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

Updated May 4th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	12.4%	**Market Cap:**	$190B
Fair Value Price:	$23	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	05/22/20
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.8%	**Dividend Payment Date:**	07/08/20
Dividend Yield:	2.9%	**5 Year Price Target**	$32	**Years Of Dividend Growth:**	9
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	7.4%

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 first quarter, Ping An continued to generate solid business growth on an operational basis. Its customer count rose by 8.7 million, with one-third of those customers being sourced online. There are now more than 530 million users in Ping An's ecosystem. Ping An's revenues totaled $49 billion during the first quarter. Despite the coronavirus crisis that started in China, Ping An was able to grow its operating profits during the first quarter in local currency, to RMB36 billion, which equates to $5.0 billion. This represents an increase of 5% versus the previous year's quarter. This shows that Ping An's business is not really cyclical or threatened during recessions, as customers still require insurance policies.

Ping An's earnings-per-ADR totaled $0.40. Results were down versus the previous year's quarter, despite the solid operational growth that the company achieved throughout the last year, mostly due to one-time accounting charges during the quarter. It is expected that profits will only take a temporary hit during the current quarter.

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	***$2.30***	***$3.23***
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***

During the last ten years, Ping An delivered outstanding profit and dividend growth that was quite consistent. 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 well 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, and Ping An Healthcare Technology, which provides smart cost control and social insurance-related services in China. The combination of customer growth, margin increases, and its tech investments should result in solid earnings growth over the coming years. 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	***8.7***	***10.0***
Avg. Yld.	0.7%	0.9%	0.8%	1.0%	1.1%	1.4%	2.2%	2.1%	2.9%	2.3%	***2.9%***	***2.6%***

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 on the other hand, governance issues in China and the fact that valuations are rather low in the insurance industry overall, mean that our fair value estimate is not much higher than the current price.

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%	***23.5%***	***25.8%***

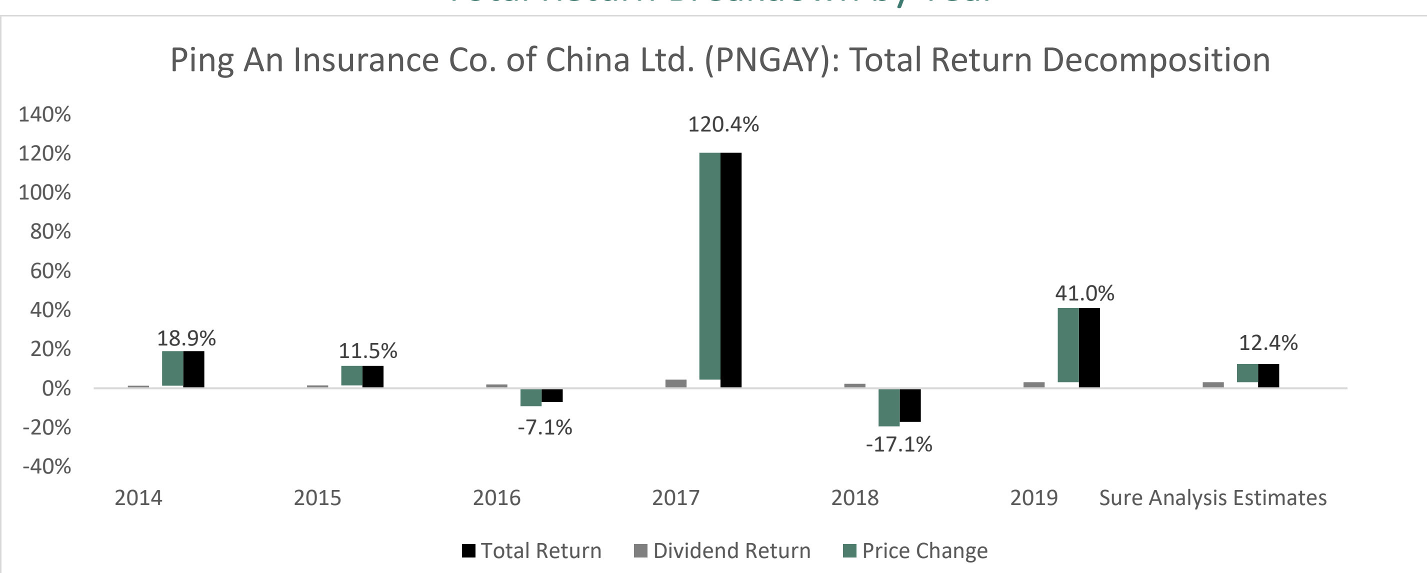
Ping An has paid out between 15% and 30% of its annual net profits throughout the last decade. The company has grown its dividend very regularly, as dividend payments rose by several hundred percent between 2009 and 2020. Due to the low dividend payout ratio, the risk of a dividend cut seems negligible 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 seems to be able to weather this crisis quite well, though, as its operating profits continued to rise during the most recent quarter. China also has already reopened its economy, thus the hit to Ping An's operations looks negligible. Shares trade below fair value and offer sizeable returns, which is why we rate the stock 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue ($M)	27141	35715	42152	52387	66728	88512	95938	120567	134679	153877
SG&A Exp.	4316	6668	9166	11247	13901	17942	19526	20706	22342	25030
D&A Exp.	208	334	510	546	598	635	718	830	1032	1039
Net Profit	2552	3010	3173	4578	6374	8626	9372	13205	16247	21630
Net Margin	9.4%	8.4%	7.5%	8.7%	9.6%	9.7%	9.8%	11.0%	12.1%	14.1%
Free Cash Flow	19993	10812	43135	33667	25432	18953	31723	15123	29588	34345
Income Tax	650	1151	884	1660	2340	4494	3311	5153	6459	2950

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($M)	176646	361097	455680	554485	645793	734025	802974	994544	1038372	1175237
Cash & Equivalents	14942	39572	71878	62156	78759	84983	96055	96315	79734	75674
Acc. Rec. ($M)	2670	35851	28707	54673	86401	110368	131793	168579	40664	46328
Goodwill & Int.	1470	5286	5982	7243	6905	6506	8234	8261	7254	6962
Total Liab. ($M)	159024	334025	422092	514931	588754	670319	732932	904493	938991	1053415
Accounts Payable	1948	13996	4490	6175	6320	7120	8701	9668	9737	11086
LT Debt ($M)	3909	10771	17227	19562	26362	57846	79148	123981	141435	167019
Total Equity	16891	20677	25572	30149	46681	51488	55210	72503	80900	96210
D/E Ratio	0.23	0.52	0.67	0.65	0.56	1.12	1.43	1.71	1.75	1.74

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.6%	1.1%	0.8%	0.9%	1.1%	1.3%	1.2%	1.5%	1.6%	2.0%
Return on Equity	17.4%	16.0%	13.7%	16.4%	16.6%	17.6%	17.6%	20.7%	21.2%	24.4%
ROIC	13.1%	10.1%	7.2%	8.3%	8.9%	8.4%	6.9%	7.3%	7.1%	8.2%
Shares Out.	15.1	15.6	15.9	15.8	15.9	18.2	17.8	17.9	17.9	18.1
Revenue/Share	3.61	4.58	5.32	6.61	7.95	9.73	10.73	13.51	15.07	17.26
FCF/Share	2.66	1.39	5.44	4.25	3.03	2.08	3.55	1.69	3.31	3.85

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