51	7.44	8.54
VNB/share (US\$)	0.28	0.26	0.36	0.43	0.52	0.62
No. of shares basic	12,097	11,781	11,399	10,968	10,698	10,469
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Operating ROE	10.8%	12.8%	14.5%	16.0%	16.5%	16.1%
Operating ROEV	12.1%	9.0%	13.0%	15.6%	16.7%	17.1%
VNB margin (FYP APE basis)	59.3%	57.0%	52.6%	54.2%	55.9%	57.5%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
P/Embedded value (x)	1.2	1.2	1.2	1.1	0.9	0.8
P/B (x)	1.5	1.8	1.9	1.9	1.6	1.4
Dividend yield (%)	2.7	2.8	3.0	3.2	3.6	4.2
Dividend payout (%)	35.2	36.6	38.4	38.5	38.6	39.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.



# Disclosures & Disclaimers

## Analyst Certification

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## 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

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