

PICC P&C (2328 HK)

Optimized CoR guidance beat expectations

PICC P&C's full-year CoR missed, yet FY25E guidance beat. FY24 net profit amounted to RMB 32.2bn, up by 30.9% YoY, in line with our forecast ([link](#)). Full-year CoR was worse off to 98.8%, +1.0pct YoY due to a rise of loss ratio (+2.4pct) more than offset an optimized expense ratio (-1.4pct) to 73%/25.8% respectively. Auto CoR was 96.8%, down 0.1pct YoY, meeting the <97% year-start guidance, thanks to a better expense ratio (-2.3pct) offsetting the climb of claims (+2.2pct). Non-auto CoR missed the year-start guidance of <100% to 101.9%, +2.8pct YoY with 2H/4Q-implied CoR at 107.4%/123.6% per CMBI, up by 3.6pct/3.3pct YoY. The mgmt. mentioned in the post-earnings call that in FY24, net claims amounted to RMB 15.6bn, 51.2% higher than the recent 5-year average of RMB 10.3bn and grew 32% YoY compared to FY23. Underwriting profit dropped 44% YoY to RMB 5.7bn, with 4Q ending up in a UW loss at RMB 730mn. **During the call, the mgmt. shed light on a strong FY25E CoR guidance, with auto/non-auto CoR expected to be <96%/<99%, a beat.** DPS was RMB 0.54 per share, up by 10.4% YoY, with RMB 0.208 from interim dividend and RMB 0.332 for final dividend, indicating a payout at 37.3%. Looking ahead, we are positive about the insurer's cost-effective CoR mgmt. and sufficient reserves to absorb impact of potential catastrophes. Driven by improved CoR composition, **we revise up our FY25-27E EPS forecasts by 6%/11%/18% to RMB 1.58/1.74/1.93, and roll-forward to FY25E net book value to derive the new TP at HK\$15.8. Maintain BUY.**

■ **FY24 pressured underwriting caused by surging claims.** In FY24, total insurance revenue was RMB 485.2bn, up 6.1% YoY with auto/non-auto ISR each enhanced by 4.5%/8.8% YoY. P&C CoR was 98.8% in FY24, +1.0pct YoY due to the drag of an increase in loss ratio (+2.4pct) more than offset a lowered expense ratio (-1.4pct). 2H/4Q-implied CoR was worse off to 101.3%/100.6% per CMBI, +1.6pct/+3.1pct YoY. We attribute this to the rise up of non-auto CoR led by heightened catastrophic claims throughout the year. Commercial property/agriculture/A&H's CoR was up 9.6pct/3.9pct/1.8pct YoY to 113.4%/105.2%/99.5%, undertaking a UW loss or close to a breakeven. Auto CoR was better off in 4Q24 to 97.1% (vs 3Q: 97.4%) probably due to effective cost control, and non-auto CoR further deteriorated in 4Q to 123.6% (CMBI est). The mgmt. guided to improve auto/non-auto CoR to less than 96%/99% in FY25E, better than that of the last two year to be less than 97%/100%. We expect FY25E CoR at 97.2% with narrowed expenses to compensate for potential claims hikes.

■ **Investment income surged with fair value gains.** Total investment income surged 68% YoY to RMB 34.9bn, implying a yield of 5.5%, primarily driven by the fair value gains from allocations to FVTPL equities (up RMB 12.8bn YoY). FVOCI stocks grew 40.4% YoY to RMB 39.2bn, making up to 6% of insurance fund portfolio. Bond investments amounted to RMB 141.3bn, up by 49% YoY. Dividends from FVOCI stocks grew 6.7% YoY to RMB 4.1bn, supported by the insurer's high-yield stock strategy. The net-off impact on fair value changes in A/L to NAV was 1.9%, up 1.2pct YoY, better performed than most listed peers.

■ **Valuation:** The stock is trading at 1.09x FY25E P/B, with avg. 3-yr forward ROE at 13.5% and a yield at 4.7%. Considering CoR improvements, we revise up FY25-27E EPS estimates to RMB 1.58/1.74/1.93, +6%/+11%/+18% YoY, and roll-forward to FY25E net book value to derive a new TP at HK\$15.8 (prev. HK\$14.0). Maintain BUY. The new TP implies 1.19x FY25E P/B (prev. 1.09x).

Earnings Summary

| (YE 31 Dec) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---------------------|--------|--------|--------|--------|--------|
| Net profit (RMB mn) | 24,566 | 32,161 | 35,098 | 38,730 | 42,909 |
| EPS (Reported)(RMB) | 1.11 | 1.45 | 1.58 | 1.74 | 1.93 |
| Consensus EPS (RMB) | n.a | n.a | 1.52 | 1.65 | 1.83 |
| P/B (x) | 1.3 | 1.2 | 1.1 | 1.0 | 1.0 |
| Dividend yield (%) | 3.6 | 4.0 | 4.7 | 5.2 | 5.7 |
| ROE (%) | 10.8 | 13.0 | 13.1 | 13.5 | 14.0 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

| | |
|---------------|------------|
| Target Price | HK\$15.80 |
| (Previous TP) | HK\$14.00) |
| Up/Downside | 9.9% |
| Current Price | HK\$14.38 |

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (HK\$ mn) | 319,840.0 |
| Avg 3 mths t/o (HK\$ mn) | 448.7 |
| 52w High/Low (HK\$) | 14.88/9.09 |
| Total Issued Shares (mn) | 22,242.0 |

Source: FactSet

Shareholding Structure

| | |
|---------------------|------|
| Citigroup Inc. | 9.7% |
| JPMorgan Chase & Co | 6.0% |

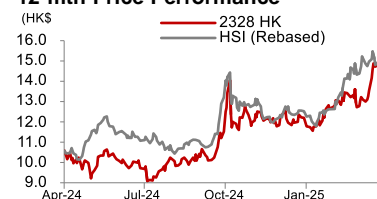
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 13.1% | 12.2% |
| 3-mth | 17.3% | 1.8% |
| 6-mth | 24.8% | 14.1% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Deloitte

Related reports:

1. PICC P&C (2328 HK) - 3Q CoR miss dragged by non-auto claims, Oct 31 2024 ([link](#))

2. PICC P&C (2328 HK) - CoR sequentially improved turning to positive 2Q net profit growth; first interim dividend in place, Aug 30, 2024 ([link](#))

3. PICC P&C (2328 HK) - 1Q24 catastrophe-induced claims fully released; FY24 CoR guidance sustained; exp. >40% payout, May7, 2024 ([link](#))

4. PICC P&C (2328 HK) - Non-auto CoR better than expected; sustain 40%+ payout in next two years, Apr 2, 2024 ([link](#))

5. 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](#))

Key forecasts

| (RMB bn, %) | Current | | | Previous | | | Change (% , pct) | | |
|-----------------------------|---------|-------|-------|----------|-------|-------|------------------|-------|-------|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| EPS | 1.58 | 1.74 | 1.93 | 1.49 | 1.56 | 1.64 | 5.9% | 11.8% | 18.0% |
| Group NPAT | 35.1 | 38.7 | 42.9 | 33.1 | 34.7 | 36.4 | 5.9% | 11.8% | 18.0% |
| BVPS | 12.33 | 13.13 | 14.06 | 12.1 | 12.9 | 13.8 | 2.0% | 2.0% | 2.0% |
| NAV | 274.2 | 292.1 | 312.7 | 268.7 | 286.3 | 306.4 | 2.0% | 2.0% | 2.0% |
| Combined ratio (%) | 97.2% | 96.6% | 96.2% | 97.6% | 97.4% | 97.3% | -0.4% | -0.8% | -1.1% |
| Auto combined ratio (%) | 96.0% | 95.9% | 95.7% | 96.4% | 96.2% | 96.0% | -0.3% | -0.3% | -0.3% |
| Non-auto combined ratio (%) | 98.9% | 97.8% | 96.9% | 99.2% | 99.0% | 99.4% | -0.3% | -1.2% | -2.5% |

Valuation

| (RMB bn, %) | 2328 HK | |
|-------------------------------|---------|-------|
| P&C insurance | FY25E | FY26E |
| Shareholders' equity (RMB bn) | 274.2 | 292.1 |
| Fair value P/B (x) | 1.18 | 1.16 |
| Cost of equity | 9.7% | 9.8% |
| Forward 3-year ROE (avg) | 13.5% | 13.5% |
| Long-term growth | 3.0% | 3.0% |
| Underwriting cycle discount | -25% | -25% |
| Fair value (RMB mn) | 323.8 | 337.8 |
| Fair value per share (HK\$) | 15.6 | 16.3 |
| Number of shares (mn) | 22,242 | |
| RMB/HKD | 1.07 | |
| Price Target (TTM, HK\$) | 15.8 | |
| Implied P/B (x) | 1.19x | |
| Implied P/E (x) | 9.33x | |
| Upside (%) | 9.9% | |
| Previous TP | 14.0 | |
| Chg. (%) | 12.9% | |

Key assumptions:

| | | |
|----------------------|--------|--------|
| Risk-free | 2.0% | 2.0% |
| Beta | 1.10x | 1.12x |
| Market risk premiums | 700bps | 700bps |
| COE | 9.7% | 9.8% |

Financial Summary

| INCOME STATEMENT | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| YE 31 Dec (RMB mn) | | | | | | |
| Insurance revenue | 424,355 | 457,203 | 485,223 | 507,074 | 536,826 | 574,586 |
| Insurance service expenses | (395,965) | (431,991) | (465,392) | (479,999) | (506,028) | (539,883) |
| Net expenses from reinsurance contracts held | (5,993) | (6,142) | (5,451) | (5,451) | (5,451) | (5,451) |
| Insurance service results | 22,397 | 19,070 | 14,380 | 21,624 | 25,347 | 29,251 |
| Net finance (expenses)/income from insurance contracts | (9,333) | (10,127) | (9,901) | (8,490) | (8,460) | (8,424) |
| Net finance (expenses)/income from reinsurance contracts | 1,301 | 1,246 | 1,234 | 1,222 | 1,209 | 1,197 |
| Interest income | 20,180 | 11,710 | 11,860 | 12,559 | 12,924 | 13,507 |
| Net investment income | (3,706) | 4,077 | 15,118 | 9,998 | 10,089 | 10,419 |
| Credit impairment losses | (500) | (423) | 911 | 0 | 0 | 0 |
| Net investment results | 7,942 | 6,483 | 19,222 | 15,289 | 15,762 | 16,699 |
| Other income | 1,064 | 195 | 254 | 267 | 280 | 294 |
| Other expenses | (1,818) | (2,203) | (1,763) | (1,851) | (1,944) | (2,041) |
| Foreign exchange gains/losses | 759 | 111 | (8) | (8) | (8) | (8) |
| Other results | (1,000) | (3,048) | (2,710) | (2,821) | (2,938) | (3,059) |
| Profit before tax | 34,021 | 28,035 | 38,015 | 41,428 | 45,728 | 50,675 |
| Income taxes | (4,912) | (3,469) | (5,854) | (6,330) | (6,998) | (7,766) |
| Net profit | 29,109 | 24,566 | 32,161 | 35,098 | 38,730 | 42,909 |
| Net profit attributable to shareholders | 29,164 | 24,585 | 32,173 | 35,109 | 38,743 | 42,923 |

| BALANCE SHEET | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|---|---------|---------|---------|---------|---------|---------|
| YE 31 Dec (RMB mn) | | | | | | |
| ASSETS | | | | | | |
| Investments in associates and joint ventures | 58,085 | 62,601 | 67,129 | 71,552 | 75,799 | 80,612 |
| Property | 30,332 | 29,527 | 29,825 | 31,316 | 32,882 | 34,526 |
| Investment property | 7,440 | 7,576 | 7,234 | 7,634 | 8,087 | 8,600 |
| Insurance contract assets | 611 | 2,885 | 1,713 | 1,799 | 1,889 | 1,983 |
| Reinsurance contract assets | 36,827 | 38,891 | 40,506 | 42,531 | 44,658 | 46,891 |
| Financial investments: | 405,001 | 450,381 | 499,897 | 533,227 | 566,394 | 602,353 |
| At amortized cost: | 113,790 | 126,192 | 136,060 | 145,192 | 154,223 | 164,014 |
| At fair value through other comprehensive income: | 154,285 | 180,142 | 243,771 | 260,132 | 276,312 | 293,854 |
| At fair value through profit or loss: | 140,730 | 144,047 | 120,066 | 127,904 | 135,859 | 144,484 |
| Loans and advances to customers | 73,657 | 57,785 | 77,156 | 76,283 | 79,603 | 84,656 |
| Deferred tax assets | 12,083 | 10,139 | 8,392 | 8,812 | 9,252 | 9,715 |
| Other assets | 27,176 | 27,312 | 27,022 | 28,373 | 29,792 | 31,281 |
| Cash and cash equivalents | 21,250 | 16,526 | 19,370 | 19,151 | 19,984 | 21,253 |
| Total assets | 672,462 | 703,623 | 778,244 | 820,678 | 868,340 | 921,870 |
| LIABILITIES | | | | | | |
| Insurance contract liabilities | 351,254 | 371,829 | 401,837 | 399,314 | 420,720 | 451,672 |
| Investment contract liabilities | 1,741 | 1,736 | 1,731 | 1,818 | 1,908 | 2,004 |
| Obligations under repurchase agreements | 41,690 | 40,037 | 39,642 | 40,435 | 41,244 | 42,068 |
| Current tax liabilities | 3,446 | 8 | 0 | 0 | 0 | 0 |
| Bonds payable | 8,097 | 8,365 | 20,433 | 21,455 | 22,527 | 23,654 |
| Lease liabilities | 1,484 | 1,316 | 1,301 | 1,366 | 1,434 | 1,506 |
| Other liabilities | 43,145 | 46,007 | 52,619 | 79,143 | 85,321 | 84,927 |
| Liabilities in disposal group held for sale | 450,857 | 469,319 | 517,622 | 543,595 | 573,226 | 605,911 |
| EQUITIES | | | | | | |
| Share capital | 22,242 | 22,242 | 22,242 | 22,242 | 22,242 | 22,242 |
| Reserves | 196,471 | 209,178 | 235,682 | 156,839 | 160,010 | 163,242 |
| Retained profits | 79,782 | 78,496 | 82,057 | 95,133 | 109,807 | 127,204 |
| Total shareholders' equity | 218,713 | 231,420 | 257,924 | 274,214 | 292,059 | 312,688 |
| Non-controlling interests | 2,892 | 2,884 | 2,698 | 2,868 | 3,055 | 3,271 |
| Total equity | 221,605 | 234,304 | 260,622 | 277,083 | 295,114 | 315,959 |
| Total liabilities & equity | 672,462 | 703,623 | 778,244 | 820,678 | 868,340 | 921,870 |

| PER SHARE DATA | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|------------------------|--------|--------|--------|--------|--------|--------|
| YE 31 Dec | | | | | | |
| DPS | 0.48 | 0.49 | 0.54 | 0.63 | 0.70 | 0.77 |
| EPS (Reported) | 1.31 | 1.11 | 1.45 | 1.58 | 1.74 | 1.93 |
| Consensus EPS | n.a | n.a | n.a | 1.52 | 1.65 | 1.83 |
| No. of shares basic | 22,242 | 22,242 | 22,242 | 22,242 | 22,242 | 22,242 |
| No. of shares diluted | 22,242 | 22,242 | 22,242 | 22,242 | 22,242 | 22,242 |
| PROFITABILITY | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 31 Dec | | | | | | |
| Return on equity (ROE) | 13.5% | 10.8% | 13.0% | 13.1% | 13.5% | 14.0% |
| Combined ratio (%) | 96.6% | 97.8% | 98.8% | 97.2% | 96.6% | 96.2% |
| Loss ratio | 69.4% | 70.6% | 73.0% | 72.5% | 72.1% | 71.8% |
| Expense ratio | 27.2% | 27.2% | 25.8% | 24.7% | 24.5% | 24.4% |
| VALUATION | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 31 Dec | | | | | | |
| P/B | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 | 1.0 |
| Dividend yield (%) | 3.6 | 3.6 | 4.0 | 4.7 | 5.2 | 5.7 |

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

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