



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

Updated May 4th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	15%	Market Cap:	\$196B
Fair Value Price:	\$27	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	05/07/21
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.2%	Dividend Payment Date²:	06/18/21
Dividend Yield:	3.43%	5 Year Price Target	\$38	Years Of Dividend Growth:	10
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	17.6% 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 220 million retail customers and more than 611 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 Q1, Ping An continued executing its growth strategy, expanding further on an operational basis. During the three months ended March 31st, its customer count grew by 1% or 2 million, to 220 million, with 35.2% of those customers being sourced online. There are now more than 611 million users in Ping An’s ecosystem, an increase of 2.2% QoQ. Revenues were \$55.7 billion, growing by approximately 3% YoY. The company’s technology business is growing rapidly, contributed 146% higher operating profit to \$570 million. Excluding the “Trusts” and “securities” segments, which barely contribute to the bottom line in the first place, every other segment’s operating income rose. Hence, the group’s operating income grew by 8.9% YoY. EPADR grew by 14.25% to \$0.24. We retain our FY2021 EPADR estimates of around \$3.00 but hike our expected FY2021 DPADR from ~\$0.66 to \$0.72 to reflect the company’s elevated semiannual payout of \$0.4328 compared to H1-2020’s \$0.3670.

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	\$0.72	\$1.01
Shares⁴	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. More and more customers enter its insurance ecosystem by the quarter. China is a huge 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, should also boost its growth. U.S.-based investors are currently benefiting from the ongoing depreciation of the Chinese Yuan against the USD. Hence the 19% DPADR hike in the first half year’s payout (17.6% in constant currency). We retain both our EPADR and DPADR growth estimates to 7% powered by robust customer growth and fintech’s operating profitability expansion.

¹ Estimated ex-dividend dates based on past ex-dividend dates.

² Estimated dividend dates based on past dividend dates.

³ Dividend growth assumes constant currency. Dividend growth would be 19% in USD terms.

⁴ In Billions of Shares, One ADR Equals 2 Shares

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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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	9.0	7.0	9.0
Avg. Yld.	0.9%	0.8%	1.0%	1.1%	1.4%	2.2%	2.1%	2.9%	2.3%	2.3%	3.4%	2.7%

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 FY2021 EPADR of \$3.00, the stock is trading with a forward P/E of around 7, an all-time low multiple for the stock. With several synergies to be achieved, digitalizing the insurance and healthcare industry, we believe that a future P/E of around 9 is a much fairer valuation for the insurance giant. Therefore, we currently view shares as significantly undervalued, with a strong valuation expansion upside.

Safety, Quality, Competitive Advantage, & Recession Resiliency

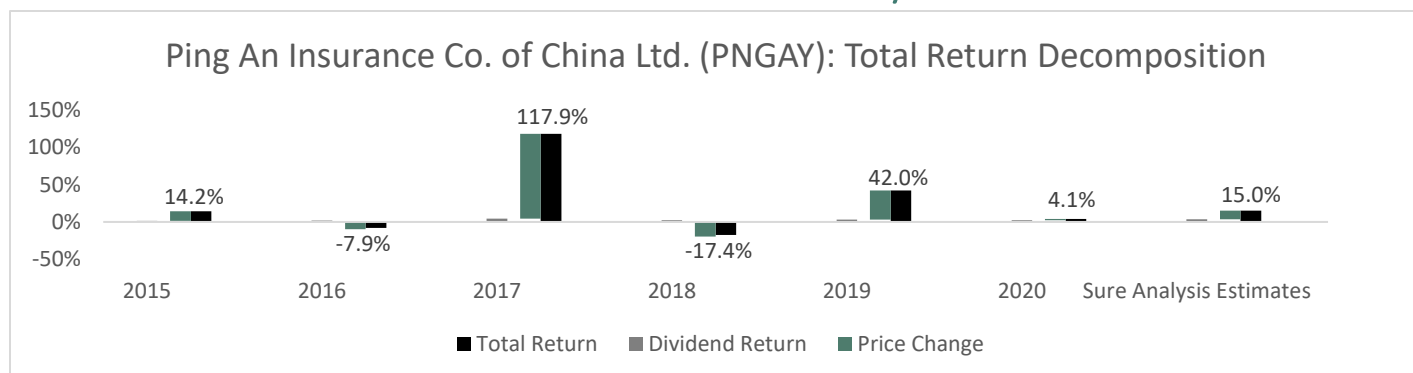
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	4%	3%	3%	3%	4%	6%	11%	17%	17%	25%	24%	24%

Ping An has maintained a low payout ratio of the past decade, retaining most of its earnings to be reinvested for future growth. 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 hundreds of millions it already has. Ping An has been developing significant competitive advantages, owning a well-known household brand name in the insurance space. 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 resiliently. Still, profitability could come under pressure under a future recession.

Final Thoughts & Recommendation

Ping An began 2021 with relatively steady results, with its technology segments growing rapidly. Our valuation expansion projections coupled with our relatively modest growth estimates point towards annualized returns of 15% going forward. However, U.S. based investors could ignore Chinese equities, which could limit valuation expansion. However, we rate shares a buy at their current price levels, though investors should be wary of the risks related to Chinese securities.

Total Return Breakdown by Year



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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.

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