



Key Sector Data

Average PER (x)	15.4
Average PBV (x)	1.6
Average PEV (x)	1.1
Average VNB (x)	0.7
Average Dividend Yield (%)	1.0

Sector Market cap (HK\$bn)	1,403
Average 30-day avg vol (HK\$mn)	1,794
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

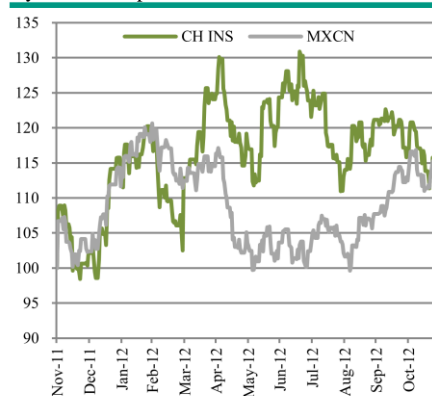
Sector performance (%)

	Absolute	Relative*
1-mth	(2.69)	(3.43)
3-mth	(0.30)	(11.73)
6-mth	(3.76)	(14.04)

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

A-share headwind overshadowed premium momentum

China Insurance sector underperformed Hang Seng Index by 3.9ppt since early Sep. This is primarily due to the further weakening of A-share markets (Shanghai Composite Index down 7.5% since Sep peak). This arouses investors' concern on lower investment return for the sector in 4Q12. Such a trend overshadowed the better premium momentum of China insurers. Currently, China insurers are trading at an attractive valuation of 1.07x 2013E PEV and 1.5x 2013E VNB. Entering 2013, we expect the sector to recover on the back of better underwriting performance. Currently we favor China Life and China Pacific, mainly due to their faster turnaround in Life business.

China Life further recovers. Oct life premiums reached Rmb279.8bn, flattish YoY (down 3.2% YoY year to Aug) during the period. This indicates its continuous recovery of its underwriting volume. Per our channel check, China Life achieved over 40% YoY growth in agency FYP in the month of August, through selling more short term products.

Ping An Life with slight sequential improvements. Oct life premiums reached Rmb109.8bn, up 8.0% YoY (up 6.6% YoY year to Aug) during the period. P&C premium was reported at Rmb81.0bn, up 19.6% YoY (flattish MoM). We consider this a slightly better result sequentially.

China Pacific holding up well. Oct life premiums reached Rmb81.8bn, flattish YoY during the period. P&C premium was reported at Rmb51.9bn, up 11.7% YoY (up 10.5% YoY year to Aug). In our view, Life premiums are stabilizing for China Pacific.

Taiping life topped peers in premium growth. Oct life premiums reached Rmb29.7bn, up 11.9% YoY (up 10.0% YoY year to Sep / 7.0% YoY year to Aug) during the period. This is the best performing insurer in Oct. Thanks of the good sales from its new universal life products.

Maintain OVERWEIGHT; Top picks: China Life & China Pacific. We remain optimistic on the turnaround of life underwriting. As such, we reiterate our Overweight rating on China Insurance. 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

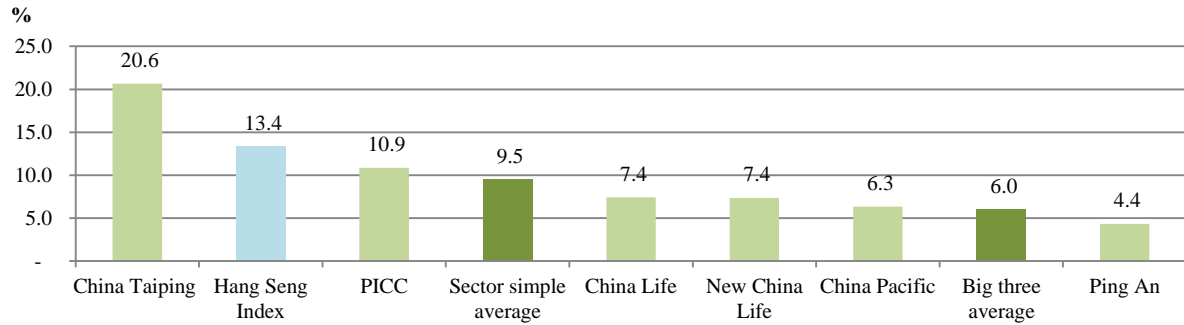
Sector Valuation Summary

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	17.3	2.2	1.3	5.6	1.8%
Ping An	2318 hk	57.50	455	SELL	58.01	12.8	1.6	1.1	2.6	1.2%
China Pacific	2601 hk	24.30	220	BUY	27.92	20.2	1.7	1.2	(0.7)	1.8%
New China Life	1336 hk	23.30	73	HOLD	24.85	13.6	1.4	0.8	(2.4)	0.0%
China Taiping	0966 hk	12.74	22	BUY	13.42	13.2	1.3	0.9	(1.8)	0.0%
Sector Average						15.4	1.6	1.1	0.7	1.0%

Source: Company, Bloomberg, ABCI Securities



China Insurance: relative performance versus Hang Seng Index since 5 Sep



Source: Bloomberg, ABCI Securities

China Insurance: LIFE & P&C Total Premiums Data (YTD 2012)

Life Insurers	Stock Code	Cumulative Premium Growth (YoY)				Oct-12	Comments
		2010	2011	Aug-12	Sep-12		
China Life	2628 HK	12.9%	-4.4%	-3.2%	-0.4%	-0.8%	Flattish
Ping An Life	2318 HK	20.2%	-25.2%	6.6%	7.4%	8.0%	Accelerates
China Pacific Life	2601 HK	36.1%	1.3%	-0.1%	0.5%	0.3%	Flattish
New China Life	1336 HK	40.2%	1.2%	5.8%	4.7%	4.6%	Flattish
China Taiping	966 HK	46.2%	-4.7%	7.0%	10.0%	11.9%	Accelerates
Taikang Life	Not Listed	29.5%	-21.7%	-8.0%	-7.8%	-8.3%	Decelerates
Industry		28.9%	-9.0%	2.6%	3.6%	3.5%	Flattish

P&C Insurers	Stock Code	Cumulative Premium Growth (YoY)				Oct-12	Comments
		2010	2011	Aug-12	Sep-12		
Market leader	2328 HK	28.9%	12.6%	10.5%	10.9%	11.1%	Flattish
Ping An P&C	2318 HK	61.4%	34.2%	19.9%	20.0%	19.6%	Flattish
China Pacific P&C	2601 HK	50.5%	19.5%	10.6%	11.1%	11.7%	Accelerates
Industry		34.5%	18.7%	15.0%	15.1%	15.3%	Flattish

Life Insurers	Stock Code	Monthly Premium Growth (YoY)				Oct-12	Comments
		Jan-12	Feb-12	Aug-12	Sep-12		
China Life	2628 HK	11.9%	-25.6%	20.3%	23.8%	-6.1%	Decelerates
Ping An Life	2318 HK	16.5%	6.6%	17.0%	15.5%	15.7%	Flattish
China Pacific Life	2601 HK	4.2%	-3.4%	-8.5%	5.9%	-2.2%	Decelerates
New China Life	1336 HK	19.6%	15.0%	-12.3%	-3.5%	4.1%	Accelerates
China Taiping	966 HK	10.7%	9.6%	4.5%	38.4%	32.6%	Decelerates
Taikang Life	Not Listed	3.6%	-13.5%	-7.7%	-6.2%	-14.5%	Decelerates
Industry		12.7%	-6.5%	10.3%	12.6%	1.6%	Decelerates

P&C Insurers	Stock Code	Monthly Premium Growth (YoY)				Oct-12	Comments
		Jan-12	Feb-12	Aug-12	Sep-12		
Market leader	2328 HK	-0.5%	30.6%	12.5%	14.0%	13.7%	Flattish
Ping An P&C	2318 HK	9.4%	39.3%	22.2%	20.2%	16.3%	Decelerates
China Pacific P&C	2601 HK	2.0%	29.8%	18.0%	15.6%	17.2%	Accelerates
Industry		3.9%	38.5%	16.0%	16.4%	17.5%	Accelerates

Life Insurers	Market Share	2010	2011	Oct-12	Total Premiums (Rmb mn)		Sep-12	Oct-12
					2010	2011		
China Life		31.7%	33.3%	32.6%	333,040	318,253	263,056	279,841
Ping An Life		15.1%	12.4%	12.8%	159,064	118,967	100,873	109,793
China Pacific Life		8.8%	9.7%	9.5%	92,000	93,203	74,938	81,774
New China Life		8.9%	9.9%	10.1%	93,643	94,797	77,826	86,381
China Taiping		3.1%	3.3%	3.5%	33,025	31,458	26,689	29,717
Taikang Life		8.3%	7.1%	6.3%	86,765	67,937	50,211	54,247
Industry		100.0%	100.0%	100.0%	1,050,088	956,000	792,599	857,296

P&C Insurers	Market Share	2010	2011	Oct-12	Total Premiums (Rmb mn)		Sep-12	Oct-12
					2010	2011		
Market leader		38.2%	36.3%	35.3%	153,930	173,372	147,077	160,300
Ping An P&C		15.4%	17.4%	17.8%	62,116	83,333	73,887	80,992
China Pacific P&C		12.8%	12.9%	12.5%	51,529	61,591	51,928	56,933
Industry		100.0%	100.0%	100.0%	402,689	477,906	414,989	454,119

Source: Company data, CIRC, ABCI Securities

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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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