Ping An Insurance Co. of China Ltd. (PNGAY)

Updated March 12th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	13.0%	**Market Cap:**	$186 B
Fair Value Price:	$24	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	05/22/20
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.5%	**Dividend Payment Date:**	07/08/20
Dividend Yield:	2.7%	**5 Year Price Target**	$33	**Years Of Dividend Growth:**	8
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	8.0%

Overview & Current Events

Ping An Insurance Company of China, one of the leading insurers in the country, was founded in 1988. The technology-powered personal financial services group has more than 190 million retail customers and more than 500 million Internet users, making the firm one of the largest financial services companies in the world. Ping An has two strategies, "pan financial assets" and "pan healthcare," which focus on financial and healthcare services through the company's financial services platform, along with its five ecosystems: financial services, healthcare, auto services, real estate services, and Smart City services. The Life and Health Insurance segment is the largest business, and represents over half of the company's operating profit. As a Chinese company, Ping An Insurance reports its results in Chinese Yuan, but all numbers in this report are in USD, unless noted otherwise.

During the last fiscal year, Ping An generated revenues of $154 billion, which was up from $142 billion during the previous year. This strong growth rate was possible thanks to another meaningful increase in the amount of the company's retail customers, while the internet user base grew by more than 10% during the same time frame on top of that. Margin increases played a role in driving Ping An's profits during 2019, as net profits rose to 149 billion Yuan, which equates to $21.8 billion, during fiscal 2019, driven by business growth and rising margins. Analysts had forecasted an even stronger earnings growth rate, however, as the consensus estimate was calling for 157 billion Yuan in net profits.

Ping An managed to grow its earnings-per-ADR at a massive pace during 2019, as earnings-per-ADR totaled $2.44 during fiscal 2019, which was up more than 35% from the previous year's level, with growing net profits being the key factor, whereas a share count increase was a small headwind for net profitability.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPADR	$0.34	$0.36	$0.36	$0.52	$0.72	$0.86	$1.02	$1.46	$1.75	$2.44	***$2.50***	***$3.51***
DPADR	$0.08	$0.06	$0.07	$0.09	$0.11	$0.15	$0.22	$0.44	$0.50	$0.54	***$0.54***	***$0.83***
Shares[1]	15.1	15.6	15.9	15.8	15.9	18.2	17.8	17.9	17.9	18.1	***18.2***	***18.5***

Ping An's core businesses continue to perform well, and have a long growth runway ahead. China is a huge emerging market, with a population above 1 billion, and a high rate of economic growth. As a result, Life and Health Insurance – which make up the majority of the company's operating profit - should see plenty of future growth.

In addition, Ping An's technology innovations, centered on fintech and health technologies, will also boost its growth. In recent years, the company's fintech and "healthtech" businesses reported strong revenue growth rates, although it should be noted that these technology-driven businesses still represent a small portion of company-wide operating profits. Ping An's more notable growth initiatives include Ping An Good Doctor, which is a healthcare technology venture focused on providing online family doctor services, and Ping An Healthcare Technology, which provides smart cost control and social insurance-related services in over 200 cities in China. The combination of customer growth, margin increases, and its tech investments should result in solid earnings growth over the coming years. Collectively, we expect 7% annual earnings growth over the intermediate-term as the company continues to ride the Chinese growth tailwind.

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[1] In Billions of Shares, One ADR Equals 2 Shares

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	33.0	18.2	23.9	17.3	14.2	12.8	9.8	14.3	9.9	9.8	***8.0***	***9.5***
Avg. Yld.	0.7%	0.9%	0.8%	1.0%	1.1%	1.4%	2.2%	2.1%	2.9%	2.3%	***2.7%***	***2.5%***

Ping An's valuation has varied significantly over the past decade, as earnings remained relatively stagnant for a few years, before increasing significantly between 2013 and 2019. Due to its solid growth outlook, Ping An deserves a valuation that is not especially low, but Coronavirus worries have driven down valuations of most Chinese stocks, which is why we believe that upside potential is somewhat limited for the foreseeable future, until the outcome is more clear.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	23.5%	16.7%	19.4%	17.3%	15.3%	17.4%	21.6%	30.1%	28.6%	22.1%	***21.6%***	***23.7%***

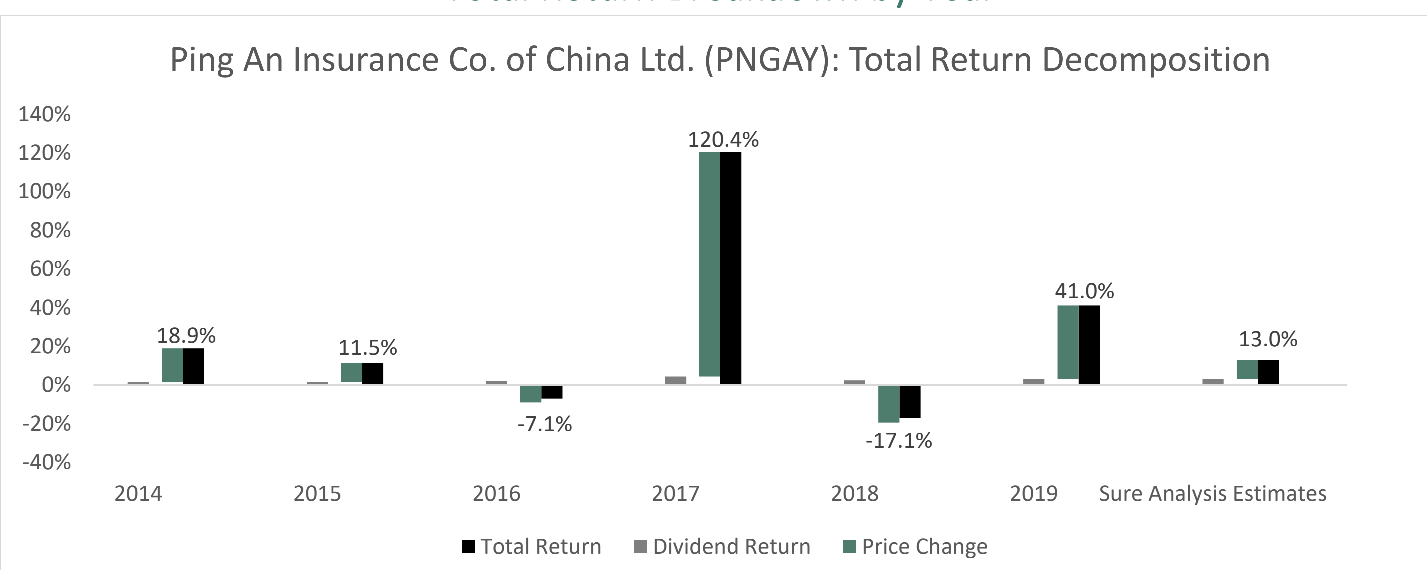
Ping An has paid out between 15% and 30% of its annual net profits throughout the last decade. The company has grown its dividend very regularly, as dividend payments rose by several hundred percent between 2009 and 2019. Due to the low dividend payout ratio the risk of a dividend cut seems negligible for the foreseeable future.

Ping An has significant competitive advantages, namely its strong brand and industry position. The company also continues to grow its customer base regularly. Ping An is a highly profitable insurance company, generating cash flow from two sources; premium income as well as investment income from accumulated premiums not paid out as claims. Ping An is well-diversified among a variety of financial, healthcare and technology related segments. The company also performed well during the Great Recession thanks to its diversified model, and we expect that to be the case again.

Final Thoughts & Recommendation

Ping An's share price has dropped a lot over the last couple of months, as Chinese equity markets were hit by coronavirus worries. Ping An has a number of attractive qualities, including a solid long-term growth outlook, thanks to its top positioning in a premier emerging market. Ping An also has an excellent financial position, and a solid dividend with the potential for meaningful dividend growth. At the current price we rate Ping An a buy.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue ($B)	21.11	27.14	35.72	42.15	52.39	66.73	88.11	95.94	120.57	134.68
SG&A Exp.	3289	4316	6668	9166	11247	13901	17942	19526	20706	22342
D&A Exp.	209	208	334	510	546	598	635	718	830	1032
Net Profit	2035	2552	3010	3173	4578	6374	8626	9372	13205	16247
Net Margin	9.6%	9.4%	8.4%	7.5%	8.7%	9.6%	9.8%	9.8%	11.0%	12.1%
Free Cash Flow	13144	19993	10812	43135	35420	25432	18953	31723	15123	29588
Income Tax	797	650	1151	884	1660	2340	4494	3311	5153	6459

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	136.99	176.65	361.10	455.68	554.49	645.79	734.03	802.97	994.54	1038.4
Cash & Equivalents	15701	14942	39572	71878	62156	78759	84983	96055	96315	79734
Acc. Rec. ($B)	2.51	3.45	37.51	30.82	57.84	88.38	112.74	134.29	172.91	37.09
Goodwill & Int.	1867	1470	5286	5982	7243	6905	6506	8234	8261	7254
Total Liab. ($B)	123.56	159.02	334.02	422.09	514.93	588.75	670.32	732.93	904.49	938.99
Accounts Payable	1897	2217	15520	6332	8998	10522	11028	12240	14369	10473
LT Debt ($B)	4.13	3.91	10.77	17.23	19.56	26.36	57.85	79.15	123.98	141.44
Total Equity	12440	16891	20677	25572	30149	46681	51488	55210	72503	80900
D/E Ratio	0.33	0.23	0.52	0.67	0.65	0.56	1.12	1.43	1.71	1.75

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.7%	1.6%	1.1%	0.8%	0.9%	1.1%	1.3%	1.2%	1.5%	1.6%
Return on Equity	18.6%	17.4%	16.0%	13.7%	16.4%	16.6%	17.6%	17.6%	20.7%	21.2%
ROIC	14.3%	13.1%	10.1%	7.2%	8.3%	8.9%	8.4%	6.9%	7.3%	7.1%
Shares Out.	14,614	15,053	15,580	15,850	15,816	15,902	18,188	17,826	17,853	17,870
Revenue/Share	2.87	3.61	4.58	5.32	6.61	7.95	9.69	10.73	13.51	15.07
FCF/Share	1.79	2.66	1.39	5.44	4.47	3.03	2.08	3.55	1.69	3.31

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.