



Company Report

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

Key data

H-share price (HK\$)	59.95
Target price (HK\$)	58.01
Upside potential (%)	(3.2)
52Wk H/L(HK\$)	68.6 / 46.8
Issued shares:	
H-shares (mn)	3,130
A-shares (mn)	4,786
H-share mkt cap (HK\$m)	418,316
30-day avg vol (HK\$m)	889.9
Major shareholders (%):	
HSBC (pending sales)	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	(4.8)	(3.6)
3-mth	8.6	(5.2)
6-mth	7.2	(5.5)

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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HSBC overhang removed, but not others

HSBC just announced to sell 1.2bn shares, or 15.6% stake of Ping An, to Charoen Pokphand Group Co. for US\$9.4 bn. This is equivalent to HK\$59 per share, representing a 2.3% premium over Ping An's last close. The overhang of a public offering, or increase in free-float is hence removed. However, we remained cautious on Ping An's outlook for its Life, banking and securities operations

Overhang from HSBC public offering removed. On 5 Dec, HSBC confirmed its sales of its 15.6% stake in Ping An to Charoen Pokphand Group Co. for US\$9.4 bn. The selling price was satisfactory at HK\$59 per share, representing a 2.3% premium over Ping An's last close. As such, the overhang of a public offering by HSBC is removed. Ping An rose by 4.0% in the morning trading session the same day. However, headwinds remain on Ping An's various operating units, in our opinion.

Investor pessimistic on Ping An Bank. We reiterated that the bank performed poorly on NPL, NIM and CAR in 9M12. This is in fact a Joint Stock Bank of poor quality listed in the A-share market. Ping An Bank (000001 CH, unrated) declined by 3.8% since early Sep, underperforming CSI 300 by 1.5ppt and CSI 300 Banks by 10.1ppt. This reveals the market concern on Ping An Bank's operations, as compared with peers.

Life still weak. Despite an 8% YoY growth in total life premiums, Ping An continues to record big declines in FYP year to Oct. Per our channel check, agency and banc. FYP dropped by 20%+ and 40%+ respectively.

Securities dragged by declining turnover. Turnover of CSI 300 dropped 32.2% from Rmb50.0bn from Jan to Sep to Rmb33.9 since early Sep. Thus we expect worse results for Ping An Securities in 4Q12.

Maintain SELL & TP. We maintain our negative view towards Ping An and derive an appraisal value of Rmb367.4 bn for 2013E, also adopting it as TP, or HK\$58.01/ share. The implied valuation of our TP is 1.13x 2013E PEV and 1.6x 2013E VNB. This represents 3.2% downside potential from the current share price. As such, we maintain our SELL recommendation on Ping An.

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	295,899	331,158	357,963
Chg (YoY)	31.5	29.0	18.0	11.9	8.1
Net profit (Rmb mn)	17,311	19,475	22,624	28,504	30,338
Chg (YoY)	24.7	12.5	16.2	26.0	6.4
EPS (HK\$)	2.70	3.00	3.52	4.50	5.06
PER (x)	22.2	20.0	17.1	13.3	11.9
BPS (HK\$)	18.2	26.4	30.9	35.3	41.6
P/B (x)	3.3	2.3	1.9	1.7	1.4
EVPS (HK\$)	31.3	36.2	44.6	51.1	60.6
PEV (x)	1.9	1.7	1.3	1.2	1.0
VNB (HK\$)	2.4	2.7	2.5	2.5	2.7
VNB (x)	11.8	8.9	6.3	3.6	(0.2)

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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