



Key Data

H-share price (HK\$)	28.10
Target price (HK\$)	NA
Upside potential (%)	NA
52Wk H/L(HK\$)	29.9 / 19.8
Issued shares:	12,044
Market cap (HK\$m)	338,436
30-day avg vol (HK\$m)	849
Major shareholder (%):	
AIA Aurora (AIG)	12.6
JPMorgan Chase	6.8

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

Net earned premiums (NEP)	85.5
Investment return	13.7
Other income	0.8

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	4.3	2.7
3-mth	8.7	(0.8)
6-mth	0.5	4.8

Source: Bloomberg

*Relative to MSCI Hong Kong

1 year price performance



Source: Bloomberg

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AIA Group (1299 HK) – Unrated
Life & health insurance industry

Accretive deal on ING Malaysia / Thailand

According to Reuters, AIA Group is leading in the bid for ING Malaysia and Thailand. The consideration may reach US\$2.0bn. We believe the potential transaction could benefit AIA in the following ways. Firstly, this will strengthen AIA's foothold in Malaysia. Secondly, its free-surplus funds can be better employed through this acquisition. Lastly, the price tag deems attractive at around 1.24-1.33x 2012E PEV per our estimates, relative to 1.40x of AIA Group.

Strengthening foothold in Malaysia. AIA Malaysia reported APE of US\$142mn and VNB of US\$58mn in FY11. Its market share ranked the third in the country. This is compared to ING's APE of US\$188mn and VNB estimated at US\$70mn for 2011. Post-acquisition, AIA could become the market leader, with a 30% market share. As such, AIA Group will become market leader in four major life insurance markets in the region.

Better employment of surplus funds. AIA recorded group solvency at 456% and free surplus funds of US\$6.1bn in 1H12. The idle cash resources could be better employed through this acquisition. Based on ING's disclosure, we estimated the organic growth of EV for ING Malaysia and Thailand at 14-15% per annum. We consider this an attractive return to AIA Group.

Price tag attractive, deal accretive. Based on ING's disclosure, we estimate the aggregate EV of ING Malaysia and Thailand at US\$1.5-1.6bn, and the VNB at around US\$70mn in 2012E. As such, the price tag of US\$2.0bn is equivalent to 1.24-1.33x 2012E PEV and 4.9-6.2x 2012E VNB. This is lower than the trading valuation of 1.40x 2012E PEV and 11.0x 2012E VNB. That said, the transaction deems accretive to AIA Group.

Temporary removal of overhang from AIG disposal. AIG will serve a three month lock-up period on its AIA's stake, after the disposal on 6 Sep.

Risk factors: Better/worse-than-expected investments and underwriting performance, looser/tighter-than-expected industry regulations

Valuation

FY ended Nov 30	FY08	FY09	FY10	FY11
Revenue (US\$ mn)	3,810	19,016	18,394	14,388
Chg (YoY)		399	(3)	(22)
Net profit (US\$ mn)	408	1,754	2,701	1,600
Chg (YoY)		330	54	(41)
EPS (HK\$)	0.27	1.14	1.75	1.04
PER (x)	105.8	24.7	16.0	27.1
BPS (HK\$)	5.8	9.6	12.6	13.7
P/B (x)	4.9	2.9	2.2	2.0
EVPS (HK\$)		13.5	16.0	17.6
PEV (x)		2.1	1.8	1.6
VNB (HK\$)		0.35	0.43	0.60
VNB (x)		41.5	28.1	17.4

Source: Company, Bloomberg, ABCI Securities

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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