

## Company Report: PICC Group (01339 HK)

公司报告: 人保集团 (01339 HK)

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# Increased Discount on Life and Health, Downgrade to "Neutral"

增加健康险和寿险上的折让, 下调至“中性”

- PICC Group's (01339 HK) unaudited 1-3Q2019 results were above our expectation.** 3Q2019 GWP grew 10.9% yoy to RMB117.4 bn, dragging down 1-3Q2019 growth to 12.3%. Growth slowdown was due to 2.0% yoy decline in 3Q2019 motor premiums. Life saw slight growth recovery with 3Q2019 premiums increasing 8.6% yoy to RMB15.9 bn. Health premiums continued robust growth. In regards to 3Q2019 net profit, P&C saw 66.7% yoy growth, while life experienced 148.1% yoy growth. Overall results were ahead of our expectation due to P&C underwriting recovery.
- PICC Life is taking measures to expand agency headcount and improve productivity, while PICC Health is transforming into an internet focused professional health insurer.** On the investor day, the management introduced progress of "3411" transformation strategy. Regarding PICC Life, the Company indicated that they have already finished organization transformation and agency integration and are now working on agent productivity improvement. As for PICC Health, it will apply a strategy of professionalization and internetization, which will be different from PICC Life.
- Lower PICC Group's target price to HK\$3.41 and downgrade rating to "Neutral".** Using sum-of-the-parts valuation, we increase target 2019F P/B for PICC P&C to 1.33x. However, we increase discount on life business and health business valuation. In addition, holding company discount has also been increased. Hence, our target price is set at HK\$3.41. Considering headwinds in motor insurance and time required for life and health transformation, we downgrade rating to "Neutral" from "Accumulate".
- 人保集团(01339 HK)的 2019 年前三季度未经审计的业绩好于我们的预期。**2019 年第三季度的总保费同比增长 10.9%至人民币 1,174 亿元, 将 2019 年前三季度的增长拖低至 12.3%。增长的放缓是因为车险保费在 2019 年第三季度 2.0%的同比下滑。寿险录得轻微的增长恢复, 2019 年第三季度保费同比增长 8.6%至人民币 159 亿元。健康险保费保持了高速增长。2019 年第三季度的利润方面, 财险录得 66.7%的同比增长, 同时寿险业实现了 148.1%的同比增长。总体业绩由于财险承保恢复而好于我们的预期。
- 人保寿险正采取措施增加代理人规模及改善产能, 同时人保健康也正转型成聚焦互联网的专业健康险公司。**在投资者开放日上, 管理层介绍了“3411”转型策略的进展。人保寿险方面, 公司指出他们已经完成了组织变革和队伍的融合, 目前正致力于增加队伍规模和提高代理人的产能。人保健康方面, 它将采取专业化健康险公司的策略, 不同于之前与人保寿险相同的发展道路。
- 下调人保集团的目标价至 3.41 港元并降低评级至“中性”。**在分部加总估值中, 我们调高了人保财险的 2019 年目标市净率至 1.33 倍。但是, 我们增加了对于寿险业务和健康险业务的折让。另外, 控股公司折让也被调高。因此, 我们的目标价定在 3.41 港元。考虑到车险上的不利因素和寿险及健康险转型所需要花费的时间, 我们将评级从“收集”降低至“中性”。

Rating:

**Neutral**

Downgraded

评级:

中性 (下调)

6-18m TP 目标价:

**HK\$3.41**

Revised from 原目标价:

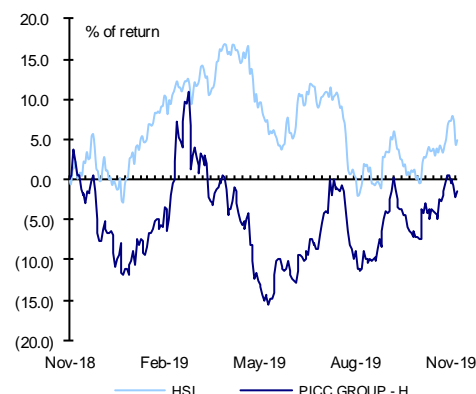
HK\$3.68

Share price 股价:

HK\$3.230

## Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	0.3	8.0	(6.1)
Rel. % to HS Index 相对恒指变动 %	0.1	3.0	(9.7)
Avg. share price (HK\$) 平均股价 (港元)	3.0	3.1	3.2

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2017A	476,447	16,099	0.380	11.8	7.0	3.242	0.8	0.039	1.5	12.2
2018A	498,608	12,912	0.300	(21.1)	9.4	3.461	0.8	0.046	1.6	8.9
2019F	551,174	22,256	0.503	67.7	5.7	3.918	0.7	0.101	3.5	13.6
2020F	618,546	19,243	0.435	(13.5)	6.6	4.253	0.7	0.109	3.8	10.7
2021F	689,605	21,064	0.476	9.4	6.1	4.620	0.6	0.119	4.1	10.7

Shares in issue (m) 总股数 (m)	44,224.0	Major shareholder 大股东	Ministry of Finance 60.8%
Market cap. (HK\$ m) 市值 (HK\$ m)	141,516.8	Free float (%) 自由流通比率 (%)	39.2%
3 month average vol. 3 个月平均成交股数 ('000)	25,975.7	FY19 Target P/EV (x) FY19 目标 P/EV (x)	0.5
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	3.850 / 2.880	FY19 Target P/B (x) FY19 目标市净率 (x)	0.8

Source: the Company, Guotai Junan International.

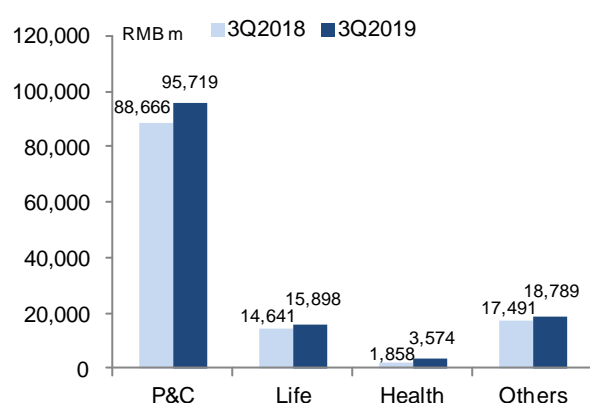
**PICC Group (01339 HK, the "Company") released unaudited 1-3Q2019 results, ahead of our expectation.** Gross written premiums (GWP) grew 10.9% yoy to RMB117.4 bn in 3Q2019, dragging down 1-3Q2019 growth to 12.3%. Growth slowdown was due to 2.0% yoy decline in 3Q2019 motor premiums as a result of the motor premiums deregulation and the sluggish motor market. Life saw slight growth recovery with 3Q2019 premiums increasing 8.6% yoy to RMB15.9 bn. Life premiums expansion in 3Q2019 was mostly driven by single premiums, which saw 118.6% yoy increase in 3Q2019. Health premiums continued robust growth with 3Q2019 premiums increasing 92.4% yoy to RMB3.6 bn, accelerating 1-3Q2019 growth to 51.0%. Investment income was up 20.7% yoy to RMB12.7 bn in 3Q2019, lifting 1-3Q2019 growth to 12.0%. As for 3Q2019 net profit, P&C saw 66.7% yoy growth, while life experienced 148.1% yoy growth. Overall results were above our expectation due to P&C underwriting recovery led by decline in motor insurance commission expense.

**Table-1: PICC Group's 1Q19 Results**

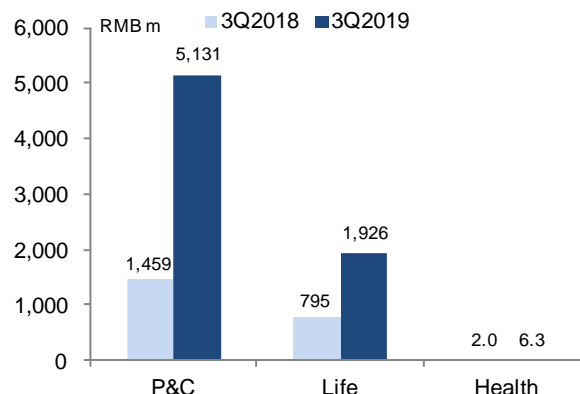
(RMB mn)	3Q2019	YOY%	1-3Q2019	YOY%
Gross written premiums	117,481	10.9	440,355	12.3
Net earned premiums	120,153	9.0	383,501	7.1
Investment income	12,744	20.7	36,915	12.0
Profit before tax	9,291	43.2	28,604	12.5
Shareholders' profit	5,851	148.9	21,368	76.3

Source: the Company.

Note: Results are based on PRC Accounting Standard for Enterprise Business.

**Figure-1: PICC Group's GWP by Segment**


Source: the Company, Guotai Junan International.

**Figure-2: PICC Group's Net Profit by Segment**


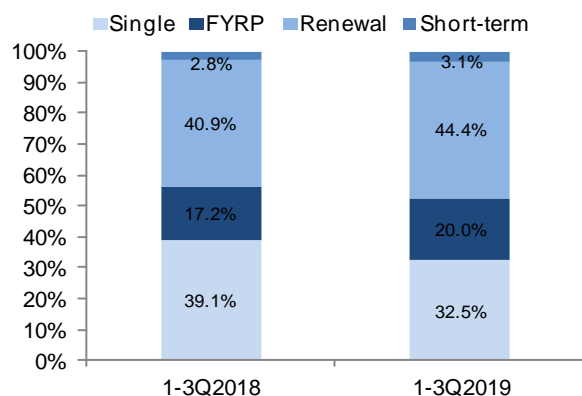
Source: the Company, Insurance Association of China.

Note: Net profit was based on quarterly solvency reports.

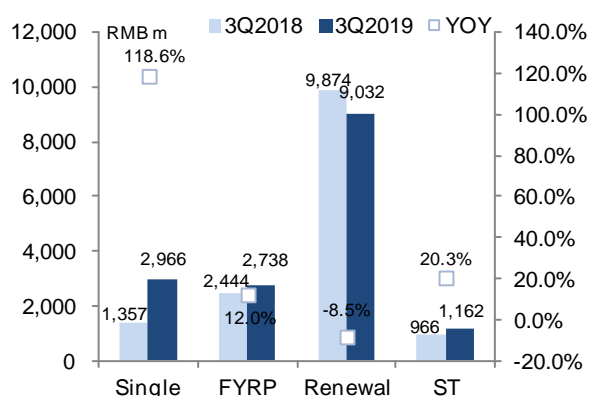
**Under PICC Group's ongoing transformations, PICC Life is taking measures to expand agency headcount and improve productivity, while PICC Health is transforming into an internet focused professional health insurer.** PICC Group held an investor day on November 1, in which the management introduced progress of the "3411" transformation strategy. Regarding PICC Life, the Company indicated that they have already finished organization transformation and agency integration. They are now working on agent productivity improvement by benchmarking with qualified peers. Over the past one year, business optimizations have been seen in long-term regular premiums growth as well as increase in protection business proportion. New business value contribution from agency channel also increased. In addition, the management expects agency headcount to reach 600,000 in 2020, while monthly active agent headcount is expected to reach 200,000. As for PICC Health, it will apply a strategy of professionalization and internetization in health insurance, which will be different from PICC Life. PICC Health plans to utilize internet channels to sell insurance to the 90s generation. Hence, we saw notable increase in 1-3Q2019 premiums. At last, the management said that with PICC P&C as the cornerstone of market cap, PICC Life is expected to be the new pillar of market cap, while PICC Health is expected to be the flash point.

**P&C saw premiums growth slowdown, but underwriting improved benefiting from decline in motor insurance commission.** P&C premiums increased 10.9% to RMB117.5 bn in 3Q2019, dragging down 1-3Q2019 growth to 12.3%. Motor line experienced 2.0% yoy decline in 3Q2019, whereas non-motor premiums maintained robust growth supported by 1.48x growth in credit insurance. Combined ratio was 97.9% in 1-3Q2019, while underwriting profit stood at RMB375.4 bn. Although loss ratio and expense ratio were not disclosed, we expect underwriting performance to recover in 3Q2019 as commission and G&A expense declined 15.9% while GWP increased 8.6% in 3Q2019. Benefiting from normalization of effective tax rate as a result of decline in commission rate, net profit realized 1.52x growth to RMB8.3 bn in 3Q2019.

**Single premiums supported 3Q2019 life growth and we don't expect strong resilience in 4Q2019 as focus should be shifted to the 2020 opening campaign.** Life premiums increased 8.6% yoy to RMB15.9 bn in 3Q2019, lifting 1-3Q2019 growth to 2.6%. The volume increase in 3Q2019 was mostly contributed by renewal premiums despite 8.5% yoy renewal premiums decline. Single premiums recorded steady expansion in 3Q2019, increasing 118.6% to RMB3.0 bn. PICC Life has already launched their preparation for the 2020 opening campaign. The focus in 4Q2019 should be shifted from product sales to preparation for 1Q2020. Therefore, 4Q2019 premiums growth should not see notable increase.

**Figure-3: PICC Life's Premiums by Type**


Source: the Company, Guotai Junan International.

**Figure-4: PICC Life's FYP by Structure**


Source: the Company, Guotai Junan International.

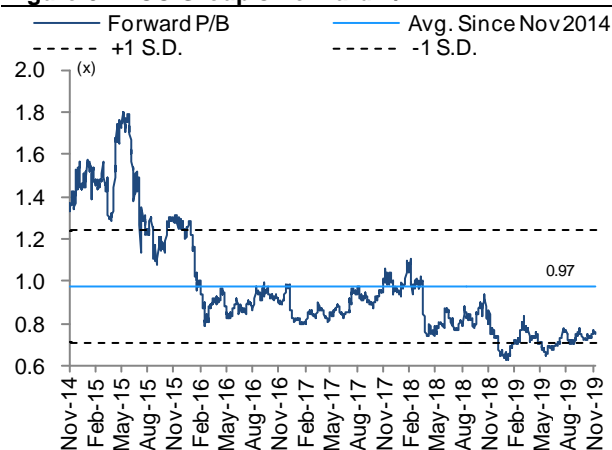
**Reduce 2019F premiums forecasts to reflect headwinds in motor insurance, whereas revise up 2019F net profit forecast due to P&C underwriting improvement.** Regarding premiums forecasts, we reduce 2019F forecast to reflect pessimistic view on motor premiums which declined 2.0% yoy in 3Q2019. In addition, we have lowered 2019F life premiums forecasts, whereas health premiums forecast in 2019F has been increased. As for net profit, P&C net profit forecasts have been increased considering motor underwriting improvement. However, we have reduced forecasts in life net profit forecasts for 2020F and 2021F. Hence, shareholders' profit forecast for PICC Group has been lifted by 5.7% in 2019F.

**Table-2: Earnings Forecasts**

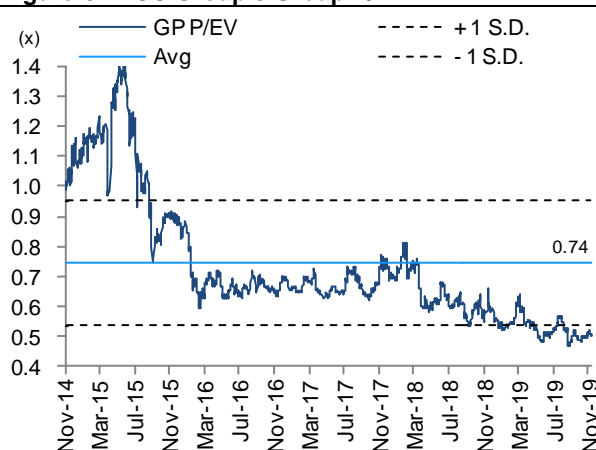
(RMB mn)	Updated			Previous			Change		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Gross written premiums	551,174	618,546	689,605	556,792	615,004	674,023	(1.0%)	0.6%	0.5%
Total investment income	45,805	49,141	51,621	46,790	50,144	52,497	(2.1%)	(2.0%)	3.4%
Total income	516,853	580,579	639,431	522,779	581,072	631,765	(1.1%)	(0.1%)	0.7%
Total benefits, claims and expenses	497,500	558,259	613,769	505,914	556,365	603,694	(1.7%)	0.3%	(0.0%)
Shareholders' profit	22,256	19,243	21,064	21,063	20,951	22,922	5.7%	(8.2%)	17.5%
EPS (RMB)	0.503	0.435	0.476	0.476	0.474	0.518	5.7%	(8.2%)	17.5%
BPS (RMB)	3.918	4.253	4.620	3.891	4.270	4.694	0.7%	(0.4%)	3.8%

Source: Guotai Junan International.

**Lower PICC Group's target price to HK\$3.41, and downgrade investment rating to "Neutral".** Using sum-of-the-parts valuation, we increase 2019F P/B target for PICC P&C to 1.33x. However, considering that PICC Life and PICC Health has sold plenty of medium to short-term premiums (3-5 years) in previous years, we increase discount on embedded value of life and health business to 45.0%. Regarding holding company discount, we also apply a higher discount of 30.0%. Hence, our target price is set at HK\$3.41. Considering headwinds in motor insurance and time required for transformation in life and health business, we downgrade investment rating to "Neutral" from "Accumulate".

**Figure-5: PICC Group's Forward P/B**


Source: Bloomberg, Guotai Junan International.

**Figure-6: PICC Group's Group P/EV**


Source: Bloomberg, Guotai Junan International.

**Table-3: Peers Comparison**

Company	Stock Code	Currency	Last price (in local \$)	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	Mkt Cap
				17A	18F	19F	20F	17A	18F	19F	20F			
People's Insurance Co Grou-H	01339 HK	HK\$	3.23	9.1	6.1	6.4	6.3	0.8	0.7	0.6	0.6	12.4	2.7	349,381
Manulife Financial Corp	00945 HK	HK\$	154.40	10.9	8.8	8.3	7.8	1.3	1.1	1.0	1.0	12.9	3.8	300,904
China Taiping Insurance Hold	00966 HK	HK\$	18.60	10.1	7.0	6.6	6.0	1.1	0.9	0.8	0.7	13.9	0.9	66,849
AIA Group Ltd	01299 HK	HK\$	77.75	45.9	18.9	16.9	14.9	3.1	2.5	2.3	2.1	14.9	1.7	939,904
New China Life Insurance C-H	01336 HK	HK\$	32.30	10.7	6.6	7.2	6.3	1.3	1.2	1.0	0.9	18.0	3.8	143,642
China Reinsurance Group Co-H	01508 HK	HK\$	1.28	12.0	8.9	8.0	7.0	0.6	0.6	0.6	0.5	7.0	5.1	53,949
Ping An Insurance Group Co-H	02318 HK	HK\$	91.45	12.8	9.3	9.3	8.2	2.6	2.2	1.9	1.6	25.7	2.9	1,744,649
PICC Property & Casualty-H	02328 HK	HK\$	9.70	11.8	7.8	8.0	7.3	1.3	1.2	1.1	1.0	16.4	4.4	215,755
Prudential Plc	02378 HK	HK\$	135.10	11.0	9.1	9.1	8.3	2.0	1.9	1.7	1.4	22.2	3.0	351,249
China Pacific Insurance Gr-H	02601 HK	HK\$	29.45	12.5	8.3	8.6	7.8	1.6	1.4	1.3	1.2	18.0	5.4	331,223
China Life Insurance Co-H	02628 HK	HK\$	20.75	44.9	9.4	12.0	10.7	1.6	1.4	1.3	1.2	15.4	3.7	958,259
ZhongAn Online P&C Insuran-H	06060 HK	HK\$	23.65	n.a.	n.a.	181.9	40.1	2.0	2.1	2.0	1.9	(3.2)	0.0	34,761
Simple Average				17.4	9.1	23.5	10.9	1.6	1.4	1.3	1.2	14.5	3.1	
Weighted Average				23.5	10.5	11.7	9.7	2.1	1.8	1.6	1.4	18.8	3.1	

Source: Bloomberg, Guotai Junan International. Prices as at November 13, 2019.

**Financial Statements and Ratios**

Income Statement					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Gross written premiums	476,447	498,608	551,174	618,546	689,605
Net earned premiums	434,977	455,347	480,571	540,037	596,991
Investment income	36,476	29,527	32,763	35,577	37,515
Other income	12,322	13,723	3,519	4,965	4,925
Total income	483,775	498,597	516,853	580,579	639,431
Net claims and policyholders' benefits	318,841	318,625	349,991	391,077	431,570
Handling charges and commissions	68,094	81,728	61,876	69,763	79,647
Other costs	72,316	76,434	83,427	90,381	95,237
Total benefits, claims and expenses	464,820	483,342	497,500	558,259	613,769
Share of profit of associates	12,674	12,540	13,042	13,563	14,106
Loss on deemed disposal of an associate	(798)	(737)	0	0	0
Profit before tax	30,831	27,058	32,395	35,883	39,768
Income tax	(7,780)	(8,343)	(136)	(7,992)	(9,237)
Profit after tax	23,051	18,715	32,259	27,891	30,531
Non-controlling interest	6,952	5,803	10,003	8,648	9,467
Shareholders' profit / loss	16,099	12,912	22,256	19,243	21,064
Basic EPS (RMB)	0.380	0.300	0.503	0.435	0.476
Diluted EPS (RMB)	0.380	0.300	0.503	0.435	0.476

Cash Flow Statement					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Operating activities					
Profit before tax	30,831	27,058	32,395	35,883	39,768
Investment income	(36,476)	(29,527)	(32,259)	(27,891)	(30,531)
Share of profits of associates	(12,674)	(12,540)	(13,042)	(13,563)	(14,106)
Increase in insurance contract liabilities	21,311	3,387	48,685	43,179	59,617
Others	(3,617)	(5,181)	(37,247)	(29,882)	(47,152)
Cash from operating activities	(625)	(16,803)	(1,469)	7,726	7,596
Investing activities					
Interest income received	28,721	30,284	32,155	33,897	35,737
Dividend income received	6,016	6,432	3,626	3,218	3,242
Net change in investment	(30,413)	(17,328)	(40,000)	(40,000)	(40,000)
Others	17,546	(33,995)	(5,196)	(5,886)	(7,406)
Cash from investing activities	21,870	(14,607)	(9,415)	(8,771)	(8,428)
Financing activities					
Issue of shares	0	5,848	0	0	0
Issue of bonds payable	29	0	0	0	0
Interest paid	(3,763)	(4,185)	(4,765)	(4,765)	(4,765)
Dividends paid	(2,885)	(3,262)	(3,612)	(6,042)	(6,401)
Others	11,660	21,663	22,619	15,643	16,738
Cash from financing activities	5,041	20,064	14,243	4,836	5,572
Net changes in cash	26,286	(11,346)	3,359	3,791	4,740
Cash at beg of year	46,729	72,819	61,601	64,960	68,751
Exchange rate changes	(196)	128	0	0	0
Cash at end of year	72,819	61,601	64,960	68,751	73,491

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalents	72,819	61,601	64,960	68,751	73,491
Term deposits	70,706	98,653	104,033	110,103	117,694
Debt securities	274,361	289,736	305,537	323,365	345,658
Equity securities	92,869	97,105	102,401	108,376	115,847
Other investment assets	342,645	348,367	367,365	388,801	415,605
Total investment assets	853,400	895,462	944,296	999,396	1,068,294
Other assets	134,506	136,173	177,349	196,073	218,728
Total assets	987,906	1,031,635	1,121,645	1,195,470	1,287,022
Insurance contracts liabilities	557,011	559,217	607,902	651,080	710,697
Investment contracts liabilities	45,880	41,808	38,978	37,755	35,119
Bonds payable	49,801	57,732	65,732	65,732	65,732
Other liabilities	148,333	166,577	178,237	190,714	204,064
Total liabilities	801,025	825,334	890,849	945,282	1,015,612
Total shareholders' equity	137,533	153,053	173,288	188,080	204,333
Minority interest	49,348	53,248	57,508	62,108	67,077
Total equity	186,881	206,301	230,796	250,188	271,410

Financial Ratios					
(RMB m)	2017A	2018A	2019F	2020F	2021F
Insurance operation (%)					
Life GWP yoy	1.1	(11.8)	3.2	12.2	15.1
Life FYP yoy	26.0	(17.0)	17.6	13.1	13.4
Health GWP yoy	(16.4)	(23.1)	56.7	40.4	29.2
Health FYP yoy	57.1	152.2	294.5	14.8	14.8
Investments (%)					
Investment income growth	10.3	(19.1)	11.0	8.6	5.4
Investment assets growth	5.7	4.9	5.5	5.8	6.9
Embedded value (%)					
Life EV yoy	7.6	14.1	17.6	11.5	12.5
Life NBV yoy	36.5	2.1	10.9	17.4	15.6
New business margin (APE)	21.5	27.9	29.3	30.8	31.7
New business margin (FYP)	7.6	11.9	13.8	15.3	16.2
Profitability (%)					
ROAE	12.2	8.9	13.6	10.7	10.7
ROAA	1.7	1.3	2.1	1.7	1.7
Per share data (RMB)					
Life and health EV per share	1.6	1.8	2.1	2.4	2.7
Life NBV per share	0.1	0.1	0.2	0.2	0.2
BPS	3.2	3.5	3.9	4.3	4.6
DPS	0.0	0.0	0.1	0.1	0.1
Dividend payout ratio (%)	10.4	15.2	20.0	25.0	25.0
Valuation metrics (x)					
Current P/BPS	0.8	0.8	0.7	0.7	0.6
Current P/ EV (calculated)	0.6	0.5	0.5	0.5	0.4
TP P/BPS	0.9	0.9	0.8	0.7	0.7
TP P/ EV (calculated)	0.6	0.6	0.5	0.5	0.4

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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