



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

Updated November 21st, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$9.82	5 Year CAGR Estimate:	13.6%	Market Cap:	\$99 B
Fair Value Price:	\$12.00	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	06/13/24 ¹
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.1%	Dividend Payment Date:	07/19/24
Dividend Yield:	7.1%	5 Year Price Target	\$14.60	Years Of Dividend Growth:	13
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 230 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 27th, 2023, Ping An reported its 9M-2023 results for the period ending September 30th, 2023. Ping An continued to execute its growth strategy, expanding further on an operational basis. Its retail customer count grew by around 1.5% year-to-date to almost 230 million. Further, contracts per retail customer grew by 0.7% to 2.99 over the same period.

Revenues rose by roughly 6.0 % to \$11.7 billion, mainly due to higher investment income and interest revenue from banking operations as a result of rising interest rates. Earnings-per ADR shares, or EPADR, fell by 7.1% to \$1.40. For FY2023, we estimate EPADR of about \$2.00. Following the company’s interim dividend of RMB 0.93 (\$0.128 or \$0.2552/ADR), paid in November, the company’s larger and final dividend is expected to be distributed around July of next year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPADR	\$2.72	\$3.28	\$3.88	\$3.62	\$3.83	\$3.02	\$3.19	\$2.44	\$2.67	\$2.47	\$2.00	\$2.43
DPADR	\$0.09	\$0.11	\$0.15	\$0.22	\$0.44	\$0.50	\$0.54	\$0.60	\$0.74	\$0.70	\$0.70	\$0.85
Shares²	15.8	15.9	18.2	17.8	17.9	17.9	18.1	18.2	17.6	17.5	18.0	18.0

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 1,389 from the previous quarter to 50,815. 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 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 uncertain environment in the equity markets.

¹ Estimated dates based on past dividend dates.

² 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.3	14.2	12.8	9.8	14.3	9.9	9.8	9.01	6.0	7.6	4.9	6.0
Avg. Yld.	1.0%	1.1%	1.4%	2.2%	2.1%	2.9%	2.3%	2.3%	4.6%	3.7%	7.1%	5.8%

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. Chinese corporate governance concerns have also resulted in shares historically trading at a notable discount compared to the company's U.S. peers. Assuming FY2023 EPADR of \$2.00, the stock is trading at a P/E of just 4.9. We believe that this multiple undervalues the stock, despite the rather shaky macroeconomic environment. At 7.1%, the dividend yield is the highest at which the stock has ever traded.

Safety, Quality, Competitive Advantage, & Recession Resiliency

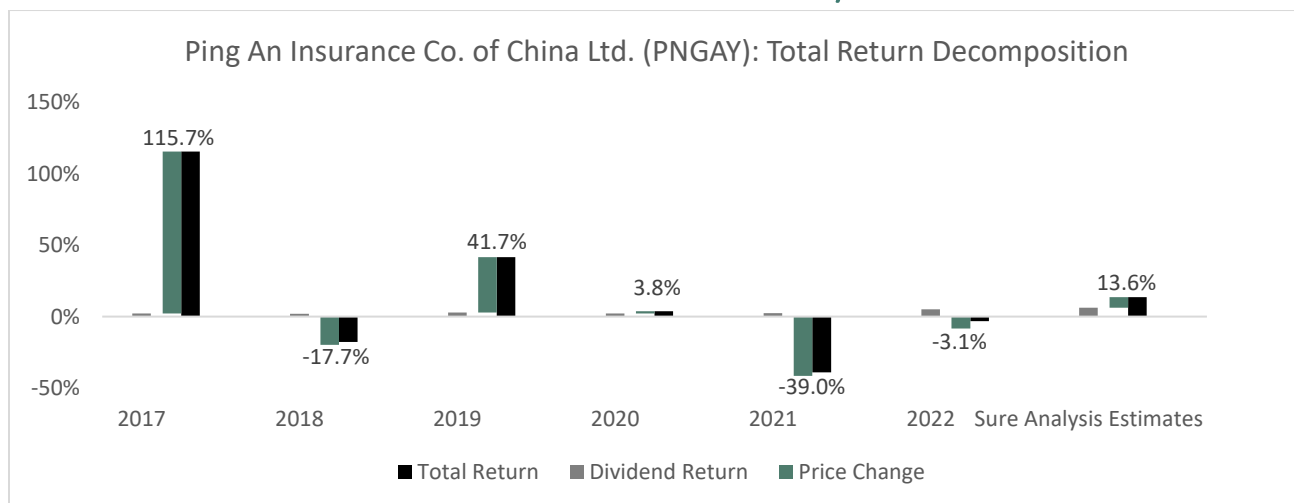
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	3%	3%	4%	6%	11%	17%	17%	25%	28%	28%	35%	35%

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

Ping An's insurance 9M-2023 results were decent, given the ongoing macroeconomic turmoil. We forecast the stock can produce annualized returns of 13.6% through 2028, powered by our growth estimates, the 7.1% yield, and the possibility of a notable valuation tailwind. We rate shares as a buy at their current price levels. However, we remind that investors should be wary of the risks that come attached to Chinese securities.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue (\$M)	52387	66728	88512	95938	120567	134679	153877	161320	164450	146750
SG&A Exp.	11247	13901	17942	19526	20706	22342	25030	25580	26738	24520
D&A Exp.	546	598	635	718	830	1032	1039	2393	2558	2732
Net Profit	4578	6374	8626	9372	13205	16247	21630	20740	15740	12470
Net Margin	8.7%	9.6%	9.7%	9.8%	11.0%	12.1%	14.1%	12.9%	9.6%	8.5%
Free Cash Flow	33667	25432	18953	31723	15123	29588	34345	43770	12070	71020
Income Tax	1660	2340	4494	3311	5153	6459	2950	4116	2753	(241)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$M)	554485	645793	734025	802974	994544	1038372	1175237	1458000	1591000	1614000
Cash & Equivalents	62156	78759	84983	96055	96315	79734	75674	91420	98920	108200
Acc. Rec. (\$M)	54673	86401	110368	131793	168579	40664	46328	54230	54960	48190
Goodwill & Int.	7243	6905	6506	8234	8261	7254	6962	7733	8286	11240
Total Liab. (\$M)	514931	588754	670319	732932	904493	938991	1053415	1307000	1422000	1444000
Accounts Payable	6175	6320	7120	8701	9668	9737	11086	13200	16310	15960
LT Debt (\$M)	19562	26362	57846	79148	123981	141435	167019	215480	247000	212340
Total Equity	30149	46681	51488	55210	72503	80900	96210	116720	127450	124460
LTD/E Ratio	0.65	0.56	1.12	1.43	1.71	1.75	1.74	1.85	1.94	1.71

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.9%	1.1%	1.3%	1.2%	1.5%	1.6%	2.0%	1.6%	1.0%	0.8%
Return on Equity	16.4%	16.6%	17.6%	17.6%	20.7%	21.2%	24.4%	19.5%	12.9%	9.9%
ROIC	8.3%	8.9%	8.4%	6.9%	7.3%	7.1%	8.2%	6.3%	4.0%	3.1%
Shares Out.	15.8	15.9	18.2	17.8	17.9	17.9	18.1	18.2	17.6	8856
Revenue/Share	6.61	7.95	9.73	10.73	13.51	15.07	17.26	18.13	18.51	16.57
FCF/Share	4.25	3.03	2.08	3.55	1.69	3.31	3.85	4.92	1.36	8.02

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

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