AIA Group Limited 2018 Interim Results

Analyst Briefing Presentation – Transcript

24 August 2018

Lance Burbidge, Chief Investor Relations Officer:

Good morning and welcome to AIA's 2018 interim results presentation. I am Lance Burbidge, Chief Investor Relations Officer.

First off, let me remind you that we have aligned our financial year with the calendar year. We hope that this helps to improve comparability with our global peers. The figures for the first half of 2018 shown in today's presentation are for the six months ending 30 June 2018 and comparisons are against the same six-month period in 2017. We believe that this voluntary disclosure provides a more meaningful reflection of our business performance.

Let me walk you through the format of today's presentation. Our Group Chief Executive, Keng Hooi, will start with a summary of the Group's financial performance and business highlights from each of our reportable market segments. Garth Jones, our Group Chief Financial Officer, will then take you through the financial results in detail. Keng Hooi will then come back with a reminder of our strategic priorities. Finally, our three Regional Chief Executives will join Keng Hooi and Garth on the stage and we will open up the session for questions. The presentation today will be shorter than at the full year and this will leave more time for your questions.

With that, let me hand over to Keng Hooi.

Ng Keng Hooi, Group Chief Executive and President:

Thanks Lance and good morning everyone.

I am delighted to be presenting another strong set of results for AIA in the first half of 2018. Once again, we have delivered double-digit growth in our key operating measures for growth, earnings, capital and cash. This performance is a clear demonstration of our teams' consistent focus on executing our strategic priorities and the resilience of our business in times of economic uncertainty and market volatility.

Let me begin with the key highlights. In the first half of 2018, VONB grew by 17 per cent to more than 1.9 billion dollars and EV Equity increased to 53.6 billion. IFRS operating profit increased by 14 per cent to 2.7 billion, which is reflected in the higher operating return on equity of 14.2 per cent. Excluding the impact from the subsidiarisation of our Korean business, underlying free surplus generation was up by 11 per cent to 2.5 billion dollars. We have increased our interim dividend by 14 per cent to 29.2 Hong Kong cents per share, following our prudent, sustainable and progressive dividend policy. This strong and broad-based performance reflects our consistent focus on executing our strategic priorities to capture the significant growth opportunities in the Asia-Pacific region.

AIA has a diversified portfolio of high-quality businesses with sustainable competitive advantages that deliver profitable new business growth for our shareholders. Today's VONB results demonstrate the benefit of this portfolio, as all our reportable market segments delivered positive growth in the first half of 2018. You can also see here that currency movements in the first half supported our AER growth rates. VONB for the Group was up 22 per cent on an AER basis.

The VONB growth of the Group remains very strong, especially when compared against the exceptional first half last year, which was driven by the 54 per cent growth in our largest business, Hong Kong. As we have said many times before, AIA Hong Kong's retail IFA business delivered an exceptional result in the first half of 2017. The headline 17 per cent VONB growth for the Group was 24 per cent excluding this particular channel.

This strong result was driven by the continued execution of our Premier Agency strategy and the development of our long-term strategic bancassurance partnerships. Our proprietary agency is AIA's core distribution platform and a key competitive advantage. Agency VONB grew by 27 per cent as we continued to drive higher activity and productivity. Overall, Partnership VONB was down 4 per cent due to reduced sales from the Hong Kong IFA channel, which were partly offset by strong double-digit growth in our strategic bancassurance partnerships.

Let me now take you through the performance highlights of our individual markets. The three Regional Chief Executives and I remain focused on executing our strategic priorities and driving sustainable growth all through our many diverse businesses.

AIA Hong Kong delivered 10 per cent growth in VONB, building on an exceptional performance in the first half last year. Our Premier Agency strategy continued to drive quality recruitment and enhanced productivity for our market-leading agency force in Hong Kong. We reported double-digit growth in active agents and more than 20 per cent of all our agents in Hong Kong are now registered MDRT members. Our strategic partnership with Citibank also generated excellent results, while AIA Vitality membership was up more than 60 per cent.

AIA China delivered 37 per cent VONB growth against a challenging market backdrop, as new business premiums for the market reduced significantly in the first half. Our differentiated strategy continues to drive a high-quality mix of business and our ability to attract and retain new talent to become professional full-time agents remains key to how we deliver sustainable long-term growth in our China operation. Nearly 40 per cent of our agents have a bachelor's degree or higher, which is more than three times the industry average. Our quality recruitment initiatives are also supported by intensive training programmes and 100 per cent of new policies sold were submitted through our proprietary digital platforms. VONB per agent at AIA China is nearly four times the industry average and we increased our numbers of registered MDRT members by 31 per cent this year.

Our Thailand business delivered positive VONB growth in the first half, as we continued to transform our agency force through further expansion of our Financial Adviser programme. We saw double-digit growth in new recruits for the programme and they are 24 per cent more productive than our typical recruits. MDRT-registered members in Thailand were up 48 per cent. In late March we launched our strategic partnership with Bangkok Bank and we are working closely with the Bank on developing a new sales and advisory model for protection and long-term savings products. AIA Thailand is focused on meeting customers' needs and we are the market leader in protection.

AIA Singapore sustained its positive momentum from the second half of 2017 with 22 per cent growth in VONB. This strong performance was driven by excellent growth in regular premium protection sales from our core agency channel and in our partnership with Citibank. Our focus on agency development in Singapore led to 17 per cent growth in active agents and a double-digit increase in agent productivity. We continued to take a more active role in our customers' health and wellness journeys, with further expansion of our preferred provider network and membership of our AIA Vitality programme more than doubled over the last 12 months.

In Malaysia our VONB growth in the second quarter was affected by lower consumer activity around the unprecedented general election – which was the first change in political regime for the country in more than 60 years – and ahead of the subsequent zero rating of GST. Our agency channel delivered slower growth in VONB, but we continued to make good progress in our Takaful business, with a double-digit increase in active agents. We worked closely with Public Bank to increase the life insurance penetration of its customer base and this helped to deliver a double-digit increase in bancassurance VONB. Membership of AIA Vitality increased by close to 50 per cent.

Finally, headline growth in our Other Markets segment was affected by the timing of very large group insurance schemes in Australia. Adjusting for these schemes, VONB growth was 18 per cent. Within the segment, Korea, the Philippines and Taiwan reported excellent results. Our Australian business delivered strong double-digit growth in the retail IFA channel and secured a new large group scheme with VONB that will begin to come through in the second half of the year. AIA Vietnam also continued to focus on professional development of our agency force and delivered double-digit growth in VONB. Indonesia delivered strong double-digit growth in Agency VONB and we continued to make good progress with our strategic bank partners, including BCA.

In summary, we continued to build on our established track record of success in delivering sustainable, profitable growth in the first half of 2018. Today's results were achieved collectively by our markets and reflect the hard work and commitment of all our excellent teams across the Group as they focused on executing our strategic priorities.

Now let me hand over to Garth, who will take you through the financial results in more detail. Over to you, Garth.

Garth Jones, Group Chief Financial Officer:

Thanks Keng Hooi and good morning everyone.

In the first half of 2018 AIA has once again delivered strong and consistent results across our key financial metrics. VONB grew by 17% to over 1.9 billion dollars. EV operating profit increased by 19% to 4.2 billion dollars, driven by profitable new business growth and our prudent management of the in-force portfolio. This has resulted in a further increase in our operating ROEV to 17% and EV Equity is now more than 53 billion dollars. IFRS operating profit after tax was up by 14% to 2.7 billion dollars. The strong operating result was offset by negative market movements and the payment of the final dividend. Underlying free surplus generation increased to 2.5 billion dollars, while the solvency ratio for AIA Co. increased to 458%.

Based on this strong and broad-based performance, the Board has declared an increase of 14% in the interim dividend, allowing for the financial flexibility to fund future growth and following our prudent, sustainable and progressive dividend policy.

Our first half 2018 financial results continue our strong track record of growth and reflect AIA's ability to invest at attractive returns as we execute on our strategic priorities. I will now go through each of these areas in more detail.

AIA's portfolio of growth businesses allow us to selectively deploy capital to create long-term value for shareholders. ANP increased by 9% to more than 3.2 billion dollars and VONB margin was higher by 5.0 percentage points to 59.5%. The increase in VONB margin was driven by a balance of product and geographical mix changes. New business margin on a PVNBP basis increased to 10%. As you know, we do not target volume or margin alone and focus on growing total VONB, as we have again demonstrated through these results.

The combination of strong VONB growth and operating performance delivered a 19% increase in EV operating profit to 4.2 billion dollars. Operating variances were again positive and added 340 million to profit. Increased operating profit has also driven the operating ROEV higher to 17%, up from 16.3% last year. This strong operating performance was partly offset by 1.4 billion of adverse investment return variances due to market movements during the first half of 2018. Other non-operating items included currency translation effects from a stronger US dollar and a positive contribution from the subsidiarisation of AIA Korea.

Overall, our EV Equity increased by 1.2 billion over the first six months of 2018 to 53.6 billion dollars. Our closing EV Equity is shown after a deduction of 4.4 billion for additional consolidated reserving and capital requirements and the present value of Group Office expenses.

AIA's positive operating experience continues to demonstrate the quality of our distribution and products, as well as the appropriateness of our EV assumptions. Mortality and morbidity claims experience was again positive, as were persistency and expense variances, reflecting both our pricing discipline and the proactive management of our in-force book. Overall, cumulative operating variances since our IPO now total more than 1.7 billion dollars.

Our EV methodology uses spot market yields and trends over time to our long-term assumptions which reflect market forward rates. Although we are not immune from short-term market volatility, as you can see from the sensitivities, AIA continues to be resilient. I should note that our EV sensitivity to interest rates assumes an immediate 50 basis point parallel shift in interest rate curves for all of our fixed income portfolio across the Group, and while the impact of increased rates is a net positive overall, the results do vary amongst our individual markets and the Group Corporate Centre. Cumulative investment return variances since IPO compared with our economic assumptions have been positive, at around 1.1 billion dollars in total. Our results continue to demonstrate that both our operating and economic assumptions remain prudent.

Now moving on to our IFRS results, consistent strong growth in new business and the proactive management of our in-force book have delivered 14% growth in operating profit after tax to 2.7 billion dollars. This growth is in line with the increase in Total Weighted Premium Income as the Group's operating margin remained stable. The increasing scale of our business has reduced our expense ratio progressively, with a further 70 basis point decline in the first half of 2018.

AIA's IFRS operating profit benefits from being both well-diversified geographically across the region and with an attractive balance of sources of earnings. While AIA is not immune to external events or market movements, these characteristics increase the resilience and predictability of our results. Operating profit after tax grew for all of our reportable segments in the first half of 2018. Hong Kong, Malaysia, and our Other Markets each delivered double-digit growth, driven by increasing scale in the underlying businesses. Thailand remains our second-largest contributor to OPAT and continued to deliver earnings growth, despite an increase in hospitalisation claims from rotavirus in the first quarter of 2018. AIA China delivered excellent growth of 37%, reflecting the quality of our earnings and the increasing scale of our business. As with VONB, on average during the first half currency translation to US dollars was favourable, with Group OPAT up 19% on an AER basis.

We believe that the movement of shareholders' allocated equity provides a clearer reflection of the underlying drivers of the change in equity, as it is shown before the IFRS accounting treatment of AFS bonds. Allocated equity does, however, allow for other market movements, and over the first half allocated equity was flat as robust operating profit after tax was offset by negative mark-to-market impacts on equities and property, foreign exchange movements and, in addition, payment of the increased 2017 final dividend.

The disciplined execution of our strategy has produced consistent and sustained improvement in both our EV and IFRS balance sheets, with steady increases in both the equity employed and returns on this equity. Progressively higher EV operating profit and ROEV have been achieved, while our EV Equity has more than doubled since IPO. The same progressive trend and increased scale can also be seen for OPAT and ROE, with allocated equity close to doubling. This slide is a clear reflection of the underlying quality and highly attractive financial dynamics of the business.

Moving to capital and dividends, the Hong Kong solvency ratio for AIA Co., our principal regulated operating company, increased to 458%. The positive impact of strong growth in retained earnings was mostly offset by the negative effect of short-term capital market movements and the payment of dividends to AIA Group, including 1.9 billion dollars in respect of the subsidiarisation of AIA Korea. We are targeting to complete the entire CBA acquisition in the second half, subject to regulatory approvals. During the first half of the year we maintained our very strong ratings from each of S&P, Moody's and Fitch.

In January this year AIA Korea converted from a branch to a subsidiary. While there was an immediate release of 1.9 billion of free surplus at the Group level, if it had remained a branch AIA Korea would have generated this amount of free surplus gradually over both this half and in subsequent periods. In this way, the positive immediate release reduced underlying free surplus generation by 141 million in the first half of 2018 and a similar effect will be seen in the future.

New business investment increased by 22% to 807 million dollars as we continued to deploy capital in growing new business with attractive returns. Investment variances, exchange rates and other items in total were negative and amounted to 1.2 billion dollars. After the 1.1 billion payment for shareholder dividends, the closing free surplus was 13.7 billion dollars. As with our VONB and EV numbers, the free surplus is shown after Group-level regulatory reserving and capital requirements.

On 2 July we completed the acquisition of CBA's life insurance business in New Zealand. The overall net cash outlay for the whole CBA transaction, including Australia, is expected to be the equivalent of around 1.5 billion dollars, allowing for the proceeds from reinsurance agreements and subject to any closing adjustments. Our pro-forma free surplus is 12.2 billion dollars.

You have heard us say many times that our objective is to achieve profitable new business growth at increasing scale and generate superior, sustainable value for our shareholders. We aim to demonstrate that the strong growth in new business value translates into growth in earnings, cash generation and shareholder dividends over time. VONB is up 6.4 times since IPO to 1.9 billion dollars in the first half. IFRS operating profit after tax of more than 2.6 billion is 2.7 times the 2010 level and underlying free surplus generation has increased to a similar level of 2.5 billion, up 2.3 times since IPO. We then have choices about how we use the underlying free surplus generation to optimise shareholder returns overall, allowing for continued business expansion and a range of future circumstances and market scenarios.

Our first priority is to maintain a prudent balance sheet under a range of capital market stress conditions and retain the flexibility to take advantage of opportunities to create additional shareholder value as they arise. Over time our stock of free surplus has increased along with our balance sheet.

The next important priority is to fund our many new business growth opportunities given the attractive economics of the business we write and the structural drivers of our growth. In the first half of 2018 new business investment tracked VONB more closely, as indicated previously, with a 22% increase compared to the 17% growth in VONB.

After new business investment, allowing for Group costs including interest payments and retaining capital flexibility for inorganic opportunities that arise, we fund our dividend, aligned with our well-established policy. The Board has declared an increase of 14% in the interim dividend. The increase reflects both the strength of our financial results across a broad range of financial metrics and our ongoing confidence in the Group's future prospects and the scale of the opportunities available to us.

In conclusion, in the first half of 2018 the Group has delivered strong growth in VONB by investing capital in high-quality business to generate attractive returns. IFRS operating profit has also continued to grow strongly with scale and diversification across the region. Our capital position remains resilient, free surplus generation has increased while financing continuing new business growth, and we have delivered a further increase in shareholder dividend. AIA's results continue to reflect our disciplined financial management and our ability, both now and in the future, to build sustainable value for our shareholders.

I will now hand back to Keng Hooi.

Ng Keng Hooi, Group Chief Executive and President:

Thank you, Garth.

Let me close by reminding you of AIA's strategic priorities. I showed you this slide in our full year presentation earlier this year. These strategic priorities resulted from an extensive review of the long-term strategy of the Group and are fully aligned with the powerful demographic and socio-economic trends happening across the entire Asia-Pacific region. We continued to make good progress on each of these pillars and enablers throughout the first half of 2018.

In addition to a strong operating performance, AIA also made a number of significant strategic achievements this year. Firstly, we are very excited about the Chinese government's recent announcements to further open up its insurance market for greater foreign participation. Foreign companies will be allowed to own 100 per cent of their local businesses in 2021. AIA is in an advantaged position with our wholly-owned operation in China and we have commenced planning for potentially broader geographic access as we await further details.

In January we completed the subsidiarisation of our Korean business. This achievement underscores our long-term commitment to the Korean market and resulted in a release of free surplus of 1.9 billion dollars for the Group. As I mentioned earlier, we launched our bancassurance partnership with Bangkok Bank in Thailand in March.

We officially introduced our new brand promise, ‘Healthier, Longer, Better Lives,’ in the second quarter. This is a purpose-led brand promise that embodies AIA’s commitment to be a truly customer-centric organisation and it now underpins all of our marketing activities across the region.

In May, we entered into a long-term strategic partnership with WeDoctor, which is an incredible opportunity to explore innovative digital health business models that can deliver positive outcomes for our customers and transform their experience with AIA.

I am also pleased to announce that we once again achieved the largest number of registered MDRT members for the fourth consecutive year. We now have over 10,000 registered members across the Group, which is more than the total number of MDRT members in the whole of the United States.

These important achievements further build on AIA’s competitive advantages and reinforce our ability to deliver sustainable growth over the long-term.

Since our IPO the global economy has experienced a number of different market cycles as political regimes change, geopolitical tensions escalate, and investor sentiment remains volatile. While we are not immune to such external shocks, AIA’s consistent focus on execution and the strong fundamental long-term drivers of demand for our products and services have enabled us to deliver on our ambitious strategic priorities and generate sustainable, profitable new business growth.

We have continued to extend this track record of sustainable growth in the first half as we delivered VONB which was more than six times the 2010 figure and consistently maintained strong financial discipline. Since 2010 we have increased our EV Equity by more than 30 billion dollars and grown IFRS earnings by 2.7 times.

Our increased scale and resilient balance sheet continue to support our prudent, sustainable and progressive dividend policy. The interim dividend declared by the Board represents a 14 per cent increase and is 2.7 times our first interim dividend.

In closing, AIA has once again delivered strong growth across all our key operating metrics. I remain as confident as ever that our teams will continue to deliver strong, long-term value for our shareholders as we help our millions of customers in Asia live healthier, longer, better lives.

Thank you for listening and now, before I open up for questions, can I invite our RCEs – Bill, Jacky and John – up on stage here. We are happy to take questions.