

Key Sector Data

Average PER (x)	15.2
Average PBV (x)	1.6
Average PEV (x)	1.1
Average VNB (x)	0.6
Average Dividend Yield (%)	1.0

Sector Market cap (HK\$bn)	1,408
Average 30-day avg vol (HK\$mn)	1,851
Sector Weighting in MSCI China	~ 8%

Source: Company, Bloomberg, ABCI Securities

Sector Premium composition in 2011 (%)

Life	60.6
Health	4.8
Personal Accident	2.3
Property & Casualty	32.2

Source: Companies, CIRC

Sector performance (%)

	Absolute	Relative*
1-mth	8.98	5.82
3-mth	(2.56)	(5.82)
6-mth	7.41	12.22

Source: Bloomberg

*Relative to MSCI China

1 year relative performance vs MSCI China



Source: Bloomberg

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China Insurance Sector - Overweight Life & Health Insurance Industry

Presenting a sweet entry point

We believe China Insurance to have reached a sweet entry point. In 1H12, Life industry reached an inflection point in operations. P&C industry remained solid in underwriting performance. Also the sector is blessed with multiple national policies. Lastly, China Insurance is situated at a cyclical sweet spot of investments. Therefore, we initiate our research coverage on the sector with an **OVERWEIGHT** rating.

Life reaching an inflection point. We hold such a view due to the reviving VNB growth, resuming uptrend in EV, flourishing health premium sales and the new game changer of tax deferred pension products. We expect Life operations to fully recovery in 2013E.

P&C remaining solid. P&C will benefit from stabilized premium growth, emerging new sales channels, defensive underwriting margins and rising contribution by non-motor insurance. We forecast P&C insurers to maintain high ROEs in 2013E.

Complementary national policies. China Insurance will be blessed with the policies of Medicare reform, tax deferred pension products, 'Sannong' support and broadening investment channels by CIRC. These policies will bring about new growth engines for the sector.

At a cyclical sweet spot of investments. We expect investment return to recover in 2013E. We render A-share markets to be close to its cyclical bottom, after the resumption of PBOC rate cut cycle. Also, Chinese insurers will gain from improving return of corporate and finance bonds. Lastly, they may benefit from broadening investment channels by CIRC.

Initiate coverage with an OVERWEIGHT rating; Top picks: China Life & China Pacific. Based on our assumptions, we appraise the sector at a valuation of 1.20x 2013E PEV and 2.8x 2013E VNB. Our target prices imply an average 9.3% upside potential from the current share prices of insurers. As such, we initiate coverage of China Insurance with an Overweight rating. Our top picks are China Life and China Pacific. Our SELL is Ping An. Also, we have a HOLD rating on New China Life and a BUY rating on China Taiping.

Risk factors: worse-than-expected underwriting and investment performance, tighter-than-expected regulations for the sector

Sector Valuation Summary

Companies	Code	Price (HK\$)	MCap (HK\$ bn)	ABCI Rec.	TP (HK\$)	PER 2013E	PBV 2013E	PEV 2013E	VNB 2013E	Yield 2013E
China Life	2628 hk	22.40	633	BUY	26.45	17.1	2.1	1.3	5.6	1.8%
Ping An	2318 hk	58.60	464	SELL	58.04	13.0	1.6	1.1	3.0	1.2%
China Pacific	2601 hk	23.45	213	BUY	27.93	18.7	1.6	1.1	(1.6)	1.9%
New China Life	1336 hk	24.85	78	HOLD	24.85	14.5	1.5	0.9	(1.5)	0.0%
China Taiping	0966 hk	12.18	21	BUY	13.42	12.6	1.2	0.9	(2.6)	0.0%
Sector Average						15.2	1.6	1.1	0.6	1.0%

Source: Company, Bloomberg, ABCI Securities

Disclosures

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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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