

CPIC (2601 HK)

3Q NBV growth accelerated; expect par sales to outgrow

CPIC released 3Q results with NPAT up 65.5% YoY to RMB38.3bn, at mid-point of announced profit alert ([link](#)) to rise by 60%-70%. 3Q NPAT grew 173.6% YoY to RMB13.2bn, driven by a surge in investment income and net fair value gains on top of a low base in 3Q23. Headline NBV rose 37.9% YoY to RMB14.2bn in 9M24, translating to the 3Q NBV on a like-for-like basis surged 75.3% YoY to RMB5.2bn. In 1Q-3Q24, we see accelerated growth of +30.7%/+13.5%/+75.3% YoY from the insurer's quarterly NBV. The exceptional NBV increase in 3Q was resulted from 1) consistent margin expansions driven by increasing par product sales and channel optimization, where NBV margin grew 6.2pct YoY to 20.1% in 9M24; 2) regular-paid new business sales (FYRP) recovered, with par sales doubled both in terms of NBV and FYRP in 3Q24, per mgmt. P&C CoR stayed flat at 98.7%, dragged by heightened catastrophic losses, which adversely affected commercial property, engineering and agriculture insurance. The mgmt. mentioned in call that 3Q catastrophic losses worsened the CoR by 3.0pct. **We revise up FY24-26E EPS forecasts by 29%/6%/3% to RMB4.45/3.93/4.25 ([table](#)) and raise the 12-month forward TP based on SOTP to HK\$35.5 ([table](#)), implying 0.5x FY24E P/Group EV (prev. 0.4x) and 1.1x FY24E P/BV (prev. 0.9x). We expect headline NBV to rise 37% YoY, and NPAT/OPAT growth at 57%/3% YoY in FY24. Maintain BUY.**

■ **Life NBV growth accelerated in 3Q24.** Headline NBV grew 37.9% YoY to RMB14.2bn in 9M24, with an increase on a like-for-like basis to be even higher. In 3Q, NBV surged 75.3% YoY to RMB5.2bn, driven by both margin expansions (+6.2pct) and rebounded regular-paid new sales (+15.2%). We estimate the NBV margin rose to 23.0% in 3Q24 (vs 9M24: 20.1%), +5.9pct YoY/ +15.0 pct QoQ. We attribute this margin expansion to: 1) elevated sales on floating interest rate products, i.e. participating and universal policies, which were supported by front-loaded demands before the PIR cut in Sep/Oct; and 2) strengthened regular-paid new sales, given evident FYRP increases in both agency (9M24: +12.4%/3Q24: +37%) and bancassurance (9M24: +23.2%). Total FYRP surged 1.38x YoY to RMB18.5bn in 3Q24, leading to a FYP rebound by +15% YoY (vs 2Q24: -29%). We expect full-year NBV to sustain the solid growth trend by +37% YoY (CMBI est), thanks to improved underwriting structure and more efficient channel mix.

■ **Expect strong par sales momentum extending to FY25 jumpstart.** According to mgmt., participating policy sales gained traction in Sep, prior to the settlement rate cut from 2.5% to 2.0% in Oct. Par FYRP doubled to RMB 800mn in 3Q24 (vs 1H24: c.RMB400mn), and increased another c.RMB400mn by end Oct. Per mgmt., we estimate the FYRP from participating product sales amounted to c.RMB1.6bn YTD, representing a substantial rise versus <RMB 100mn in 9M23. Looking ahead, upon completion of par products design for the FY25 jumpstart sales, we expect to see a continued uplift from par NBV and FYRP in 4Q24/FY25.

■ **Investment income boosted by net fair value gains.** The insurer held c.2.0% of total investment assets in insurance funds to FVOCI stocks, lower than that of FVTPL stocks and equity funds, proportioning to 7.1%/2.2% by 1H24. Net/total investment yield landed at 3.9%/6.3% in 9M24 (*annualized*), -0.1pct/+3.1pct YoY driven by 3Q equity market rally. Given a prospect of increasing high-yield stocks under FVOCI, we expect the insurer to benefit from a more stable net investment income. 3Q net fair value gains were RMB21.2bn (vs 3Q23: a net loss of 7.25bn).

■ **Valuation:** The stock is now trading at 0.4x FY24E P/EV and 0.9x FY24E P/BV, +1.7/+1.8STD above 3-year historical avg. **We revise up FY24-26E EPS forecasts by 29%/6%/3% to RMB4.45/3.93/4.25**, given a more certain outlook for full-year profitability and NBV growth, on top of improved underwriting channel and product mix. **Maintain BUY. We raise 12M-forward TP to HK\$35.5 ([table](#)), implying 0.5x FY24E P/EV (prev. 0.4x) and 1.1x FY24E P/BV (prev. 0.9x).**

BUY (Maintain)

Target Price **HK\$35.50**
 (Previous TP) HK\$28.30
Up/Downside **31.2%**
Current Price **HK\$27.05**

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Stock Data

| | |
|--------------------------|-------------|
| Mkt Cap (HK\$ mn) | 260,230.2 |
| Avg 3 mths t/o (HK\$ mn) | 458.9 |
| 52w High/Low (HK\$) | 33.15/12.92 |
| Total Issued Shares (mn) | 9620.3 |

Source: FactSet

Shareholding Structure

| | |
|------------------------------|------|
| Schroders PLC | 8.0% |
| Shanghai International Group | 7.2% |

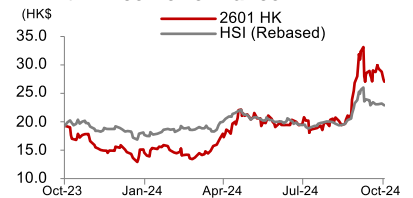
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -3.4% | 0.5% |
| 3-mth | 30.0% | 11.0% |
| 6-mth | 56.5% | 36.9% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PwC

Related reports:

- CPIC (2601 HK) - Steam ahead with doubled 2Q net profit and strong NBV uptrend; revise up TP, Sep 5, 2024 ([link](#))
- CPIC (2601 HK) - VNB growth accelerated; NP turned positive YoY, May 6, 2024 ([link](#))
- PICC P&C (2328 HK) - 3Q CoR miss dragged by non-auto claims, Oct 31, 2024 ([link](#))
- Ping An (2318 HK) - Robust 3Q doubled in NBV and earnings growth, Oct 23, 2024 ([link](#))
- China Insurance - 9M24 Monthly: Life growth normalized with highlights; P&C expected to see better UW profit, Oct 21, 2024 ([link](#))

Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|----------------------|--------|--------|--------|--------|--------|
| Net profit (RMB mn) | 38,222 | 27,911 | 43,585 | 38,479 | 41,615 |
| EPS (Reported)(RMB) | 2.56 | 2.83 | 4.45 | 3.93 | 4.25 |
| Consensus EPS (RMB) | n.a | n.a | 4.35 | 3.93 | 4.19 |
| P/B (x) | 1.0 | 1.0 | 0.9 | 0.8 | 0.7 |
| P/Embedded value (x) | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| Dividend yield (%) | 4.1 | 4.1 | 4.2 | 4.4 | 4.5 |
| ROE (%) | 12.6 | 12.2 | 16.2 | 13.0 | 12.9 |

Source: Company data, Bloomberg, CMBIGM estimates | Note: stock price data quoted by market close on 31/10/2024.

Changes in key forecast

| (RMB bn, %) | Current | | | Previous | | | Change (% , pct) | | |
|------------------------|---------|--------|--------|----------|--------|--------|------------------|--------|---------|
| | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E |
| EPS | 4.45 | 3.93 | 4.25 | 3.45 | 3.70 | 4.11 | 29.0% | 6.3% | 3.4% |
| Group NPAT | 42.80 | 37.81 | 40.86 | 33.17 | 35.58 | 39.51 | 29.0% | 6.3% | 3.4% |
| NBV | 14.99 | 16.15 | 17.42 | 12.83 | 13.56 | 14.40 | 16.8% | 19.0% | 21.0% |
| NBV margin (FYP basis) | 19.9% | 20.0% | 20.1% | 16.3% | 16.2% | 16.2% | 3.6pct | 3.8pct | 3.9pct |
| Group EV | 611.43 | 635.53 | 656.10 | 579.57 | 612.40 | 647.91 | 5.5% | 3.8% | 1.3% |
| ROE | 16.2% | 13.0% | 12.9% | 12.6% | 12.2% | 12.1% | 3.6pct | 0.9pct | 0.8pct |
| Operating RoEV | 12.3% | 11.3% | 11.2% | 11.6% | 10.9% | 10.9% | 0.7pct | 0.4pct | 0.3pct |
| CoR | 97.5% | 97.4% | 97.3% | 97.4% | 97.4% | 97.4% | 0.1pct | 0.0pct | -0.1pct |

Source: CMBIGM estimates

Valuation based on SOTP

| | |
|--------------------------------------|-------|
| Life Operating ROEV (fwd.3-year avg) | 11.6% |
| P&C ROE (fwd.3-year avg) | 14.0% |
| Terminal growth (%) | 3.0% |
| Long-term investment return | 4.0% |
| No. of shares outstanding (mn) | 9,620 |
| CNY/HKD assumption | 1.09 |

| (RMB mn, %) | Forward EV/BV | Ownership (%) | 2601.HK |
|---|----------------|---------------|----------------|
| FY24E L&H Embedded value, unadjusted | 472,842 | | |
| Adjustment reflecting risk discount rate change | (163,125) | | |
| Adjustment reflecting investment return change | (54,084) | | |
| FY24E L&H Embedded value, adjusted | 255,633 | 98.29% | 251,262 |
| PV(Total VNB) | | | 9,366 |
| Target valuation (RMB mn), appraisal value | | | 260,628 |
| Implied P/EV (x) | | | 0.55x |
| FY24E P&C Shareholders' equity | 66,249 | 100.00% | 66,249 |
| Target P/B (x) | | | 0.76x |
| Target valuation (RMB mn) | | | 50,270 |
| Group Co. and others | 36,875 | 100.00% | 36,875 |
| Target P/B (x) | | | 1.00x |
| Target valuation (RMB mn) | | | 36,875 |
| Total valuation | | | 347,772 |
| Conglomerate discount (%) | | | 10.0% |
| Target price (HK\$) | | | 35.50 |
| Implied P/BV (x) | | | 1.12x |
| Implied P/Group EV (x) | | | 0.51x |
| Implied P/OPAT (x) | | | 7.63x |

Source: CMBIGM estimates

Financial Summary

| INCOME STATEMENT | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|-------|-----------|-----------|-----------|-----------|-----------|
| YE 31 Dec (RMB mn) | | | | | | |
| Insurance revenue | | 249,745 | 266,167 | 279,616 | 298,338 | 318,898 |
| Insurance service expenses | | (213,988) | (231,023) | (241,112) | (256,709) | (273,423) |
| Net expenses from reinsurance contracts held | | (2,818) | (1,439) | (1,154) | (1,437) | (1,550) |
| Insurance service results | | 32,939 | 33,705 | 37,350 | 40,192 | 43,925 |
| Net finance (expenses)/income from insurance contracts | | (58,074) | (46,741) | (99,447) | (72,114) | (79,427) |
| Net finance (expenses)/income from reinsurance contracts | | 1,108 | 1,174 | 1,036 | 0 | 0 |
| Interest income | | 0 | 58,262 | 57,688 | 59,967 | 63,150 |
| Net investment income | | 77,048 | (4,273) | 63,724 | 26,615 | 31,673 |
| Other gains/(losses) from changes in fair value | | 24 | 23 | 1 | 0 | 0 |
| Net investment results | | 20,106 | 8,445 | 23,001 | 14,468 | 15,395 |
| Other income | | 3,984 | 4,129 | 4,073 | 4,183 | 4,375 |
| Other expenses | | (16,032) | (14,051) | (16,606) | (14,460) | (15,629) |
| Foreign exchange gains/losses | | 1,085 | 159 | 26 | 0 | 0 |
| Other results | | (10,963) | (9,763) | (12,507) | (10,277) | (11,254) |
| Profit before tax | | 42,483 | 32,001 | 47,162 | 43,954 | 47,633 |
| Income taxes | | (4,261) | (4,090) | (3,577) | (5,476) | (6,018) |
| Net profit | | 38,222 | 27,911 | 43,585 | 38,479 | 41,615 |
| Net profit attributable to shareholders | | 37,381 | 27,257 | 42,800 | 37,809 | 40,856 |

| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| YE 31 Dec (RMB mn) | | | | | | |
| ASSETS | | | | | | |
| Cash and amount due from banks and other financial institutions | 211,375 | 219,097 | 172,606 | 184,119 | 203,184 | 228,511 |
| Investments in associates and joint ventures | 26,984 | 25,829 | 23,184 | 23,990 | 26,474 | 29,774 |
| Property | 19,218 | 19,756 | 21,384 | 21,169 | 20,955 | 20,744 |
| Investment property | 7,514 | 11,202 | 10,667 | 10,767 | 11,882 | 13,363 |
| Insurance contract assets | 245 | 305 | 335 | 0 | 0 | 0 |
| Reinsurance contract assets | 31,983 | 33,205 | 39,754 | 42,913 | 49,406 | 56,987 |
| Financial investments: | 1,479,035 | 1,672,821 | 2,009,336 | 2,192,963 | 2,420,031 | 2,721,698 |
| At amortized cost: | 0 | 0 | 82,334 | 69,988 | 77,234 | 86,862 |
| At fair value through other comprehensive income: | 1,466,682 | 1,646,261 | 1,345,400 | 1,519,947 | 1,677,328 | 1,886,414 |
| At fair value through profit or loss: | 12,353 | 26,560 | 581,602 | 603,029 | 665,469 | 748,422 |
| Other assets | 26,674 | 34,849 | 32,433 | 85,436 | 201,959 | 392,843 |
| Cash and cash equivalents | 45,977 | 54,272 | 34,263 | 66,936 | 73,867 | 83,074 |
| Total assets | 1,849,005 | 2,071,336 | 2,343,962 | 2,628,293 | 3,007,757 | 3,546,994 |
| LIABILITIES | | | | | | |
| Customer deposits and payables to brokerage customers | 3,695 | 4,639 | 5,861 | 7,585 | 9,599 | 12,041 |
| Insurance contract liabilities | 1,486,435 | 1,664,848 | 1,872,620 | 2,117,820 | 2,438,241 | 2,812,376 |
| Obligations under repurchase agreements | 73,441 | 119,665 | 115,819 | 98,766 | 100,751 | 102,776 |
| Bonds payable | 9,995 | 9,999 | 10,285 | 10,102 | 10,102 | 10,102 |
| Other liabilities | 75,932 | 69,704 | 71,673 | 87,146 | 118,124 | 243,806 |
| Total liabilities | 1,650,242 | 1,869,664 | 2,076,258 | 2,321,419 | 2,676,817 | 3,181,101 |
| EQUITIES | | | | | | |
| Share capital | 9,620 | 9,620 | 9,620 | 9,620 | 9,620 | 9,620 |
| Reserves | 114,932 | 94,269 | 118,518 | 115,311 | 108,834 | 111,402 |
| Retained profits | 69,046 | 92,588 | 121,448 | 154,280 | 181,988 | 211,246 |
| Total shareholders' equity | 193,598 | 196,477 | 249,586 | 279,211 | 300,442 | 332,268 |
| Non-controlling interests | 5,165 | 5,195 | 18,118 | 27,663 | 30,499 | 33,625 |
| Total equity | 198,763 | 201,672 | 267,704 | 306,874 | 330,941 | 365,893 |
| Total liabilities & equity | 1,849,005 | 2,071,336 | 2,343,962 | 2,628,293 | 3,007,757 | 3,546,994 |

| PER SHARE DATA | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------|-------|-------|-------|-------|-------|-------|
| YE 31 Dec | | | | | | |
| DPS | 1.00 | 1.02 | 1.02 | 1.05 | 1.08 | 1.12 |
| EPS (Reported) | 2.79 | 2.56 | 2.83 | 4.45 | 3.93 | 4.25 |
| Consensus EPS | n.a | n.a | n.a | 4.35 | 3.93 | 4.19 |
| No. of shares basic | 9,620 | 9,620 | 9,620 | 9,620 | 9,620 | 9,620 |
| PROFITABILITY | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Return on equity (ROE) | 13.1% | 12.6% | 12.2% | 16.2% | 13.0% | 12.9% |
| Combined ratio | 99.0% | 97.0% | 97.7% | 97.5% | 97.4% | 97.3% |
| VALUATION | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| P/Embedded value (x) | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| P/B (x) | 1.1 | 1.0 | 1.0 | 0.9 | 0.8 | 0.7 |
| Dividend yield (%) | 4.0 | 4.1 | 4.1 | 4.2 | 4.4 | 4.5 |

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: stock price data quoted by market close on 31/10/2024.

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