AIA Group (1299 HK)

1H26: VONB A Slight Miss; Upgrading OPAT Guidance

Highlights

- AIA's 13% VONB growth in 1H26 was slightly below our estimates, due to muted sales in Hong Kong amid a high base effect.
- OPAT per share was 18% yoy, 3% above consensus. Management now expects to exceed its 2023-26 OPAT per share CAGR target of 9-11%.
- Maintain BUY with an unchanged target price of HK$100.00.

1H26 Results

Year to 31 Dec (US$m)	1H26	1H25	---------------- yoy% ---------------- CER	AER
OPAT	4,163	3,609	11	15
Embedded Value	80,555	70,853	5	5
Annualised new premium (ANP)	5,655	4,942	12	14
VONB margin (%)	57.1	57.7	-0.9	-0.6
VONB	3,212	2,838	10	13
Mainland China	*937*	*743*	*20*	*26*
Hong Kong	*1,168*	*1,063*	*10*	*10*
Thailand	*514*	*522*	*-6*	*-2*
Singapore	*294*	*259*	*10*	*14*
Malaysia	*232*	*192*	*10*	*21*
Other market	*260*	*249*	*7*	*4*

Source: AIA Group, UOB Kay Hian

Analysis

- **Near miss.** AIA Group's 1H26 value of new business (VONB) growth of 13% yoy on an actual exchange rate (AER) basis came in slightly below our estimate of 15%. The miss was driven by a sharper-than-expected slowdown in 2Q26 amid a high base effect, with implied VONB growth of just 9% yoy vs 17% yoy in 1Q26. Sales growth of 14% yoy also missed our 17% forecast, as Hong Kong volumes stayed muted against a high base. On the positive side, VONB margin held up better than expected, slipping only 0.6ppt yoy to 57.1% despite margin erosion in Mainland China and Thailand. AIA also declared an interim DPS of HK$0.539, up 10% yoy vs net free surplus generation per share growth of 12% yoy.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Insurance service result	19,314	21,618	24,321	26,952	28,733
Net investment result	5,769	6,910	7,969	8,831	9,454
Net profit (rep./act.)	6,836	6,243	8,382	9,257	9,795
OPAT	6,605	7,103	8,113	9,027	9,632
New business profit	4,712	5,513	6,251	7,232	7,995
EPS (US$)	61.8	59.2	80.4	90.1	95.7
OPAT (US$ cent)	59.7	67.3	77.8	87.9	94.1
PE (x)	15.2	15.9	11.7	10.4	9.8
P/EV (x)	1.5	1.50	1.2	1.0	0.9
Dividend yield (%)	2.4	2.6	3.1	3.5	3.8
ROE (%)	16.8	14.9	18.3	18.0	17.1
Consensus net profit	-	-	7,658	8,454	9,458
UOBKH/Consensus (x)	-	-	1.09	1.10	1.04

Source: AIA Group, Bloomberg, UOB Kay Hian

Analyst(s)

Kenny Lim Yong Hui
kennylim@uobkh.com
+603 2147 1924

Tham Mun Hon, CFA
munhon.tham@uobkh.com
+852 2236 6799

BUY (Maintained)

Share Price	HK$73.00
Target Price	HK$100.00
Upside	36.9%

Stock Data

Sector	Financials
Bloomberg ticker	1299 HK
Shares issued (m)	10,346.6
Market cap (HK$m)	752,718.4
Market cap (US$m)	95,967.2
3-mth avg daily t'over (US$m)	353.2

Price Performance (%)

52-week high/low: HK$92.15/HK$68.95

1mth	3mth	6mth	1yr	YTD
(4.0)	(13.6)	(11.7)	(2.0)	(8.9)

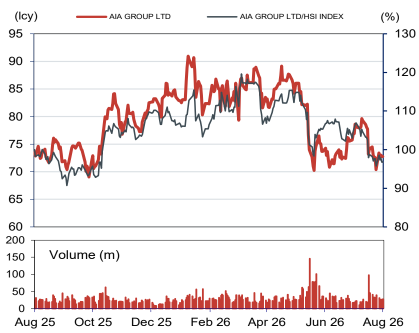
Major Shareholders (%)

Blackrock Inc	6.0

Balance Sheet Metrics

FY26 EV/Share (USD)	8.4
FY26 Solvency Ratio (%)	211.8

Price Chart



Source: Bloomberg

Company Description

AIA Group provides life insurance products and services across Asia market. Product offering includes life, medical, and health protection and savings insurance products.

- **OPAT growth picked up.** AIA's operating profit after tax (OPAT) and OPAT per share grew 15% and 18% yoy respectively, beating consensus by 3%. Growth was underpinned by: a) 15% increase in insurance service results, b) 7% rise in net investment results, and c) 2% accretion from share buybacks. Following this strong 1H26 performance, management now expects to exceed its 2023-26 OPAT per share CAGR target of 9-11% on the back of growing contractual service margin (CSM) balance (+4% hoh).
- **Slowdown in Hong Kong.** AIA Hong Kong reported softer VONB growth of 10% yoy (vs. 21% yoy in 1Q26), as flattish sales volume against a high base in 2Q25 was partly offset by a notable 6.2ppt yoy margin expansion. By segment, growth was mainly driven by the domestic segment (+23% yoy), with strong growth from new migrants and high-net-worth individuals. Meanwhile, VONB from Mainland China visitors (MCV) was flat yoy, though 2Q26 VONB improved over 1Q26, with June cited as the strongest month of 1H26. AIA noted continued strong demand from MCV consumers with a persistency rate close to 100%, regardless of recent news regarding cross-border capital flow tightening and tax crackdowns imposed by Chinese authorities.
- **AIA China kept its momentum.** AIA China's VONB rose 26% yoy in 1H26, supported by 37% yoy sales volume growth, partly offset by 4.5ppt margin compression from higher mix of participating savings products. VONB from the bancassurance channel slipped 6% yoy, due to the sales disruption amid the enforcement of further expense control across the channel. The nine new geographies delivered more than 40% growth, and it accounted for 11% of AIA China's total VONB in 1H26, on track to meet management's mid-term target.
- **Resilient ASEAN market with accelerated growth in 2Q26.** Despite reporting a 2% decline in 1H26 due to margin normalisation, Thailand's VONB returned to strong growth in 2Q26 with 13% yoy, supported by high demand for unit-linked products. Singapore's VONB surged 14% yoy in 1H26 (19% in 2Q26) against a strong 2025 base, thanks to strengthening wealth propositions and strong growth of unit-linked long-term savings products. AIA Malaysia also recorded 21% VONB growth, driven by: a) continued recovery in the agency channel, with encouraging new recruit momentum and productivity gains; and b) continued strong performance from its partnership with Public Bank. Management framed all three markets as having passed a disruption trough and are now re-accelerating, with ASEAN contributing more than 30% of group VONB.
- Other markets' VONB increased 4% yoy, due to strong contributions from India (+31%), Taiwan, Vietnam and the Philippines, which more than offset lower VONB in Australia, Indonesia and South Korea.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of HK$100.00,** implying 1.5x 2026F P/EV. AIA is now trading at 1.1x 2026 P/EV, -1.0 SD below historical mean following a recent pullback amid China tax crackdown fears. Although AIA's results remain largely resilient, we still believe investors could continue to step back off the sidelines until they have fully assessed the potential regulatory impact on the MCV business in 2H26.

Earnings Revision/Risk

- **We further cut our 2026/27/28 VONB forecasts by 3.5%/2.2%/3.5%** respectively, to reflect potential further slowdown in Hong Kong and margin normalisation in Thailand.
- **We also upgrade our 2026/27/28 OPAT forecasts by 2.0%/3.7%/4.4%** to factor in higher insurance service result and net investment results.

Profit & Loss

Year to 31 Dec (US$m)	2025	2065F	2076F	2028F
Insurance revenue	21,618	24,321	26,952	28,733
Insurance expenses	-14,243	-15,793	-17,501	-18,617
Net expenses from reinsurance contracts held	(465)	(559)	(620)	(661)
Insurance services results	6,910	7,969	8,831	9,454
Investment income	1,936	3,555	3,806	3,900
Other income	1,054	1,105	1,160	1,222
G&A exp of non-insurance ops	n.a.	n.a.	n.a.	n.a.
Pre-tax profit	7,471	10,012	11,049	11,687
Tax	(1,204)	(1,602)	(1,768)	(1,870)
Minorities	(24)	(28)	(24)	(22)
Net profit	6,243	8,382	9,257	9,795
Net profit (adj.)	6,243	8,382	9,257	9,795
OPAT	7,103	8,113	9,027	9,632
CSM base	64,945	71,750	79,936	88,908
ANP	9,484	10,755	12,135	13,171
VONB	5,513	6,251	7,232	7,995

Balance Sheet

Year to 31 Dec (US$m)	2025	2065F	2076F	2028F
Cash	9,609	10,605	11,277	12,179
Loans and advances	4,509	5,179	5,697	6,133
Investments (equity & fixed inc)	302,750	332,427	366,836	396,203
Reinsurers' share of ins liabilities	7,893	9,077	9,985	10,484
Policyholder accts (ins & inv)	866	909	955	1,003
Associates & JVs	2,062	2,083	2,103	2,124
Fixed assets (incl prop)	9,208	10,050	9,850	10,302
Other assets	8,526	9,060	9,543	10,054
Total assets	345,423	379,390	416,245	448,482
Assets sold (repo agreement)	5,910	5,615	5,334	5,067
Insurance contract liabilties	264,382	295,427	330,178	369,077
Other liabilities	31,523	29,434	25,956	13,447
Total liabilities	301,815	330,476	361,468	387,591
Shareholders' funds	43,245	48,488	54,363	60,489
Minority interest - accumulated	363	426	414	402
Total equity & liabilities	345,423	379,390	416,245	448,482
Embedded Value	76,811	83,944	93,269	103,003

Operating Ratio

Year to 31 Dec (%)	2025	2065F	2076F	2028F
Capital-related				
Shareholders' funds/total assets	12.5	12.8	13.1	13.5
Total Assets/equity (x)	8.0	7.8	7.7	7.4
Liquidity				
Liquid assets/short-term liabilities	80.3	83.9	88.8	89.6
Liquid assets/total assets	4.8	4.8	4.6	4.6
Valuation				
P/EV (x)	1.3	1.2	1.0	0.9
Adjusted P/E (x)	15.9	11.7	10.4	9.8
Dividend Yield	2.6	3.1	3.5	3.8
Payout ratio	41.7	36.1	36.1	37.0

Key Metric

Year to 31 Dec (%)	2025	2065F	2076F	2028F
Growth				
Gross premiums, yoy chg	11.9	12.5	10.8	6.6
APE, yoy chg	8.8	9.5	13.5	0.0
NBP, yoy chg	11.3	12.3	13.0	9.4
Investment income, yoy chg	-46.4	83.6	7.1	2.5
Net profit, yoy chg	-8.7	34.3	10.4	5.8
Profitability				
Net investment yield	3.6	3.2	3.2	3.2
Total investment yield	5.9	5.3	5.2	4.9
NBM as % of APE	58.1	58.1	59.6	60.7
Reported ROE	14.9	18.3	18.0	17.1
Adjusted ROE	14.9	18.3	18.0	17.1