

# PICC P&C (2328 HK)

## CoR sequentially improved turning to positive 2Q net profit growth; first interim dividend in place

PICC P&C presented solid 1H24 results, with a sequentially improved underwriting CoR (IFRS-based) by 1.3pct QoQ to 95.0% in 2Q24 (vs: 1Q24: 96.3%), amid hiking catastrophe claims across the industry ([link](#)). The CoR figure turned quarterly UW profit to RMB 6.65bn, +37.2% YoY, which trimmed the underwriting profit/net profit decline to -5.0%/-8.7% YoY in 1H24 (vs 1Q24: -49.1%/-38.3% YoY). Auto CoR was 0.3pct better than our estimate at 96.4% (CMBI est: 96.7%) thanks to streamlined cost control with expense ratio (25.2%) fell by 1.8pct to compensate for 1.5pct rise in claims ratio (71.2%). Non-auto CoR was also controlled beyond expectations to 95.8% (IFRS-based) in 1H24, despite a 1.4pct YoY increase led by commercial property (+7.6pct) and “other” segment (+3.5pct). The mgt. added in call that gross/net non-auto losses amounted to RMB 9.1/7.0bn year-to-date, and if there were no significant catastrophe in coming September, aggregate losses would be less than that of last year at RMB 13.3bn/11.9bn after Typhoon Doksuri. With auto ticket size to stabilize and non-auto mix to optimize, we expect to see resilient underwriting in 2H24. On investment front, we observe the allocation shift towards cash-related and FICC assets to approx. 64% of total portfolio, +11.8% YoY from year-start. We regard this as a more prudent strategy in line with a change in P&C industry ([link](#)) to strike a balance between anchoring investment income and matching asset-liability duration. We expect investment income to marginally recover in 2H24 in face of a low base. Maintain BUY, with 12M-forward TP revised up to HK\$12.8, implying 1.04x FY24E P/B.

■ **Expect resilient underwriting in 2H24E.** The insurer showed solid 2Q results in contrast to a 1Q miss, giving the quarterly CoR trimmed 1.3pct QoQ to 95.0%. This was driven by effective group-wide expense control, evidenced by 0.8pct decline in expense ratio (26.1%) to offset 1.2pct increase in loss ratio (70.1%). Auto CoR fell 0.3pct YoY to 96.4%, better than our estimate thanks to contracted expense ratio by 1.8pct to 25.2%. In 1H24, we see slowdowns of auto ticket size in industry due to intense competition, uncondusive to insurers’ underwriting profitability in the long run, in our view. In earnings call, mgt. pointed that starting from 7M24, auto ticket size has appeared to stabilize and rebound, positively signalling for auto premium growth in 2H24. Non-auto CoR expanded 1.4pct YoY to 95.8%, yet different segments variedly performed. Agriculture CoR narrowed to 89%, -2pct YoY with declines in both loss (-1.5pct) and expense (-0.5 pct) ratios, which was dragged by underwriting scale-down from year start, with insurance revenue -7% YoY to RMB23.3bn and premium income rising 3.4% YoY below industry average(+6.3% YoY). A&H and commercial property saw CoR deterioration to 99.9%/99.6%, +1.4pct/7.6pct YoY, plummeting the lines’ UWP by 96.3%/94.3% YoY to RMB 13mn/38mn in 1H24. Looking ahead, mgt. guided policy-backed insurance, i.e. agriculture to recover till year-end. With expanding penetration of insured household NEVs and stabilized auto ticket size, we look positive in 2H24 underwriting. **Given unclear 3Q catastrophe prospects, we adjust our auto/non-auto FY24 CoR forecasts to 96.6%/99.4% (vs prev. 96.7%/98.9%).**

■ **Prudent allocation to cash and FICC.** Total investment income declined 7.9% YoY in 1H24, dragged by substantial retreats from realized gains in FVTPL and FVOCI debt assets by -89.2%/-57.4% YoY to RMB 110mn/193mn given low yields and volatile stock market. Total investment yield was 2.2% (not annualized), recovering from 0.8% in 1Q24, yet down by 0.4pct YoY from 2.6% in 1H23. We see evident changes in allocation to cash-related /term deposits by +30.3%/+37.4% vs year-start, and bonds esp. treasury bonds surged 84.5% to RMB86.7bn, driving FICC assets up by 10.9% to RMB388bn, taking 2.3pct more to 60.4% of the portfolio from year-start. Total equities fell 2.2% to RMB155bn, with funds (incl. mutual funds & AM products) and stocks -20.2%/+11.2% to RMB37bn/40bn in 1H24 vs year-start. Of which, stocks under FVOCI +12.7% to RMB 31.5bn, making up 79% of total stocks. We assume a great proportion of this amount was assigned to high-yield stocks to anchor long-run stable

**BUY (Maintain)**

**Target Price** **HK\$12.80**  
 (Previous TP) HK\$11.90  
**Up/Downside** **23.3%**  
**Current Price** **HK\$10.38**

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### Stock Data

Mkt Cap (HK\$ mn)	230,872.0
Avg 3 mths t/o (HK\$ mn)	225.8
52w High/Low (HK\$)	11.28/8.69
Total Issued Shares (mn)	22242.0
Source: FactSet	

### Shareholding Structure

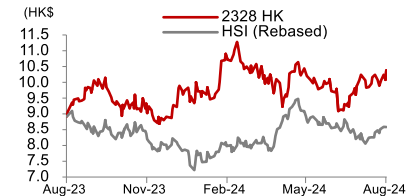
Citigroup Inc.	11.0%
GIC Private Ltd.	6.0%
Source: HKEX	

### Share Performance

	Absolute	Relative
1-mth	3.2%	0.0%
3-mth	1.0%	4.9%
6-mth	-3.2%	-10.1%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Auditor: Deloitte

### Related reports:

- PICC P&C (2328 HK) - PICC P&C (2328 HK) - 1Q24 catastrophe-induced claims fully released; FY24 CoR guidance sustained; exp. >40% payout, May7, 2024 ([link](#))
- PICC P&C (2328 HK) - Non-auto CoR better than expected; sustain 40%+ payout in next two years, Apr 2, 2024 ([link](#))
- PICC P&C (2328 HK) - Expect FY23E CoR guidance met; underwriting of NEVs and individual A&H to drive new growth Feb 5, 2024 ([link](#))
- China Insurance China Insurance - 7M24 Monthly: Life momentum kept strong; P&C edged up by auto & non-auto rebounds, Aug 20, 2024 ([link](#))

dividends. In 1H24, the insurer's OCI stock returns outpaced market benchmark (CSI 300 Dividend Index) by 7.1pct to 19.5%, implying the strategy starts to bear fruit. Looking ahead, we expect investment income to marginally recover in 2H24 in face of a low base.

■ **First interim dividends in place at RMB0.208/share, implying 25% payout.**

First interim dividends landed at RMB0.208 per share, implying 25% payout on basis of 1H24 EPS at RMB0.831. As the insurer maintained 5 years of paying at >40% payout, we suggest this interim dividend would accrete to FY24E total shareholder returns.

■ **Valuation:** The stock is trading at 0.85x FY24E P/B with 5.6% FY24E dividend yield and 12.3% three-year avg. ROE. We revise our 12M-forward price target to HK\$12.8 (previous: HK\$11.9), implying 1.04x FY24 P/B, based on P/B-ROE method with key assumptions as 1) 9.7% cost of equity, 2) 12.8% long-term return on equity, 3) 3% terminal growth, and 4) 30% underwriting cyclicality discount. Key risks include 3Q catastrophe claims exceeding expectations; slower-than-expected premium growth; prolonged low interest rate and volatile stock markets.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	29,109	24,566	29,474	31,413	33,869
EPS (Reported)(RMB)	1.31	1.11	1.33	1.41	1.53
Consensus EPS (RMB)	n.a	n.a	1.29	1.45	1.55
Combined ratio (%)	96.6	97.8	97.7	97.5	97.3
P/B (x)	1.0	0.9	0.8	0.8	0.8
Dividend yield (%)	5.0	5.2	5.6	6.0	6.4
ROE (%)	13.5	10.8	12.2	12.2	12.6

Source: Company data, Bloomberg, CMBIGM estimates

## PICC P&C (2328 HK) Valuation based on P/B-ROE

(RMB bn)	2328.HK	
P&C insurance	FY24E	FY25E
Shareholders' equity (RMB mn)	248.3	259.5
Fair value P/B (x)	1.02x	1.00x
Cost of equity	9.7%	9.8%
3-year average ROE	12.3%	12.4%
Long-term ROE	12.8%	12.8%
Long-term growth	3.0%	3.0%
Underwriting cycle discount (%)	-30%	-30%
Target valuation (RMB mn)	254.2	260.3
Valuation after volatility discount (HK\$)	12.6	12.9
Implied valuation multiples		
P/B (x)	1.03x	1.01x
P/E (x)	8.6x	8.3x
Number of shares (mn)	22,242	
RMB/HKD (29/8/2024)	1.10	
Price Target (TTM):	12.8	

Source: Company data, CMBIGM estimates

## PICC P&C profitability breakdown

(RMB mn)	1H24	1H23	YoY %	4Q23	4Q22	YoY %
<b>Insurance service revenue</b>	<b>235,841</b>	<b>224,368</b>	<b>5.1%</b>	<b>111,165</b>	<b>105,730</b>	<b>5.1%</b>
Insurance service expense	(217,380)	(204,715)	6.2%	(107,286)	(101,407)	5.8%
Net reinsurance contracts gains/(losses)	(4,966)	(5,818)	-14.6%	(428)	(1,585)	-73.0%
<b>Insurance service result</b>	<b>13,495</b>	<b>13,835</b>	<b>-2.5%</b>	<b>3,451</b>	<b>2,739</b>	<b>26.0%</b>
Net finance income/(expenses)	(4,496)	(4,366)	3.0%	(2,277)	(1,921)	18.5%
Interest income, net	5,713	5,893	-3.1%	3,689	20,180	-81.7%
Investment income, excl. AJVs	4,773	5,817	-17.9%	(3,485)	(20,825)	-83.3%
Credit impairment loss	265	(239)	<i>n.a</i>	59	0	<i>n.a</i>
<b>Net investment result</b>	<b>9,496</b>	<b>10,574</b>	<b>-10.2%</b>	<b>3,627</b>	<b>(816)</b>	<b><i>n.a</i></b>
<b>Other results</b>	<b>(1,342)</b>	<b>(658)</b>	<b>104.0%</b>	<b>(1,106)</b>	<b>866</b>	<b>-227.6%</b>
<b>Underwriting profit</b>	<b>8,999</b>	<b>9,469</b>	<b>-5.0%</b>	<b>2,810</b>	<b>2,271</b>	<b>23.7%</b>
<b>Operating profit before tax</b>	<b>21,649</b>	<b>23,751</b>	<b>-8.9%</b>	<b>5,972</b>	<b>2,789</b>	<b>114.1%</b>
<b>Net profit</b>	<b>18,491</b>	<b>20,256</b>	<b>-8.7%</b>	<b>5,180</b>	<b>2,831</b>	<b>83.0%</b>

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	475,810	491,391	508,520
Insurance service expenses		(395,965)	(431,991)	(450,569)	(464,792)	(480,468)
Net expenses from reinsurance contracts held		(5,993)	(6,142)	(5,297)	(5,428)	(5,563)
Insurance service results		22,397	19,070	19,944	21,171	22,489
Net finance (expenses)/income from insurance		(9,333)	(10,127)	(9,983)	(10,088)	(10,202)
Net finance (expenses)/income from reinsurance		1,301	1,246	1,201	1,261	1,324
Interest income		20,180	11,710	11,869	12,585	13,192
Net investment income		(3,706)	4,077	7,739	8,193	8,935
Credit impairment losses		(500)	(423)	265	0	0
Net investment results		7,942	6,483	11,091	11,951	13,250
Other income		1,064	195	160	168	181
Other expenses		(1,818)	(2,203)	(2,631)	(2,762)	(2,817)
Foreign exchange gains/losses		759	111	(127)	(130)	(129)
Other results		(1,000)	(3,048)	(3,834)	(3,997)	(4,056)
Profit before tax		34,021	28,035	32,565	34,649	37,307
Income taxes		(4,912)	(3,469)	(3,092)	(3,236)	(3,438)
Net profit		29,109	24,566	29,474	31,413	33,869
Net profit attributable to shareholders		29,164	24,585	29,526	31,471	33,927

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	68,101	72,196	76,041
Property	29,669	30,332	29,527	31,003	32,554	34,181
Investment property	5,851	7,440	7,576	7,692	8,077	8,508
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	471,301	500,379	528,456
At amortized cost:	0	113,790	126,192	137,870	146,376	154,590
At fair value through other comprehensive income:	0	154,285	180,142	210,370	223,349	235,882
At fair value through profit or loss:	0	140,730	144,047	123,061	130,653	137,984
Loans and advances to customers	73,574	73,657	57,785	73,913	72,808	75,559
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	20,041	19,741	20,487
<b>Total assets</b>	<b>619,309</b>	<b>672,462</b>	<b>703,623</b>	<b>755,239</b>	<b>793,103</b>	<b>834,946</b>
<b>LIABILITIES</b>						
Insurance contract liabilities	317,513	351,254	371,829	405,395	416,838	429,981
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	45,642	59,232	74,377
Liabilities in disposal group held for sale	407,735	450,857	469,319	503,896	530,348	560,102
<b>EQUITIES</b>						
Share capital	22,242	22,242	22,242	22,242	22,242	22,242
Reserves	186,570	196,471	209,178	226,008	237,279	249,219
Retained profits	64,966	79,782	78,496	82,413	101,957	123,136
<b>Total shareholders' equity</b>	<b>208,812</b>	<b>218,713</b>	<b>231,420</b>	<b>248,250</b>	<b>259,521</b>	<b>271,461</b>
Non-controlling interests	2,762	2,892	2,884	3,094	3,234	3,383
<b>Total equity</b>	<b>211,574</b>	<b>221,605</b>	<b>234,304</b>	<b>251,344</b>	<b>262,755</b>	<b>274,844</b>
<b>Total liabilities &amp; equity</b>	<b>619,309</b>	<b>672,462</b>	<b>703,623</b>	<b>755,239</b>	<b>793,103</b>	<b>834,946</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	0.53	0.57	0.61
EPS (Reported)	1.01	1.31	1.11	1.33	1.41	1.53
Consensus EPS	n.a	n.a	n.a	1.29	1.45	1.55
No. of shares basic	22,242	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%	12.2%	12.2%	12.6%
Combined ratio		96.6%	97.8%	97.7%	97.5%	97.3%
Loss ratio		69.4%	70.6%	71.2%	71.4%	71.4%
Expense ratio		27.2%	27.2%	26.4%	26.1%	25.9%
<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	1.0	1.0	0.9	0.8	0.8	0.8
Dividend yield (%)	4.3	5.0	5.2	5.6	6.0	6.4
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 by market close on 29/8/2024.

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