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

Updated December 8th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	12.7%	**Market Cap:**	$236B
Fair Value Price:	$30	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	05/07/21
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.6%	**Dividend Payment Date:**	06/18/21
Dividend Yield:	2.3%	**5 Year Price Target**	$42	**Years Of Dividend Growth:**	10
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	6.7%

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 214 million retail customers and more than 578 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 Q3-2020, Ping An continued to capitalize on its expansion strategy, growing on an operational basis. Its customer count grew by 7% or 14 million, to 214 million with 30% of those customers being sourced online. There are now more than 578 million users in Ping An's ecosystem. Quarterly revenues amounted to $47.62 billion, expanding by around 7.9% YoY. The strong turnover resulted from robust customer growth despite the ongoing pandemic, as well as the company's technology business contributing 8.3% higher sales, reaching $9.95B. Premiums and annuity revenues also grew on the back of more customers. The company's robust sales proved that Ping An is able to stand well even during adverse times, such as those including COVID-19's challenges. Ping An's earnings-per-ADR totaled $0.58, versus $0.50 in Q3-2019, due to higher revenues as well as operating margins expansion resulting from Ping An's economies of scale.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPADR	$0.06	$1.38	$2.34	$2.72	$3.28	$3.88	$3.62	$3.83	$3.02	$3.19	***$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	***$0.57***	***$0.80***
Shares[2]	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 profits and 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 economic growth rate. As a result, Life and Health Insurance – which make up the majority of the company's operating profit - should continue delivering solid results in the medium term. 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 "health-tech" businesses reported strong revenue growth rates. However, it should be noted that these technology-driven businesses still represent a small portion of company-wide operating profits. Despite analyst estimates for a dividend cut, management reassured investors by increasing its DPS by 6.7% due to strong cash flows and better than expected results. To price in the better-than expected COVID-19 recovery timeframe, we are raising both our EPS and DPS growth estimates to 7% (previously 5% and 6 %,) powered by Q3's robust growth metrics in all business segments.

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[1] Estimated dividend dates based on past dividend dates.

[2] 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	18.2	23.9	17.3	14.2	12.8	9.8	14.3	9.9	9.8	***10.9***	***13.0***
Avg. Yld.	0.70%	0.90%	0.80%	1.00%	1.10%	1.40%	2.20%	2.10%	2.90%	2.30%	***2.3%***	***1.9%***

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. Despite governance issues in China, which partially cause valuations to be retained low in the insurance industry overall, we can see a higher multiple being attached in the medium term, amid Ping An's rapidly growing technology segments. Indeed, since our last report the stock's valuation has expanded notably from 9 to nearly 11 times its net income. With multiple synergies to be achieved, digitalizing the insurance and healthcare industry, we believe that a future P/E of around 13 is a fair valuation for the insurance giant. Therefore, we currently view shares as undervalued, despite the recent valuation expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

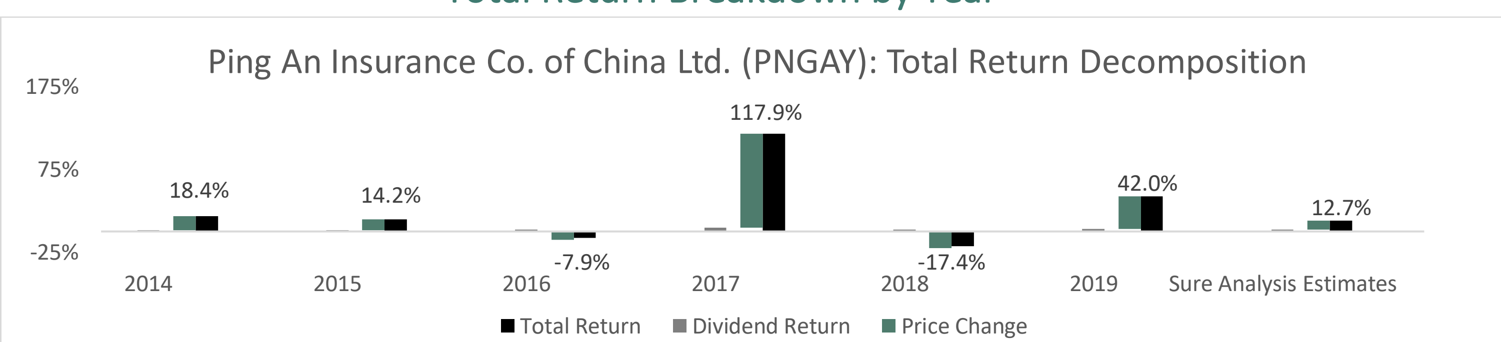
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	133%	4%	3%	3%	3%	4%	6%	11%	17%	17%	***25%***	***25%***

Ping An has maintained a low payout ratio of the past decade, retaining most of its earnings to be reinvested for future growth. Even with this year's reduced earnings, the dividend remains well-covered. Management's latest increase should further reassure investors of its safety. Additionally, the company managed to increase its customers in all segments, which is utterly impressive considering the pressurized consumer spending as a result of COVID-19. The company has been developing significant competitive advantages, owning a well-known household brand name in the sector. Despite the industry's competition, Ping An continues to grow its customer base regularly. Further, its robust underlying cash flows from premiums should maintain consistent profitability, increasing shareholder value over time. By operating through a well-diversified portfolio of financial, healthcare, and technology services the company should not suffer from any adverse effects in its sales if one of them faces temporary challenges. This was the case during the Great Recession, when Ping An performed well, despite the adverse economic conditions.

Final Thoughts & Recommendation

Ping An delivered a robust Q3, reassuring investors that its growth remains active despite the pandemic's challenges. Our valuation expansion projections have started materializing, however, due to a higher stock price our expected medium-term returns have also been lowered. Still, considering the potential for a further valuation expansion amid the company's rapidly growing tech segments, we believe the shares can still deliver annualized double-digit returns amounting to around 12.7%, over the medium term, powered by our increased, but still humble growth estimates.

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.