



Company Report

China Pacific (2601 HK) – Buy Life & Health Insurance Industry Initiation

Key data

H-share price (HK\$)	22.85
Target price (HK\$)	27.93
Upside potential (%)	19.08
52Wk H/L(HK\$)	31.0 / 19.8
Issued shares:	
H-shares (mn)	2,775
A-shares (mn)	6,287
H-share mkt cap (HK\$m)	211,155
30-day avg vol (HK\$m)	424.4
Major shareholder (%):	
Fortune Investments (Baosteel)	17.4
Shenergy Group	16.6

Source: Company & Bloomberg

Premium breakdown in 2011 (%)

Life individual channel	27.6
Life bancassurance channel	28.7
Life direct sales	9.2
P&C motor	30.6
P&C non-motor	3.8

*Based on 2011 results

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	1.1	(2.4)
3-mth	(5.8)	(8.8)
6-mth	(2.5)	2.4

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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The preferred composite play

We prefer China Pacific to other composite insurers. Its Life operations enjoyed the earliest turnaround among peers, as reflected in its VNB growth in 1H12. Also, the insurer embeds a balance of growth and profitability from Life and P&C. Meanwhile, Changjiang Pension is set to benefit from tax deferred pension products piloted in Shanghai. Based on these, we initiate coverage on China Pacific with a BUY recommendation.

The earliest turnaround in Life. We regard China Pacific as the front-runner in the recovery of Life sector. In 1H12, its FYP declined at a slower rate than major peers. Also, it sold higher portion of long term FYP than other Life insurers. In fact, China Pacific improved its NBM from 34.8% in 2011 to 36.9% in 1H12. As a result, the company achieved a YoY growth of 6.0% in VNB, the highest among peers.

Most balanced Composite play. Other than Life unit, China Pacific's P&C unit reported promising underwriting results in 1H12. The unit reported underwriting profits of Rmb1.5bn, with combined ratios at 94.4%. During the half, the unit contributed 58.8% of group profits. Unlike Ping An, which suffered from multiple slowdowns in different divisions, China Pacific enjoyed a more balanced growth.

First beneficiary of tax deferred pension products. Tax deferred pension products will be piloted in Shanghai towards end-2012. Changjiang Pension, the wholly subsidiary of China Pacific, is the market leader in the pension market in Shanghai. In 1H12, over 50% of its entrusted pension assets (Rmb29.4bn) came from Shanghai.

Initiate coverage with a BUY rating; TP of HK\$27.93. We derive an appraisal value of Rmb193,990 mn for 2013E, also adopting it as TP, or HK\$27.93/ share. The implied valuation of our TP is 1.33x 2013E PEV and 7.0x 2013E VNB. This represents 19.1% upside potential from the current share price. We initiate coverage of China Pacific with a BUY recommendation.

Risk factors: worse-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)	141,327	155,517	167,931	181,503	191,974
Chg (YoY)	35.6	10.0	8.0	8.1	5.8
Net profit (Rmb mn)	8,557	8,313	8,392	9,071	11,274
Chg (YoY)	16.3	(2.8)	1.0	8.1	24.3
EPS (HK\$)	19.8	19.9	20.1	18.7	14.3
PER (x)	11.3	11.1	13.6	14.7	16.7
BPS (HK\$)	2.1	2.1	1.7	1.6	1.4
P/B (x)	15.3	16.1	19.0	21.1	24.7
EVPS (HK\$)	1.5	1.5	1.2	1.1	0.9
PEV (x)	0.8	0.9	0.9	1.0	1.1
VNB (HK\$)	7.5	4.3	0.9	(1.6)	(5.4)
VNB (x)	19.8	19.9	20.1	18.7	14.3

Source: Company data, ABCI Securities estimates



Investment Positives

The earliest turnaround in Life. China Pacific is the first insurer to turn around in Life operations, compared to major peers. In 1H12, its FYP declined at a slower rate of 17.8% YoY, relative to a 26.4% YoY decrease of China Life and a 28.1% YoY decrease of Ping An Life. Long term regular premium sales embed higher NBM than the short ones. During the same half, the portion of regular FYP with 10 years payment or above constituted 47.7% of China Pacific's FYP, up from 41.8% in 1H11. This portion is higher than 38% of China Life.

Also, the company attached a critical illness rider on Hong Fa annuity product in early 2012. The rider contains high protection element and derives high NBM. Its sales performance was satisfactory till now. As per our channel check, the product contributed to 20% of China Pacific's FYP in 1H12. Accordingly, China Pacific improved its NBM from 34.8% in 2011 to 36.9% in 1H12. The company achieved a YoY growth of 6.0% in VNB, the highest among peers. Therefore, we regard China Pacific the front-runner in the recovery of Life sector.

Most balanced Composite play. Other than Life unit, China Pacific's P&C unit reported promising underwriting results in 1H12. The unit reported underwriting profits of Rmb1.5bn, with combined ratios at 94.4%. Despite the sequential deterioration, the unit contributed Rmb1,570 mn, or 58.8% of group profits. Unlike Ping An, which suffered from multiple slowdowns in Life, Banking, Securities and Trust, China Pacific enjoyed a balanced growth between Life and P&C.

First beneficiary of tax deferred pension products. According to mainland press, tax deferred pension products will be piloted in Shanghai towards end-2012. China Pacific will serve as the first beneficiary. Changjiang Pension, the wholly subsidiary of China Pacific, is the market leader in the pension market of Shanghai. In 1H12, over 50% of its entrusted pension assets (Rmb29.4bn) came from the city.

Ample solvency. China Pacific is sitting with the capital raised from the H-share IPO in Dec 2009. The funding amounted to Rmb22bn. In 1H12, its solvency recorded 271.0%, the highest in the sector. This far exceeded the recommended level of 150% by CIRC.

Investment Concerns

EV insensitive to investment upturn. Per the company disclosure, Equity Value-at-Risk (VaR) 10 days represents 1.3% change in China Pacific's EV in 1H12. This is low compared to 5.4% of China Life, 2.8% of Ping An and 1.7% of New China Life. In 1H12, China Pacific allocated Rmb62.4bn, or 10.6% of investment portfolio, in equity. We expect the insurer to benefit the least from the upcoming recovery of A-share markets.

Lowest EV operating margins. In 2011, China Pacific's EV operating margins was 11.7%, lower than 15.9% of China Life, 23.6% of Ping An, 31.1% of New China Life and 29.7% of Taiping Life. Given its excessive capital, we do not expect China Pacific to outgrow its peers in EV in the future.

Overhang from share placements. Carlyle still owns 7.3% or 203.7mn H-shares of China Pacific. With its low cost base, Carlyle may offload their stake from time to time. Also China Pacific placed 462 mn new shares, or



16.6% of its H-shares, to Government of Singapore Investment Corporation, Norges Bank, and Abu Dhabi Investment Authority in early Sep. There was no lock-up for these stakes. Therefore, China Pacific may face overhang of share placements from potential sellers.

Valuation & Recommendation

We forecast mid-teens EV Growth. China Pacific reported group EV of Rmb113,564 mn in 2011 and Rmb121,833 mn in 1H12. In 2012E, we expect the company to report investment return variance of Rmb1,000 mn, due to slightly improved capital markets in China, compared to 2011. Besides, we forecast VNB of Rmb6,669 mn in 2012E and Rmb7,136 mn in 2013E, on the back of strong NBM's averaging 37.0%. As such, we forecast the EV to reach Rmb136,341 mn in 2012E, up 20.0% YoY, and Rmb152,780 mn in 2013E, up 12.1% YoY.

Expecting a mild growth in earnings. Based on a net premium growth of 3.3% YoY and gross investment yield of 4.5%, we estimate China Pacific to report net earnings of Rmb9,071 mn in 2013E, up 8.1% YoY from Rmb8,392 mn in 2012E. Our earnings forecast is behind consensus of Rmb11,117 mn, due to more conservative assumption on policyholders benefits. We estimate the company to pay higher policyholder dividends due to better investment return.

TP and recommendation. Based on the aforementioned assumptions, we derive an appraisal value of Rmb193,990 mn for China Pacific in 2013E and also adopt it as our target price. It is equivalent to HK\$27.93/ share. Our appraisal value consists of the valuation of P&C unit at Rmb37,237 mn (1.3x 2013E PBV) and that of holding company at Rmb29,262 mn (1.0x 2013E PBV). We forecast 2013E EVPS and VNB of HK\$21.07 and HK\$0.98, respectively. The implied valuation of our TP is 1.33x 2013E PEV and 7.0x 2013E VNB. This represents 19.1% upside potential from the current share price. We initiate coverage of China Pacific with a BUY recommendation.



China Pacific: 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	96,342	139,555	154,958	76,066	63,489	86,875	68,083	90,511	33	4
(-) Premiums to Reinsurers	(9,791)	(13,661)	(13,384)	(7,500)	(5,209)	(7,306)	(6,078)	(6,625)	9	(9)
NWP & Policy fees	86,551	125,894	141,574	68,566	58,280	79,569	62,005	83,886	35	5
Chg. in Unearned Premium Res.	(2,424)	(6,143)	(4,336)	(5,379)	(1,814)	(4,447)	111	(2,983)	(2,787)	(33)
NEP & policy fees	84,127	119,751	137,238	63,187	56,466	75,122	62,116	80,903	30	8
Investment Income	19,316	20,657	16,392	9,131	11,651	10,187	6,205	8,419	36	(17)
Other Income	746	919	1,887	460	462	496	1,391	590	(58)	19
Total Revenue	104,189	141,327	155,517	72,778	68,579	85,805	69,712	89,912	29	5
Claims, Surrenders, Annuities / Maturities	(31,916)	(37,847)	(49,518)	(17,827)	(19,972)	(23,399)	(26,119)	(28,748)	10	23
Div. & Int. to PH & Net Inc. in PH Res.	(37,058)	(59,241)	(62,127)	(33,339)	(25,902)	(35,514)	(26,613)	(36,394)	37	2
Ttl. Claims / PH Benefits	(72,897)	(102,209)	(111,645)	(53,701)	(48,460)	(58,913)	(52,732)	(65,142)	24	11
General & Administrative Expense	(21,475)	(28,063)	(33,120)	(13,813)	(14,368)	(16,629)	(16,491)	(19,248)	17	16
Finance Expense	(396)	(373)	(848)	(205)	(168)	(311)	(537)	(1,072)	100	245
Total Operating Expense	(21,871)	(28,436)	(33,968)	(14,018)	(14,536)	(16,940)	(17,028)	(20,320)	19	20
Total Expenses	(94,768)	(130,645)	(145,613)	(67,719)	(62,996)	(78,781)	(66,832)	(86,431)	29	10
Net profit before tax	9,421	10,682	9,904	5,059	5,583	7,024	2,880	3,481	21	(50)
Associate / JV - Profits / Losses	85	(12)	495	(22)	(38)	495	0	0		
Tax Expense	(2,033)	(2,005)	(2,006)	(999)	(1,096)	(1,636)	(370)	(813)	120	(50)
Net profit after tax	7,473	8,665	8,393	4,038	4,449	5,883	2,510	2,668	6	(55)
Minority Interest	(117)	(108)	(80)	(63)	(45)	(67)	(13)	(30)	131	(55)
NP to CPIC shareholders	7,356	8,557	8,313	3,975	4,404	5,816	2,497	2,638	6	(55)

Source: Company, ABCI Securities

China Pacific: Embedded Value (EV), Value of New Business (VNB) & New Business Margins (NBM)

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
ANAV	76,824	72,664	71,261	75,905	74,321	72,368	6	8
VIF	56,604	51,959	48,903	43,991	38,628	33,971	9	16
Solvency Cost	(11,595)	(11,059)	(10,156)	(9,212)	(8,226)	(7,516)	5	14
EV	121,833	113,564	110,008	110,089	104,723	98,371	7	11
EVPS (HK\$)	17.42	16.15	15.58	15.26	13.97	12.98	8	12
APE	11,016	19,304	11,951	20,601	10,910	15,273	50	(8)
VNB	4,061	6,714	3,830	6,100	3,238	5,000	41	6
NBM (APE Basis - (%))	36.86	34.78	32.05	29.61	29.68	32.74	2.1	4.8
FYP	24,942	46,936	30,353	54,186	32,091	38,147	50	(18)
VNB	4,061	6,714	3,830	6,100	3,238	5,000	41	6
NBM (FYP Basis - (%))	16.28	14.30	12.62	11.26	10.09	13.11	2.0	3.7
VNB (HK\$)	0.58	0.93	0.54	0.85	0.43	0.66	50	7
Group solvency	271	284	298	357			(13.0)	(27.0)

Source: Company, ABCI Securities



China Pacific: Investment & Yields

(%)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Cash Equivalents	4.8	2.9	3.4	4.1	5.7	8.3	1.9	1.4
Deposits	28.8	26.3	26.1	24.6	23.7	23.6	2.5	2.7
Bonds	54.7	59.3	51.6	58.4	55.1	50.8	(4.6)	3.1
Equities	10.6	10.3	12.9	11.6	10.9	12.3	0.4	(2.3)
Infrastructure	1.1	1.3	6.0	1.3	4.6	5.0	(0.2)	(4.9)
Total Inv'ts (RMB bn)	586.6	522.5	490.5	435.8	395.1	366.0	12	20
Ann. Net Inv't Yield (%)	4.9	4.7	4.4	4.3	4.2	4.1	0.3	0.4
Ann. Total Inv't Yield (%)	3.9	3.7	4.4	5.2	4.3	5.0	(0.7)	(1.5)

Source: Company, ABCI Securities

China Pacific: Life operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	55,229	93,203	54,574	87,873	48,959	61,998	43	1
Individual	28,210	42,818	23,212	35,525	18,615	29,570	44	22
Bancassurance	21,709	44,450	28,006	48,201	28,385	29,514	32	(22)
Direct sales & new channels	5,310	5,935	3,178	4,147	1,861	2,914	93	67
FYP	24,942	46,936	30,353	54,186	32,091	38,147	50	(18)
Regular Individual FYP	6,880	10,065	6,030	8,389	4,511	6,880	71	14
Ind. Agents #	270,000	292,000	282,000	280,000	252,000	254,000	(8)	(4)
Regular FYP per head (Rmb)	25,481	34,469	42,766	29,961	35,802	27,087	(26)	(40)
Persistency 13 mo - Ind. (%)	91.6	92.7	93.1	92.0	92.0	87.1	(1.1)	(1.5)
Persistency 25 mo - Ind. (%)	90.6	89.8	89.9	84.0	82.0	82.0	0.8	0.7
Solvency (%)	183	187	192	241	236	208	(4.0)	(9.0)

Source: Company, ABCI Securities

China Pacific: P&C operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	35,246	61,687	32,267	51,622	27,078	34,289	20	9
Motor	26,226	47,409	23,812	39,636	20,242	25,449	11	10
Other P&C	9,020	14,278	8,455	11,986	6,836	8,840	55	7
Loss Ratios (%)	59.6	58.6	56.6	57.4	54.5	61.0	1.0	3.0
Expense Ratios (%)	34.6	34.5	34.5	36.3	40.0	36.5	0.1	0.1
Combined Ratios (%)	94.2	93.1	91.1	93.7	94.5	97.5	1.1	3.1
Solvency (%)	194	233	175	167			(39.0)	19.1

Source: Company, ABCI Securities

China Pacific - share price & valuation

		CHINA PACIFIC			
		2009	2010	2011	2012E
Share Price (HK\$)	Hi	30.95	35.85	35.35	28.50
	Lo	28.00	27.95	20.15	21.50
	Av	29.91	31.17	31.15	24.74
PEV(X)	Hi	2.38 x	2.35 x	2.20 x	1.54 x
	Lo	2.16 x	1.83 x	1.25 x	1.16 x
	Av	2.30 x	2.04 x	1.94 x	1.34 x
EVPS YoY Growth (%)		26%	18%	5%	15%
VNB(X)	Hi	27.70 x	24.79 x	20.63 x	10.53 x
	Lo	23.15 x	15.28 x	4.36 x	3.19 x
	Av	26.09 x	19.16 x	16.13 x	6.59 x
VNB YoY Growth (%)		23%	28%	12%	2%

Source: Bloomberg, Company data, ABCI Securities



China Pacific: Embedded Value

(Rmb mn)	2009	2010	2011	2012E	2013E	1H12
Embedded value						
Adjusted net worth	72,368	75,905	72,664	87,328	94,227	76,824
Value of in-force	33,971	43,991	52,671	60,287	70,046	56,604
Cost of solvency margin	(7,516)	(9,212)	(11,059)	(11,274)	(11,494)	(11,595)
Embedded value	98,371	110,089	113,564	136,341	152,780	121,833
Vnb (long term)	4,915	5,996	6,599	6,669	7,136	4,061
Multiplier	10	7	6	6	6	
New business value (long term)	48,870	42,713	42,129	41,824	41,210	
Appraisal value	147,241	152,803	155,693	178,166	193,990	
EV movement analysis						
Opening embedded value	69,669	98,371	110,089	113,564	136,341	
Expected return						
- SHF's	2,698	3,763	3,947	3,779	4,541	
- In-force	2,772	2,578	3,307	6,057	6,933	
Value of new business (VNB)	4,915	5,996	6,599	6,669	7,136	
Inv't r var + mkt val adj	(226)	(2,556)	(9,080)	1,000	1,000	
Capital raising & dividends	18,080	(2,580)	(3,010)	5,272	(3,172)	
OpEx var, model chg & others	463	4,518	1,712	-	-	
Closing embedded value	98,371	110,089	113,564	136,341	152,780	
EVPS (HK\$)	12.98	15.26	16.08	18.99	21.07	
AVPS (HK\$)	20.06	24.73	28.30	28.64	27.93	
PEV implied	1.55	1.62	1.76	1.51	1.33	
VNB (HK\$)	0.65	0.83	0.93	0.93	0.98	
VNB implied (x)	10.91	11.41	13.08	10.39	6.96	
EV contributions 1 (%)						
Expected return on beg EV	8%	6%	7%	9%	8%	
IRV + MVA contribution to beg EV	0%	-3%	-8%	1%	1%	
VNB contribution to beg EV	7%	6%	6%	6%	5%	
VNB contribution to beg VIF	20%	18%	15%	13%	12%	
EVPS (HK\$) growth	26%	18%	5%	18%	11%	
EV contributions 2 (%)						
Beginning EV	71%	89%	97%	83%	89%	
Expected return						
- SHF's	3%	3%	3%	3%	3%	
- In-force	3%	2%	3%	4%	5%	
Inv't r var + mkt val adj	0%	-2%	-8%	1%	1%	
Value of new business (VNB)	5%	5%	6%	5%	5%	
Capital raising & dividends	18%	-2%	-3%	4%	-2%	
OpEx var, model chg & others	0%	4%	2%	0%	0%	
Ending EV	100%	100%	100%	100%	100%	

Source: Company data, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Pacific

China Pacific: Financial Statements

Profit & loss (Rmb mn)						Operating ratios (%)					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
GWP & policy fees	134,963	154,958	162,698	171,765	180,789	Gross written premium growth	40.1%	11.0%	5.0%	5.6%	5.3%
(-) Premiums to reinsurers	(13,148)	(13,384)	(12,679)	(14,087)	(15,158)	Net earned premium growth	39.3%	14.6%	5.1%	3.3%	4.9%
NWP & policy fees	121,815	141,574	150,020	157,678	165,632	Claims/benefits - of NEP	30.2%	36.1%	34.9%	37.0%	37.6%
Chg. in unearned premium res.	(4,656)	(4,336)	(5,765)	(8,734)	(9,414)	Div to PH & net inc. in PH res. of NEP	50.7%	40.9%	42.9%	44.3%	43.3%
NEP & policy fees	117,159	137,238	144,255	148,944	156,218	Ttl. claim/PH benefits to NEP	80.9%	76.9%	77.8%	81.4%	80.9%
Investment income	18,403	16,392	21,570	30,129	32,943	Claims/benefits - of total revenue	25.9%	31.8%	30.0%	30.4%	30.6%
Other income	812	1,887	2,107	2,430	2,814	Net inc. in PH res. - of total revenue	43.6%	36.0%	36.8%	36.4%	35.2%
Total revenue	136,374	155,517	167,931	181,503	191,974	Ttl. claim/PH benefits to total revenue	69.5%	67.9%	66.9%	66.8%	65.8%
Claims, surrenders, annuities/mortgages	(35,354)	(49,518)	(50,403)	(55,153)	(58,763)	Commission cost ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Div. & int. to PH & net inc. in PH res.	(59,405)	(56,063)	(61,864)	(66,016)	(67,614)	General & admin. cost ratio	21.0%	21.3%	22.0%	21.0%	21.1%
Ttl. claims/PH benefits	(99,225)	(111,645)	(118,061)	(129,537)	(134,947)	Other exp. & stat. levy ratio					
Commission expenses	-	-	-	-	-	Total expense ratio	94.1%	93.6%	93.6%	93.6%	92.5%
General & administrative expense	(28,637)	(33,120)	(36,904)	(38,175)	(40,455)	Gross investment yield	4.5%	3.4%	4.3%	4.5%	4.5%
Finance expense	(410)	(848)	(2,144)	(2,144)	(2,144)	CPIC Life	259.3%	187.3%	181.9%	177.7%	180.6%
Other expense	0	0	0	0	0	CPIC P&C	206.1%	233.1%	222.6%	227.5%	230.6%
Total operating expense	(29,047)	(33,968)	(39,048)	(40,319)	(42,599)						
Total expenses	(128,272)	(145,613)	(157,109)	(169,856)	(177,546)	Balance sheet (Rmb mn)					
Net profit before tax	8,102	9,904	10,822	11,647	14,428		2010	2011	2012E	2013E	2014E
Associate/JV - Profits/losses	100	495	21	18	15	Financial assets	433,385	522,530	626,959	728,737	835,459
Tax expense	(1,615)	(2,006)	(2,320)	(2,458)	(2,999)	Reinsurance assets	12,347	14,118	14,959	16,493	18,183
Net profit after tax	6,587	8,393	8,523	9,207	11,443	Insurance receivables	5,409	6,252	10,202	11,247	12,400
Minority interest	(38)	(80)	(131)	(136)	(169)	PP&E	6,831	7,833	7,987	7,827	7,671
NP to CPIC shareholders	6,550	8,313	8,392	9,071	11,274	Others	17,739	19,879	29,263	29,943	31,136
						Assets	475,711	570,612	689,370	794,247	904,849
Financial summary						Insurance contract liabilities	302,640	374,931	437,425	514,433	593,469
	2010	2011	2012E	2013E	2014E	Investment contract liabilities	52,690	47,182	46,261	49,079	52,068
EPS (RMB)	0.76	1.18	1.17	1.25	1.64	Financial liabilities	19,836	58,847	91,405	105,610	122,679
<i>EPS growth (%)</i>	-20.0%	-0.7%	-0.7%	7.0%	31.3%	Deferred revenue	-	-	-	-	-
PER (x)	35.1	19.9	20.1	18.7	14.3	Others	27,476	11,597	13,771	18,709	22,113
PBV (x)	2.95	2.12	1.72	1.60	1.41	Liabilities	402,642	492,557	588,862	687,830	790,329
PEV (x)	2.18	1.46	1.23	1.11	0.95	Net assets	76,605	76,796	99,113	104,886	112,819
VNB multiple (x)	26.71	4.26	0.92	-1.60	-5.40	Minority interests	1,202	1,259	1,395	1,531	1,700
Dividend per share (RMB)	0.40	0.35	0.35	0.35	0.35	Net equity to shareholders	77,854	78,055	100,518	106,417	114,520
Yield (%)	1.5%	1.8%	1.8%	1.9%	2.0%						
Payout ratio (%)	52.5%	29.7%	29.9%	28.0%	21.3%						
Return on equity (%)	8.5%	10.4%	9.4%	8.8%	10.2%						
Return on assets (%)	1.5%	1.6%	1.3%	1.2%	1.3%						
Tax rate (%)	19.9%	20.3%	21.4%	21.1%	20.8%						

Source: Company data, ABCI Securities estimates



Disclosures

Analyst Certification

I, Chan Wing Fu (Francis Chan), being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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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