



Company Report

Ping An (2318 HK) – Sell

Life & Health Insurance Industry

2013E target price: HK\$68.46 (from HK\$58.04 previously)

Key data

H-share price (HK\$)	66.95
Target price (HK\$)	68.46
Upside potential (%)	2.26
52Wk H/L(HK\$)	71.6/ 50.9
Issued shares:	
H-shares (mn)	3,130
A-shares (mn)	4,786
H-share mkt cap (HK\$m)	474,718
30-day avg vol (HK\$m)	1,078.1
Major shareholder (%):	
HSBC	15.6
Shenzhen Investments	6.1

Source: Company & Bloomberg

Segmental profit composition in 2011 (%)

Life	44.2
P&C	22.0
Banking	35.3
Securities & Others	(1.5)

*Based on 2011 results

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	10.6	5.2
3-mth	9.8	(3.4)
6-mth	10.9	(10.7)

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 14 January 2013

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A structural underperformer

We regard Ping An as a structural underperformer in 2013. Its existing Life products are not as competitive as those of peers. Besides, the group will be dragged by a weak banking franchise and risky trust business. Therefore, we maintain our SELL recommendation on Ping An. But we upgraded our target price to HK\$68.46 (HK\$58.04 previously) for better investment assumptions.

A structural underperformer. Throughout 2012, China Life, China Pacific and New China Life shifted sales focus to long term regular premiums through banc. channel. This cannibalized Ping An's regular premium sales. Also they launched new critical illness products and out-competed Ping An mainstream products. Lastly, the Group is dragged by a weak banking operations and risky trust business. Therefore, we regard Ping An a structural underperformer against trading peers in 2013.

Dragging by banking and trust. In 1H12 and 9M12, Ping An Bank reported worse-than-peers NIM, NPL and capital ratios. This is a poor quality Joint Stock Bank in our view. Also, Ping An Trust is highly leveraged and may face heavy repayment risk when trust sales are further restricted by regulators in 2013.

Overhang of a public placement by HSBC. The HSBC sale of Ping An stake to Charoen Pokphand Group may be halted by Chinese regulators, according to press. This may pose an overhang of a possible public placement by HSBC. Per our analysis, such 15.6% stake is equivalent to 67.8%, or 108.3 days of the current H-share turnover of Ping An. As such, Ping An may face selling pressure, due to a possible increase in free float.

Maintain SELL rating; upgrade TP to HK\$68.46. We derive an appraisal value of Rmb427,975 mn for 2013E, also adopting it as TP, or HK\$68.46/ share (HK\$58.04 previously). The implied valuation of our TP is 1.27x 2013E PEV and 4.6x 2013E VNB. This represents 2.3% upside potential from the current share price. As such, we maintain our SELL recommendation on Ping An. This is our top sell in the sector.

Risk factors: better-than-expected underwriting and investment performance, tighter-than-expected regulations

Results and valuation

FY ended Dec 31	2010	2011	2012E	2013E	2014E
Revenue (Rmb mn)	194,349	250,744	302,688	343,683	373,034
Chg (YoY)	31.5	29.0	20.7	13.5	8.5
Net profit (Rmb mn)	17,311	19,475	26,414	34,951	36,748
Chg (YoY)	24.7	12.5	35.6	32.3	5.1
EPS (HK\$)	2.70	3.00	4.15	5.59	5.98
PER (x)	21.7	19.6	16.1	12.0	11.2
BPS (HK\$)	18.2	26.4	31.9	37.4	43.3
P/B (x)	3.2	2.2	2.1	1.8	1.5
EVPS (HK\$)	31.3	36.2	45.9	53.8	62.5
PEV (x)	1.9	1.6	1.5	1.2	1.1
VNB (HK\$)	2.4	2.7	2.5	2.5	2.7
VNB (x)	11.3	8.4	8.5	5.2	1.7

Source: Company data, ABCI Securities estimates



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Insurance

Ping An: 1H12 profit & loss

	2009	2010	2011	1H10	2H10	1H11	2H11	1H12	Change	Change
	Rmb mn	Rmb mn	Rmb mn	Rmb mn	Rmb mn	Rmb mn	Rmb mn	Rmb mn	(h-h %)	(y-y %)
GWP & Policy fees	112,213	159,384	207,802	85,079	74,305	116,080	91,722	127,812	39.3	10.1
(-) Premiums to Reinsurers	(6,347)	(8,181)	(10,970)	(4,542)	(3,639)	(5,857)	(5,113)	(7,173)	40.3	22.5
NWP & Policy fees	105,866	151,203	196,832	80,537	70,666	110,223	86,609	120,639	39.3	9.4
Chg. in Unearned Premium Res.	(5,483)	(10,079)	(10,170)	(5,952)	(4,127)	(6,824)	(3,346)	(5,068)	51.5	(25.7)
NEP & policy fees	100,383	141,124	186,662	74,585	66,539	103,399	83,263	115,571	38.8	11.8
Investment Income	32,023	31,083	29,265	10,909	20,154	15,912	13,353	14,960	12.0	(6.0)
Net Interest Income of Bk. Op.	4,210	9,331	18,882	2,786	6,544	3,548	15,334	16,866	10.0	375.4
Fee & Comm. Inc.	5,794	8,159	11,220	2,264	3,812	3,094	8,126	4,422	(45.6)	42.9
Other income	5,383	4,652	3,665	4,341	3,322	3,547	118	6,092	5,062.7	71.8
Total Revenue	147,793	194,349	249,694	94,885	100,370	129,500	120,194	157,911	31.4	21.9
Claims, Surrenders, Annuities / Maturities	(36,906)	(52,311)	(53,816)	(20,823)	(31,488)	(30,784)	(23,032)	(33,399)	45.0	8.5
Div. & Int. to PH & Net Inc. in PH Res.	(47,183)	(62,766)	(91,948)	(35,571)	(27,424)	(52,588)	(39,360)	(57,053)	45.0	8.5
Ttl. Claims / PH Benefits	(84,089)	(115,077)	(145,764)	(56,394)	(58,912)	(83,372)	(62,392)	(90,452)	45.0	8.5
Commission Expenses	(12,013)	(14,545)	(17,767)	(7,663)	(6,302)	(9,388)	(8,379)	(11,141)	33.0	18.7
General & Administrative Expense	(26,271)	(34,385)	(50,575)	(15,611)	(18,782)	(19,160)	(31,415)	(30,439)	(3.1)	58.9
Loan Loss Provisions	(194)	(626)	(1,704)	(110)	(543)	(261)	(1,443)	(1,536)	6.4	488.5
Other Expense	(5,489)	(8,834)	(4,926)	(3,181)	(7,010)	(2,212)	(2,714)	(3,804)	40.2	72.0
Total Expenses	(43,967)	(58,390)	(74,972)	(26,565)	(32,637)	(31,021)	(43,951)	(46,920)	6.8	51.3
Net profit before tax	19,737	20,882	28,958	11,926	8,822	15,107	13,851	20,539	48.3	36.0
Associate / JV - Profits / Losses	182	1,465	1,068	282	1,465	1,159	(91)	(18)	(80.2)	(101.6)
Tax Expense	(5,437)	(4,409)	(7,444)	(2,342)	(2,038)	(3,268)	(4,176)	(2,994)	(28.3)	(8.4)
Net Profit after Tax	14,482	17,938	22,582	9,866	8,249	12,998	9,584	17,527	82.9	34.8
Minority Interest	(599)	(627)	(3,107)	(255)	(364)	(241)	(2,866)	(3,568)	24.5	1,380.5
NP to Ping An Shareholders	13,883	17,311	19,475	9,611	7,885	12,757	6,718	13,959	107.8	9.4

Source: Company data, ABCI Securities

Ping An: Embedded Value (EV), Value of New Business (VNB) & New Business Margins (NBM)

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Group ANAV	152,826	139,446	146,020	123,573	112,865	94,606	10	5
ANAV of Life Biz	50,019	48,219	46,252	43,673	42,557	40,052	4	8
-ve Spread Bk	(8,251)	(8,549)	(9,005)	(9,858)	(10,504)	(11,614)	(3)	(8)
VIF after 1999	137,977	126,099	116,877	104,816	98,838	86,579	9	18
Solvency Cost	(23,547)	(21,369)	(19,928)	(17,545)	(16,862)	(14,314)	10	18
Group EV	259,005	235,627	233,966	200,986	184,338	155,258	10	11
Life EV	156,198	144,400	134,198	121,086	114,029	100,704	8	16
Group solvency (%)	177	190	200	198	218	302	10	(23)
APE	26,058	42,643	26,059	43,907	26,612	31,406	57	(0)
VNB	9,160	16,822	10,148	15,507	9,122	11,805	35	(9)
NBM (APE Basis - %)	35.2	39.5	38.9	35.3	34.3	37.6	(4.3)	(3.3)
FYP	33,502	70,917	46,610	76,050	45,297	64,984	38	(28)
VNB	9,160	16,822	10,148	15,507	9,122	11,805	35	(9)
NBM (FYP Basis - %)	27.3	23.7	21.8	20.4	20.1	18.2	3.6	5.8
VNB (HK\$ per share)	1.42	2.60	1.56	2.41	1.36	1.82	34.13	(8.33)

Source: Company data, ABCI Securities

Ping An - share price & valuation

		2004	2005	2006	2007	2008	2009	2010	2011	2012E
Share Price (HK\$)	Hi	13.80	14.45	44.90	117.00	82.55	75.60	94.40	88.30	68.35
	Lo	9.50	11.75	14.95	32.35	24.00	30.35	58.00	38.30	48.70
	Av	11.51	12.88	23.79	62.83	53.29	56.01	70.47	70.49	60.36
PEV(X)	Hi	2.44 x	1.91 x	2.62 x	5.30 x	4.35 x	3.28 x	3.01 x	2.44 x	1.49 x
	Lo	1.68 x	1.55 x	0.87 x	1.47 x	1.26 x	1.32 x	1.85 x	1.06 x	1.06 x
	Av	2.04 x	1.70 x	1.39 x	2.85 x	2.81 x	2.43 x	2.25 x	1.95 x	1.32 x
EVPS YoY Growth (%)			34%	126%	29%	-14%	21%	36%	16%	27%
VNB(X)	Hi	13.71 x	9.68 x	33.54 x	90.51 x	48.16 x	28.81 x	26.09 x	19.52 x	9.07 x
	Lo	6.47 x	5.88 x	(2.62x)	9.80 x	3.80 x	4.00 x	11.03 x	0.77 x	1.14 x
	Av	9.86 x	7.47 x	8.05 x	38.86 x	25.99 x	18.07 x	16.19 x	12.84 x	5.85 x
VNB YoY Growth (%)			20%	17%	27%	26%	38%	33%	10%	-7%

Source: Bloomberg, Company data, ABCI Securities



Ping An: Segmental profits

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Life	7,031	9,974	6,762	8,417	6,551	10,374	119	4
P&C	2,746	4,979	2,693	3,865	1,088	675	20	2
Banking	6,731	7,977	2,397	2,882	1,104	1,080	21	181
Securities & Others	1,019	1,604	1,146	2,774	1,123	2,353	122	(11)
Consolidation Adj.		(1,952)						
Net Profit	17,527	22,582	12,998	17,938	9,866	14,482	83	35
Mix (%)								
Life	40.1	44.2	52.0	46.9	66.4	71.6	(4.1)	(11.9)
P&C	15.7	22.0	20.7	21.5	11.0	4.7	(6.4)	(5.1)
Banking	38.4	35.3	18.4	16.1	11.2	7.5	3.1	20.0
Securities & Others	5.8	7.1	8.8	15.5	11.4	16.2	(1.3)	(3.0)
Consolidation Adj.		(8.6)						

Source: Company data, ABCI Securities

Ping An: Investment & Yields

(%)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Cash Equivalents	8	7	9	11	11	12	2	(1)
Deposits	23	20	19	18	16	16	3	4
Bonds	55	61	59	60	64	61	(6)	(4)
Equities	13	12	12	10	8	9	1	1
Infrastructures	0.9	1.0	1.2	1.2	1.4	3.3	(0.1)	(0.3)
Total Investments (RMB bn)	986	867	838	763	656	590	14	18
Net Inv't Yield	4.5	4.5	4.3	4.2	4.1	3.9	0.0	0.2
Total Inv't Yield	3.7	4.0	4.1	4.9	3.7	6.4	(0.3)	(0.4)
AFS Reserves (RMB mn)	(8,367)	(14,412)	(4,702)	(175)	208	4,612	(42)	78

Source: Company data, ABCI Securities



Ping An: Life operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	114,837	187,256	112,630	164,448	93,125	134,503	54	2
Individual	102,367	159,990	94,860	130,146	73,358	99,863	57	8
Bancassurance	7,598	18,941	13,459	27,783	16,269	27,783	39	(44)
Group	4,872	8,324	4,311	7,204	3,498	6,857	21	13
Individual FYP	21,822	45,833	22,963	42,699	23,840	31,024	(5)	(5)
Ind. Agents #	493,589	486,911	474,600	453,392	411,709	416,570	1	4
FYP per agent (Rmb)	6,787	14,565	9,821	7,922	10,311	6,261	43	(31)
# of Ind. Customers ('000)	51,888	49,784	47,926	45,318	43,044	40,737	4	8
Persistency 13 mo (%)	94	94	95	93	94	91	(1)	(2)
Solvency (%)	167	156	158	180	206	227	11	9

Source: Company data, ABCI Securities

Ping An: P&C operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	48,914	83,708	40,922	62,507	30,191	38,774	14	20
Motor	36,660	65,292	30,792	49,420	22,990	29,561	6	19
Other P&C	12,254	18,416	10,130	13,087	7,201	9,213	48	21
Loss Ratios (%)	58.5	57.8	58.2	55.4	55.8	57.0	0.7	0.3
Expense Ratios (%)	34.6	35.7	34.7	37.8	40.7	41.9	(1.1)	(0.1)
Combined Ratios (%)	93.1	93.5	92.9	93.2	96.5	98.9	(0.4)	0.2
Solvency (%)	165	166	196	180	136	144	(2)	(31)

Source: Company data, ABCI Securities

Ping An: Banking operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Net interest margin (%)	2.42	2.53	2.44	2.33	2.10	1.89	(0.11)	(0.02)
Total loans	682,906	620,642	144,414	130,798	120,621	107,562	10	373
Corporate loans	485,228	413,019	96,399	85,427	81,565	67,828	17	403
Retail loans + Bills	197,678	207,623	48,015	45,371	39,056	39,734	(5)	312
NPL (%)	0.73	0.53	0.32	0.41	0.45	0.46	0.20	0.41
Provision coverage (%)	238	321	286	211	157	156	(83)	(48)
CAR (%)	11.40	11.51	10.78	10.96	11.80	13.00	(0.11)	0.62

Source: Company data, ABCI Securities



Ping An: Embedded Value

(Rmb mn)	2009	2010	2011	2012E	2013E	1H12
Group embedded value						
Life insurance EV	100,703	121,086	144,400	172,406	201,971	156,198
Life insurance NBV	49,620	19,695	5,154	70,394	71,309	
Life insurance AV	150,323	140,781	149,554	242,801	273,280	
Valuation of non-life businesses						
P&C insurance	10,581	61,975	73,663	50,686	52,826	
Banking	35,195	51,251	64,517	52,710	55,073	
Financial services	22,284	32,003	11,202	12,077	13,559	
Corporate office and unallocated	2,043	5,145	35,023	33,959	33,235	
Book value of other businesses	54,554	79,900	91,227	119,463	134,624	102,807
Group EV	155,257	200,986	235,627	291,869	336,595	259,005
Group AV	220,426	291,154	333,958	392,234	427,975	
Life embedded value						
Adjusted net worth	40,052	43,673	48,219	68,279	97,446	50,019
Value of in-force	74,965	94,958	117,550	126,562	128,078	129,726
Cost of solvency margin	-14,314	-17,545	-21,369	-22,434	-23,553	-23,547
Embedded value	100,703	121,086	144,400	172,406	201,971	156,198
Vnb (long term)	11,805	15,507	17,343	15,778	15,671	9,160
Multiplier	4	1	0	4	5	
New business value (long term)	49,620	19,695	5,154	70,394	71,309	
Appraisal value	150,323	140,781	149,554	242,801	273,280	
EV movement analysis						
Opening embedded value	69,643	100,703	121,086	144,400	172,406	
Expected return						
- SHF's	1,419	2,203	2,402	2,652	3,755	
- In-force	6,107	7,620	9,846	12,931	13,922	
Value of new business (VNB)	11,805	15,507	17,343	15,778	15,671	
Inv't r var + mkt val adj	8,393	(1,327)	(12,268)	3,000	2,000	
Capital raising & dividends	748	(1,967)	7,968	(4,354)	(3,483)	
OpEx var, model chg & others	2,588	(1,653)	(1,977)	(2,000)	(2,300)	
Closing embedded value	100,703	121,086	144,400	172,406	201,971	
EVPS (HK\$)	15.56	18.88	22.21	27.09	32.31	
Group EVPS (HK\$)	23.05	31.34	36.24	45.87	53.84	
AVPS (HK\$)	32.73	45.39	51.36	61.64	68.46	
PEV implied	1.42	1.45	1.42	1.34	1.27	
VNB (HK\$)	1.82	2.42	2.67	2.48	2.51	
VNB implied (x)	5.30	5.81	5.67	4.46	4.55	
EV contributions 1 (%)						
Expected return on beg EV	11%	10%	10%	11%	10%	
IRV + MVA contribution to beg EV	12%	-1%	-10%	2%	1%	
VNB contribution to beg EV	17%	15%	14%	11%	9%	
VNB contribution to beg VIF	21%	21%	18%	13%	12%	
EVPS (HK\$) growth	45%	21%	18%	22%	19%	
EV contributions 2 (%)						
Beginning EV	69%	83%	84%	84%	85%	
Expected return						
- SHF's	1%	2%	2%	2%	2%	
- In-force	6%	6%	7%	8%	7%	
Inv't r var + mkt val adj	8%	-1%	-8%	2%	1%	
Value of new business (VNB)	12%	13%	12%	9%	8%	
Capital raising & dividends	1%	-2%	6%	-3%	-2%	
OpEx var, model chg & others	3%	-1%	-1%	-1%	-1%	
Ending EV	100%	100%	100%	100%	100%	

Source: Company data, ABCI Securities estimates



Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index.

Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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