



Company Report

Ping An (2318 HK) – Sell Life & Health Insurance Industry Initiation

Key data

H-share price (HK\$)	58.60
Target price (HK\$)	58.04
Upside potential (%)	(0.96)
52Wk H/L(HK\$)	68.6 / 37.4
Issued shares:	
H-shares (mn)	3,130
A-shares (mn)	4,786
H-share mkt cap (HK\$m)	431,068
30-day avg vol (HK\$m)	589.7
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	3.4	(0.2)
3-mth	(5.0)	(8.0)
6-mth	(0.2)	4.9

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 3 October 2012

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Multiple decelerations

Ping An is facing multiple decelerations. Ping An Life encounters both margin and volume pressure. Ping An Bank suffers from narrowing NIM, higher NPL and inadequate capital. Ping An Securities is haunted by the shrinking volume of A-share markets. Ping An Trust may face heavy repayment risks. Based on these, we initiate coverage on Ping An with a SELL recommendation.

A loser in the margin game. Ping An Life faces severe competition from major peers. China Life, China Pacific and New China Life have shifted focus to long term regular premiums through bancassurance channel. This cannibalizes Ping An's regular premium sales. Also they launched new critical illness products in 1H12. These out-competed Ping An mainstream products. As a result, Ping An's NBM dropped from 39.5% in 2011 to 35.2% in 1H12. The company achieved a YoY decline of 8.6% in VNB, the worst among peers.

Owning a Joint Stock Bank. Ping An is a drag to Ping An Group, as joint stock banks are not investors' favorites for now. Investors are concerned with the impact from interest rate liberalization and asset quality problems. Furthermore, the bank reported worse-than-peers NIM, NPL and capital ratios in 1H12. We are pessimistic on its outlook.

Securities and Trust trending down. Ping An Securities reported weak commission income and earnings due to low turnover in A-share. This trend may not reverse anytime soon. Ping An Trust is highly leveraged and may face heavy repayment risk in a worsening economy

Initiate coverage with a SELL rating; TP of HK\$58.04. We derive an appraisal value of Rmb367,556 mn for 2013E, also adopting it as TP, or HK\$58.04/ share. The implied valuation of our TP is 1.13x 2013E PEV and 1.6x 2013E VNB. This represents 0.9% downside potential from the current share price. We initiate coverage of Ping An with a SELL recommendation.

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	299,656	331,281	358,086
Chg (YoY)	31.5	29.0	19.5	10.6	8.1
Net profit (Rmb mn)	17,311	19,475	25,590	28,601	30,435
Chg (YoY)	24.7	12.5	31.4	11.8	6.4
EPS (HK\$)	2.70	3.00	3.98	4.52	5.07
PER (x)	21.7	19.6	14.7	13.0	11.5
BPS (HK\$)	18.2	26.4	31.4	35.7	42.1
P/B (x)	3.2	2.2	1.9	1.6	1.4
EVPS (HK\$)	31.3	36.2	44.6	51.1	60.6
PEV (x)	1.9	1.6	1.3	1.1	1.0
VNB (HK\$)	2.4	2.7	2.5	2.5	2.7
VNB (x)	11.3	8.4	5.7	3.0	(0.7)

Source: Company data, ABCI Securities estimates



Investment Concerns

A loser in the margin game. Ping An will be a loser in the new game of ‘margin over volume’ in our opinion. Regular premium sales embed higher NBM than single ones. In 1H12, regular FYP constituted 95.5% of Ping An’s APE and 68.2% of its FYP. This is the highest among peers, implying little room for further improvement.

Meanwhile, Ping An faces severe competition from major Life insurers. Ping An Life reported flattish growth in APE in 1H12. However, its VNB declined by 8.6% YoY. This implies lower NBM for its regular premium sales (95.5% of total FYP). China Life, China Pacific and New China Life were pushing long term regular premium sales through bancassurance channel in 1H12. But Ping An was behind due to the under-development of its bancassurance distribution.

Also, these three insurers launched new critical illness products in 1H12. These products were all well received in the market, and they embedded high NBM. However, Ping An still relied heavily on participating and universal products, with no major initiative in the CI market. In fact, Ping An’s NBM dropped from 39.5% in 2011 to 35.2% in 1H12. The company achieved a YoY decline of 8.6% in VNB, the worst among peers. Going forward, we believe Ping An will continue to lose out in regular FYP and critical illness products against its peers.

Volume weakness continues. In 1H12, Ping An’s FYP dropped significantly by 28.1%, the worst among peers. Per our channel check, Ping An recorded a very sharp decline in Universal Life products. Currently, crediting rates of Universal Life products averages 3.8-4.0%, which is behind 2 - 5 year time deposit rates set by PBOC. Traditionally, this product contributed 35-40% of FYP. Therefore, we expect Ping An to remain weak in volume growth going forward.

Owning a Joint Stock Bank. Ping An owns 52% of Ping An Bank (previously Shenzhen Development Bank, 000001 CH, NR). Currently the market does not hold a positive view towards the mid-sized joint stock banks, in light of the potential interest rate liberalization and asset quality problems. In fact, the bank was not performing well in 1H12. Its net interest margins (NIM) narrowed to 2.42%, relative to 2.53% in 2011. In the same half, NIM of most Chinese banks remained flattish, as compared to 2011. Its NPL ratio rose to 0.73% from 0.53% in 1H12. Most Chinese banks reported sequential improvement in NPL ratios. Lastly, its Core Tier I CAR remained weak in 8.44%. Investors may be concerned with any potential fund raising by SDB, which will in turn weaken the capital position of Ping An Group.

Securities & Trust trending down. In 1H12, Ping An Securities suffered from a 73.3% YoY decline in net profits. Its commission income dropped by 85.9% YoY, and securities underwriting income fell by 64.8% YoY. While we anticipate a recovery of A-share market towards the end of PBOC rate cut cycle, we are concerned with the underlying business quality of Ping An Securities. Ping An Trust is the fifth largest trust in China, with an AUM of Rmb196.2bn in 2011. The trust is also highly leveraged at 14 – 15x. China is experiencing a sharp slowdown in GDP growth (7.4% YoY in 3Q12 per Bloomberg economic forecast). Repayment risk is hence rising for the trust. We are not optimistic to the profitability of Ping An Trust, given the rising repayment risk.



Inadequate solvency. In 1H12, Ping An Group reported a solvency of 176.7%. Ping An Life and Ping An P&C reported solvency ratios of 167.3% and 164.5% respectively. This is among the lowest in the sector. Also, this is not much higher than the recommended level of 150% by CIRC.

Investment Positive

Resilient performance of P&C. Ping An P&C is the only bright spot for Ping An. In 1H12, it reported net profits of Rmb2,746 mn, with its combined ratios at 93.1%. This is slightly better than 93.5% in 2011. We estimated the unit to report a ROE of 23.9% in the half. Ping An P&C has 31.4% of its premiums sold through new sales channels. We expect its performance to remain solid in 2H12E and 2013E.

Anchor index stock. Ping An is an anchor index stock in MSCI China and Hang Seng Index. Its index weighting is approximately 2.5% of MSCI China and 1.9% of HSI. Therefore, the stock can benefit from any positive fund flow to Hong Kong stock market.

Valuation & Recommendation

We forecast mid-teens EV Growth. Ping An reported group EV of Rmb235,627 mn in 2011 and Rmb259,005 mn in 1H12. In 2012E, we expect the company to report investment return variance of Rmb5,000 mn, due to slightly improved capital markets in China, compared to 2011. Besides, we forecast VNB of Rmb15,778 mn in 2012E and Rmb15,671 mn in 2013E, on the back of weakening NBM's averaging 36.0%. As such, we forecast the EV to reach Rmb286,986 mn in 2012E, up 21.8% YoY, and Rmb323,842 mn in 2013E, up 12.8% YoY.

Expecting earnings growth. Based on a net premium growth of 6.7% YoY and gross investment yield of 4.0%, we estimate Ping An to report net earnings of Rmb25,590 mn in 2013E, up 31.4% YoY from Rmb19,475 mn in 2012E. Our earnings forecast is far behind consensus of Rmb29,642 mn, due to more conservative assumption on insurance reserves.

TP and recommendation. Based on the aforementioned assumptions, we derive an appraisal value of Rmb367,556 mn for Ping An in 2013E and also adopt it as our target price. It is equivalent to HK\$58.04/ share. Our appraisal value includes the valuation of Rmb40,466 mn (1.45x PBV) of P&C, Rmb55,073 mn (1.06x PBV) of Banking, Rmb13,559 mn of Financial Services (8.0x PER) and Rmb32,943 mn (1.0x PBV) of Corporate office. We forecast 2013E EVPS and VNB of HK\$51.14 and HK\$2.47, respectively. The implied valuation of our TP is 1.13x 2013E PEV and 1.6x 2013E VNB. This represents 0.96% downside potential from the current share price. We initiate coverage of Ping An with a SELL recommendation.



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Ping An

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, 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, 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	1.53 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	1.09 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	1.35 x
EVPS YoY Growth (%)			34%	126%	29%	-14%	21%	36%	16%	23%
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	9.18 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	1.55 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	6.08 x
VNB YoY Growth (%)			20%	17%	27%	26%	38%	33%	10%	-3%

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, 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, 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, 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, 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, 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	174,406	201,218	156,198
Life insurance NBV	49,620	19,695	5,154	23,061	24,295	
Life insurance AV	150,323	140,781	149,554	197,467	225,514	
Valuation of non-life businesses						
P&C insurance	10,581	61,975	73,663	45,432	40,466	
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	33,923	32,943	
Book value of other businesses	54,554	79,900	91,227	112,580	122,623	102,807
Group EV	155,257	200,986	235,627	286,986	323,842	259,005
Group AV	220,426	291,154	333,958	341,609	367,556	
Life embedded value						
Adjusted net worth	40,052	43,673	48,219	67,455	90,272	50,019
Value of in-force	74,965	94,958	117,550	129,218	134,146	129,726
Cost of solvency margin	-14,314	-17,545	-21,369	-22,266	-23,200	-23,547
Embedded value	100,703	121,086	144,400	174,406	201,218	156,198
Vnb (long term)	11,805	15,507	17,343	15,778	15,671	9,160
Multiplier	4	1	0	1	2	
New business value (long term)	49,620	19,695	5,154	23,061	24,295	
Appraisal value	150,323	140,781	149,554	197,467	225,514	
EV movement analysis						
Opening embedded value	69,643	100,703	121,086	144,400	174,406	
Expected return						
- SHF's	1,419	2,203	2,402	2,652	3,710	
- In-force	6,107	7,620	9,846	12,931	14,214	
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)	5,000	(1,000)	
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	174,406	201,218	
EVPS (HK\$)	15.56	18.88	22.21	27.10	31.77	
Group EVPS (HK\$)	23.05	31.34	36.24	44.59	51.14	
AVPS (HK\$)	32.73	45.39	51.36	53.08	58.04	
PEV implied	1.42	1.45	1.42	1.19	1.13	
VNB (HK\$)	1.82	2.42	2.67	2.45	2.47	
VNB implied (x)	5.30	5.81	5.67	3.46	2.79	
EV contributions 1 (%)						
Expected return on beg EV	11%	10%	10%	11%	10%	
IRV + MVA contribution to beg EV	12%	-1%	-10%	3%	-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%	17%	
EV contributions 2 (%)						
Beginning EV	69%	83%	84%	83%	87%	
Expected return						
- SHF's	1%	2%	2%	2%	2%	
- In-force	6%	6%	7%	7%	7%	
Inv't r var + mkt val adj	8%	-1%	-8%	3%	0%	
Value of new business (VNB)	12%	13%	12%	9%	8%	
Capital raising & dividends	1%	-2%	6%	-2%	-2%	
OpEx var, model chg & others	3%	-1%	-1%	-1%	-1%	
Ending EV	100%	100%	100%	100%	100%	

Source: Company data, ABCI Securities estimates



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Ping An: Financial Statements

Profit & loss (Rmb mn)						Operating ratios (%)					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
GWP & policy fees	159,384	159,384	207,802	227,420	247,310	Gross written premium growth	42.0%	30.4%	9.4%	8.7%	9.0%
(-) Premiums to reinsurers	(8,181)	(8,181)	(10,970)	(14,806)	(17,598)	Net earned premium growth	40.6%	32.3%	12.3%	6.7%	8.4%
NWP & policy fees	151,203	151,203	196,832	212,614	229,712	Claims/benefits - of NEP	38.6%	41.3%	43.4%	40.9%	41.6%
Chg. in unearned premium res.	(10,079)	(10,079)	(10,170)	(2,927)	(6,068)	Div to PH & net inc. in PH res. of NEP	42.9%	36.8%	34.7%	37.0%	35.5%
NEP & policy fees	141,124	141,124	186,662	209,688	223,644	Ttl. claim/PH benefits to NEP	81.5%	78.1%	78.1%	77.9%	77.1%
Investment income	31,083	31,083	29,265	32,862	45,490	Claims/benefits - of total revenue	28.0%	30.7%	30.4%	27.6%	28.2%
Net interest income of bk. op.	9,331	9,331	18,882	33,966	36,725	Net inc. in PH res. - of total revenue	31.2%	27.4%	24.3%	25.0%	24.0%
Fee & comm. inc.	8,159	8,159	12,270	15,631	17,652	Ttl. claim/PH benefits to total revenue	59.2%	58.1%	54.7%	52.6%	52.2%
Other income	4,652	4,652	3,665	7,509	7,769	Commission cost ratio	7.5%	7.1%	7.1%	8.6%	8.7%
Total revenue	194,349	194,349	250,744	299,656	331,281	General & admin. cost ratio	22.6%	23.2%	25.3%	25.3%	25.8%
Claims, surrenders, annuities/mortgages	(54,503)	(54,503)	(77,061)	(91,005)	(91,465)	Operating expense ratio	30.0%	25.5%	35.8%	35.1%	32.4%
Div. & int. to PH & net inc. in PH res.	(60,574)	(60,574)	(68,703)	(72,829)	(82,745)	Cost to income ratio	89.3%	88.5%	87.1%	86.6%	86.7%
Ttl. claims/PH benefits	(115,077)	(115,077)	(145,764)	(163,834)	(174,210)	Gross investment yield	4.6%	3.6%	3.4%	4.0%	3.9%
Commission expenses	(14,545)	(14,545)	(17,767)	(21,368)	(28,620)	Group solvency	197.9%	166.7%	160.2%	161.2%	152.1%
General & administrative expense	(34,385)	(34,385)	(50,575)	(66,513)	(76,436)	Ping An life solvency	180.2%	156.1%	185.5%	203.8%	186.8%
Loan loss provisions	(626)	(626)	(1,704)	(3,229)	(3,555)	Ping An P&C solvency	179.6%	166.1%	144.0%	146.4%	141.7%
Other expense	(8,834)	(8,834)	(5,976)	(5,972)	(3,944)						
Total expenses	(58,390)	(58,390)	(76,022)	(97,082)	(112,556)						
Net profit before tax	20,882	20,882	28,958	38,740	44,515	Balance sheet (Rmb mn)					
Associate/JV - Profits/losses	1,465	1,465	1,068	(2)	31		2010	2011	2012E	2013E	2014E
Tax expense	(4,409)	(4,409)	(7,444)	(5,900)	(7,950)	Cash	203,315	261,006	425,648	469,277	517,378
Net profit after tax	17,938	17,938	22,582	32,838	36,596	Investments	648,893	899,232	1,088,707	1,160,928	1,279,076
Minority interest	(627)	(627)	(3,107)	(7,248)	(7,995)	Receivables	6,414	182,816	144,938	159,794	176,173
NP to Ping An shareholders	17,311	17,311	19,475	25,590	28,601	Deferred acquisition costs	0	0	0	0	0
						Fixed assets	8,170	16,027	16,956	16,956	16,956
Financial summary						Policy loans, PH assets & inv. associates	304,835	926,343	1,066,710	1,189,267	1,331,951
	2010	2011	2012E	2013E	2014E	Total assets	1,171,627	2,285,424	2,742,960	2,996,222	3,321,534
EPS (HK\$)	2.70	3.00	3.98	4.52	5.07	Deposits	175,963	836,049	946,002	1,072,956	1,216,946
<i>EPS growth (%)</i>	19.8%	11.0%	32.7%	13.6%	12.4%	Borrowings	146,672	295,429	498,663	534,168	572,201
PER (x)	21.7	19.6	14.7	13.0	11.5	Payables	35,548	120,962	82,741	91,222	100,572
PBV (x)	3.22	2.22	1.87	1.64	1.39	Policyholder liabilities	669,938	791,215	921,686	1,009,660	1,101,727
PEV (x)	1.87	1.62	1.31	1.15	0.97	Other	26,623	70,427	91,722	61,825	77,614
VNB multiple (x)	11.3	8.4	5.7	3.0	-0.7	Total liabilities	1,054,744	2,114,082	2,540,814	2,769,830	3,069,060
Dividend per share (HK\$)	0.55	0.49	0.68	0.69	0.73	Net assets	116,883	171,342	202,145	226,392	252,473
Yield (%)	1.1%	0.8%	1.2%	1.2%	1.2%	Minority interests	4,853	40,475	50,599	58,594	67,420
Payout ratio (%)	24.0%	16.1%	17.0%	15.2%	14.3%	Net equity to shareholders	112,030	130,867	151,546	167,798	185,053
Return on equity (%)	16.6%	13.5%	13.7%	13.3%	12.7%						
Return on assets (%)	1.8%	1.2%	1.1%	1.1%	1.0%						
Tax rate (%)	21.1%	25.7%	15.2%	17.9%	17.9%						

Source: Company data, ABCI Securities estimates



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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