



**Key Sector Data**

Average PER (x)	16.4
Average PBV (x)	1.7
Average PEV (x)	1.1
Average VNB (x)	1.9
Average Dividend Yield (%)	0.9

Sector Market cap (HK\$bn)	1,479
Average 30-day avg vol (HK\$mn)	2,046
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

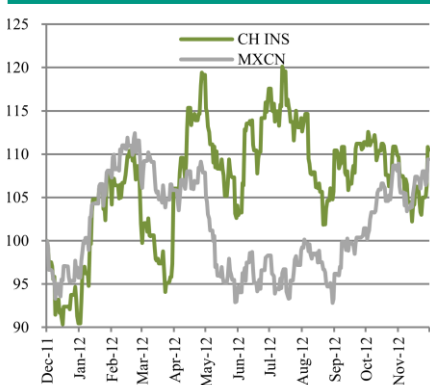
**Sector performance (%)**

	Absolute	Relative*
1-mth	0.09	(0.99)
3-mth	4.53	(12.76)
6-mth	7.31	(8.24)

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**

**Policy dividends slowly kick in**

**China Insurance sector edged up 4.5% in share prices on 5 Dec. While it is partly due to a sharp rebound of A-share markets (SHCOMP up 2.9%, surpassed 2,000pts), we see policy dividends kicking in slowly for the sector. For instance, CIRC announced to relax rules on investment in banks by insurance funds. Also, various ministries jointly proposed more stringent control on payout from public medicare funds. These will benefit the sector in long term. Currently we favor China Life and China Pacific, mainly due to their solid performance in Life business.**

**Relaxing rules on bank investments.** On 4 Dec, CIRC announced to abolish the existing rules limiting bank investments by insurance funds 《保险机构投资者投资商业银行股权的通知》. Previously, without CIRC's prior consent, China insurers were not permitted to make investments in banks with a consideration exceeding 3% of total assets. Investment in one single bank should not bear a consideration exceeding 1% of total assets. After the abolishment of this rule, China insurers may increase investments in banking stocks, which bear 5-6% dividend yield in average. This helps lifting net investment yields for the sector. China insurers reported an average net investment yield of 4.37% in 1H12 and 4.21% in 2011.

**More stringent control on public medicare distributions.** Ministry of Finance, Ministry of Health, and Human Resources & Social Security Department jointly proposed tighter control on medicare distributions to medical institutions 《关于开展基本医疗保险付费总额控制的意见》. This may induce the public to increase their medicare care coverage from private plans. In turn, this may lift the health premiums sales further in 2013. Year to date 2012, health premium sales rose 24% YoY, far exceeding 3.6% YoY of life premiums.

**Maintain OVERWEIGHT; Top picks: China Life & China Pacific.**

We are optimistic on the sector due to the policy dividends. 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

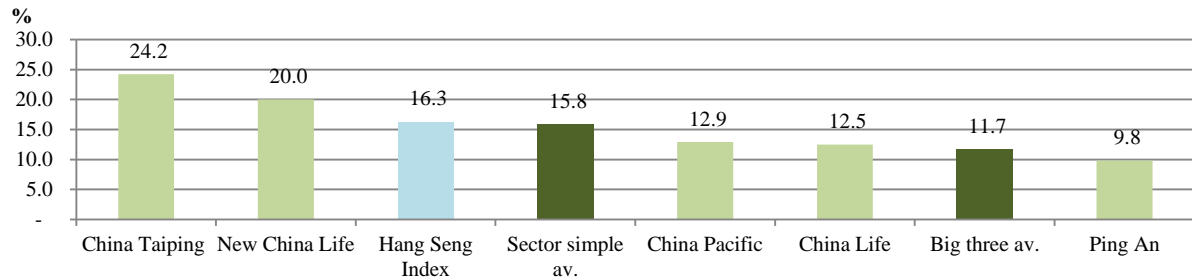
**Sector Valuation Summary**

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	23.45	663	BUY	26.45	18.1	2.3	1.4	6.7	1.8%
Ping An	2318 hk	60.50	479	SELL	58.01	13.4	1.7	1.2	3.8	1.1%
China Pacific	2601 hk	25.80	234	BUY	27.92	21.5	1.8	1.2	0.8	1.7%
New China Life	1336 hk	26.05	81	HOLD	24.85	15.2	1.5	0.9	(0.9)	0.0%
China Taiping	0966 hk	13.12	22	BUY	13.42	13.6	1.3	0.9	(1.2)	0.0%
Sector Average						16.4	1.7	1.1	1.9	0.9%

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		
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%	10.6%	11.1%	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		
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			Total Premiums (Rmb mn)		Sep-12	Oct-12
	2010	2011	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			Total Premiums (Rmb mn)		Sep-12	Oct-12
	2010	2011	Oct-12	2010	2011		
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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### 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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