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

Updated November 28th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$11.09	**5 Year CAGR Estimate:**	15.1%	**Market Cap:**	$106.5 B
Fair Value Price:	$15.00	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	05/31/23[1]
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.2%	**Dividend Payment Date:**	06/30/23
Dividend Yield:	6.6%	**5 Year Price Target**	$18.25	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating**	Buy

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 228 million retail customers, 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.

On October 26th, 2022, Ping An reported its 9M-2022 results for the period ending September 30th, 2022. Ping An continued to execute its growth strategy, expanding further on an operational basis. During the quarter, its retail customer count grew by around 5.7 million, or 2.6%, to 227.6 million. Further, contracts per retail customer grew 1.7% to 2.96.

Revenues grew by 8.7% to $132.4 billion, mainly driven by higher net earned premiums and higher interest from banking operations. The company's life and health insurance and banking businesses were the main drivers of improved profitability, with their operating profit rising 17.2% and 26.1%, respectively. Consequently, the group's total operating profit grew by 5.7% year-over-year to around $19.8 billion. Earnings-per ADR shares, or EPADR, rose by 4.7% to $1.96.

Following Ping An's H1-2022 results, we now forecast EPADR to land close to $2.50 for fiscal 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPADR	$2.34	$2.72	$3.28	$3.88	$3.62	$3.83	$3.02	$3.19	$2.44	$2.64	***$2.50***	***$3.04***
DPADR	$0.07	$0.09	$0.11	$0.15	$0.22	$0.44	$0.50	$0.54	$0.60	$0.73	***$0.73***	***$0.89***
Shares[2]	15.9	15.8	15.9	18.2	17.8	17.9	17.9	18.1	18.2	17.6	***19.4***	***20.0***

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. To highlight the company's innovation capabilities, Ping An's technology patent applications increased by 6,544 from the beginning of 2021 to 44,964 at the end of the year. Combined with its ever-growing ecosystem, we believe that Ping An will continue unlocking successive cost efficiencies and operating synergies ahead. That said, we retain both our EPADR

[1] Estimated dates based on past dividend dates
[2] In Billions of Shares, One ADR Equals 2 Shares

and DPADR growth estimates to a humble 4%, primarily due to the company's customer growth slowing down and its results being affected by the ongoing volatile environment in the equity markets.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	23.9	17.3	14.2	12.8	9.8	14.3	9.9	9.8	9.0	6.0	***4.4***	***6.0***
Avg. Yld.	0.8%	1.0%	1.1%	1.4%	2.2%	2.1%	2.9%	2.3%	2.3%	4.6%	***6.6%***	***4.9%***

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 have partially caused valuations to be low in the insurance industry, we can see a higher multiple being attached in the medium-term, amid Ping An's rapidly growing technology segment. Assuming FY2022 EPADR of $2.50, the stock is trading at a P/E of just 4.4. With several synergies to be achieved, including the digitalizing of the insurance and healthcare industry, we believe that a future P/E of at least 6.0 is a much fairer valuation for the insurance giant. Therefore, we currently view shares as rather undervalued, with a modest valuation expansion upside at the minimum.

Safety, Quality, Competitive Advantage, & Recession Resiliency

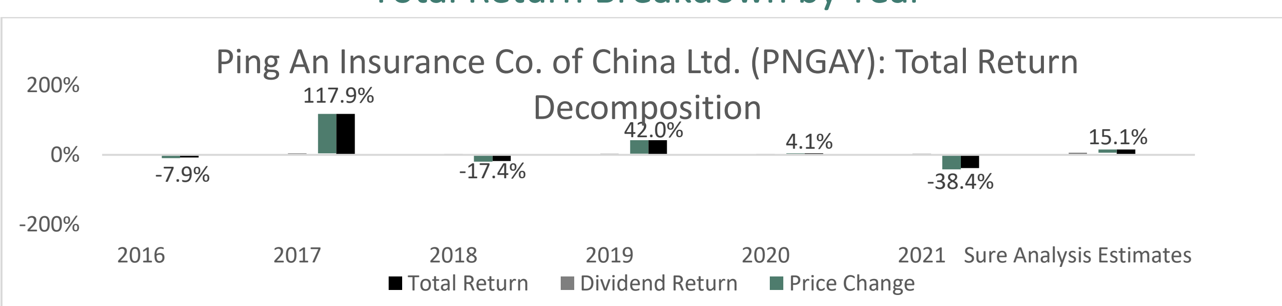
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	3%	3%	3%	4%	6%	11%	17%	17%	25%	28%	***29%***	***29%***

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 quite 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

While Ping An's insurance 9M-2022 results came in strong, with both revenues and operating profits growing notably. Our valuation expansion projections, coupled with our relatively modest growth estimates, point towards annualized returns of 15.1% going forward. However, U.S.-based investors often ignore Chinese equities, which could limit investor interest in the stock, and limit any potential valuation expansion prospects. We rate shares as a buy at their current price levels, though investors should be wary of the risks related to Chinese securities.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

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.

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

Updated November 28th, 2022 by Nikolaos Sismanis

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue ($M)	42152	52387	66728	88512	95938	120567	134679	153877	161320	164450
SG&A Exp.	9166	11247	13901	17942	19526	20706	22342	25030	25580	26738
D&A Exp.	510	546	598	635	718	830	1032	1039	2393	2558
Net Profit	3173	4578	6374	8626	9372	13205	16247	21630	20740	15740
Net Margin	7.5%	8.7%	9.6%	9.7%	9.8%	11.0%	12.1%	14.1%	12.9%	9.6%
Free Cash Flow	43135	33667	25432	18953	31723	15123	29588	34345	43770	12070
Income Tax	884	1660	2340	4494	3311	5153	6459	2950	4116	2753

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($M)	455680	554485	645793	734025	802974	994544	1038372	1175237	1458000	1591000
Cash & Equivalents	71878	62156	78759	84983	96055	96315	79734	75674	91420	98920
Acc. Rec. ($M)	28707	54673	86401	110368	131793	168579	40664	46328	54230	54960
Goodwill & Int.	5982	7243	6905	6506	8234	8261	7254	6962	7733	8286
Total Liab. ($M)	422092	514931	588754	670319	732932	904493	938991	1053415	1307000	1422000
Accounts Payable	4490	6175	6320	7120	8701	9668	9737	11086	13200	16310
LT Debt ($M)	17227	19562	26362	57846	79148	123981	141435	167019	215480	247000
Total Equity	25572	30149	46681	51488	55210	72503	80900	96210	116720	127450
LTD/E Ratio	0.67	0.65	0.56	1.12	1.43	1.71	1.75	1.74	1.85	1.94

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.8%	0.9%	1.1%	1.3%	1.2%	1.5%	1.6%	2.0%	1.6%	1.0%
Return on Equity	13.7%	16.4%	16.6%	17.6%	17.6%	20.7%	21.2%	24.4%	19.5%	12.9%
ROIC	7.2%	8.3%	8.9%	8.4%	6.9%	7.3%	7.1%	8.2%	6.3%	4.0%
Shares Out.	15.9	15.8	15.9	18.2	17.8	17.9	17.9	18.1	18.2	17.6
Revenue/Share	5.32	6.61	7.95	9.73	10.73	13.51	15.07	17.26	18.13	18.51
FCF/Share	5.44	4.25	3.03	2.08	3.55	1.69	3.31	3.85	4.92	1.36

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