China Pacific Insurance Stock Investment Value Analysis

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Abstract: At present, the increase in people's idle funds, the rapid development of the capital market, the continuous improvement of the market environment and the continuous improvement of supervision have made the investment activities in the capital market more and more frequent, and the participation of the public in the capital market is also getting higher and higher.The aims to discuss the theory of China Pacific Insurance stock value investment and the feasibility of applying value investment strategy in China Pacific Insurance stock investment. First, this article analyzes the background, price changes and valuation indicators of China Pacific Insurance in detail to identify its value investment opportunities. Secondly, this paper briefly introduces the value investment theory, and explains the main principles and methods of the value investment strategy, and uses three value estimation methods to calculate the stock investment value of China Pacific Insurance . Finally, this article puts forward some suggestions to help investors make better use of value investing methods to obtain investment returns. To sum up, this paper confirms the feasibility of the value investment strategy in China Pacific Insurance stock investment.
Keywords: China Pacific Insurance; Stock Investment; Valuation Method

1. Introduction

The insurance industry plays an important role in the entire financial market. With the continuous growth of China's financial market, the insurance industry has an increasing influence on the financial market and even the entire national economy. At present, Pacific Insurance is in the forefront of the insurance industry in terms of investment income, but compared with insurance companies in developed countries, its income is still low. Analyze the stock investment value of China Pacific Insurance Company by using cash flow discount model, dividend discount model and embedded value method[1].

2. Industry analysis

As an economic booster and social stabilizer, insurance plays an important role in promoting the coordinated development of economy and society. In 2020, the total assets of China's insurance industry will be 23,298.43 billion yuan, a year-on-year increase of 13.29%. In 2021, the total assets of China's insurance industry will be 24,887.4 billion yuan, a year-on-year increase of 6.82% . Although the growth rate of assets has declined slightly, the insurance industry is still growing in the long run Stable development. For the whole year of 2021, the original insurance premium income of insurance companies will be 4.49 trillion yuan, a year-on-year increase of 4.1%. In the macro-environment of economic slowdown, insurance income is still growing, people are increasingly aware of the importance of protection, and insurance is accepted by customers. It is expected that the insurance industry can still maintain stable growth in the next few years when the economy recovers[2].

According to the latest data analysis, the dynamic price-earnings ratio (TTM) of China Pacific Insurance (601601) is 9.47, which is lower than the average price-earnings ratio (12.62) of companies listed on the Shanghai Stock Exchange in China's insurance industry. It indicates that it may be undervalued.

3. Stock investment value analysis

Below using three absolute valuation methods to estimate the stock investment value of China Pacific Insurance.

3.1 Discounted Cash Flow Model

Using DCF (Discounted Cash Flow Method) to value the company, the main content is to convert the cash flow of the company in a specific period in the future into the present value, so as to obtain the company's value[3].

(1)Depreciation and Amortization= Provision for Asset Impairment + Depreciation of Fixed Assets + Amortization of Intangible Assets and Long-term Deferred Expenses + Loss on Scrapping of Fixed Assets = 44.41 + 17.83 + 12.65 + 0.1 = 7.499 billion yuan

(2)Increase in Working Capital= Increase in Inventory + Increase in Operating Receivable Items + Increase in Deferred Expenses - Increase in Operating Payable Items - Increase in Accrued Expenses = -85.04 + 20.73 = 12.226 billion yuan

(3)Capital expenditure = Cash Paid for the Purchase and Construction of Fixed assets, Intangible Assets and Other Long-term Assets = 3.688 billion yuan

(5)Free cash flow = Net Profit before Interest and Tax + Depreciation and Amortization - Increase in Working Capital - Capital Expenditure = 276.2 +74.99-122.26-36.88=19.205 billion yuan

So Free Cash Flow Per Share D_0 =192.05/96.2=1.997

The sustainable growth model assumes that the future growth of the enterprise is stable and the growth rate is constant, so the value of the enterprise becomes a function of the next cash flow. We assume that the current cash flow is D_0 , the growth rate of free cash flow of the enterprise is g, and the discount rate is r, then the value of the enterprise is P_0 . Then the value of the enterprise is:

$$P_0 = D_0(1+g)/(1+r) + D_0(1+g)^2/(1+r)^2 + D_0(1+g)^3/(1+r)^3 + ... + D_0(1+g)^t/(1+r)^t$$

When **n**→∞, simplify to get :

$$P_0 = D_0(1+g)/(r-g)$$

According to the growth rate of net profit, it is assumed that the growth rate of free cash flow of the enterprise is 6%, and the discount rate is set at 10%.

That is, P_0 =1.997(1+6%)/(10%-6%)=52.92 yuan

The current stock price is 24.18 yuan, which is lower than the estimated price of 52.92 yuan, so it is suitable for investment.

3.2 Dividend Discount Model (DDM)

According to the principle of financial asset valuation, the current value of financial assets is the sum of the present value of all future cash flows generated by conversion at the required rate of return[4]:

Namely: $PV = CF_1/(1+R) + CF_2/(1+R)^2 + CF_3/(1+R)^3 + ...CF_n/(1+R)^n$

Among them, CF_t : represents the cash flow of period t

PV: Indicates the intrinsic value of the stock at the beginning of the period

R : Indicates the appropriate discount rate (necessary rate of return) for cash flow under a certain degree of risk

A. According to the income statement of China Pacific Insurance:

Table 1. China Pacific Insurance Company's net income for 2019-2021

Years	2021	2020	2019
Net income/billion yuan	276.18	253.52	283.54

According to China Pacific Insurance's stock turnover and trading volume on each trading day from 2019 to 2021, its annual average price is as follows:

Table 2.China Pacific Insurance Company's annual average price for 2019-2021

years	2021	2020	2019
Annual average stock price (yuan)	32.81	32.45	35.17

The average market rate of return is 6%, that is, R=6%. According to the formula , we can know:

PV=35.45yuan, P_0=24.18yuan.

Then the net present value (NPV) of CPIC=PV-P_0 = 35.450 -24.18= 11.27＞0

According to the estimated cash flow in the next 5 years, the net present value of the stock is positive, indicating that the current price of the stock is undervalued and has the potential for appreciation. It is suitable for investment within 5 years. It is recommended to buy at the current price enter.

3.3 Embedded Value Approach (EVA)

Due to the particularity of the insurance industry, for prudent consideration, it is decided to use the embedded value method most used in Europe to value the life insurance business of China's insurance companies.

Embedded value method is mainly carried out in three steps: adjusting net assets, evaluating in-force business value and forecasting new business value[5].

Adjusting the net assets on the assessment base date generally refers to assets denominated at market value minus liabilities. Adjustments may include deduction of the company's minimum solvency limits, deferred policy acquisition costs and "overly conservative" balance portions of reserves, and the inclusion of "unaccounted for" assets that are valued at market to reflect the true market for the company's assets value.

To evaluate the effective business value, first classify the insurance policies, then use the asset share method to simulate the effective insurance policies, and establish the actuarial model according to the insurance type, insurance age, payment method, receiving age, liability period and other factors, and determine the parameters used in the model , and finally put the predicted parameters into the model, calculate the profit flow of the model, and discount it into the current value according to a certain discount rate.

Parameters include variables such as pricing rates, mortality rates, morbidity rates, accident rates, surrender rates, expense rates, tax rates, dividend rates, dividend growth rates, return on investment, and reinsurance. To predict the value of new business, according to the company's future prospect planning and the development of the insurance market, a series of risk discount rates are used to select the existing listed insurance model as the forecast of future new business profits.

4. Conclusion

According to the analysis of China Pacific Insurance's main financial indicators and stock investment value, it can be seen that the current company is developing well, the net present value of the company's stock is greater than zero, and the PEV value is already at a historical low, with a high intrinsic value and gradually improving fundamentals A divergence is formed, and the current Chinese economy is gradually recovering.With a solid economic foundation and stable development of the insurance industry, the stock price may form an upward trend in the future[6].

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