

UK Insurance

Waiting for re-rating

Price Objective Change

Balanced stance remains while the yield curve is inverted

We enter 2024 with a balanced stance on UK insurers: 5 Buy ratings, 4 Neutrals and 4 Underperforms. We think fundamentals look robust but a normalised (no longer inverted) yield curve is required for Life insurers to reach their valuation potential. Domestic Property & Casualty (P&C) insurers have already run well on positive pricing updates but we think it may take time for profitability to catch up and see scope for disappointments near-term. The sector's dividend yield is appealing, with some also offering buybacks, but yield theses face competition from banks and bonds. UK insurers lagged both UK banks and the FTSE All-Share in 2023. We see a risk that banks continue to outperform until the yield curve normalises.

Your desktop companion for FY23 results season

This report contains a pull-out section for insurers in our UK coverage, including forecasts and key topics for results season. This can be a desktop companion for results season.

UK Life: Waiting for the yield curve to normalise

We are in a golden age for pension risk transfer (PRT) transactions, which may receive a warmer reception if the yield curve normalises and improving UK macro eases credit concerns. IFRS17 has been unhelpful short-term but should be digested and dividend prospects are unaffected. Flows are likely to remain depressed near-term for UK asset gatherers, while Consumer Duty questions remain and competition is fierce. Comps get easier and sentiment could improve in the latter part of the year but election uncertainty could temper excitement.

UK P&C: set for a year of earnings recovery

2024 should be a year of earnings recovery for UK P&C, as rate increases feed through. However, moderating inflation likely also leads to moderating price increases. We forecast a return to normal profitability by 2025 but given the competitive dynamics we do not expect to see meaningful excess profitability over the coming years. The risk of regulatory intervention (particularly on premium finance) also remains high, and could cause further disruption in the UK market. For London market insurers, we have a brighter outlook, with capital return increasingly on the agenda.

Buy Prudential for 2024

One of our top picks in the UK for 2024 is **Prudential**. Pru is likely to start slowly but accelerate through the year as accounting noise is put behind us and a clearer growth trajectory emerges. Pru remains the only large-cap growth insurers in Europe.

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Exhibit 1: PO revisions (p)

We update our price objectives

Company	Old	New	Change
Prudential	1,200	1,150	-4%

Source: BofA Global Research estimates
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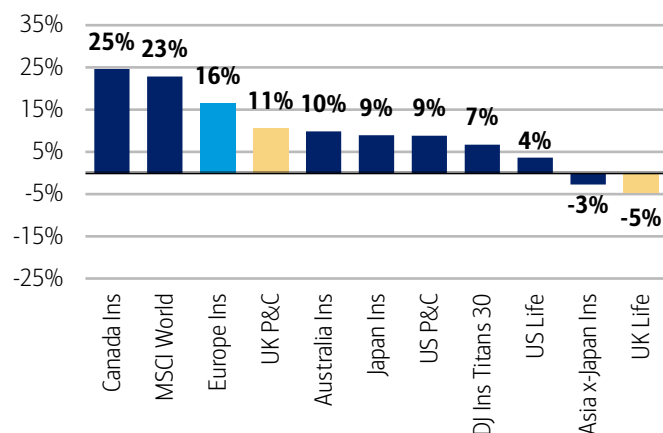
2023 review: Life wasn't easy

2023 was another challenging year for UK insurers after 2022's annus horribilis. UK P&C performance was driven by Admiral, with weaker performance elsewhere in the sub-sector. UK Life had another dismal year, with IFRS17 accounting changes exacerbating macro challenges. Within the asset gatherers, Quilter's return to growth in adviser headcount was rewarded but Consumer Duty challenges weighed on others, particularly with SJP's pricing changes.

UK insurers lagged both the FTSE All-Share and UK banks (by 13% and 23% respectively). This was a second consecutive year of underperformance against both indices, following around a decade of insurance outperformance. We fear similar in the near-term, until the yield curve normalises in mid-2024.

Exhibit 2: 2023 total return performance in USD terms

Another torturous year for UK insurers

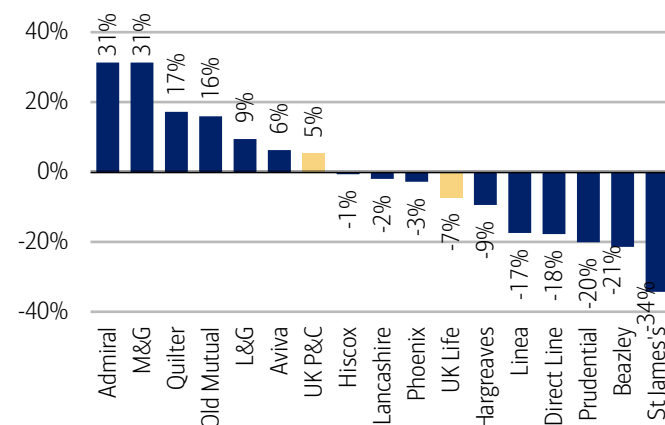


Source: BofA Global Research, Refinitiv Eikon

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Exhibit 3: Total shareholder return shown in GBP terms

Defensive P&C with international exposure outperformed Life, Asset gatherers and Domestic UK P&C insurers

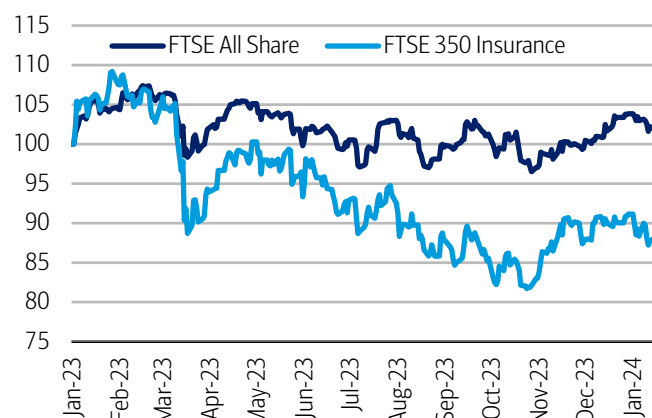


Source: BofA Global Research, Refinitiv Eikon

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Exhibit 4: FTSE All Share vs FTSE 350 Insurance (rebased to 31 December 2022)

Insurers underperformed as compared to FTSE All Share in 2023...

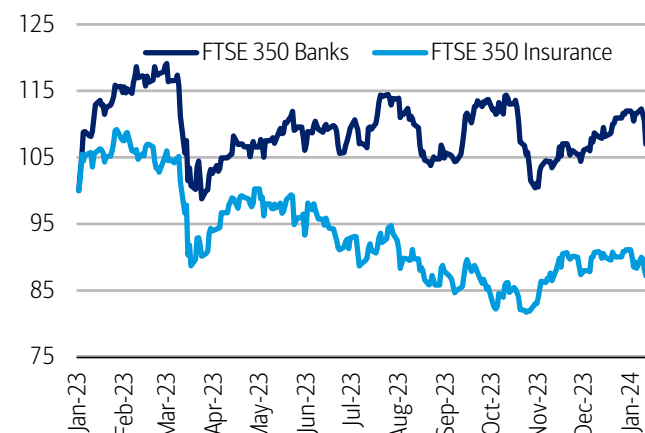


Source: BofA Global Research, Refinitiv Eikon

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Exhibit 5: FTSE 350 Banks vs Insurance (rebased to 31 December 2022)

... and UK insurers drastically underperformed UK banks in 2023.



Source: BofA Global Research, Refinitiv Eikon

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Wait till you see the whites of their eyes

We see opportunities emerging in UK insurers during 2024 but we think patience is needed near-term.

For UK Life insurers, we see normalisation of the yield curve as a buy-signal but think the sub-sector may lag banks in the near-term. Patience is needed until central banks start cutting rates.

For UK P&C, pricing looks favourable but challenging weather and weak profitability could weigh near-term, we think it will take time for higher pricing to earn through to profits. The outlook is brighter for London market names.

For UK asset gatherers, flows are likely to improve but cost of living challenges remain near-term and an election in late-2023 could weigh on flows in the latter part of the year.

For the Asia-focused Prudential, we think Q4 and Q1 sales could be challenging but see a growth trajectory being affirmed during 2024.

We see opportunities for patient investors. Prudential is one of our top picks in the UK.

Key Buy for 2024

Prudential (PO 1,150p) – Transition year digested, now to show organic growth

Prudential is one of the few large-cap growth stocks in European insurance. Its past year has been blighted by Chinese macro concerns, IFRS17 transition (which led to a circa one-third cut to EPS) and uncertainty over long-term growth trajectory after a 'rebound year' in HK. We think growth will become clear in the latter part of 2023 and accounting noise will be put behind us. Pru's longer-term growth potential is not reflected in its valuation, in our view.

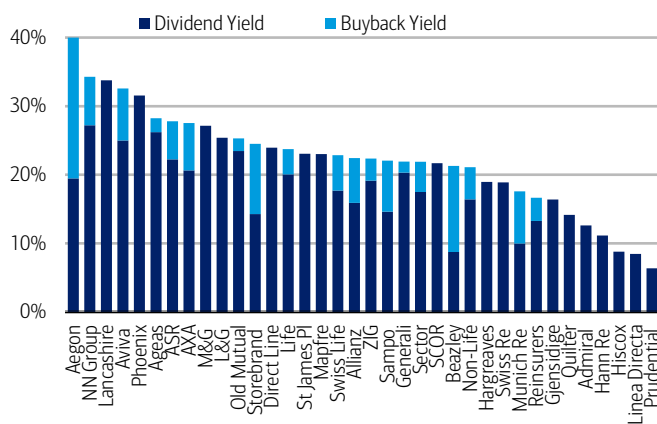
Yield less exciting than it used to be

The sector's yield appeal waned in 2023 – the relative appeal of a 6% dividend yield lessened as bond yields rose and banks became investible. But yield could come back into vogue in 2024 when central banks start to cut rates. We think a normalised the yield curve will bring investor attention back to yield stocks within the insurance sector.

The sector continues to offer high levels of capital return, with balance sheets remaining exceptionally strong (as seen by Solvency 2 ratios). We forecast an average of 22% of market cap to be returned to shareholders over the coming three years by insurers (17.5% via dividends and 5% via buybacks). Life insurers currently offer the greatest yield attractions, we believe, but P&C insurers offer defensive traits amidst macro uncertainty.

Exhibit 6: 2023E-25E cumulative yield including buy backs

Insurers will return around 22% of their market cap over the three years 2023-25E (17.5% through dividends, 4.4% from buybacks)

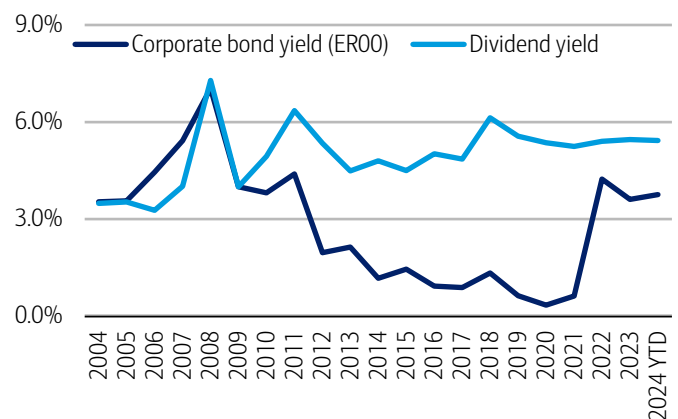


Source: BofA Global Research

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Exhibit 7: Insurance sector dividend yield compared to corporate bond yields

The spread between corporate bond yields and the sector's dividend yield has narrowed after around a decade at exceptionally wide levels.



NB corporate bond indices used is a generic corporate bond indices (ER00 BofA source) average credit rating A. Source: Refinitiv Eikon, BofA Global Research.

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Exhibit 8: Solvency 2 ratios: FY22 reported and FY23 expectations

Solvency 2 ratios declined for Life insurers in 2023 but remain exceedingly strong. P&C improved from a weaker start-point

	FY 2022A	FY 2023E
Admiral	180%	185%
Aviva	212%	204%
Direct Line	147%	183%
L&G	236%	216%
M&G	199%	194%
Phoenix	189%	176%

Source: Company information, BofA Global Research estimates

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Exhibit 9: Dividend expectations

Mixed picture for dividends in 2023

	Dividend (p per share)		YoY growth
	2022	2023E	
Admiral	157.00	92.42	-41%
Aviva	31.00	33.40	8%
Beazley	13.50	14.18	5%
Direct Line	7.60	10.00	32%
Hargreaves	41.50	46.87	13%
Hiscox (US\$C)	36.00	37.50	4%
L&G	19.37	20.34	5%
Lancashire (US\$C)	15.00	65.00	333%
M&G	19.60	19.90	2%
Phoenix	50.80	52.52	3%
Prudential	15.61	15.88	2%
Quilter	4.50	4.50	0%
St James's Pl.	52.78	52.78	0%

Note: Hargreaves Lansdown is H1 dividends for HY23 and HY24E. Source: Company information; BofA Global Research

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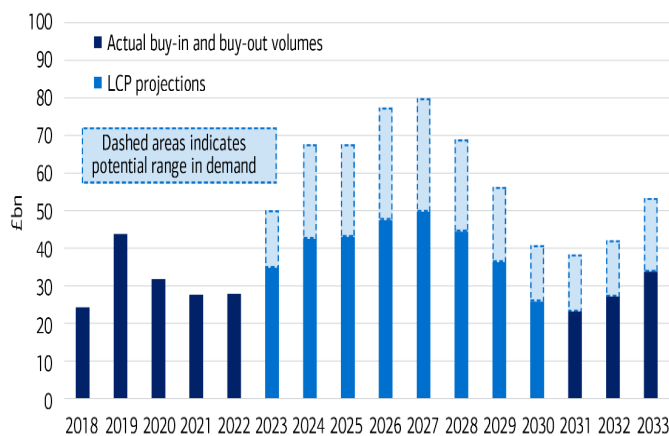
Life: Golden age for PRT

We are in a golden age for pension risk transfer (PRT) transactions, with each of the next five years likely to exceed the record levels set in 2023. This may receive a warmer reception than recent years if the yield curve normalises and improving UK macro eases credit concerns. Even if credit fears arise, we believe risks are overstated and this would only be an earnings, not share-count issue. Implementation of the Solvency 2 reforms could also ease capital intensity of these transactions.

Life remains challenging for UK asset gathers and flows are likely to remain depressed near-term, while Consumer Duty questions remain and competition remains fierce. Comps get easier through 2024 and sentiment could improve in the latter part of the year but election uncertainty could temper excitement.

Exhibit 10: DB de-risking historic volumes and outlook

LCP expects DB de-risking volumes to accelerate to new highs in the coming years

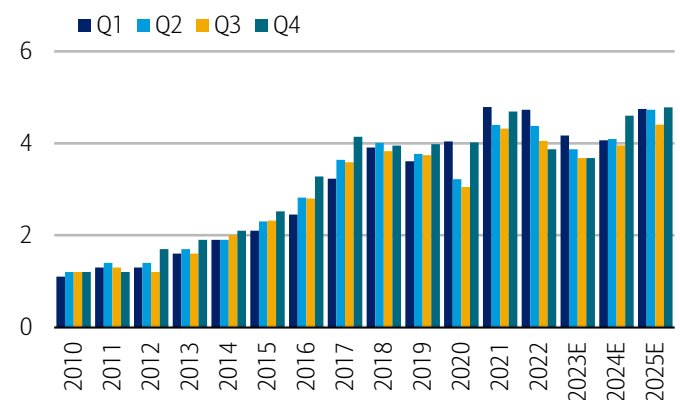


Source: LCP analysis (LCP: A seismic shift in buy-ins / outs – how is the market adapting?, October 2023)

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Exhibit 11: 2010-2025E: Gross inflows (£bn)

UK consumers have faced a series of challenges in recent years, with an election also looming in 2024, but we see recovery on the horizon

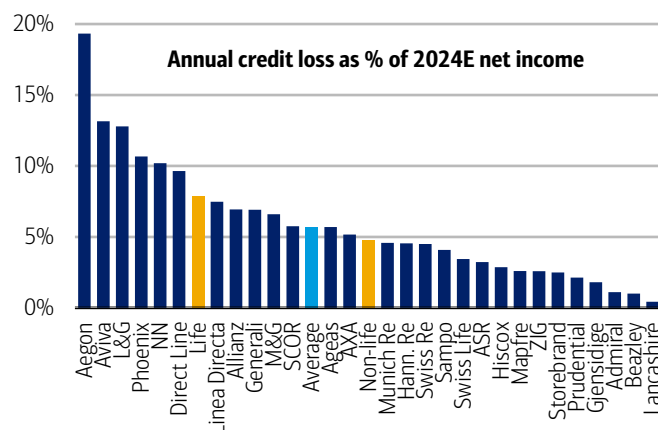


Source: Company information, BofA Global Research estimates

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Exhibit 12: BofA bear case - annual losses after netting effects as % of 2024E net income (5 year duration)

Annual losses after netting effects is <6% of earnings on average over 5 yrs

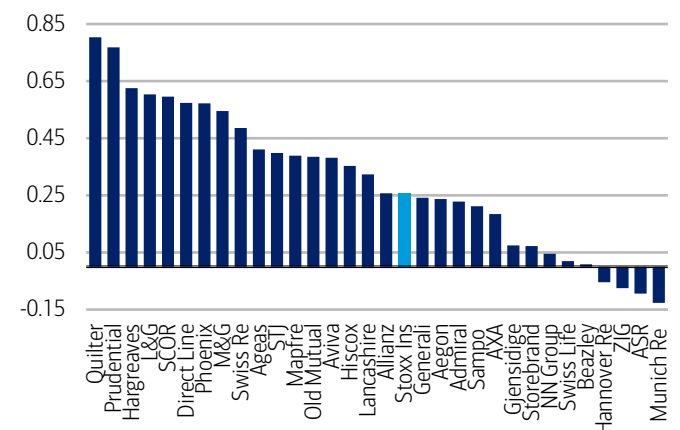


Source: BofA Global Research estimates

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Exhibit 13: Correlations of each company's share price vs inverted Itraxx 5Y Crossover CDS

Insurance share price correlation to (inverted) credit spreads has fallen



Source: BofA Global Research, Refinitiv Eikon

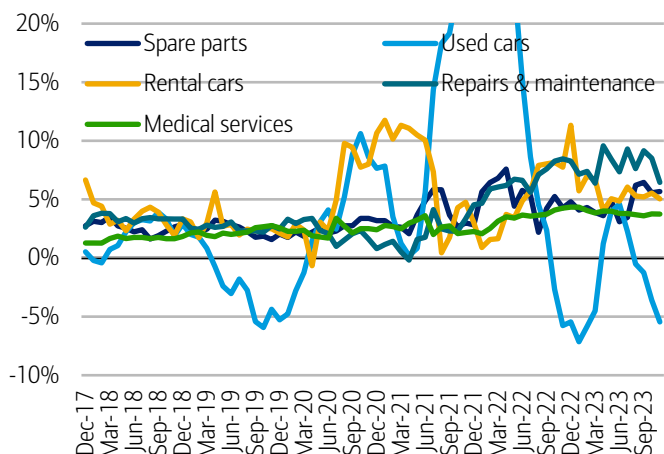
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UK P&C: earnings recovery under way

We expect 2024 will be a year of earnings recovery for the UK P&C sector, which has enjoyed significant rate increases over 2023 to catch up for elevated claims inflation over the last two years. We believe the claims inflation outlook is now moderating in the UK, though is likely to remain elevated particularly driven by spare parts and labour cost inflation. This is likely to offset any relief from falling used car prices. We expect insurers will remain disciplined in the face of elevated inflation, and we forecast average premium increases in the mid- to high-single digits over 2024. We forecast a return to normal profitability by 2025, and given the competitive dynamics we do not expect to see meaningful excess profitability over the coming years. The risk of regulatory intervention (particularly on premium finance) also remains high, and could cause further disruption in the market.

Exhibit 14: UK motor insurance claims inflation components from 2018

ONS data suggests that some drivers of claims inflation for motor are easing (used car prices), however spare parts and labour cost inflation remains elevated

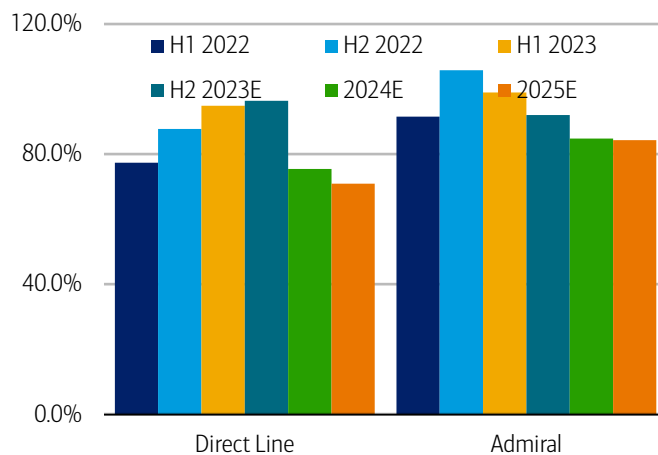


Source: ONS, BofA Global Research

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Exhibit 15: UK motor attritional loss ratio outlook

We expect Direct Line's underwriting profitability to worsen in H2 before a strong recovery over 2024, while Admiral's loss ratios should start to show improvement sooner

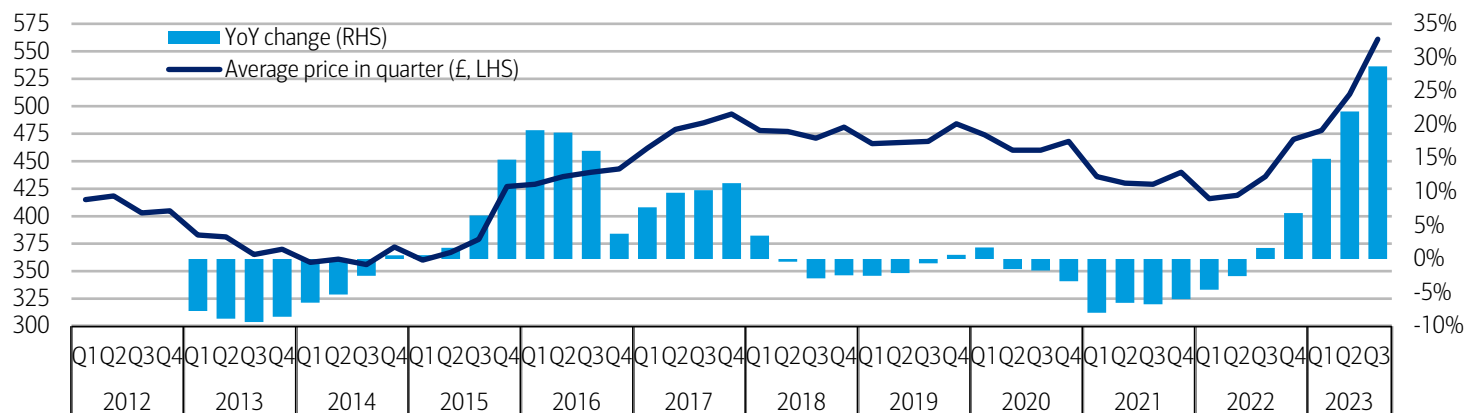


Source: Company information, BofA Global Research estimates

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Exhibit 16: ABI average UK motor premiums from 2012 (£m)

Average UK car insurance premiums were up 29% YoY as at Q3 2023, however the pace of monthly increases has started to slow in recent ONS data (+1.3% in November)... we expect car insurance premium increases to slow to mid-high single digits over 2024 as profitability recovers and competitive dynamics increase



Source: Association of British Insurers, BofA Global Research

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PO and estimate changes

We update our forecasts and price objectives for latest news flow and market moves. On average, our price objectives are net unchanged but we make some small up- and downward moves. The most significant moves are as follows:

Prudential: We trim our price objective by 4%, broadly in-line with moves in our earnings forecasts. We reflect a challenging backdrop for bancassurance in Mainland China and Vietnam. Overall, our PO represents a multiple of 16x 2024E IFRS EPS (vs prior 17x). Our ADR price objective moves with FX.

Exhibit 17: Operating EPS revisions (p)

We refresh our EPS forecasts

Company	2023E	Old 2024E	2025E	2023E	New 2024E	2025E	2023E	Change 2024E	2025E
Prudential	68.3	74.3	81.5	68.2	73.2	80.1	0%	-2%	-2%

Note: All companies except STJ on IFRS basis; STJ on underlying cash basis. Source: BofA Global Research estimates

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Exhibit 18: DPS revisions (p)

We refresh our dividend forecasts

Company	2023E	Old 2024E	2025E	2023E	New 2024E	2025E	2023E	Change 2024E	2025E
Prudential	16.0	17.1	18.7	15.9	17.0	18.5	-1%	-1%	-1%

Source: BofA Global Research estimates

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Exhibit 19: PO revisions (p)

We update our price objectives

Company	Old	New	Change
Prudential	1,200	1,150	-4%

Source: BofA Global Research estimates

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UK sector: FY23 results in brief

UK insurers are set to report their first set of full year results on an IFRS17 basis. This should make Life earnings more predictable but uncertainty of moving to a new accounting regime is the dominant feeling for many in the short-term. PRT sales should be exceedingly strong. The challenging UK macro backdrop will weigh for asset gathering & management flows but assets under management (AUM) will be boosted by the late-year rally. UK P&C pricing outstripped claims inflation during 2023 but the pace of acceleration is slowing and profitability remains challenged for some. Solvency ratios will typically have fallen with lower rates in H2 but will remain healthy. Dividends will increase for most.

We expect key themes arising from upcoming results for UK insurers to be the following:

- We expect regular dividends to be paid by all companies except Direct Line, which we think will pay a special dividend alongside FY23 results (from disposal proceeds). We see an average 6.9% 2023E dividend yield for UK insurers (excluding Pru, which has a 2.0% dividend yield but its large market cap lowers the average to 5.7%), rising to 7.3% for 2024E.
- On top of this, we see potential for buybacks at Aviva (£300m), Beazley (£200m) and an update on Lancashire's announced £50m buyback (which may change to a special dividend).
- Solvency 2 ratios are set to be impacted by lower bond yields, though will remain healthy. We expect several insurers to report ratios near or over 200% for end-2023. Overall, we see an average ratio of around 205%.
- Some insurers saw debt lose eligibility for Solvency 2 purposes during 2023, as bond yields spiked and solvency capital requirements reduced. Such eligibility concerns should have eased during H2 as yields fell but de-leveraging may remain an agenda item for some (Direct Line, Phoenix, Aviva, etc.).
- Positive marks-to-market in late December should boost assets under management for asset gathering and asset management operations. However, the timing of this rally means it will provide little benefit to profits in the period. This brings a risk of over-optimism in forecasting for such operations.
- Asset gathering flows are likely to have been weak in late-2023 and may remain depressed in the early part of 2024. However, fixed income asset management flows may accelerate as hopes rise for rate-cuts. Insurers' asset management operations tend to have a heavy bias towards fixed income within their AUM split.
- We expect weather during Q4 to have been broadly in-line with budgets but guidance for Q1 could be cautious after adverse January UK weather.
- We expect stellar PRT sales from UK life insurers, with guidance for more in 2024.
- IFRS17 details will continue to emerge.

Company section – UK life



Prudential

Buy, PO: 1,150p (ADR \$29.31)

Results due: Wednesday 20th March

What we look for in these results

- H2 new business volumes should be strong in HK but weaker in Mainland China and Vietnam. We see group new business volumes (on an APE, annual premium equivalent, basis) up 34% YoY in 2023 to \$5,874m. Margins will have improved in Q4 after a dip in Q3, both thanks to moves in rates. We forecast \$2,945m new business contribution, up 35% YoY, with a 49.8% margin. This includes \$1,325m from Hong Kong, up 2.4x YoY, with H2 (\$670m) similar to H1 (\$655m).
- We expect IFRS operating profits of \$2,867m, up 5% YoY. Within this, we expect \$3,268m from insurance operations and \$283m from Eastspring.
- Embedded value should have grown in H2. We forecast \$44.9bn year-end EV, or \$44.0bn after deducting goodwill. This equates to £12.58 per share (ex-goodwill).
- Pru has guided for a dividend up 7-9% pa. We forecast 7% growth to 20.09c per share for the year (13.04c final dividend).

Key issues

- Pru's key challenge is to set out a clear trajectory for growth over the coming years. This has been distorted over 2022/23 by the HK border closure and then reopening, so any colour from management will be warmly received.
- We expect Pru to move to traditional embedded value, rather than European embedded value but this is more likely at FY24 than FY23 or H1 2024 results. This should be well-received and shows that Pru management are listening to feedback.
- Chinese macro concerns have limited re-rating for Pru and Asian peers in 2023 but we think a return re-acceleration of growth for Pru in 2024 will be taken well.
- We expect Pru to gain regulatory approval for a SAHI (Stand-alone health insurance company) in India, rather than acquiring one. This could take longer to deliver material profits but should have a higher return on investment than an acquisition.

Exhibit 20: Prudential - Results preview (\$m)

New business profits continue to rebound and lower rates help closing embedded value

		Full Year			
	FY 2022	FY 2023E		BofAe vs	
		BofAe	Cons	FY 2022	Cons
EV Basis:					
Embedded Value (ex goodwill)	41,422	44,021		6%	n/m
EVPS (GBp)	1,252	1,263		1%	n/m
IFRS Basis:					
Pre-tax Operating Profit:					
Asia Life	3,276	3,268		0%	n/m
Eastspring	260	283		9%	n/m
Corporate / Other	(814)	(685)		-16%	n/m
Total IFRS Operating Profit	2,722	2,867		5%	n/m
Operating EPS (USDc)	79.4	84.0		6%	n/m
Shareholders' equity	16,731	18,139		8%	n/m
Above per share (GBp)	506	520		3%	n/m
CSM (\$bn)	20.0	21.7		9%	n/m
Above per share (GBp)	604	622		3%	n/m
New Business APE	4,393	5,874		34%	n/m
Post-tax Value of New Business	2,184	2,945		35%	n/m
Post-tax New Business Margin (%APE)	49.7%	50.1%		0.4pts	n/m
DPS (USc)	18.8	20.1		7%	n/m

Source: Company information, BofA Global Research estimates

Prudential – Estimate changes

Exhibit 21: Prudential - Estimate changes (\$ mn):

We refresh our Pru forecasts for latest market moves and events

	2022		2023E			2024E			2025E	
	Actual	Old	New	% chg	Old	New	% chg	Old	New	% chg
EV Basis:										
Embedded Value (ex goodwill)	41,422	43,769	44,021	1%	48,844	48,837	0%	54,840	54,417	-1%
EVPS (GBp)	1,252	1,248	1,263	1%	1,391	1,399	1%	1,559	1,555	0%
IFRS Basis:										
Pre-tax Operating Profit:										
Asia Life	3,276	3,301	3,268	-1%	3,611	3,557	-1%	3,929	3,843	-2%
Eastspring	260	283	283	0%	312	303	-3%	343	334	-3%
Corporate / Other	-814	-675	-685	1%	-686	-696	2%	-697	-707	2%
Total IFRS Operating Profit	2,722	2,909	2,867	-1%	3,237	3,164	-2%	3,576	3,470	-3%
Operating EPS (USDc)	79.4	69.2	84.0	21%	74.4	92.6	24%	82.1	101.4	23%
Shareholders' equity	16,731	18,174	18,139	0%	20,232	20,139	0%	22,525	22,346	-1%
Above per share (GBp)	506	518	520	0%	576	577	0%	640	639	0%
CSM (\$bn)	20.0	21.8	21.7	0%	23.4	23.2	-1%	25.4	25.0	-2%
Above per share (GBp)	604	620	622	0%	667	665	0%	723	714	-1%
 New Business APE	4,393	5,949	5,874	-1%	6,800	6,632	-2%	7,703	7,565	-2%
Post-tax Value of New Business	2,184	3,053	2,945	-4%	3,624	3,357	-7%	4,252	3,845	-10%
Post-tax New Business Margin (%APE)	49.7%	51.3%	50.1%	-1.2pts	53.3%	50.6%	-2.7pts	55.2%	50.8%	-4.4pts
DPS (USc)	18.8	20.1	20.1	0%	22	21.5	0%	23	23.4	0%

Source: Company information, BofA Global Research estimates

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Prudential – Sum-of-the-parts (SOTP) valuation

Exhibit 22: Prudential Plc IFRS based Sum Parts (US\$m)

The table below sets out the detail of our valuation of Prudential

	Capital	Pct of Total	2024E ROE	2024E Earnings	Discount Rate	Growth	BV Multiple	Fair Value
Asian Life (excl. Indian JV)	13,687	89%	21.1%	2,881	13.0%	7.0%	261%	35,729
Indian JV	720	5%	0.0%	0	15.0%	7.5%	284%	2,044
Asset Management	1,058	7%	23.2%	246	12.0%	6.0%	325%	3,439
Corporate	0	0%	NA	(371)	NA	NA	NA	(4,447)
Total Operating	15,465	100%	17.8%	2,756	13.0%	7.0%	238%	36,765
Operating leverage	5,444		0.0%	0	0.0%	0.0%	50%	2,722
Enterprise Value	20,909		13.2%	2,756	13.0%	7.0%	189%	39,487
Minorities	0		0.0%	0	0.0%	0.0%	0%	0
Debt	(3,949)		3.7%	(145)	3.7%	NA	100%	(3,949)
Common Equity	16,960		15.4%	2,612	14.9%	7.0%	210%	35,538
Total per Share (USDc)	617			95				1292
Total per Share (GBp)				77				1021
Price Objective (GBp)								1150

Source: BofA Global Research estimates

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Prudential – Financials

Exhibit 23: Prudential Plc - Insurance segment result, IFRS17 basis (US\$m)

Prudential group IFRS17 insurance service result 2022-2025E

	2022 FY	2023E FY	2024E FY	2025E FY
Contractual Service Margin (CSM) (\$bn)				
Opening CSM	24.7	20.0	21.7	23.2
New business	2.1	2.4	2.7	3.1
Unwind based on risk-free + liquidity premium	0.5	1.5	1.5	1.5
CSM before variances, FX, release	27.3	23.9	25.9	27.8
Economic & other variances	(4.4)	0.1	(0.2)	(0.2)
CSM before release	22.9	24.0	25.7	27.6
Release to P&L	(2.2)	(2.3)	(2.5)	(2.7)
FX	(0.7)	0.0	0.0	0.0
Closing CSM	20.0	21.7	23.2	25.0
CSM ps (USDc)	727.0	787.7	841.0	902.9
CSM ps (GBP)	604.3	622.5	664.6	713.5
Adjusted operating profit - alternative presentation (\$m)				
Release of CSM	2,265	2,336	2,498	2,686
Release of Risk Adjustment	179	190	203	219
Experience variances	(66)	(112)	(25)	0
Other insurance service result	(204)	(160)	(160)	(160)
Adjusted insurance service results	2,174	2,254	2,516	2,745
Net investment return on longer-term basis	1,290	1,193	1,223	1,284
Other insurance income & expenditure	(188)	(179)	(182)	(186)
Adjusted op profit for insurance business	3,276	3,268	3,557	3,843

Source: Company information, BofA Global Research estimates

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Exhibit 24: Pru IFRS17 - P&L (US\$m)

Prudential IFRS17 operating profit split 2022-2025E

SE Asia by country	2022	2023E	2024E	2025E
CPL (CITIC Prudential Life, China JV)	271	325	348	376
Hong Kong	1,162	1,116	1,249	1,374
Indonesia	205	199	209	225
Malaysia	340	313	338	358
Singapore	570	530	557	584
Growth markets & other	728	786	857	925
Total insurance operations	3,276	3,268	3,557	3,843
Eastspring	260	283	303	334
Total segment profit	3,536	3,552	3,860	4,177
Total other income & expenditure	(520)	(485)	(496)	(507)
Restructuring (and IFRS17) costs	(294)	(200)	(200)	(200)
Adjusted operating profit	2,722	2,867	3,164	3,470
Profit before tax attributable to shareholders	(643)	2,580	3,164	3,470
Tax charge attributable to shareholders	(354)	(490)	(601)	(659)
Profit for the period	(997)	2,090	2,563	2,810
Operating EPS (USDc)	79.4	84.0	92.6	101.4
Operating Profit EPS (GBP)	64.4	68.2	73.2	80.1
Reported EPS (USDc) (Continued Operations)	(36.8)	75.6	92.6	101.4
Reported EPS (GBP) (Continued Operations)	(29.9)	61.3	73.2	80.1
DPS (USDc), pre-FY19 as declared	18.8	20.1	21.5	23.4
DPS (GBP), pre-FY19 as declared	15.6	15.9	17.0	18.5
Average number of shares (m)	2,736	2,752	2,757	2,762

Source: Company information, BofA Global Research estimates

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Exhibit 25: Prudential Plc - New business figures (US\$m)

Prudential group new business summary 2022-2025E

	2022 FY	2023E FY	2024E FY	2025E FY
Regular Premiums				
Cambodia	18	23	30	38
Hong Kong	438	2,015	2,418	2,780
Indonesia	222	266	306	352
Malaysia	350	364	393	432
Philippines	176	183	210	242
Singapore	507	659	705	776
Thailand	220	253	291	335
Vietnam	288	245	245	299
SE Asia operations	2,219	4,009	4,599	5,254
China	759	592	616	708
Taiwan	486	583	642	719
India	196	235	278	319
Other (incl. Africa)	1,535	1,692	1,890	2,175
Asia Regular Premiums	3,811	5,588	6,328	7,224
Single Premiums				
Cambodia	0	0	0	0
Hong Kong	842	240	260	273
Indonesia	250	276	304	334
Malaysia	99	97	102	112
Philippines	61	70	84	101
Singapore	2,628	1,051	1,051	1,156
Thailand	150	150	180	216
Vietnam	99	25	32	42
SE Asia operations	4,129	1,909	2,013	2,234
China	1,254	564	576	662
Taiwan	157	110	132	158
India	273	262	301	347
Other (incl. Africa)	749	626	740	875
Asia Single Premiums	5,822	2,854	3,032	3,413
New Annualised Premiums				
Asia APE	4,393	5,874	6,632	7,565
Asia VNB	2,184	2,945	3,357	3,845

Source: Company information, BofA Global Research estimates

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Exhibit 26: Prudential Plc - Cashflow (US\$m)

Prudential group cashflow summary 2022-2025E

	2022 FY	2023E FY	2024E FY	2025E FY
Life segment				
Expected life in-force cashflow				
- from VIF to free surplus	2,208	1,920	2,233	2,438
- from req'd capital to free surplus	198	255	274	293
- return on free surplus	347	349	425	520
Total	2,753	2,524	2,932	3,251
Amount invested in new business				
- increase in required capital	(334)	(477)	(526)	(589)
- new business expenses	(233)	(333)	(367)	(411)
Total	(567)	(810)	(893)	(1,001)
Core free surplus generation	2,186	1,715	2,039	2,250
Variances & assumption changes				
- Operating experience variance	0	0	0	0
- Operating assumption change	(227)	100	100	100
- Economic experience variance	0	0	0	0
- Economic assumption change	0	0	0	0
Total	(227)	100	100	100
Other				
- Capital & dividend flows	(999)	(500)	(500)	(500)
- Fx	(283)	0	0	0
- Other	(1,962)	0	0	0

Exhibit 26: Prudential Plc - Cashflow (US\$m)

Prudential group cashflow summary 2022-2025E

	2022 FY	2023E FY	2024E FY	2025E FY
Total	(3,244)	(500)	(500)	(500)
Total movement in free surplus	(1,285)	1,315	1,639	1,850
Asset Management				
Gross cashflow	178	0	0	0
Change in required capital	9	0	0	0
Free cashflow	169	0	0	0
Central overheads / other	(356)	(357)	(268)	(272)
Financing Costs	(140)	(123)	(123)	(123)
Grand total core cash generation	1,858	1,235	1,648	1,856
Per share (USDc)	68	45	60	67
Per share (GBp)	54	35	47	53

Source: Company information, BofA Global Research estimates

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Exhibit 27: Prudential Group (EEV)

Prudential group EEV P&L 2022-2025E

	2022	2023E	2024E	2025E
New Business Value	2,184	2,945	3,357	3,845
Business In Force	2,358	1,984	2,440	2,738
Asia Life Business	4,542	4,929	5,796	6,583
Fund Management	234	269	288	317
Development Expenses	0	0	0	0
Total ASIA Profit Group	4,776	5,198	6,085	6,900
New Business Value	2,184	2,945	3,357	3,845
Business In Force	2,358	1,984	2,440	2,738
Long Term Business	4,542	4,929	5,796	6,583
Asset Management	234	269	288	317
Other Operating Income/Expenses	0	0	0	0
Operating Profit based on longer term inv. Returns	4,776	5,198	6,085	6,900
Other Income & Expenses	-542	-471	-477	-483
Restructuring Costs	-282	-170	-170	-170
Operating Profit	3,952	4,557	5,437	6,247
Short-term fluctuations in Inv. Returns	-6,874	-793	0	0
Effect of Changes in Economic Assumptions	-1,571	-92	0	0
Mark-to-market value movements on core borrowings	865	-38	0	0
Loss attaching to corporate transactions	57	0	0	0
Other Non-Operating Income/Expenses	0	0	0	0
Non-Operating Profit	-7,523	-923	0	0
Profit (Continuing operations)	-3,571	3,634	5,437	6,247
Minority Interest	-29	-29	-29	-29
Net Profit	-3,600	3,605	5,408	6,218
Discontinued Profit/Loss	0	0	0	0
Total Net Profit	-3,600	3,605	5,408	6,218
Attributable Operating Profit	3,923	4,528	5,408	6,218
PER SHARE (EEV)				
Operating Profit EEV EPS (USDc)	143	165	196	225
Reported EEV EPS (USDc) (Continued Operations)	-132	131	196	225
Reported EEV EPS (USDc)	-132	131	196	225
DPS (USDc)	18.78	20.09	21.50	23.44
Operating Profit EEV EPS (GBp)	116	133	155	178
Reported EEV EPS (GBp) (Continued Operations)	-107	106	155	178
Reported EEV EPS (GBp)	-107	106	155	178
DPS (GBp)	15.61	15.88	16.99	18.52
Average number of shares (m)	2,736	2,752	2,757	2,762
At End of Period (m) /diluted	2,750	2,755	2,760	2,765

Source: Company information, BofA Global Research estimates

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Exhibit 28: Movement in EEV Shareholders' Funds

Prudential group EEV shareholders' funds 2022-2025E

	2022	2023E	2024E	2025E
Shareholders' Funds at Start of Period	47,355	42,184	44,900	49,742
Profit in Period	-3,600	3,605	5,408	6,218
Credit and Fx moves	-1,195	-390	0	0
Shares Issued	-4	0	0	0
Dividend Payments during Period	-474	-528	-566	-611
Other Items	102	30	0	0
Shareholders' Funds at End of Period	42,184	44,900	49,742	55,349
Embedded Value (Adjusted Basis)				
Published Shareholders' Funds	42,184	44,900	49,742	55,349
Deduct Goodwill	-762	-879	-905	-933
Net Embedded Value	41,422	44,021	48,837	54,417
Net Embedded Value per share (USDc)	1,506	1,598	1,770	1,968
Net Embedded Value per share (GBp)	1,252	1,263	1,399	1,555
Return on Embedded Value	-8%	9%	12%	13%
Operating Return on Embedded Value	8%	11%	12%	13%
EV growth	-11%	6%	11%	11%

Source: Company information, BofA Global Research estimates

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Exhibit 29: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
PUK	PUK US	Prudential PLC	US\$ 19.8	B-1-7
PUKPF	PRU LN	Prudential PLC	773.4p	B-1-7

Source: BofA Global Research

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Price objective basis & risk**Prudential PLC (PUKPF / PUK)**

Our 1150p price objective (USD29.31 per ADR) is based on our sum-of-the-parts valuation, rolled forward 12 months. In addition to a multiple of allocated capital per division, we also back out an implied earnings multiple from our fair value. We assume 13% discount rate and 7% growth rate for Asia life and market value for the Indian JV. Our risk discount rates have been adjusted higher to reflect both higher interest rates and greater macro uncertainty.

Reflecting peer multiples, profitability and growth, our fair PE for Asia is 12x 2024E and 0.9x headline EV - these multiples are around 40% below consensus fair multiples for the closest peer company.

Overall, our PO represents a multiple of 16x 2024E IFRS EPS. This is above the European sector average fair multiple reflecting superior long term growth prospects for Asia.

Downside risks to our PO are 1) emerging market currency weakness, 2) equity market weakness, 3) political and/or economic upheaval in some of Prudential's emerging market operations.

Upside risks to our PO are 1) better-than-expected macro conditions, 2) higher equity markets and 3) faster normalisation of trading post COVID.

Analyst Certification

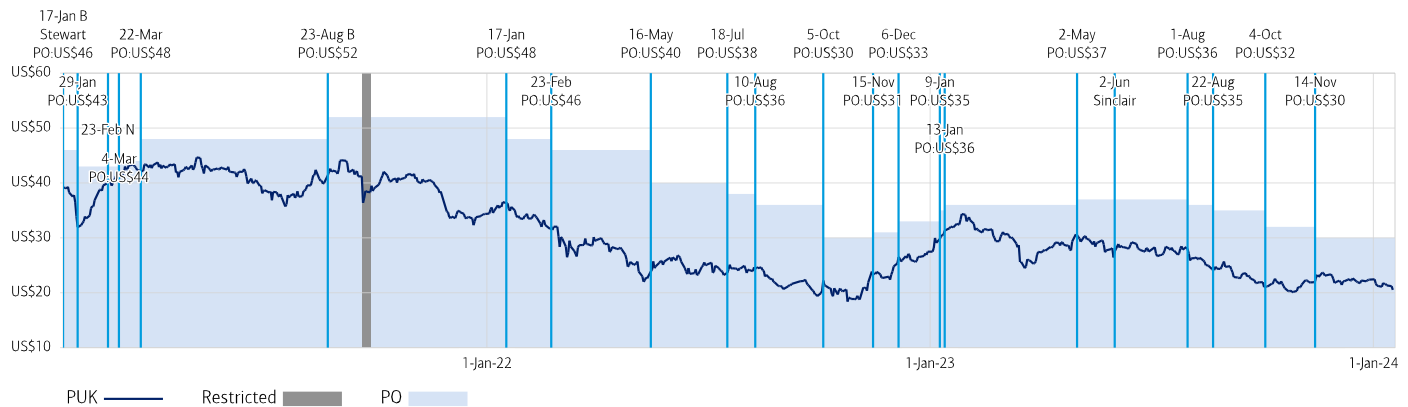
I, Andrew Sinclair, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Ageas	AGESF	AGS BB	David Barma
	Ageas	AGESY	AGESY US	David Barma
	Allianz	ALIZF	ALV GY	Andrew Sinclair
	Allianz	ALIZY	ALIZY US	Andrew Sinclair
	ASR Nederland	ASRRF	ASRNL NA	David Barma
	Axa	AXAHY	AXAHY US	Andrew Sinclair
	Axa	AXAHF	CS FP	Andrew Sinclair
	Beazley	BZLYF	BEZ LN	Freya Kong
	Hiscox	HCXLF	HSX LN	Freya Kong
	M&G plc	MGPUF	MNG LN	Andrew Sinclair
	NN	NNGPF	NN NA	David Barma
	NN	NNGRY	NNGRY US	David Barma
	Phoenix Group	PNXGF	PHNX LN	Andrew Sinclair
	Prudential	PUK	PUK US	Andrew Sinclair
	Prudential PLC	PUKPF	PRU LN	Andrew Sinclair
	Sampo plc	SAXPF	SAMPO FH	Freya Kong
	SCOR	SZCRF	SCR FP	Freya Kong
NEUTRAL				
	Aegon	AEG	AEG US	David Barma
	Aegon	AEGOF	AGN NA	David Barma
	Aviva plc	AIVAF	AV/ LN	Andrew Sinclair
	Gjensidige	GJNSF	GJF NO	Freya Kong
	Lancashire Holdings	LCSHF	LRE LN	Freya Kong
	Legal & General	LGGNF	LGEN LN	Andrew Sinclair
	Mapfre	MPFRF	MAP SQ	Andrew Sinclair
	Munich Re	MURGF	MUV2 GY	Freya Kong
	Munich Re	MURGY	MURGY US	Freya Kong
	Old Mutual Limited	ODMUF	OMU SJ	Andrew Sinclair
	Old Mutual Limited	XOMLF	OMU LN	Andrew Sinclair
	St James Place	STJPF	STJ LN	Andrew Sinclair
	Storebrand	SREDF	STB NO	David Barma
UNDERPERFORM				
	Admiral	AMIGF	ADM LN	Freya Kong
	Direct Line Group	DIISF	DLG LN	Freya Kong
	Generali	ARZGF	G IM	David Barma
	Hannover Re	HVRRF	HNRT GY	Freya Kong
	Hargreaves Lansdown	HRGLF	HL/ LN	Andrew Sinclair
	Linea Directa	LNDAF	LDA SQ	Freya Kong
	Quilter	QUILF	QLT LN	Andrew Sinclair
	Swiss Life	SWSDF	SLHN SW	David Barma
	Swiss Re	SSREF	SREN SW	Freya Kong
	Zurich Insurance Group	ZFSVF	ZURN SW	Andrew Sinclair
	Zurich Insurance Group	ZURVY	ZURVY US	Andrew Sinclair

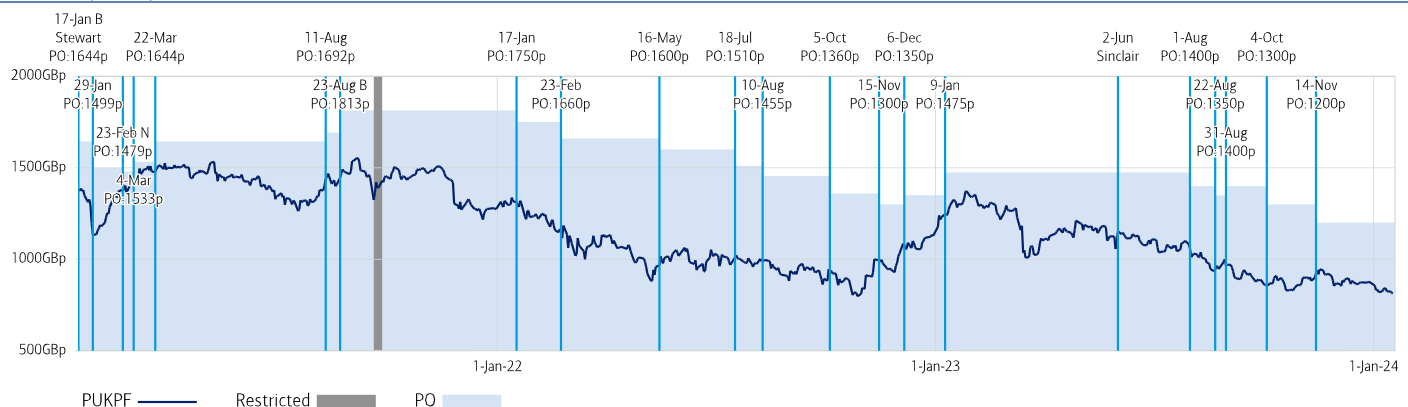
Disclosures

Important Disclosures

Prudential PLC (PUK) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Prudential PLC (PUKPF) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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