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

Updated February 8th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$23.66	**5 Year CAGR Estimate:**	14.3%	**Market Cap:**	$220B
Fair Value Price:	$30.0	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	05/07/21
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.9%	**Dividend Payment Date[2]:**	06/18/21
Dividend Yield:	2.8%	**5 Year Price Target**	$42	**Years Of Dividend Growth:**	10
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	7.3%[3]

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 218 million retail customers and more than 598 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 Q4-2020, Ping An continued executing on its growth strategy, expanding further on an operational basis. Its customer count grew by 9% or 18 million, to 218 million with 36% of those customers being sourced online. There are now more than 598 million users in Ping An's ecosystem. Annual revenues amounted to $200 billion, growing by around 3.8% YoY. Despite the ongoing pandemic, the company's results remains robust as its business developments and insurance business continued their positive trajectory. The company's technology business, for instance, contributed 78% higher operating profit, reaching $1.27 billion. Premiums and annuity revenues also grew on the back of more customers. While the company's tech segments and increased customers sustained revenues, increased costs and weaker premiums written led in temporarily weaker profitability. Hence earnings-per-ADR totaled $2.44, versus $3.19 in FY2019. Considering the underlying business kept expanding and management is now focused on cost reduction, we expect a FY2021 EPADR of around $3.00, closer to its pre-COVID-19 levels. We also expect FY2021 DPADR at ~$0.66.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPADR	$1.38	$2.34	$2.72	$3.28	$3.88	$3.62	$3.83	$3.02	$3.19	$2.44	***$3.00***	***$4.21***
DPADR	$0.06	$0.07	$0.09	$0.11	$0.15	$0.22	$0.44	$0.50	$0.54	$0.60	***$0.66***	***$0.93***
Shares[4]	15.6	15.9	15.8	15.9	18.2	17.8	17.9	17.9	18.1	18.2	***18.2***	***18.5***

During the last ten years, Ping An has delivered resilient profits and consistent growth. While FY2020's earnings were impacted by the ongoing pandemic, Ping An's core businesses continues to perform well with more customers entering its insurance ecosystem by the quarter. 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. Despite the temporarily humbler

[1] Estimated dividend dates based on past dividend dates.
[2] Estimated dividend dates based on past dividend dates.
[3] Dividend growth assumes constant currency. Dividend growth would be 11.3% in USD terms.
[4] In Billions of Shares, One ADR Equals 2 Shares

net income, management reassured investors by increasing its DPS by 7.3% YoY. We retain both our EPS and DPS growth estimates to 7% powered by robust customer growth and fintech's operating profitability expansion.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	18.2	23.9	17.3	14.2	12.8	9.8	14.3	9.9	9.8	9.01	***7.9***	***10.0***
Avg. Yld.	0.9%	0.8%	1.0%	1.1%	1.4%	2.2%	2.1%	2.9%	2.3%	2.3%	***2.8%***	***2.2%***

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, we can see a higher multiple being attached in the medium term, amid Ping An's rapidly growing technology segments. Assuming a FY2021 EPADR of $3.00 the stock is trading with at forward P/E of around 7.9, which is quite an underappreciated multiple. With several synergies to be achieved, digitalizing the insurance and healthcare industry, we believe that a future P/E of around 10 is a much fairer valuation for the insurance giant. Therefore, we currently view shares as undervalued, with significant upside from a valuation expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

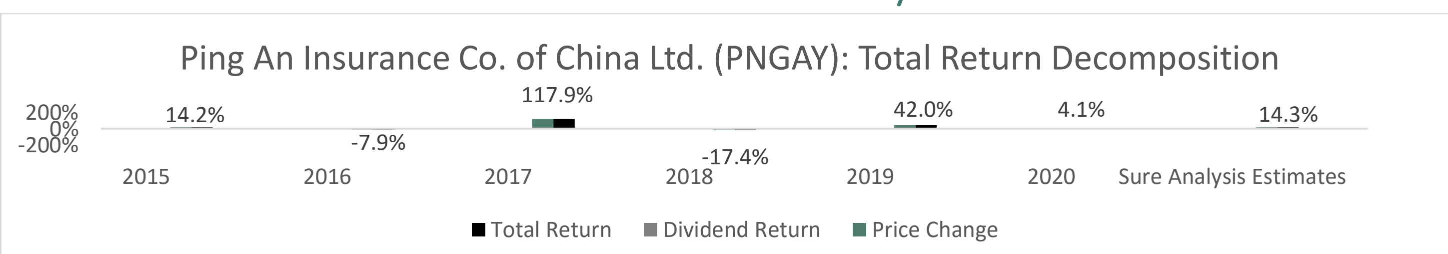
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	4%	3%	3%	3%	4%	6%	11%	17%	17%	25%	***22%***	***22%***

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 insurance space. Despite the industry's competition, Ping An continues to grow its customer base non-stop. 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 solid FY2020, reassuring investors that its growth remains active despite the pandemic's challenges. Our valuation expansion projections coupled with our relatively prudent growth assumptions point towards medium-term annualized double-digit returns of 14.3%. Amid the tech segment's explosive growth these estimates are likely to be quite higher as well. Hence, we rate shares a buy at their current price levels.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue ($M)	35715	42152	52387	66728	88512	95938	120567	134679	153877	161320
SG&A Exp.	6668	9166	11247	13901	17942	19526	20706	22342	25030	25580
D&A Exp.	334	510	546	598	635	718	830	1032	1039	2393
Net Profit	3010	3173	4578	6374	8626	9372	13205	16247	21630	20740
Net Margin	8.4%	7.5%	8.7%	9.6%	9.7%	9.8%	11.0%	12.1%	14.1%	12.9%
Free Cash Flow	10812	43135	33667	25432	18953	31723	15123	29588	34345	43770
Income Tax	1151	884	1660	2340	4494	3311	5153	6459	2950	4116

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($M)	361097	455680	554485	645793	734025	802974	994544	1038372	1175237	1458000
Cash & Equivalents	39572	71878	62156	78759	84983	96055	96315	79734	75674	91420
Acc. Rec. ($M)	35851	28707	54673	86401	110368	131793	168579	40664	46328	54230
Goodwill & Int.	5286	5982	7243	6905	6506	8234	8261	7254	6962	7733
Total Liab. ($M)	334025	422092	514931	588754	670319	732932	904493	938991	1053415	1307000
Accounts Payable	13996	4490	6175	6320	7120	8701	9668	9737	11086	13200
LT Debt ($M)	10771	17227	19562	26362	57846	79148	123981	141435	167019	215480
Total Equity	20677	25572	30149	46681	51488	55210	72503	80900	96210	116720
D/E Ratio	0.52	0.67	0.65	0.56	1.12	1.43	1.71	1.75	1.74	1.85

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.1%	0.8%	0.9%	1.1%	1.3%	1.2%	1.5%	1.6%	2.0%	1.6%
Return on Equity	16.0%	13.7%	16.4%	16.6%	17.6%	17.6%	20.7%	21.2%	24.4%	19.5%
ROIC	10.1%	7.2%	8.3%	8.9%	8.4%	6.9%	7.3%	7.1%	8.2%	6.3%
Shares Out.	15.6	15.9	15.8	15.9	18.2	17.8	17.9	17.9	18.1	18.2
Revenue/Share	4.58	5.32	6.61	7.95	9.73	10.73	13.51	15.07	17.26	18.13
FCF/Share	1.39	5.44	4.25	3.03	2.08	3.55	1.69	3.31	3.85	4.92

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