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

Updated August 23rd, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$9.24	**5 Year CAGR Estimate:**	12.9%	**Market Cap:**	$101.2 B
Fair Value Price:	$10.80	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	09/04/24
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.2%	**Dividend Payment Date:**	10/18/24
Dividend Yield:	7.4%	**5 Year Price Target**	$13.14	**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 nearly 234 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 August 22nd, 2024, Ping An posted its Q2-2024 results for the six-month period ending June 30sth, 2024. The company continued to execute its growth strategy, expanding further on an operational basis. Its retail customer count grew by around 1.9% year-to-date to 236 million. Still, contracts per retail customer came in at 2.93 down from 2.95 at the start of the year.

Revenues rose by 1.5 % to $77.7 billion, mainly due to higher premiums. Earnings-per ADR shares, or EPADR, was flat, at $0.62. For FY2024, we estimate EPADR of about $1.80. Dividends for FY2023 amounted to $0.68, down on a USD basis, but once again up on an RMB basis. While do not forecast this year's potential dividends, the company declared an RMB0.93 dividend ($0.26 per ADR) with respect to H1-2024, same as last year, to be paid in October.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPADR	$3.28	$3.88	$3.62	$3.83	$3.02	$3.19	$2.44	$2.67	$2.47	$1.86	***$1.80***	***$2.19***
DPADR	$0.11	$0.15	$0.22	$0.44	$0.50	$0.54	$0.60	$0.74	$0.70	$0.68	***$0.68***	***$0.83***
Shares[1]	15.9	18.2	17.8	17.8	17.8	17.8	17.7	17.6	17.5	18.3	***18.1***	***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 485 from the previous quarter to 52,185.

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.

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[1] In billions of shares, one ADR equals 2 shares

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.2	12.8	9.8	14.3	9.9	9.8	9.01	6	7.6	6.3	***5.1***	***6.0***
Avg. Yld.	1.1%	1.4%	2.2%	2.1%	2.9%	2.3%	2.3%	4.6%	3.7%	5.8%	***7.4%***	***6.3%***

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 $1.80, the stock is trading at a P/E of 5.1X. We believe that this multiple undervalues the stock. We have set our fair multiple at 6X, which we believe better reflects the stock's overall prospects. At 7.4%, the dividend yield is one of the highest at which the stock has ever traded.

Safety, Quality, Competitive Advantage, & Recession Resiliency

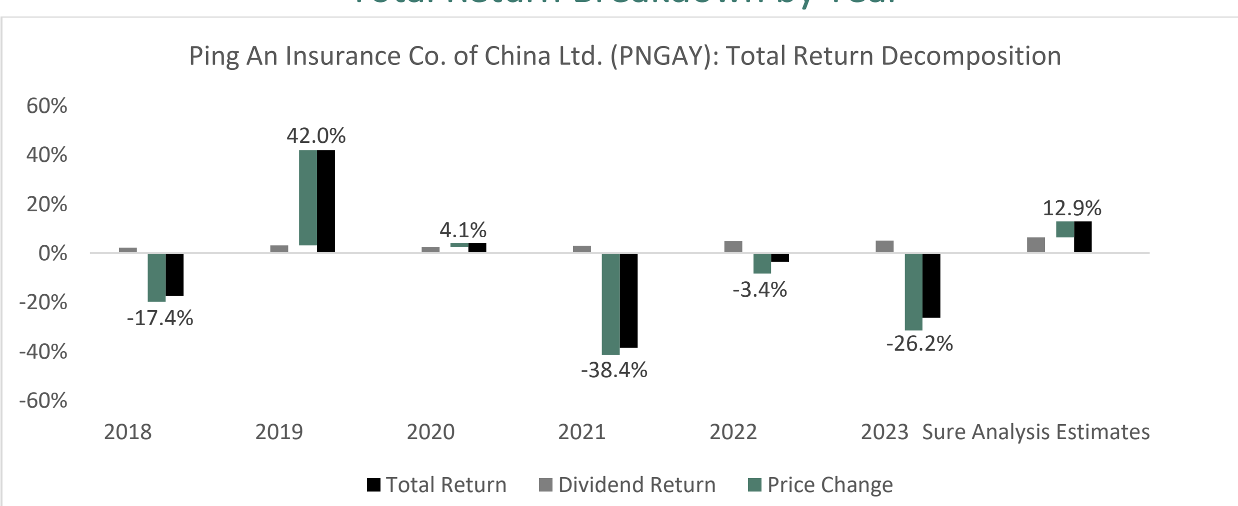
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	3%	4%	6%	11%	17%	17%	25%	28%	28%	37%	***38%***	***38%***

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 latest results were decent despite earnings growth lagging. Moving forward, we estimate that the stock will produce annualized returns of 12.9% through 2029. This is to be driven by our growth estimates, the 7.4% yield, and the possibility of a 3.2% annual 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



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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue ($M)	66728	88512	95938	120567	134679	153877	161320	164450	146750	113390
SG&A Exp.	13901	17942	19526	20706	22342	25030	25580	26738	24520	11340
D&A Exp.	598	635	718	830	1032	1039	2393	2558	2732	2719
Net Profit	6374	8626	9372	13205	16247	21630	20740	15740	12470	12110
Net Margin	9.6%	9.7%	9.8%	11.0%	12.1%	14.1%	12.9%	9.6%	8.5%	10.7%
Free Cash Flow	25432	18953	31723	15123	29588	34345	43770	12070	71020	49850
Income Tax	2340	4494	3311	5153	6459	2950	4116	2753	(241)	1533

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
otal Assets ($M)	645793	734025	802974	994544	1038372	1175237	1458000	1591000	1614000	163400
ash & Equivalents	78759	84983	96055	96315	79734	75674	91420	98920	108200	11256
Acc. Rec. ($M)	86401	110368	131793	168579	40664	46328	54230	54960	48190	30520
Goodwill & Int.	6905	6506	8234	8261	7254	6962	7733	8286	11240	10820
Total Liab. ($M)	588754	670319	732932	904493	938991	1053415	1307000	1422000	1444000	14610
ccounts Payable	6320	7120	8701	9668	9737	11086	13200	16310	15960	1250
LT Debt ($M)	26362	57846	79148	123981	141435	167019	215480	247000	212340	20849
Total Equity	46681	51488	55210	72503	80900	96210	116720	127450	124460	12683
LTD/E Ratio	0.56	1.12	1.43	1.71	1.75	1.74	1.85	1.94	1.71	1.64

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.1%	1.3%	1.2%	1.5%	1.6%	2.0%	1.6%	1.0%	0.8%	0.8%
Return on Equity	16.6%	17.6%	17.6%	20.7%	21.2%	24.4%	19.5%	12.9%	9.9%	7.0%
ROIC	8.9%	8.4%	6.9%	7.3%	7.1%	8.2%	6.3%	4.0%	3.1%	3.2%
Shares Out.	15.9	18.2	17.8	17.9	17.9	18.1	18.2	17.6	8856	9036
Revenue/Share	7.95	9.73	10.73	13.51	15.07	17.26	18.13	18.51	16.57	12.55
FCF/Share	3.03	2.08	3.55	1.69	3.31	3.85	4.92	1.36	8.02	5.52

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