

Key Sector Data

Average PER (x)	23.0
Average PBV (x)	2.0
Average PEV (x)	1.3
Average VNB (x)	4.4
Average Dividend Yield (%)	0.8

Sector Market cap (HK\$bnn)	1,348
Average 30-day avg vol (HK\$mnn)	1,717

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

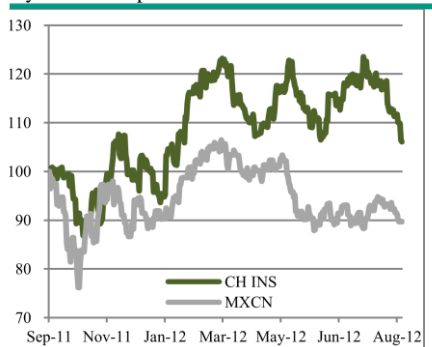
Sector performance (%)

	Absolute	Relative*
1-mth	(5.5)	(3.0)
3-mth	3.6	1.6
6-mth	(6.4)	7.3

Source: Bloomberg

*Relative to MSCI China

1 year relative performance vs MSCI China



Source: Bloomberg

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China Insurance Sector - Unrated Life & Health Industry

Bottoming fundamentals but not share price performance (1H12 results review)

China Insurance sector reported above-trend fundamentals in 1H12. All five insurers reported positive EV growth HoH. Also, except for Ping An, the other four insurers reported mild growth YoY in life VNB. Among the insurers, China Life and New China Life reported better-than-expected results. China Taiping's was in-line. However, the sector came down by 3.0% in share prices since the start of result season on 20 Aug. We believe, with minimal signs of recovery in the A-share markets, the sector performance will remain sluggish for the rest of 2012.

Picking China Life and New China Life. As of 1H12, China Life and New China Life delivered better than expected EV and VNB. China Life will continue to benefit from its protection-focused products and enjoy expanding NBM, we believe. New China Life, in spite of its average fundamentals relative to peers, is trading at an attractive valuation of 1.02x 2012E PEV (average 1.33x of big three). These two are our top picks amid a difficult time for the sector.

China Taiping in deep value. China Taiping delivered better than expected results on EV and VNB only because of the actuary assumption changes in 1H12. Besides, its reinsurance unit was still suffering from a loss. Some investors were disappointed with the results. However, the management previewed an upswing in second half profits for reinsurance. Also, the stock is trading at the cheapest valuation of 0.76x 2012E PEV among peers. This is compared to a historical average of 3.0x or above. We view this stock as a deep-value pick at the current stage.

Lack of investment angles for Ping An and China Pacific. As revealed in 1H12 results, Ping An suffered from multiple downtrends in life, banking and securities. China Pacific was dragged by its weak P&C division, despite with a satisfactory performance in Life operations. Last but not least, possible divestment by Carlyle continues to haunt the investors.

Risk factors: better/worse-than-expected investment and underwriting performance, looser/tighter-than-expected regulations

Sector Valuation Summary

Companies	Code	Price (HK\$)	PER	PBV	PEV	VNB	Div Yield
(Valuation on 2011 data)							
China Life	2628 hk	20.8	26.3	2.5	1.6	9.3	1.5%
Ping An	2318 hk	56.0	18.7	2.1	1.4	6.0	0.9%
China Pacific	2601 hk	23.3	19.8	2.1	1.4	4.1	1.8%
New China Life	1336 hk	22.9	15.1	1.9	1.2	2.2	0.0%
China Taiping	0966 hk	10.2	35.2	1.5	1.0	0.4	0.0%
Sector Average			23.0	2.0	1.3	4.4	0.8%

Source: Company, Bloomberg, ABCI Securities

Disclosures

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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 (~15%)

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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