

China / Hong Kong

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Mar 2020

AIA Group (1299 HK) : BUY

Mkt. Cap: US\$106,942m | 3m Avg. Daily Val: US\$234.6m

Last Traded Price (12 Mar 2020): HK\$68.80

Price Target 12-mth: HK\$102.0 (48.2% upside)

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Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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FY19 result briefing – Positive structural outlook to outweigh short-term pains

- FY19 OPAT and VONB missed our and consensus forecast by 2-4% on weaker HK and China results
- Significant impact of COVID-19 on 1Q20F numbers expected but positive structural outlook intact
- Still the best-positioned insurer to capture Asia's emerging growth opportunity
- Maintain BUY with TP of HK\$102

Forecasts and Valuation

FY Dec (US\$ m)	2018A	2019A	2020F	2021F
Net earned premiums	29,716	32,611	34,801	39,352
Net investment income	8,076	8,899	9,685	10,476
Net Profit	5,298	6,687	6,651	7,367
EPS (US\$)	0.22	0.55	0.60	0.66
EPS (HK\$)	1.70	4.29	4.67	5.16
EPS Gth (%)	(59.6)	111.5	11.6	10.6
PE (X)	40.6	16.8	14.7	13.3
DPS (HK\$)	1.23	1.27	1.54	1.71
Net Div Yield (%)	1.8	1.5	2.2	2.5
BV Per Share (HK\$)	25.09	31.73	34.84	38.27
P/Book Value (X)	2.7	2.2	2.0	1.8
P/EV (X)	2.0	1.7	1.6	1.4
ROAE (%)	6.4	13.7	14.0	14.1

Earnings Rev (%): Nil Nil
Consensus EPS (US\$) 0.57 0.65
Other Broker Recs: B:20 S:1 H:3

Source: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

What's New

We attended AIA's (1299 HK, BUY) FY19 analyst briefing on 12 March. Its FY19 OPAT and VONB rose 9% and 6% y-o-y respectively, which missed our and consensus forecasts by 2-4% mainly due to weaker result in HK and China market. In general, we believe AIA remains the best-positioned regional insurer to capture Asia's emerging growth opportunities. This is driven mainly by the demographic dividend, continuous wealth accumulation and the structural opportunity in the premium market arising from China's continued market liberalisation towards foreign insurers. Nonetheless, due to the impact from the current COVID-19 virus outbreak which disrupted and prohibited face-to-face meetings in affected markets, management indicated that this will have a significant impact on its 1Q20F new business growth. In particular, due to the quarantine measures imposed on inbound travellers from Mainland China to Hong Kong, average daily arrivals fell 98% y-o-y in February while the lockdown in China also halted all face-to-face meetings.

Countermeasures which AIA is adopting include a) to continue to promote its digital capabilities such as new business submission (+95% digitalised), digital customer engagement (+80% digitalised), new agent recruitment/training, b) to temporarily relax agency performance requirements in order to help its agency to weather through difficult times, and c) also to receive HKIA's (Hong Kong Insurance Authority) support in promoting VHIS (Voluntary Health Insurance Scheme) and QDAP (Qualified Deferred Annuity Policy) products, both of which offer tax deduction benefits to policyholders. Overall, management sees the COVID-19 impact as being short term. Meanwhile, the long-



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term structural opportunities from Asia market remain intact, especially from the long-awaited opportunity offered by China's market liberalisation towards foreign insurers.

If compared to Prudential (PRU L, NR), another dominant regional insurer in Asia, AIA also outperformed in FY19, in terms of Hong Kong new business growth (AIA's fell 5% y-o-y versus Prudential's 12% y-o-y decline), the overall new business growth (AIA's rose 6% y-o-y versus Prudential's 2% y-o-y growth), and geographical new business exposure (AIA: HK/China contribute 34%/26% versus Prudential's 58%/7%, see figure 2-3). We thus continue to see AIA as the best-positioned regional insurer to capture Asia's emerging growth opportunity.

The recent sharp decline in interest rates and the flattening of the US interest rate yield curve may be a concern to its embedded value outlook. Nonetheless, due to its asset-liability matching strategy, the sensitivity of EV to interest rate is relatively small at a 1.3% decline assuming a 50-bp decrease in interest rate. Management also performed a sensitivity analysis assuming a flattening of the yield curve by 140bps, where the impact on EV is less than 7%. However, AIA may revise downwards its long-term interest rate assumption and its rediscount rate and announce this during the release of its FY20 interim results. We are currently viewing our numbers, but overall, we maintain our long-term positive view on AIA.

Please see below for the summary of the Q&As:

Q: To what extent can online sales offset the impact of COVID-19?

A: China is now the most affected country and the company is now unable to perform face-to-face business transactions. However, its China team has already shifted the business online, with 70% of agents now logging in online for morning meetings, while recruitment activities are also performed online. On the sales side, the management acknowledged that there is definitely some impact, but it is pleased to see that 60% of the sales are now done on the online platform. However, the company will need more time to move a bigger portion of sales online. Currently, the company has no intention to change its product mix.

Q: Current status of recruitment in HK and Mainland China

A: For the company's Mainland China team, the management has responded swiftly with comprehensive initiatives to support the agency force. For example, enhancing digital platforms and providing various solutions to enable agents to conduct their businesses. The Mainland China team still has strong recruitment as most of the process can be performed online. In terms of competition, AIA China is taking a differentiation approach, namely via premier agency strategy and total health and wellness proposition, making its sales force the most productive

among peers, while its revenue from ageing products is 4.9x the market average. The management believes that these strategies will help AIA China to stand out from its competitors.

For the HK team, the number of active agents and new recruitment continued to grow throughout FY19. The company is utilising an online platform to recruit sales agents as potential recruits are still avoiding face-to-face contact. The COVID-19 pandemic has created a great opportunity for the sales force to utilise digital platforms to perform their business functions such as conference meetings and training.

The management added that the company will not compromise on the quality of recruits during COVID-19 or while applying the digital method.

Q: Details on We Doctor and how it could contribute during COVID-19.

A: The partnership with We Doctor provides better healthcare services and network to the company's clients in China. We Doctor's healthcare package has been launched to enable clients to receive consultations and health assessments and make hospitalisation arrangements online.

Q: What is the impact of social unrest on the morale and income of the HK team since 2H19?

A: The management claims that its HK team has already shifted the emphasis to more profitable long-term protection and savings products to maintain good margins and income. The number of active agents and new recruits continued to grow in FY19 and many new technical applications are now utilised to help improve agents' productivity. The management believes that the social unrest and epidemic situation is only temporary and believes that with the best HK sales force will help AIA to maintain well position in the competition.

Q: Details of the subsidisation in China

A: The management is proactively seeking subsidisation in China via various communication channels with the authorities. The company is happy to see the market finally opening up to foreign companies. Its proposed Shanghai subsidiary is still being reviewed by CBIRC and the process is expected to be completed in the coming months.

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Figure 1: AIA FY19 financial summary

	2H18	1H19	2H19	yoy %	hoh %	FY18	FY19E	yoy %
Income statement - US\$ Mil (end-Dec)								
Net premiums, fee income and other revenue	15,538	15,768	17,128	10%	9%	29,716	31,280	5%
Investment income	4,095	4,325	4,574	12%	6%	8,076	8,861	10%
Total operating revenue	19,633	20,093	21,702	11%	8%	37,792	40,140	6%
Net insurance and investment contract benefits	(12,988)	(13,116)	(14,508)	12%	11%	(24,931)	(26,100)	5%
Commission and other acquisition expenses	(2,022)	(2,045)	(2,252)	11%	10%	(3,778)	(4,082)	8%
Operating expenses	(1,148)	(1,168)	(1,300)	13%	11%	(2,171)	(2,348)	8%
Inv't mgmt expenses and finance costs	(261)	(281)	(301)	15%	7%	(475)	(490)	3%
Total operating expenses	(16,419)	(16,610)	(18,361)	12%	11%	(31,355)	(33,021)	5%
Share of loss from associates and joint ventures	(1)	-	(8)	700%				
Operating profit for the year before tax	3,213	3,483	3,333	4%	-4%	6,437	7,120	11%
Tax on operating profit	(544)	(565)	(465)	-15%	-18%	(1,094)	(1,128)	3%
Operating profit for the year after tax	2,669	2,918	2,868	7%	-2%	5,343	5,992	12%
Minority interest	(24)	(20)	(25)	4%	25%	(45)	(35)	-22%
Operating profit after tax	2,645	2,898	2,843	7%	-2%	5,298	5,957	12%
	2H18	1H19	2H19	yoy %	hoh %	FY18	FY19E	yoy %
ANP by country - US\$ Mil (end-Dec)								
Hong Kong, China	1,445	1,367	1,026	-29%	-25%	2,697	2,553	-5%
Thailand	324	321	408	26%	27%	611	671	10%
Singapore	257	267	271	5%	1%	547	520	-5%
Mainland China	456	753	495	9%	-34%	1,067	1,296	21%
Malaysia	178	198	208	17%	5%	382	382	0%
Other Markets	598	537	734	23%	37%	1,206	1,269	5%
Total	3,258	3,443	3,142	-4%	-9%	6,510	6,690	3%
	2H18	1H19	2H19	yoy %	hoh %	FY18	FY19E	yoy %
VNB by country - US\$ Mil (end-Dec)								
Hong Kong, China	916	945	676	-26%	-28%	1712	1,723	1%
Thailand	243	215	279	15%	30%	447	470	5%
Singapore	179	173	179	0%	3%	357	360	1%
Mainland China	409	702	465	14%	-34%	965	1,211	25%
Malaysia	123	130	128	4%	-2%	247	258	5%
Other Markets	234	224	311	33%	39%	435	559	29%
adjustment	(103)	(114)	(159)	54%	39%	-208	-	-100%
Total	2,001	2,275	1,879	-6%	-17%	3955	4,581	16%

Source: Company data, DBS HK

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Fig 2: AIA and Prudential FY19 APE/VONB comparison

Insurer	FY19 annual premium equivalent sales growth y-o-y (%)	FY19 New business value growth y-o-y (%)
AIA HK	-11%	-5%
Prudential HK	-11%	-12%
AIA China	17%	27%
Prudential China	53%	38%
AIA ex-HK	10%	16%
Prudential Asia ex-HK	17%	29%
AIA	2%	6%
Prudential Asia	4%	2%

Source: Company data, DBS HK

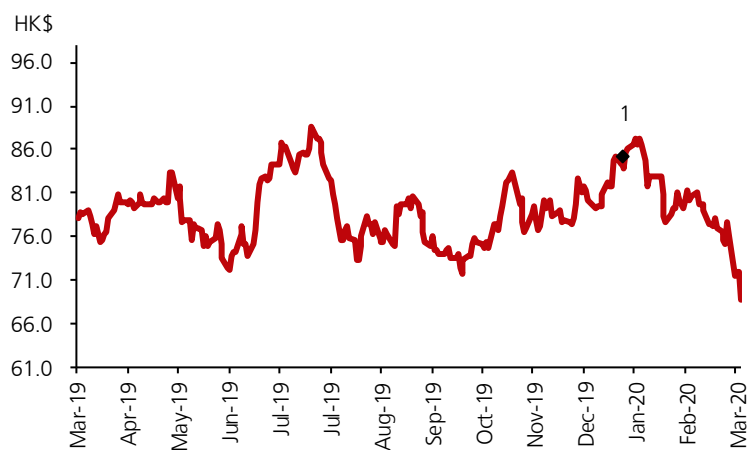
Fig 3: AIA and Prudential FY19 geographic exposure

HK as % of total new business value	% of total
AIA	34%
Prudential Asia	58%
China as % of total new business value	% of total
AIA	26%
Prudential Asia	7%
Others as % of total new business value	% of total
AIA	40%
Prudential Asia	35%

Source: Company data, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	7-Jan-20	HK\$84.30	HK\$102	Buy

Source: DBS HK

Analyst: Ken SHIH

Sam LU

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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