



Sector Report

China Insurance - Overweight Life & Health Insurance Industry

Key sector data

Average PER (x)	17.6
Average PBV (x)	1.9
Average PEV (x)	1.2
Average VNB (x)	4.1
Average Dividend Yield (%)	0.9

Sector Market cap (HK\$bnn)	1,692
Average 30-day avg vol (HK\$mn)	2,493
Sector Weighting in MSCI China	~ 8%

* valuations as of 2013E

Source: Company & Bloomberg

Sector premiums composition (%)

Life	60.6
Health	4.8
Personal Accident	2.3
Property & Casualty	32.2

* data as of 2011

Source: CIRC

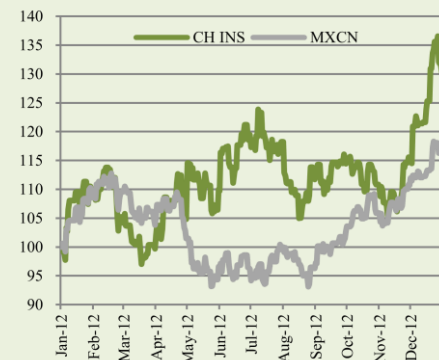
Sector performance (%)

	Absolute	Relative*
1-mth	13.44	7.11
3-mth	13.20	(0.40)
6-mth	9.83	(14.40)

* Relative to MSCI China Index

Source: Bloomberg

China Insurance: relative performance to MSCI China



Source: Bloomberg

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Looking beyond A-share market rally in 2013

Other than just the A-share market rally, China Insurance will benefit from the intact premium growth and policy dividends entering 2013. Also, surrender is not a big issue to the sector, according to our analysis. Therefore, we upgrade our estimates and target prices for listed insurers, based on higher premium growth and investment return assumptions. As such, we maintain our **OVERWEIGHT** rating on China Insurance.

Premium growth intact. Albeit rather slow in 1H12, premium growth was regaining grounds towards year end. Life industry premium growth improved 3.7ppt on a YoY basis from its year-low. P&C industry premium growth accelerated by 11.6ppt. We forecast a revival of bancassurance sales in 1H13. The fast growing A&H sales will also fuel the industry growth. As such, we project life industry premium growth to reach 5-7% YoY in 2013, compared to 3.5% YoY in 11M12.

Policy dividends kick in. Entering 2013, we see the policy dividends slowly kick in for the sector. Firstly, new rules on investments are gradually implemented. Also, the development of medicare reform is increasingly positive for the life insurers. Lastly, 'Sannong' policy is playing out and bringing about new opportunities to P&C insurers.

Sector rejuvenation. The sector rose 22.3% since the start of A-share market rally in early Dec 2012. This surpassed 7.2% increase of HSI. Currently, CSI 300 trades at 12.5x forward PER and 1.8x forward PBV, still far below the historical average valuation of 16.6x and 2.5x. In 2013, the year of recovery in China, we forecast a continuous rally of A-share markets, which will lead to windfall investment profits for insurers.

Maintain OVERWEIGHT; Top picks: China Life & China Pacific. Based on our revised premium growth and investment return assumptions, we appraise the sector at a valuation of 1.52x 2013E PEV and 7.8x 2013E VNB. Our new target prices imply an average 13.8% upside potential from the current share prices of insurers. As such, we maintain an Overweight rating on the sector. Our top picks remain China Life and China Pacific. Our SELL is Ping An. Also, we maintain 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

Results and valuation

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	26.00	735	BUY	31.89	18.0	2.5	1.4	7.7	1.8%
Ping An	2318 hk	66.95	530	SELL	68.46	12.0	1.8	1.2	5.2	1.0%
China Pacific	2601 hk	31.10	282	BUY	36.46	26.1	2.1	1.4	4.9	1.4%
New China Life	1336 hk	31.45	98	HOLD	34.30	16.9	1.8	1.1	1.1	0.0%
China Taiping	0966 hk	15.58	27	BUY	18.36	14.8	1.3	1.1	1.4	0.0%
Sector Average						17.6	1.9	1.2	4.1	0.9%

*We assume Rmb1 = HK\$1.27 Prices as of 11 January 2013

Source: Company, ABCI Securities estimates



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Insurance

Executive Summary – Looking beyond A-share market rally in 2013

Delightful trends sustain, other than just the A-share market rally

Maintain OW on China Insurance, based on the upwardly revised estimates and TPs

Premium growth in tact due to a sharp turnaround in 2H12, projecting a mild growth in Life for 2013

Policy dividends related to investment rules, medicare reform and Sannong policy

Surrender rates declining over past four years, Life EV not sensitive to surrender assumptions

In our view, China Insurance will sustain its recent outperformance in 2013. Firstly, the premium growth is intact for Life and P&C sectors. In 11M12, most insurers enjoyed a big turnaround of premium growth from the year low in 2012. We expect such strength to extend into 2013, due to the low base effect in 2012 and taming downtrend of bancassurance in 2H12. Also, we witnessed more and more policy dividends kicking in, in the areas of investment rules, medicare reform and ‘Sannong’ policy. Moreover, surrender, which is currently a concern of investors, is not an issue according to our analysis. Therefore, we can look beyond the recent rally of A-share markets and continue to favor the sector. Based on better assumptions on premium growth and investment return, we revised up our earnings / EV estimates, and upgrade our target prices for the listed insurers. To conclude, we maintain our OVERWEIGHT rating on China Insurance. In terms of stock recommendations, we continue to recommend BUY on China Life, China Pacific and China Taiping, SELL on Ping An and HOLD on New China Life. China Life and China Pacific remain our top picks at present.

Premium growth intact

In our view, premium growth is intact for both Life and P&C sector towards end-2012. Albeit rather slow in 1H12, Life and P&C premium growth was regaining grounds towards year end. Life industry premium growth improved 3.7ppt on a YoY basis from its year-low. Meanwhile, P&C industry premium growth accelerated by 11.6ppt from its year-low. Projecting forward, we are particularly optimistic on the life premium growth, due to taming downtrend of bancassurance sales in 2H12. In our opinion, the low base effect could lead to a mild growth of bancassurance sales in 1H13. Besides, the life sector will continuously benefit from the fast growing sales of accident and health (A&H) products. Therefore, we project the life industry premium growth to reach 5-7% YoY in 2013, compared to 3.5% YoY in 11M12.

Policy dividends kicking-in

Towards end-2012 and entering 2013, we see the policy dividends slowly kick in for the sector. Firstly, new rules on investments are gradually implemented. Also, medicare reform continues to proceed and the development is increasingly positive for the life insurers. Lastly, ‘Sannong’ policy, advocated in the 12th Five Year Plan, is playing out and bringing about new opportunities for the P&C insurers. Overall, China Insurance is an industry blessed with the on-going policies of China government in 2013.

Surrenders not an issue

Notwithstanding the positive trends in the industry, investors have been concerned with the potential surrenders for life insurers in 2013. Life insurers sold a vast number of five year participating / universal life policies in 2007 and 2008. According to Hexun, policy premium amounted to Rmb100bn is deemed to mature for life industry in mid-2013. Rmb50bn of which came from the participating policies sold in 2007 and 2008. In our opinion, we do not regard surrenders a major issue to the sector for the following reasons. Firstly, surrender rates have been in fact declining over the past few years for major life insurers. More importantly, EVs of life insurers are not sensitive to change of surrender assumptions, per 2011 disclosure. Therefore, in our view, surrenders will not flatter the recovery of life insurers in 2013.



Big outperformance of China Insurance against HSI, aligning with the recent A-share market rebound

CSI 300 still trading at a much cheaper valuation than the average from 2009 to 2012

Expect China Insurance to sustain its outperformance, based on a 13.8% average upside for the sector

A-share rally rejuvenating the sector

While we identified other positive trends for the sector, we admit that the sharp rebound of A-share markets is the key driver of the recent outperformance of China Insurance. CSI 300 Index hit its year low at 2,109 pts on 3 Dec 2012. Since then the index rebounded by 17.7% to 2,483 pts. Simultaneously, China Insurance recorded huge outperformance against Hang Seng Index. The sector went up 22.3% during the same period. The biggest three listed insurers by Market Cap rose by 19.0%. This surpassed 6.9% increase of Hang Seng Index during the period. Projecting forward, we remain bullish on the A-share market outlook. CSI 300 is currently trading at 12.5x forward PER and 1.8x forward PBV, which is still far below the average valuation of 16.6x and 2.5x from 2009 to 2012. Also, ABCI forecasts China to report real GDP growth of 8.1% in 2013, compared to 7.8% in 2012. That said, 2013 is the year of recovery for the China economy. As a result, we forecast a continuous recovery of A-share market in 2013. This will in turn lead to a windfall of equity gains for Chinese insurers.

Valuation & Trading: an outperforming sector in 2013

In our view, China Insurance will continue to outperform the market in 2013. Beyond the A-share market rally, the industry is enjoying a turnaround in premium growth and several policy dividends. The investors' concern on surrenders may not be a valid one, according to our analysis. More importantly, the sector is trading at an average valuation of 1.25x 2013E PEV. This is far lower than the historical average of 2.20x since 2004. Based on our estimates, the sector will average an EVPS growth of 20.8% YoY in 2012E & 2013E. As such, we derive the fair sector valuation at 1.52x 2013E PEV. This represents an upside of 13.8% from now. Also, this is compared to a 7.5% upside for HSI and a 8.1% upside for HSCEI, based on ABCI's 2013 targets of 25,000pts for HSI, and 12,800pts for HSCEI.

Recommendations: upgrade TP on better estimates

Based on our latest estimates and revised target prices, our stock picks are as follows. Our top picks are China Life and China Pacific. Our top sell is Ping An. On the other hand, we recommend BUY on China Taiping and HOLD on New China Life. Please refer to the following valuation summary for your reference.



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Insurance

CH INS: Sector valuation summary

Name	China Life			Ping An			China Pacific			New China Life			China Taiping		
Stock code	2628.hk			2318.hk			2601.hk			1336.hk			966.hk		
Share Price (HK\$)	26.00			66.95			31.10			31.45			15.58		
ABCI Rec.	BUY			SELL			BUY			HOL			BUY		
Target Price (HK\$)	31.89			68.46			36.46			34.30			18.36		
Previous TP (HK\$)	26.45			58.04			27.93			24.85			13.42		
TP % Chg	20.56			17.96			30.53			38.03			36.81		
Upside / Downside (%)	22.65			2.26			17.23			9.06			17.84		
EVPS (HK\$)	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E
YoY Growth (%)	0.37	23.85	17.25	15.65	26.56	17.40	5.39	20.60	12.94	(31.39)	26.34	21.51	7.78	23.41	17.90
VNB (HK\$)	0.87	0.92	1.00	2.67	2.48	2.51	0.93	0.98	1.06	1.70	1.74	1.82	0.69	0.72	0.78
YoY Growth (%)	4.02	5.48	9.03	10.33	(7.05)	1.11	12.45	5.14	7.67	(63.83)	1.89	4.61	28.22	4.41	8.17
NBM (APE basis - %)	33.86	38.00	37.00	40.67	37.00	35.00	34.19	37.50	37.00	22.37	23.50	23.00	27.87	30.00	29.50
Gross Inv't Yield (%)	3.52	3.48	4.55	3.59	3.49	4.79	3.43	3.64	4.62	3.83	3.87	4.43	3.42	3.50	4.17
APE Growth (%)	(9.58)	(8.00)	10.00	(2.88)	0.00	5.00	(6.29)	(2.00)	10.00	(22.97)	(5.00)	5.00	(19.00)	(3.00)	10.00
PEV (x)	2.06	1.66	1.42	1.85	1.46	1.24	1.93	1.60	1.42	1.64	1.30	1.07	1.56	1.27	1.07
VNB (x)	15.38	11.31	7.68	11.51	8.50	5.23	12.44	8.21	4.91	7.23	4.19	1.14	8.16	4.57	1.39
PER (x)	32.93	45.14	18.01	22.35	16.13	11.97	26.43	31.47	26.08	20.79	21.81	16.93	53.76	19.06	14.81
PBV (x)	2.53	2.24	2.00	2.54	2.10	1.79	3.43	2.84	2.70	2.57	2.11	1.82	2.34	1.49	1.29
Change in assumptions:															
EVPS (HK\$) - %		2.99	6.26		2.86	5.29		2.10	3.94		1.29	6.37		1.69	3.76
VNB (HK\$) - %		3.12	8.76		1.20	1.49		5.62	7.91		(5.18)	(0.81)		2.75	12.75
NBM (APE basis - ppt)			0.00			0.00			0.00			(0.50)			0.50
Gross Inv't Yield (bps)			23.87			74.98			10.02			52.86			8.46
APE Growth (ppt)			5.00			0.00			3.00			0.00			8.00

Source: Bloomberg, Company data, ABCI Securities



Premium growth intact

Premium growth in tact due to a sharp turnaround in 2H12, projecting mild growth in Life for 2013

In our view, premium growth is intact for both Life and P&C sector towards end-2012. Albeit rather slow in 1H12, Life and P&C premium growth was regaining grounds towards year end. Life industry premium growth improved 3.7ppt on a YoY basis from its year-low. Meanwhile, P&C industry premium growth accelerated by 11.6ppt from its year-low. Projecting forward, we are particularly optimistic on the life premium growth, due to taming downtrend of bancassurance sales in 2H12. In our opinion, the low base effect could lead to a mild growth of bancassurance sales in 1H13. Besides, the life sector will continuously benefit from the fast growing sales of accident and health (A&H) products. Therefore, we project the life industry premium growth to reach 5-7% YoY in 2013, compared to 3.5% YoY in 11M12.

Regaining grounds in total premium growth

Low base effect & taming downtrend of Banc lifted Life growth, P&C benefited from revising car sales growth

We witnessed a sharp turnaround of both Life and P&C premium growth during 2H12. Life industry premiums grew 3.5% YoY in 11M12, compared to the year-low of (0.1)% YoY and (9.0)% YoY in 2011. Life premiums reversed its downtrend and regained a mild growth towards end-2012. Thanks for the low base effect in 2H11, and taming downtrend of bancassurance sales. Likewise, P&C industry premiums increased 15.5% YoY, contrasting the year-low of 3.9% YoY. Thanks for the reviving automobile sales towards year-end. Monthly automobile sales growth rebounded to 8.8% YoY, relative to the year-low of (24.0)% YoY.

China Life and China Taiping reported the biggest turnaround in life premium growth

Meanwhile, listed life insurers exceeded the industry average in the reversal of premium growth. For instance, China Life performed the best in the turnaround. Its premiums remained flattish YoY in 11M12, reversing from a YoY decline of 8.6% in 4M12. Thanks for the successful launch of Kang Ning Critical Illness and new direct sales products. Taiping Life's premium growth accelerated 7.1ppt, from 7.0% YoY in 8M12, to 14.2% YoY in 11M12. The insurer improved substantially due to the introduction of a new saving product. Also, Ping An Life enjoyed an advance of 6.6ppt in premium growth from its year-low, due to the slight revival of its agency sales.

Ping An & China Pacific making more P&C premiums from new sales channels

Simultaneously, listed P&C insurers reported sharp reversals in premium growth. Ping An P&C grew its premiums at a rate of 19.6% YoY in 11M12, compared to the year-low of 9.4% YoY. China Pacific P&C grew its premiums by 12.4% YoY in 11M12, relative to the year-low of 2.0% YoY. As mentioned, this is partly due to the reviving automobile sales in China. In Nov 2012, automobile sales reached 1.5mn, up 8.8% YoY. This is considerably higher than 3.9% in Mar 2012. Also, the listed P&C insurers benefited vastly from higher sales from telemarketing and internet channels.

CH INS: total life premium growth (2011 – 11M12)

(YoY %)	2011	2012 Low	11M12	From year low
China Life	(4.44)	(8.56)	(0.81)	7.75
Ping An Life	(25.21)	1.70	8.32	6.62
China Pacific Life	1.31	(2.95)	0.32	3.27
New China Life	1.23	3.89	3.89	-
Taiping Life	(4.74)	7.03	14.17	7.14
Industry	(8.96)	(0.13)	3.53	3.67

Source: Company data, ABCI Securities

CH INS: total P&C premium growth (2011 – 11M12)

(YoY %)	2011	2012 Low	11M12	From year low
Ping An P&C	34.16	9.42	19.55	10.13
China Pacific P&C	19.53	2.01	12.41	10.40
Industry	18.68	3.93	15.53	11.60

Source: Company data, ABCI Securities



Taming downtrend on bancassurance

Low base effect leading to mild growth of banc. sales

Signaled from the reviving premium growth in 2H12, we are optimistic on the development of bancassurance sales in 1H13. Firstly, we regard the low base effect the predominant factor for a mild growth of bancassurance sales. In 1H12, listed life insurers reported an average decline of 26.0% YoY in bancassurance premiums. The deterioration accelerated from one year ago. In aggregate, bancassurance sales decreased by 38.4% from 1H10 to 1H12. With the PBOC deposit rate cuts in Jun and Jul 2012, bancassurance participating and universal life products are slowly regaining attractiveness in the market. Therefore, we believe that bancassurance sales may reverse its downtrend as early as 1H13.

CH INS: semiannual banc. premiums (1H10 – 1H12)

(Rmb mn) (HK\$ mn -Taiping Life)	1H10	1H11	1H12	From 1H10 (% chg)	From 1H11 (% chg)
China Life	74,624	70,498	45,486	(39.0)	(35.5)
Ping An Life	15,885	12,478	6,043	(62.0)	(51.6)
China Pacific Life	28,385	28,006	21,709	(23.5)	(22.5)
New China Life		30,731	31,393		2.2
Taiping Life	3,059	2,194	1,869	(38.9)	(14.8)
Total listed life insurers	143,907	106,500		(38.4)	(26.0)

Source: Company data, ABCI Securities

CH INS: annual banc. premiums (1H10 – 1H12)

(Rmb mn) (HK\$ mn -Taiping Life)	2010	2011	From 2010 (% chg)
China Life	122,659	99,190	(19.1)
Ping An Life	26,191	16,861	(35.6)
China Pacific Life	48,201	44,450	(7.8)
Taiping Life	5,049	3,744	(25.9)
Total listed life insurers	202,100	164,245	(18.7)

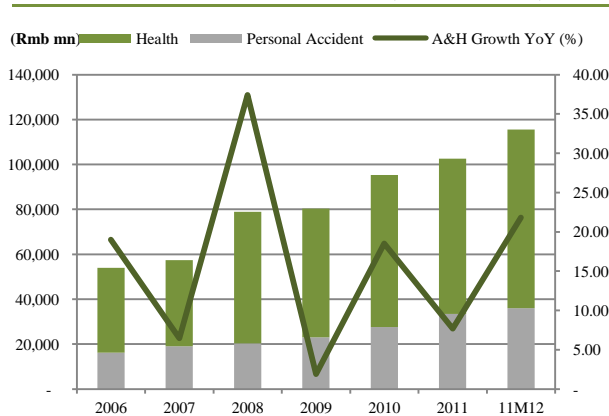
Source: Company data, ABCI Securities

Benefiting from new health & pension products

Health & pension products spearhead future growth

Accident and Health (A&H) premiums continued to grow more rapidly than normal life premiums. In 11M12, A&H premiums grew 21.8% YoY, compared to 1.8% YoY of normal life premiums. During the same period, health premiums increased to Rmb63.5bn, up 25.0% YoY. Aligning with the national policy of medicare reform, we count on health products as the future growth driver of life premiums in China. On the other hand, the pilot of deferred pension products may be launched in Shanghai as early as in 1H13. Currently in China, pension assets amounted to merely Rmb1 tn, including Rmb867bn from NSSF and Rmb172bn from private pension trust. Such asset size only accounted for 2.2% of GDP in 2011. This lags behind the pension asset size of 60-100% GDP of the developed countries. Therefore, the pension products could be another fast growing area in the industry.

CH INS: Accident & Health [A&H] (2006 – 11M12)



Source: CIRC, Company data, ABCI Securities

CH INS: A&H sales by insurers (2009 – 1H12)

(Rmb mn)	2008	2009	2010	2011	1H12
China Life	12,725	13,194	14,975	15,802	8,623
Ping An Life	5,421	5,938	6,203	7,126	4,555
China Pacific Life	2,838	3,336	4,106	4,613	2,714
New China Life	3,224	4,191	5,022	6,121	3,670

(% YoY)	2009	2010	2011	1H12
China Life	3.7	13.5	5.5	3.5
Ping An Life	9.5	4.5	14.9	13.8
China Pacific Life	17.5	23.1	12.3	10.3
New China Life	30.0	19.8	21.9	22.2

Source: Company data, ABCI Securities



Policy dividends kicking in

Policy dividends related to investment rules, medicare reform and Sannong policy

Towards end-2012 and entering 2013, we see the policy dividends slowly kick in for the sector. Firstly, new rules on investments are gradually implemented. Also, medicare reform continues to proceed and the development is increasingly positive for the life insurers. Lastly, ‘Sannong’ policy, advocated in the 12th Five Year Plan, is playing out and bringing about new opportunities for the P&C insurers. Overall, China Insurance is an industry blessed with the on-going policies of China government in 2013.

New rules on investments boosting returns

13 consultation notices on deregulation of insurance investments announced in Jun 2012

In Jun 2012, CIRC announced 13 consultation notices related to further deregulation on investment of insurance funds. CIRC aimed at the liberalization of investment channels for Chinese insurers, which would in turn facilitate a better use of insurance funding in China. The key areas of relaxation include investment limits on non-guaranteed corporate and infrastructure bonds, private equity projects, property projects and overseas investments. Most importantly, the consultation notices proposed the permission of stock lending and equity hedging with derivatives by Chinese insurers.

Insurers can use index futures and lend stocks from Aug 2012 onwards

Throughout 2H12, several proposals were implemented. For instance, Chinese insurers were permitted to employ derivatives, such as index futures, to hedge their equity positions from Aug 2012 onwards. Simultaneously, insurers were allowed to lend stocks for a return. These two measures echoed the reform of China securities market, with the debut of index futures and margin financing. With proper hedging, we expect lower volatility in the valuation of insurers’ equity portfolios in the future.

Insurers start to allocate more investments to non-guaranteed corporate & infrastructure bonds

Furthermore, following the relaxation of investment limits, insurers started to allocate more investments to non-guaranteed corporate and infrastructure bonds in 2H12. Currently, insurers focus their bond investments in corporate and financial bonds, instead of government bonds. The allocation to corporate bonds reached 35% in average. In 1H12, the return of China corporate bonds rose by 1.4%, compared to a decline of 1.3-1.6% of government bonds. With more allocation to non-guaranteed corporate and infrastructure bonds, insurers may further enhance their recurring investment yields, and stabilize their investment returns over time.

Insurers can invest more in banking stocks

On top, CIRC announced to abolish the existing rules limiting bank investments by insurance funds in Dec 2012. Previously, without CIRC’s prior consent, China insurers were not permitted to make investments in banks with a consideration exceeding 3% of insurers’ total assets. Investment in one single bank should not bear a consideration exceeding 1% of insurers’ total assets. After the abolishment of such rule, China insurers may increase investments in banking stocks, which bear 5-6% dividend yield in average. This will help lifting net investment yields for the sector. We view all these as the kicking-in of policy dividends from CIRC. We expect the positive impact on insurance investments to be revealed as soon as 2H13.

Medicare reform fueling health product growth

Public medicare funds for purchasing private health insurance

In Mar 2012, the State Council promulgated the ‘Plan and Implementation Scheme to Further Reform the Medical and Health System’ during the 12th Five Year Plan Period, **encouraging the use of basic medical care**



insurance funds to purchase commercial critical-illness insurance. In Aug 2012, relevant authorities jointly issued the ‘Guidance on Implementation of Critical-illness Insurance Covering Urban and Rural Residents’, stating that the critical-illness insurance covering both urban and rural residents shall comprise basic medical care insurance and commercial insurance, i.e. commercial insurance agencies shall provide critical-illness insurance utilizing the funds set aside from the surplus of urban resident medical care insurance funds and new rural cooperative medical care insurance funds. Such model has been implemented in Taicang City, Jiangsu Province on a pilot basis since 2011 and has achieved certain improvements so far. Meanwhile, commercial insurance companies have been proactively participating in the establishment of the current medical care system, which significantly promotes the development of commercial health insurance.

Great prospects poised for health insurance in 12th FYP

In accordance to National Bureau of Statistics of China (NBSC), the urban population with medical insurance coverage was 473mn, compared to the total urban population of 691mn, in 2011. The rural population with medical insurance coverage was 46mn, relative to the total rural population of 657mn, in the same year. In the 12th Five Year Plan, the target was set at 800mn people with medical insurance coverage (519mn in 2011) by 2016. Therefore in our opinion, health insurance will be further enhanced nationwide from 2013 to 2016.

Stricter rules on distributions from public plans fosters higher sales of private plans

Meanwhile, Ministry of Finance, Ministry of Health, and Human Resources & Social Security Department jointly proposed a tighter control on medicare distributions to medical institutions in Dec 2012. This may induce the public to increase their medicare care coverage from private plans. As observed in 2012, private health insurance was heavily promoted nationwide. In 11M12, health premiums increased to Rmb63.5bn, up 25.0% YoY. Such growth far exceeded that of 1.8% YoY of normal life premiums during the same period. In 2013, we expect the medicare reform to continue fueling the health premium growth in China. We view the playing out of medicare reform a major policy dividend for China insurance in 2013.

‘Sannong’ policy opening up new product opportunities

Expanding product lines in Agricultural insurance

The national policy of ‘Sannong’, the acronym in Chinese for “agricultural, county areas and farmers”, was advocated in the 12th Five Year Plan in 2011. In 2010, Agriculture insurance premiums grew 18.6x from Rmb730mn to Rmb13.6bn in China. In 2011, its premiums grew by 28% YoY to Rmb17.4bn. Such growth rate exceeded the P&C industry premium growth of 18.7% YoY in the same year. At present, Agriculture premiums contributed to merely 3.6% of total P&C premiums. Other than the traditional products, such as crop-yield and vaccine protection, CIRC has requested the P&C insurers to expand their product coverage. New products such as property insurance in rural areas, liability insurance for rural enterprises and insurance on fishing vessels are expected to be developed and launched in 2013. These will provide new product opportunities to national P&C insurers. Currently, still half of the population is living in the rural areas of China. As a result, we believe ‘Sannong’ policy will pose lucrative policy dividends to P&C insurers from 2013 onwards.



Surrenders not an issue

Surrender rates declining over past four years, Life EV not sensitive to surrender assumptions

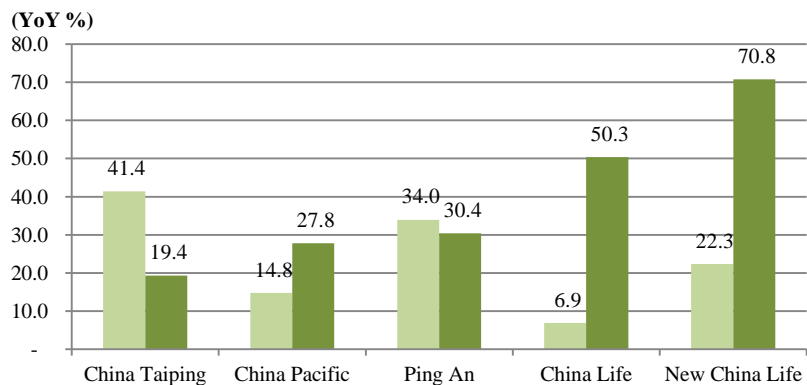
Notwithstanding the positive trends in the insurance industry, investors have been concerned with the potential surrenders for life insurers in 2013. Life insurers sold a vast number of five year participating / universal life policies in 2007 and 2008. According to Hexun, policy premium amounted to Rmb100bn is deemed to mature for life industry in mid-2013. Rmb50bn of which came from the participating policies sold in 2007 and 2008. In our opinion, we do not regard surrenders a major issue to the sector. Firstly, surrender rates have in fact been declining over the past few years for major life insurers. More importantly, EVs of life insurers are not sensitive to change of surrender assumptions, per 2011 disclosure. Therefore, in our view, surrenders will not falter the recovery of life insurers in 2013.

In fact, surrenders rates are declining

Industry expecting Rmb50mn participating premiums to mature in 2013

In 2007 and 2008, life insurers enjoyed a fast growth in total life premiums, mainly due to the robust sales of participating products. This was mainly due to the contemporarily attractive returns from the equity markets. In 2007, Shanghai Composite Index rose from 2,715 pts in early Jan to its peak of 6,030 pts in Oct. Nevertheless, dividend rate of participating products declined rapidly since then. Such trend has led to discontent of policyholders nationwide. In 2007, the growth of life premiums ranged from 6.9% to 41.4% YoY for individual life insurers. The industry premium growth was 21.9% YoY. In 2008, the growth ranged from 19.4% to 70.8% YoY for life insurers. The industry premium growth was 48.3% YoY. Per Hexun, there would be approximately Rmb50mn participating premiums coming due in 2013.

CH INS: total life premiums growth (2007 - 08)



Source: Company data, CIRC, ABCI Securities

Despite earlier waves of surrender, surrender rates continue to decline for major life insurers since 2009

Nevertheless, we are not concerned with the surrender issue. According to our analysis, surrender rates of major life insurers have in fact been declining since 2009. For instance, China Life reported surrender rate of 2.08% in 9M12, lower than that in 2011, 2010 and 2009. Participating products were gradually becoming popular in China since 2005. Therefore, there were earlier waves of surrender from 2009 onwards. In 2007, other than five year participating products, three year products were also sold in a vast amount. In 2011, three years after 2007, China Life merely reported a surrender rate of 2.79%, 48bps higher than that in 2010. Therefore, we do not regard the prospective negative impact a significant one in 2013. Referring to history, we expect China Life to report a surrender rate of 2.8% or below this year.

CH INS: surrender rates (2009 – 9M12)

(%)	2009	2010	2011	1H12	9M12	Rel to 2011	Rel to 2010	Rel to 2009
China Life	2.54	2.31	2.79	1.38	2.08	lower	lower	lower
Ping An Life	1.38	0.93	0.95	0.52		lower	lower	lower
New China Life			4.20		4.00	lower		

Source: Company data, ABCI Securities Note: surrender rate figures not available for China Pacific and China Taiping

Life EV insensitive to Surrenders

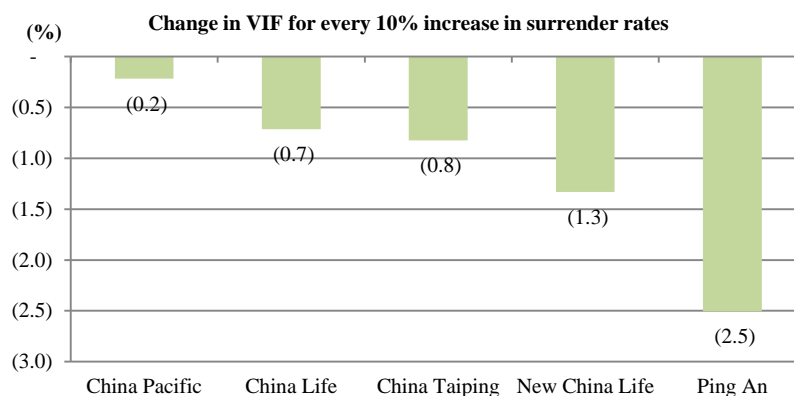
Every 10% increase in surrender rates leading to 0.2 – 2.5% decrease in Life VIFs

Far less sensitive to EV than other actuarial assumptions, such as investment return

Life EV is not sensitive to change of surrender assumptions, per 2011 company disclosure. This is another reason to disregard surrender as a major issue to the sector. For every 10% increase in surrender rates, listed life insurers will suffer from a 0.2 to 2.5% decline in value-in-force (VIF). VIF contributed to approximately 50-60% of EVs for listed life insurers. The impact of surrenders is minimal for China Life, China Pacific and China Taiping. Such impact may deem a bit more significant to Ping An and New China Life.

We take China Life as an example. If China Life's surrender rate will go up to 2.8% in 2013, from 2.08% in 9M12, surrender rates increase at an increment of 34.6%. Accordingly, China Life's VIF will decline by 2.4%. Per our 2013E EV estimates, China Life's EV will drop by 1.4%. Relatively, China Life's EV is not sensitive to surrenders, as compared to other actuarial assumptions, such as investment return. For example, every 10% decrease in equity investment values will lead to 5.4% decrease in China Life's EV, per 2011 company disclosure.

CH INS: Life value-in-force (VIF) sensitivity to surrender rates (2011)



Source: Company data, ABCI Securities



A-share market rally rejuvenating the sector

Big outperformance of China Insurance against HSI, aligning with the recent A-share market rebound

CSI 300 still trading at a much cheaper valuation than the average from 2009 to 2012

While we identified other positive trends for the sector, we admit that the sharp rebound of A-share markets is the key driver of the recent outperformance of China Insurance. CSI 300 Index hit its year low at 2,109 pts on 3 Dec 2012. Since then the index rebounded by 17.7% to 2,483 pts. Simultaneously, China Insurance recorded huge outperformance against Hang Seng Index. The sector went up 22.3% during the same period. The biggest three listed insurers by Market Cap rose by 19.0%. This surpassed 6.9% increase of Hang Seng Index. Projecting forward, we remain bullish on the A-share markets. CSI 300 is currently trading at 12.5x forward PER and 1.8x forward PBV, which is still far below the average trading valuation of 16.6x and 2.5x from 2009 to 2012. Also, ABCI forecasts China to report real GDP growth of 8.1% in 2013, compared to 7.8% in 2012. That said, 2013 is the year of recovery for the China economy. As a result, we forecast a continuous recovery of A-share market for the rest of year. This will in turn lead to a windfall of equity gains for Chinese insurers.

Bullish outlook of A-share markets

ABCI forecasts a 8.1% GDP growth in 2013 (7.8% in 2012)

2013 similar to 2009, CSI 300 rose 96.7% in 2009

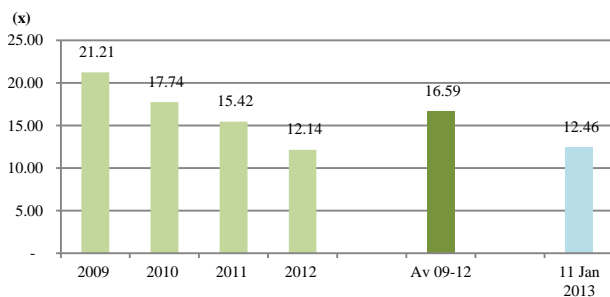
CSI 300 currently trading far below historical average

In accord to Banny Lam, ABCI's chief strategist, 2013 will be marked by China's new leadership with policy initiatives aiming at 'Four New Modernizations' of China's economy. Improving economic indicators has supported a turnaround in the oversold A-share markets in 4Q12 and investors would likely increase their optimism on the pace of the China's economic recovery in 2013. ABCI expects China's economic growth at 8.1% in 2013, compared to 7.8% in 2012.

Attractive stock valuations in A-share markets, loosening monetary environment, positive economic outlook and recovery of corporate earnings will drive the flow of domestic liquidity back to the China equity markets. As mentioned, 2013 is the year of recovery for China economy. In our opinion, this is similar to the year of 2009, when real GDP growth recovered from 6.8% in 4Q08 and 6.2% in 1Q09, to 7.9% in 2Q09 and 9.1% in 3Q09. During the year, CSI 300 rose 96.7% from 1,818pts to 3,576pts. The average valuation of CSI 300 was at 21.2x forward PER and 3.0x forward PBV in 2009.

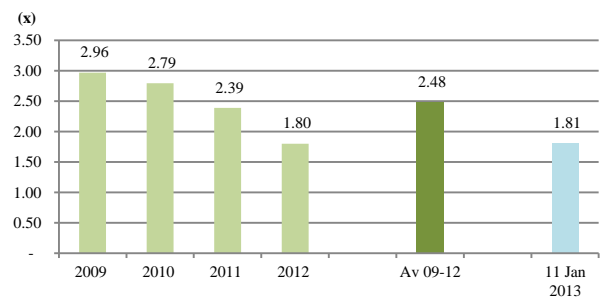
Currently, CSI 300 trades at 12.5x PER and 1.8x PBV, despite its sharp rebound since early Dec 2012. From 2009 to 2012, the average trading valuation was 16.6x forward PER and 2.5x forward PBV. As a result, A-share markets are still trading at a valuation far below historical average. Therefore, this will pose an ample upside for a mean reversion of CSI 300 in 2013.

CSI 300: average trading PER (2009 – 2012)



Source: Bloomberg, ABCI Securities

CSI 300: average trading PBR (2009 – 2012)



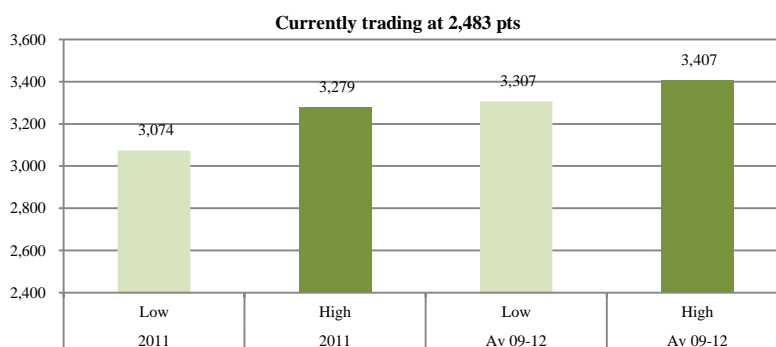
Source: Bloomberg, ABCI Securities



CSI 300 could reach 3,074 or above, if applying 2011 valuations

While ABCI does not maintain a year-end trading target for A-share markets in 2013, we believe CSI 300 could trade up to 3,074 or above by year-end. We applied the average trading valuations of 2011, the starting year of recent economic slowdown in China, to reach such a conclusion. Based on the average PER of 15.4x, CSI 300 will reach 3,074pts, representing a 23.8% upside from now. By the same token, based on the average PBV of 2.4, CSI 300 will reach 3,279pts, representing a 32.1% upside from now. Should we apply the average trading valuation of 2009-12, A-share markets will bear an even-bigger upside potential. To sum, we are very bullish on the A-share market outlook in the year of 2013.

CSI 300: implied 2013 targets from trading valuations of 2011 & Av 09-12



Source: Bloomberg, ABCI Securities

Lucrative prospects for mark-to-market performance

Forecasting an average equity gain up to 5% of EV in 2013

As mentioned, CSI 300 rose by 17.7% since 3 Dec 2012. Based on our analysis, valuation gains on equities reached 8.1% to 10.6% of 1H12 EVs for listed life insurers during the same period. **In 2013, we conservatively assume a 10% upside for the A-share markets.** Accordingly, we forecast listed life insurers to report an average equity gain up to 5% of EV in 2013. Therefore, we highly regard the prospects of mark-to-market performance of listed insurers for the rest of year.

CH INS: EV & Book Value sensitivities to CSI 300 (4Q12 / since A-share market low on 3 Dec 2012)

(Rmb mn, HK\$ mn for China Taiping)	China Life	Ping An	China Pacific	New China Life	China Taiping
	3Q12	3Q12	3Q12	3Q12	1H12
Total Investments	1,694,304	1,085,419	586,610	453,725	90,983
% of Equity Inv't	9.9	12.2	10.6	7.4	10.3
Total Equity Inv't	167,736	132,445	62,354	33,456	9,340
Valuation Gains on Equities (4Q12, based on CSI 300)	13,890	10,968	5,163	2,770	773
Valuation Gains on Equities (Since low on 3 Dec 12, based on CSI 300)	29,760	23,498	11,063	5,936	1,657
1H12 Embedded Value	334,326	259,005	121,833	56,149	20,505
Equity gains as % in 4Q12	4.2	4.2	4.2	4.9	3.8
Equity gains as % since low on 3 Dec 12	8.9	9.1	9.1	10.6	8.1
2012E Embedded Value	354,986	291,869	137,645	60,638	21,072
Equity gains as % in 4Q12	3.9	3.8	3.8	4.6	3.7
Equity gains as % since low on 3 Dec 12	8.4	8.1	8.0	9.8	7.9
2012E Book Value	211,926	152,370	99,142	37,420	17,905
Equity gains as % in 4Q12	6.6	7.2	5.2	7.4	4.3
Equity gains as % since low on 3 Dec 12	14.0	15.4	11.2	15.9	9.3

Source: Company data, ABCI Securities



CH INS: Mark-to-market gain / loss in P&L (2009- 1H12)

<u>(Rmb mn)</u>	2009	2010	2011	1H12
China Life	22,693	16,121	(10,871)	(12,937)
Ping An Group	12,947	5,111	(5,020)	(6,153)
China Pacific	6,582	3,623	(4,807)	(4,594)
New China Life	1,407	1,245	(905)	(1,869)
Taiping Life	906	901	(482)	(1,134)
<u>(% of av. inv't assets)</u>	2009	2010	2011	1H12
China Life	2.15	1.29	(0.77)	(1.64)
Ping An Group	2.46	0.76	(0.62)	(1.33)
China Pacific	2.01	0.91	(1.01)	(1.66)
New China Life	0.80	0.51	(0.27)	(0.45)
Taiping Life	1.31	0.92	(0.36)	(1.41)

Source: Company data, ABCI Securities

CH INS: Equity / bond market performance (2009- 2H12)

<u>(Period end closing)</u>	2009	2010	2011	1H12	2H12
Shanghai Composite Index	3,277	2,808	2,199	2,225	2,269
CSI 300 Index	3,576	3,128	2,346	2,462	2,523
5 yr Gov't Bond Yield	2.99	3.58	3.08	2.83	3.22
2 yr Gov't Bond Yield	1.65	3.40	2.86	2.37	3.10
<u>(% YoY)</u>	2009	2010	2011	1H12	2H12
Shanghai Composite Index	79.98	(14.31)	(21.68)	1.18	1.96
CSI 300 Index	96.71	(12.51)	(25.01)	4.94	2.49
5 yr Gov't Bond Price	(5.03)	(2.47)	2.10	1.05	(1.63)
2 yr Gov't Bond Price	(0.69)	(3.19)	0.98	0.89	(1.33)

Source: Bloomberg, ABCI Securities

Better estimates on EV and Investment Yields

EV estimates revised up by 2.6% - 5.0% for 2013

In view of the improving A-share market sentiment, we upgrade our EV estimates for listed life insurers for 2012 and 2013. We revised up our 2013E EV estimates by 2.6% to 5.0% for the listed insurers, with a conservative assumption of a 10% increase in CSI 300 during the year. On the other hand, in view of the year-end rally of A-share markets in 2012, we adjusted our 2012E EV estimates up by 0.2% to 1.9%.

CH INS: revised EV estimates (2012-13E)

<u>(Rmb mn)</u> <u>(HK\$ mn for Taiping)</u>	New 2012E	Old 2012E	Chg	New 2013E	Old 2013E	Chg
China Life	354,986	348,533	1.9%	408,888	389,743	4.9%
Ping An	291,869	286,986	1.7%	336,595	323,842	3.9%
China Pacific	137,645	136,341	1.0%	156,715	152,780	2.6%
New China Life	60,638	60,536	0.2%	72,383	68,933	5.0%
China Taiping	21,072	20,725	1.7%	24,844	23,941	3.8%

Source: Company data, ABCI Securities

EV growth adjusted upward to 15.2% - 19.4% YoY for 2013

Based on our new EV estimates, EV will rise by 15.2% to 19.4% for listed life insurers in 2013. This is compared to the EV growth of 11.8% to 15.5% per our old EV estimates.

CH INS: revised EV growth YoY (2013E)

<u>(%)</u>	New	Old
China Life	15.2	11.8
Ping An	15.3	12.8
China Pacific	13.9	12.1
New China Life	19.4	13.9
China Taiping	17.9	15.5

Source: Company data, ABCI Securities

Gross investment yield assumed at 4.49% (4.15% previously) in 2013

Factoring a 10% increase in A-share markets, we revised our assumptions on gross investment yields in 2013. We upgraded our gross investment yield assumptions to an average of 4.49% for the sector. This is compared to 4.15% in our previous forecast. Per our latest estimates, gross investment yields of listed life insurers will range from 4.1% to 4.8%. This is higher than the range of 3.9% to 4.5% in our previous forecast.



CH INS: Net investment yields

(%)	2009	2010	2011	1H12	2012E	2013E
China Life	3.69	3.90	4.28	4.48	4.48	4.31
Ping An Group	3.90	4.20	4.50	4.50	4.26	4.25
China Pacific	4.10	4.26	4.70	4.90	4.20	4.43
New China Life		3.80	4.10	4.40	4.27	4.18
Taiping Life	3.74	3.64	3.76	3.95	3.98	3.97
Average	3.86	3.96	4.27	4.45	4.24	4.23

Source: Company data, ABCI Securities

CH INS: Gross investment yields

(%)	2009	2010	2011	1H12	2012E	2013E
China Life	5.84	5.18	3.51	2.83	3.48	4.55
Ping An Group	6.40	4.90	4.00	3.70	3.49	4.79
China Pacific	5.00	5.17	3.70	3.90	3.64	4.62
New China Life		4.30	3.80	3.60	3.87	4.43
Taiping Life	5.05	4.56	3.40	3.60	3.28	4.08
Average	5.57	4.82	3.68	3.53	3.55	4.49

Source: Company data, ABCI Securities

Valuation & Trading: an outperforming sector in 2013

Expect China Insurance to sustain its outperformance, based on a 21.6% average upside for the sector

In our view, China Insurance will continue to outperform the market in 2013. Beyond the A-share market rally, the industry is enjoying a turnaround in premium growth and several policy dividends. The investors' concern on surrenders may not be a valid one, as per our analysis. More importantly, the sector is trading at an average valuation of 1.25x 2013E PEV. This is far lower than the historical average of 2.20x since 2004. Based on our estimates, the sector will average an EVPS growth of 20.8% YoY in 2012E & 2013E. As such, we derive the fair sector valuation at 1.52x 2013E PEV. This represents an average upside of 13.8% from now. Also, this is compared to a 7.5% upside for HSI and a 8.1% upside for HSCEI, based on ABCI's 2013 targets of 25,000pts for HSI, and 12,800pts for HSCEI.

CH INS: Sector Gordon Growth Model & Fair Valuation in PEV

Industry Average Return on EV / EVPS Growth	18.8%	19.8%	20.8%	21.8%	22.8%
Long term dividend payout ratio (k)	80.0%				
Market risk free rate (Rf)	3.5%				
Market risk premium (Rm)	11.3%				
Stock beta (B)	1.02				
Cost of Equity (CoE= Rf + Rm * B)	15.1%				
Long term sustainable growth (g)	4.2%				
Discount rate (CoEV - g)	11.0%				
Fair PEV: (ROEV * k) / (CoEV - g)	1.37x	1.44x	1.52x	1.59x	1.66x

Source: Bloomberg, Company data, ABCI Securities

Upgrade target prices for more bullish assumptions

Higher TPs due to upwardly revised APE growth and investment return assumptions

We revised up our target prices of Chinese insurers as per the following valuation summary. We adjusted up our TPs by 18% to 38% for listed insurers, to reflect the faster-than-expected turnaround in Life underwriting, sharper-than-expected A-share market rally, and better-than-expected recovery in sector valuation. Accordingly, we applied new assumptions on APE growth and gross investment yields in 2013. Our newly assumed APE growth ranges from 5% to 10% YoY for listed insurers in 2013. This is higher than the previous range of 2% to 7% YoY. Our newly assumed gross investment yields averaged 4.49%, compared to the previous assumptions of 4.15%, in 2013. As a result, we derive our latest EVPS estimates, which are 3.9 – 6.4% higher than our previous estimates for 2013. Our latest VNB estimates are 1.5% to 12.8% higher than our previous estimates.

Our new target prices imply over 15% absolute upside for China Life, China Pacific & China Taiping

According to our latest target prices, there is still over 15% absolute upside for China Life and China Pacific. China Life is trading at 1.42x 2013E PEV. We consider it fair, given its position as an anchor index stock and sharp turnaround in life underwriting during the year of 2012. China Pacific is trading at 1.42x 2013E PEV, which we render attractive given its double growth engines of Life & P&C. China Taiping, which we also recommend BUY, is trading cheaply at 1.07x 2013E PEV. Towards end-2012, Taiping Life regained much ground in the Life business, with a new saving product launch. More importantly, we expect its reinsurance and P&C arms recorded significant improvement in 2H12 and 1H13. Its trading valuation is far below its historical average. We expect a continuous outperformance of China Taiping in 1H13. Therefore, we consider the stock trading at an attractive



valuation at present. We have BUY recommendations on these three stocks. Our top picks are China Life and China Pacific.

Ping An a structural underperformer, New China Life not delivering at all till late 2012

On the other hand, we are less optimistic on Ping An and New China Life. Ping An is trading at 1.24x 2013E PEV. In our view, the company is a structural underperformer, dragged by Banking and Trust. More importantly, its Life operations could be cannibalized by peers, in respect to long term regular premium and critical illness products. Therefore, we have a SELL recommendation on Ping An. New China Life is trading at a low valuation of 1.07x 2013E PEV. Nevertheless, the company failed to deliver up to market expectation on product restructuring and NBM improvement in 1H12. Besides, its premium growth continued to decelerate till Nov 2012. Hence we are not convinced of its prospects and have a HOLD recommendation on the stock, in spite of its cheap valuation.

CH INS: Sector valuation summary

Name	China Life			Ping An			China Pacific			New China Life			China Taiping		
Stock code	2628.hk			2318.hk			2601.hk			1336.hk			966.hk		
Share Price (HK\$)	26.00			66.95			31.10			31.45			15.58		
ABCI Rec.	BUY			SELL			BUY			HOL			BUY		
Target Price (HK\$)	31.89			68.46			36.46			34.30			18.36		
Previous TP (HK\$)	26.45			58.04			27.93			24.85			13.42		
TP % Chg	20.56			17.96			30.53			38.03			36.81		
Upside / Downside (%)	22.65			2.26			17.23			9.06			17.84		
	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E
EVPS (HK\$)	12.61	15.62	18.32	36.24	45.87	53.84	16.08	19.39	21.90	19.14	24.18	29.38	9.96	12.29	14.49
YoY Growth (%)	0.37	23.85	17.25	15.65	26.56	17.40	5.39	20.60	12.94	(31.39)	26.34	21.51	7.78	23.41	17.90
VNB (HK\$)	0.87	0.92	1.00	2.67	2.48	2.51	0.93	0.98	1.06	1.70	1.74	1.82	0.69	0.72	0.78
YoY Growth (%)	4.02	5.48	9.03	10.33	(7.05)	1.11	12.45	5.14	7.67	(63.83)	1.89	4.61	28.22	4.41	8.17
NBM (APE basis - %)	33.86	38.00	37.00	40.67	37.00	35.00	34.19	37.50	37.00	22.37	23.50	23.00	27.87	30.00	29.50
Gross Inv't Yield (%)	3.52	3.48	4.55	3.59	3.49	4.79	3.43	3.64	4.62	3.83	3.87	4.43	3.42	3.50	4.17
APE Growth (%)	(9.58)	(8.00)	10.00	(2.88)	0.00	5.00	(6.29)	(2.00)	10.00	(22.97)	(5.00)	5.00	(19.00)	(3.00)	10.00
PEV (x)	2.06	1.66	1.42	1.85	1.46	1.24	1.93	1.60	1.42	1.64	1.30	1.07	1.56	1.27	1.07
VNB (x)	15.38	11.31	7.68	11.51	8.50	5.23	12.44	8.21	4.91	7.23	4.19	1.14	8.16	4.57	1.39
PER (x)	32.93	45.14	18.01	22.35	16.13	11.97	26.43	31.47	26.08	20.79	21.81	16.93	53.76	19.06	14.81
PBV (x)	2.53	2.24	2.00	2.54	2.10	1.79	3.43	2.84	2.70	2.57	2.11	1.82	2.34	1.49	1.29
Change in assumptions:															
EVPS (HK\$) - %		2.99	6.26		2.86	5.29		2.10	3.94		1.29	6.37		1.69	3.76
VNB (HK\$) - %		3.12	8.76		1.20	1.49		5.62	7.91		(5.18)	(0.81)		2.75	12.75
NBM (APE basis - ppt)			0.00			0.00			0.00			(0.50)			0.50
Gross Inv't Yield (bps)			23.87			74.98			10.02			52.86			8.46
APE Growth (ppt)			5.00			0.00			3.00			0.00			8.00

Source: Bloomberg, Company data, ABCI Securities

Sector outperformance since the start of QE4

China Insurance outperformed MSCI China and HSI by big margins since early Sep, when NDRC announced new project investments in China and just before the launch of Quantitative Easing 4 by Federal Reserve in US. The past three months earmarked the sharp inflow of liquidity to the Hong Kong / China stock markets. The sector outperformed the relevant benchmarks the most since A-share market picking-up speed in Dec 2012. The biggest outperformer in the sector was China Taiping, up 47.5%, followed by 44.9% up by New China Life. In 2013, we expect the sector to sustain its outperformance against the two benchmarks. In our view, the sector will benefit from the revival of insurance underwriting, gradual kick-in of policy dividends and valuation recovery of A-share markets in the coming 12 months.

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Insurance**CH INS: Share Price Performance against benchmarks**

Company	Stock code	Current (HK\$)	13-Aug	24-Jul	5-Jun	29-Feb	25-Nov	4-Oct
China Life	2628.hk	26.00	20.85	20.85	17.08	24.20	19.34	17.24
Ping An	2318.hk	66.95	55.10	59.25	53.90	67.85	52.00	38.65
China Pacific	2601.hk	31.10	22.85	24.90	21.65	27.95	21.70	20.15
New China Life	1336.hk	31.45	21.70	23.95	29.40	34.20	25.65	-
China Taiping	966.hk	15.58	10.56	11.40	11.70	18.12	14.50	13.90
Hang Seng Index	HSI	23,264	19,145	18,877	18,185	21,680	17,682	16,250
MSCI China	MXCN	65.22	54.90	52.04	51.67	62.48	50.89	44.74

Company			From Sep 5 Low	From Jul 12 Low	From Jun 12 Low	From Feb 12 High	From Nov 11 Low	From Oct 11 Low
China Life	Versus MXCN	Versus HSI	24.7%	24.7%	52.2%	7.4%	34.4%	50.8%
Ping An	Outperform	Underperform	21.5%	13.0%	24.2%	-1.3%	28.8%	73.2%
China Pacific	Outperform	Outperform	36.1%	24.9%	43.6%	11.3%	43.3%	54.3%
New China Life	Outperform	Outperform	44.9%	31.3%	7.0%	-8.0%	22.6%	
China Taiping	Outperform	Outperform	47.5%	36.7%	33.2%	-14.0%	7.4%	12.1%
Sector simple av.	Outperform	Outperform	35.0%	29.1%	34.9%	0.8%	26.0%	48.7%
Big three av.	Outperform	Outperform	27.4%	20.9%	40.0%	5.8%	35.5%	59.5%
Hang Seng Index			21.5%	23.2%	27.9%	7.3%	31.6%	43.2%
MSCI China			18.8%	25.3%	26.2%	4.4%	28.2%	45.8%

Source: Bloomberg, Company data, ABCI Securities



Recommendations: upgrade TP on better estimates

We maintain our Overweight rating on China Insurance based on higher target prices and estimates for the listed insurers. Our top picks are China Life and China Pacific. Our top sell is Ping An. On the other hand, we recommend BUY on China Taiping and HOLD on New China Life.

China Life (2628.hk) – Continuous recovery of a giant

(BUY, TP: HK\$31.89 <HK\$26.45 previously>)

China Life marched down the road of recovery till end-2012, with a reversal of its premium downtrend. Also we expect the insurer to maintain high margins due to the robust sales of its new critical illness product. Furthermore, its EV is the most sensitive to A-share market recovery. Accordingly, we maintain our BUY rating on China Life and upgrade our TP to HK\$31.89 (HK\$26.45 previously).

China Pacific (2601.hk) – Most balanced player

(BUY, TP: HK\$36.46 <HK\$27.93 previously>)

We regard China Pacific the most balanced listed insurer in the market. Its Life VNB enjoyed a faster-than-peers turnaround towards end-2012. Its P&C premiums regained growth momentum, after a sloppy 1H12. Meanwhile, Changjiang Pension is set to benefit from tax deferred pension products piloted in Shanghai. Based on these, we maintain our BUY rating on China Pacific and upgrade our target price to HK\$36.46 (HK\$27.93 previously).

Ping An (2318.hk) – An structural underperformer

(SELL, TP: HK\$68.46 <HK\$58.04 previously>)

We regard Ping An as a structural underperformer in 2013. Its existing Life products are not as competitive as those of peers. Besides, the group will be dragged by a weak banking franchise and risky trust business. Therefore, we maintain our SELL recommendation on Ping An. But we upgraded our target price to HK\$68.46 (HK\$58.04 previously) for better investment assumptions.

China Taiping (966.hk) – Déjà vu of a growth story

(BUY, TP: HK\$18.36 <HK\$13.42 previously>)

China Taiping re-emerged to be a growth stock in the sector. Its Life premium growth topped the sector at 14.2% YoY towards end-2012. Also, its Reinsurance and P&C units are set for a strong rebound from previous losses in 2013. The stock trades at only 1.07x 2013E PEV, well below 1.25x of sector average. As such, we maintain BUY on China Taiping and upgrade its TP to HK\$18.36 (HK\$13.42 previously).

New China Life (1366.hk) – Rallying on A-share market rebound

(HOLD, TP: HK\$34.30 <HK\$24.85 previously>)

Recently, New China Life outperformed its peers and benchmark indices, only due to its big EV increment led by A-share market rebound. The company is the only insurer reporting decelerating premium growth towards end-2012. Also, it reported the lowest NBM among peers in 1H12. Other than being cheap, we see minimal merits for the insurer. Based on these, we maintain HOLD on New China Life. Meanwhile we upgrade its TP to HK\$34.30 (HK\$24.85 previously) due to better investment assumptions.



Company Report

China Life (2628 HK) – Buy

Life & Health Insurance Industry

2013E TP: HK\$31.89 (from HK\$26.45 previously)

Key data

H-share price (HK\$)	26.00
Target price (HK\$)	31.89
Upside potential (%)	22.70
52Wk H/L(HK\$)	27.25/ 17.0
Issued shares:	
H-shares (mn)	7,441
A-shares (mn)	20,823
H-share mkt cap (HK\$m)	733,055
30-day avg vol (HK\$m)	772.6
Major shareholders (%):	
China Life Group	68.4
JPMorgan Chase	4.9

Source: Company & Bloomberg

Revenue breakdown in 2011 (%)

Net earned premiums (NEP)	85.8
Investment income	13.4
Other income	0.8

*Based on 2011 results

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	10.4	5.0
3-mth	11.8	(1.6)
6-mth	25.6	1.1

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 14 January 2013

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Continuous recovery of a giant

China Life marched down the road of recovery till end-2012, with a reversal of its premium downtrend. Also we expect the insurer to maintain high margins due to the robust sales of its new critical illness product. Furthermore, its EV is the most sensitive to A-share market recovery. Accordingly, we maintain our BUY rating on China Life and upgrade our TP to HK\$31.89 (HK\$26.45 previously).

Continuous recovery in underwriting. China Life ceased the downtrend of premiums towards year-end. Its premium growth remained flattish YoY in 11M12, compared to the year low of a 8.6% YoY decline. On the other hand, its new critical illness product 'Kang Ning CI' continued its good performance. In our opinion, this will lead to further margin expansion for China Life in 2013. Per our estimates, China Life will enjoy a NBM of 37% and VNB growth of 9.0% YoY in this year.

EV sensitive to investment upturn. 10% change in equity values will lead to 5.4% change in China Life's EV in 1H12. This is high compared to major peers. With our bullish outlook on A-share markets, we expect China Life to report a gross yield of 4.55% in 2013 (3.48% in 2012).

Anchor index stock. China Life is an anchor index stock in MSCI China and Hang Seng Index. With a continuous fund inflow to Hong Kong stock market, China Life will be the key beneficiary.

Maintain BUY; upgrade TP to HK\$31.89. We derive an appraisal value of Rmb711,768 mn for 2013E, also adopting it as TP, or HK\$31.89/ share (previously HK\$26.45). The implied valuation of our TP is 1.74x 2013E PEV and 13.6x 2013E VNB. This represents 22.7% upside potential from the current share price. As such, we maintain our BUY recommendation on China Life, and render it as our top pick in the sector.

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)	385,838	370,899	370,381	425,107	460,936
Chg (YoY)	13.7	(3.9)	(0.1)	14.8	8.4
Net profit (Rmb mn)	33,626	18,331	13,088	32,220	36,286
Chg (YoY)	2.3	(45.5)	(28.6)	146.2	12.6
EPS (HK\$)	1.42	0.79	0.58	1.44	1.65
PER (x)	15.8	28.4	45.1	18.0	15.7
BPS (HK\$)	8.8	8.3	9.3	10.5	11.8
P/B (x)	2.5	2.7	2.8	2.5	2.2
EVPS (HK\$)	12.6	12.6	15.6	18.3	21.6
PEV (x)	1.8	1.8	1.7	1.4	1.2
VNB (HK\$)	0.8	0.9	0.9	1.0	1.1
VNB (x)	11.8	11.2	11.3	7.7	4.1

Source: Company data, ABCI Securities estimates



China Life: 1H12 profit & loss

	2009	2010	2011	1H10	2H10	1H11	2H11	1H12	HoH	YoY
	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	Chg (%)	Chg (%)
GWP & Policy fees	275,970	318,229	318,252	183,614	134,615	195,490	122,762	185,438	51.1	(5.1)
(-) Premiums to Reinsurers	158	177	232	90	87	124	108	151	39.8	21.8
NWP & Policy fees	275,812	318,052	318,020	183,524	134,528	195,366	122,654	185,287	51.1	(5.2)
Chg. in Unearned Premium Res.	735	(36)	256	(65)	29	517	(261)	548	(310.0)	6.0
NEP & policy fees	275,077	318,088	318,276	183,589	134,499	194,849	123,427	184,739	49.7	(5.2)
Investment income	61,583	64,993	49,851	30,612	34,381	31,315	18,536	22,366	20.7	(28.6)
Other income	2,630	2,757	2,772	1,190	1,567	1,302	1,470	1,495	1.7	14.8
Total revenue	339,290	385,838	370,899	215,391	170,447	227,466	143,433	208,600	45.4	(8.3)
Claims, Surrenders, Annuities /										
Maturities	(99,295)	(95,151)	(111,169)	(48,029)	(47,122)	(70,044)	(41,125)	(71,648)	74.2	2.3
Div. & Int. to PH & Net Inc. in PH Res.	(154,372)	(199,655)	(187,704)	(122,543)	(77,112)	(117,091)	(70,613)	(100,229)	41.9	(14.4)
Ttl. Claims / PH Benefits	(253,667)	(294,806)	(298,873)	(170,572)	(124,234)	(187,135)	(111,738)	(171,877)	53.8	(8.2)
U/W & Policy Acq. Expense	(22,936)	(27,256)	(27,434)	(13,962)	(13,294)	(15,343)	(12,091)	(14,569)	20.5	(5.0)
General & Administrative Expense	(18,719)	(20,285)	(21,549)	(8,405)	(11,880)	(9,030)	(12,519)	(9,813)	(21.6)	8.7
Other Expense	(2,927)	(4,254)	(4,743)	(1,919)	(2,335)	(2,200)	(2,543)	(2,850)	12.1	29.5
Total Expenses	(44,582)	(51,795)	(53,726)	(24,286)	(27,509)	(26,573)	(27,153)	(27,232)	0.3	2.5
Net profit before Tax	41,041	39,237	18,300	20,533	18,704	13,758	4,542	9,491	109.0	(31.0)
Associate / JV - Profits / Losses	704	1,771	2,213	1,070	701	1,169	1,044	1,521	45.7	30.1
Tax Expense	(8,709)	(7,197)	(2,022)	(3,488)	(3,709)	(1,853)	(169)	(1,271)	652.1	(31.4)
Net profit after Tax	33,036	33,811	18,491	18,115	15,696	13,074	5,417	9,741	79.8	(25.5)
Minority interest	(155)	(185)	(160)	(81)	(104)	(110)	(50)	(106)	112.0	(3.6)
NP to China Life Shareholders	32,881	33,626	18,331	18,034	15,592	12,964	5,367	9,635	79.5	(25.7)

Source: Company data, ABCI Securities

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

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
ANAV	136,286	110,266	125,829	144,655	137,661	159,948	24	8
VIF	232,639	215,608	202,352	183,008	167,352	149,387	8	15
Solvency Cost	(34,598)	(33,020)	(31,688)	(29,564)	(26,572)	(24,106)	5	9
EV	334,326	292,854	296,493	298,099	278,441	285,229	14	13
EVPS (HK\$)	14.55	12.67	12.77	12.57	11.23	11.50	15	14
APE	32,842	59,646	39,888	65,968	37,134	51,374	66	(18)
VNB	12,494	20,199	12,186	19,839	11,548	17,713	56	3
NBM (APE Basis %)	38.0	33.9	30.6	30.1	31.1	34.5	4.2	7.5
FYP	81,824	163,523	111,103	190,252	111,576	156,156	56	(26)
VNB	12,494	20,199	12,186	19,839	11,548	17,713	56	3
NBM (FYP Basis %)	15.3	12.4	11.0	10.4	10.3	11.3	2.9	4.3
VNB (HK\$)	0.54	0.87	0.52	0.84	0.47	0.71	56	4

Source: Company data, ABCI Securities

China Life: Investment & Yields

(%)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Cash Equivalents	5.3	3.7	5.5	3.6	3.6	3.1	1.6	(0.1)
Deposits	37.7	34.8	34.3	33.1	33.9	29.4	2.8	3.3
Bonds	42.4	44.6	43.2	45.5	48.5	49.7	(2.2)	(0.9)
Equities	9.9	12.1	13.4	14.7	11.2	15.3	(2.2)	(3.5)
Others	4.8	4.7	3.6	3.2	2.9	2.5	0.0	1.2
Total Inv'ts (RMB bn)	1,662	1,495	1,454	1,336	1,243	1,172	11	14
Net Investment Yield (%)	4.5	4.3	4.3	3.9	4.1	3.7	0.2	0.1
Total Investment Yield (%)	2.8	3.5	4.5	5.2	5.0	5.8	(0.7)	(1.7)

Source: Company data, ABCI Securities



China Life: Operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross premiums	185,438	318,252	195,490	318,088	183,614	275,970	51	(5)
Individual	176,499	302,012	186,858	302,753	175,520	261,715	53	(6)
Group	316	438	298	468	283	190	126	6
Short-term	8,623	15,802	8,334	14,867	7,811	14,065	15	3
FYP Regular	27,399	48,104	31,974	52,159	28,863	39,711	70	(14)
% of FYP Ind. Regular	76.1	68.1	70.1	70.2	72.0	74.6	8.0	6.0
# of agents	682,000	685,000	662,000	706,000	736,000	770,000	(0)	3
FYP Regular per agent (Rmb)	40,174	70,225	48,299	73,880	39,216	51,573	(43)	(17)
Individual FYP	72,885	147,286	102,472	174,808	103,486	142,960	(51)	(29)
Individual FYP per agent (Rmb)	106,870	215,016	154,792	247,603	140,606	185,662	(50)	(31)
Persistence 13 mo (%)	92.5	92.5	92.5	93.0	94.0	93.7	0.0	(0.0)
Solvency (%)	230.6	170.1	164.2	212.0	217.2	303.6	60.4	66.4

Source: Company data, ABCI Securities

China Life - share price & valuation

		2004	2005	2006	2007	2008	2009	2010	2011	2012E
Share Price (HK\$)	Hi	6.55	6.90	27.20	52.00	39.85	41.00	39.35	32.65	25.30
	Lo	3.85	4.85	7.05	19.26	16.70	19.90	29.70	17.24	17.06
	Av	4.99	5.61	12.92	31.97	28.08	30.64	34.32	24.95	20.81
PEV(X)	Hi	2.06 x	1.67 x	4.22 x	5.43 x	4.13 x	3.58 x	3.13 x	2.59 x	1.62 x
	Lo	1.21 x	1.17 x	1.09 x	2.01 x	1.73 x	1.74 x	2.36 x	1.37 x	1.09 x
	Av	1.57 x	1.36 x	2.01 x	3.34 x	2.91 x	2.67 x	2.73 x	1.98 x	1.33 x
EVPS YoY Growth (%)		30%	56%	49%	1%	19%	10%	0%	24%	
VNB(X)	Hi	14.67 x	10.21 x	55.99 x	92.84 x	54.03 x	41.54 x	32.02 x	23.03 x	10.54 x
	Lo	2.92 x	2.65 x	1.65 x	21.19 x	12.62 x	11.87 x	20.48 x	5.32 x	1.56 x
	Av	7.87 x	5.44 x	17.48 x	49.00 x	32.97 x	26.97 x	26.00 x	14.18 x	5.65 x
VNB YoY Growth (%)		18%	37%	23%	22%	27%	18%	4%	5%	

Source: Bloomberg, Company data, ABCI Securities



China Life: Embedded Value

(Rmb mn)	2009	2010	2011	2012E	2013E	1H12
Embedded value						
Adjusted net worth	159,948	144,655	110,266	131,853	165,256	136,286
Value of in-force	149,387	183,008	215,608	255,748	278,972	232,639
Cost of solvency margin	(24,106)	(29,564)	(33,020)	(32,614)	(35,340)	(34,598)
Embedded value	285,229	298,099	292,854	354,986	408,888	334,326
Vnb (long term)	17,713	19,839	20,199	20,852	22,334	12,494
Multiplier	10	9	9	14	14	
New business value (long term)	175,344	179,381	187,849	287,595	302,879	
Appraisal value	460,573	477,480	480,703	642,582	711,768	
EV movement analysis						
Opening embedded value	240,088	285,229	298,099	292,854	354,986	292,854
Expected return						
- SHF's	7,580	8,797	7,650	6,065	7,252	4,944
- In-force	13,519	16,433	20,131	23,717	28,132	9,234
Value of new business (VNB)	17,713	19,839	20,199	20,852	22,334	12,494
Inv't r var + Mkt val adj	15,307	(11,234)	(40,839)	15,000	8,000	19,429
Capital raising & dividends	(6,500)	(19,785)	(11,306)	(6,501)	(6,816)	(6,501)
OpEx var, model chg & others	(2,478)	(1,180)	(1,080)	3,000	(5,000)	1,872
Closing embedded value	285,229	298,099	292,854	354,986	408,888	334,326
EVPS (HK\$)	11.45	12.57	12.61	15.62	18.32	14.55
AVPS (HK\$)	18.49	20.13	20.71	28.28	31.89	
PEV implied	1.61	1.60	1.64	1.81	1.74	
VNB (HK\$)	0.71	0.84	0.87	0.92	1.00	
VNB implied (x)	9.90	9.04	9.30	13.79	13.56	
EV contributions 1 (%)						
Expected return on beg EV	9%	9%	9%	10%	10%	10%
IRV + MVA contribution to beg EV	6%	-4%	-14%	5%	2%	13%
VNB contribution to beg EV	7%	7%	7%	7%	6%	9%
VNB contribution to beg VIF	14%	13%	11%	10%	9%	
EVPS (HK\$) growth	19%	10%	0%	24%	17%	
EV contributions 2 (%)						
Beginning EV	84%	96%	102%	82%	87%	88%
Expected return						
- SHF's	3%	3%	3%	2%	2%	1%
- In-force	5%	6%	7%	7%	7%	3%
Inv't r var + mkt val adj	5%	-4%	-14%	4%	2%	6%
Value of new business (VNB)	6%	7%	7%	6%	5%	4%
Capital raising & dividends	-2%	-7%	-4%	-2%	-2%	-2%
OpEx var, model chg & others	-1%	0%	0%	1%	-1%	1%
Ending EV	100%	100%	100%	100%	100%	100%

Source: Company data, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Insurance

China Life Financial Statements

Profit & loss (Rmb mn)						Operating ratios (%)					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
GWP & policy fees	318,229	318,252	314,338	340,616	367,865	Gross written premium growth	15.3%	0.0%	-1.2%	8.4%	8.0%
(-) Premiums to reinsurers	177	232	280	443	478	Net earned premium growth	15.6%	0.1%	-2.3%	8.4%	8.0%
NWP & policy fees	318,052	318,020	314,058	340,173	367,387	Claims/benefits - of NEP	25.1%	34.3%	36.5%	31.5%	31.5%
Chg. in unearned premium res.	(36)	(256)	3,169	3,297	3,561	Div to PH & net inc. in PH res. of NEP	62.8%	57.1%	57.8%	60.5%	60.5%
NEP & policy fees	318,088	318,276	310,889	336,876	363,827	Ttl. claim/PH benefits to NEP	87.9%	91.3%	94.3%	92.0%	92.0%
Investment income	64,993	49,851	56,454	85,040	93,759	Claims/benefits - of total revenue	20.7%	29.4%	30.7%	25.0%	24.9%
Other income	2,757	2,772	3,039	3,190	3,350	Net inc. in PH res. - of total revenue	51.7%	49.0%	48.5%	47.9%	47.8%
Total revenue	385,838	370,899	370,381	425,107	460,936	Ttl. claim/PH benefits to total revenue	72.5%	78.4%	79.2%	72.9%	72.6%
Claims, surrenders, annuities/maturities	(95,151)	(117,294)	(120,846)	(124,644)	(134,616)	Commission cost ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Div. & int. to PH & net inc. in PH res.	(199,655)	(181,579)	(179,703)	(203,810)	(220,115)	General & admin. cost ratio	6.4%	6.8%	8.0%	6.8%	6.8%
Ttl. claims/PH benefits	(294,806)	(298,873)	(300,550)	(328,455)	(354,731)	Other exp. & stat. levy ratio	1.3%	1.5%	1.8%	1.6%	1.6%
Commission expenses	0	0	0	0	0	Operating expense ratio	7.7%	8.3%	9.8%	8.4%	8.4%
U/W & policy acq. expense	(27,256)	(27,434)	(26,553)	(30,640)	(33,092)	Gross investment yield	5.2%	3.5%	3.5%	4.5%	4.4%
General & administrative expense	(20,285)	(21,549)	(24,951)	(22,887)	(24,718)	Solvency ratio	212.0%	170.1%	211.7%	198.9%	189.8%
Other expense	(4,254)	(4,743)	(5,625)	(5,380)	(5,810)						
Total expenses	(51,795)	(53,726)	(57,130)	(58,907)	(63,620)						
Net profit before tax	39,237	18,300	12,702	37,745	42,585						
Associate/JV - Profits/losses	1,771	2,213	2,669	2,936	3,230	Balance sheet (Rmb mn)					
Tax expense	(7,197)	(2,022)	(2,143)	(8,136)	(9,163)		2010	2011	2012E	2013E	2014E
Net profit after tax	33,811	18,491	13,228	32,545	36,652	Cash	47,854	55,985	92,799	105,929	120,241
Minority interest	(185)	(160)	(141)	(325)	(367)	Investments	1,288,391	1,438,984	1,653,224	1,887,132	2,142,097
NP to China Life shareholders	33,626	18,331	13,088	32,220	36,286	Receivables	7,274	8,253	15,974	17,611	19,416
						Deferred acquisition costs	0	0	0	0	0
						Fixed assets	18,946	20,231	20,321	20,321	20,321
						Other assets	48,114	60,454	72,010	72,010	72,010
						Total assets	1,410,579	1,583,907	1,854,327	2,103,003	2,374,084
Financial summary						Policyholder benefits	1,070,963	1,245,741	1,426,145	1,645,115	1,881,602
	2010	2011	2012E	2013E	2014E	Policyholder deposits	70,171	69,797	68,051	71,420	75,059
EPS (HK\$)	1.42	0.79	0.58	1.44	1.65	Unearned premiums	1,880	3,719	5,363	8,660	12,221
<i>EPS growth (%)</i>	7.4%	-44.3%	-27.1%	150.6%	14.5%	Claim reserves	0	0	0	0	0
PER (x)	15.8	28.4	45.1	18.0	15.7	Payables	8,275	3,719	2,879	3,174	3,500
PBV (x)	2.55	2.72	2.79	2.49	2.20	Repo	22,660	13,000	42,529	42,529	42,529
PEV (x)	1.78	1.78	1.66	1.42	1.20	Borrowings	0	29,990	57,982	57,982	57,982
VNB multiple (x)	11.75	11.25	11.31	7.68	4.06	Statutory insurance fund	194	146	192	192	192
Dividend per share (HK\$)	0.48	0.28	0.30	0.30	0.30	Other liabilities	25,961	24,407	37,312	38,328	39,442
Yield (%)	2.9%	1.7%	1.8%	1.8%	1.8%	Total liabilities	1,200,104	1,390,519	1,640,454	1,867,401	2,112,526
Payout ratio (%)	33.6%	35.5%	52.1%	20.8%	18.2%	Net assets	210,475	193,388	213,873	235,602	261,558
Return on equity (%)	15.9%	9.1%	6.4%	14.3%	14.6%	Minority interests	1,765	1,858	1,948	2,273	2,640
Return on assets (%)	2.6%	1.2%	0.8%	1.6%	1.6%	Net equity to shareholders	208,710	191,530	211,926	233,329	258,919
Tax rate (%)	17.6%	9.9%	13.9%	20.0%	20.0%						

Source: Company data, ABCI Securities estimates



Company Report

China Pacific (2601 HK) – Buy Life & Health Insurance Industry 2013E TP: HK\$36.46 (from HK\$27.93 previously)

Key data

H-share price (HK\$)	31.10
Target price (HK\$)	36.46
Upside potential (%)	17.23
52Wk H/L(HK\$)	31.8/ 21.3
Issued shares:	
H-shares (mn)	2,775
A-shares (mn)	6,287
H-share mkt cap (HK\$m)	256,348
30-day avg vol (HK\$m)	404.8
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	17.6	11.8
3-mth	26.7	11.5
6-mth	21.2	(2.4)

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 14 January 2012

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Most balanced player

We regard China Pacific the most balanced listed insurer in the market. Its Life VNB enjoyed a faster-than-peers turnaround towards end-2012. Its P&C premiums regained growth momentum, after a sloppy 1H12. Meanwhile, Changjiang Pension is set to benefit from tax deferred pension products piloted in Shanghai. Based on these, we maintain our BUY rating on China Pacific and upgrade our target price to HK\$36.46 (HK\$27.93 previously).

Further turnaround in Life. We regard China Pacific as the front-runner in recovery of the Life sector. In 1H12, its FYP declined at a slower rate than major peers. Per our channel check, its APE ceased to decline towards end-2012, compared to a 8% YoY drop in 1H12. Also, China Pacific continued to lengthen its regular FYP durations in 2H12. Hence, we forecast China Pacific to report a 10% YoY growth in VNB for 2013.

Most balanced player. Other than Life unit, China Pacific's P&C unit reported promising underwriting results till end-2012. Its premiums grew by 12.4% YoY in 11M12, rebounded from the year low of 2.0%. 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 was dragged by banking and trust, China Pacific enjoyed a more balanced growth.

First beneficiary of tax deferred pension products. We expect tax deferred pension products to be piloted in Shanghai as early as in mid-2013. Changjiang Pension, the wholly-owned subsidiary of China Pacific, is the market leader in the pension market of Shanghai. In 1H12, over 50% of its entrusted assets (Rmb29.4bn) came from Shanghai.

Maintain BUY; upgrade TP to HK\$36.46. We derive an appraisal value of Rmb243,706 mn for 2013E, also adopting it as TP, or HK\$36.46/ share (previously HK\$27.93). The implied valuation of our TP is 1.67x 2013E PEV and 10.0x 2013E VNB. This represents 17.2% upside potential from the current share price. As such, we maintain our BUY recommendation on China Pacific. This is our preferred composite play in the sector.

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	169,164	189,410	204,596
Chg (YoY)	35.6	10.0	8.8	12.0	8.0
Net profit (Rmb mn)	8,557	8,313	7,016	8,533	9,502
Chg (YoY)	16.3	(2.8)	(15.6)	21.6	11.4
EPS (HK\$)	19.8	19.9	1.19	1.18	0.99
PER (x)	11.3	11.1	31.5	26.1	23.0
BPS (HK\$)	2.1	2.1	13.6	14.6	15.7
P/B (x)	15.3	16.1	2.3	2.1	2.0
EVPS (HK\$)	1.5	1.5	19.4	21.9	25.2
PEV (x)	0.8	0.9	1.6	1.4	1.2
VNB (HK\$)	7.5	4.3	1.0	1.1	1.2
VNB (x)	19.8	19.9	8.2	4.9	1.3

Source: Company data, ABCI Securities estimates



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 data, 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 data, 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 data, 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 data, 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 data, ABCI Securities

China Pacific - share price & valuation

		CHINA PACIFIC			
		2009	2010	2011	2012E
Share Price (HK\$)	Hi	30.95	35.85	35.35	28.65
	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	1.48 x
	Lo	2.16 x	1.83 x	1.25 x	1.11 x
	Av	2.30 x	2.04 x	1.94 x	1.28 x
EVPS YoY Growth (%)		26%	18%	5%	21%
VNB(X)	Hi	27.70 x	24.79 x	20.63 x	9.43 x
	Lo	23.15 x	15.28 x	4.36 x	2.15 x
	Av	26.09 x	19.16 x	16.13 x	5.45 x
VNB YoY Growth (%)		23%	28%	12%	5%

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	86,952	95,314	76,824
Value of in-force	33,971	43,991	52,671	62,196	73,367	56,604
Cost of solvency margin	(7,516)	(9,212)	(11,059)	(11,503)	(11,966)	(11,595)
Embedded value	98,371	110,089	113,564	137,645	156,715	121,833
Vnb (long term)	4,915	5,996	6,599	6,973	7,568	4,061
Multiplier	10	7	6	12	11	
New business value (long term)	48,870	42,713	42,129	83,359	86,991	
Appraisal value	147,241	152,803	155,693	221,003	243,706	
EV movement analysis						
Opening embedded value	69,669	98,371	110,089	113,564	137,645	
Expected return						
- SHF's	2,698	3,763	3,947	3,779	4,522	
- In-force	2,772	2,578	3,307	6,057	7,153	
Value of new business (VNB)	4,915	5,996	6,599	6,973	7,568	
Inv't r var + mkt val adj	(226)	(2,556)	(9,080)	2,000	3,000	
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	137,645	156,715	
EVPS (HK\$)	12.98	15.26	16.08	19.39	21.90	
AVPS (HK\$)	20.06	24.73	28.30	34.69	36.47	
PEV implied	1.55	1.62	1.76	1.79	1.67	
VNB (HK\$)	0.65	0.83	0.93	0.98	1.06	
VNB implied (x)	10.91	11.41	13.08	11.87	9.99	
EV contributions 1 (%)						
Expected return on beg EV	8%	6%	7%	9%	8%	
IRV + MVA contribution to beg EV	0%	-3%	-8%	2%	2%	
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%	21%	13%	
EV contributions 2 (%)						
Beginning EV	71%	89%	97%	83%	88%	
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%	2%	
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 Insurance

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	164,630	179,154	193,602	Gross written premium growth	40.1%	11.0%	6.2%	8.8%	8.1%
(-) Premiums to reinsurers	(13,148)	(13,384)	(12,736)	(14,309)	(15,542)	Net earned premium growth	39.3%	14.6%	6.5%	6.8%	8.0%
NWP & policy fees	121,815	141,574	151,893	164,845	178,060	Claims/benefits - of NEP	30.2%	36.1%	34.8%	36.3%	36.5%
Chg. in unearned premium res.	(4,656)	(4,336)	(5,793)	(8,841)	(9,601)	Div to PH & net inc. in PH res. of NEP	50.7%	40.9%	43.7%	45.5%	45.3%
NEP & policy fees	117,159	137,238	146,100	156,004	168,460	Ttl. claim/PH benefits to NEP	80.9%	76.9%	78.5%	81.9%	81.8%
Investment income	18,403	16,392	20,957	30,976	33,323	Claims/benefits - of total revenue	25.9%	31.8%	30.0%	29.9%	30.0%
Other income	812	1,887	2,107	2,430	2,814	Net inc. in PH res. - of total revenue	43.6%	36.0%	37.8%	37.5%	37.3%
Total revenue	136,374	155,517	169,164	189,410	204,596	Ttl. claim/PH benefits to total revenue	69.5%	67.9%	67.8%	67.4%	67.3%
Claims, surrenders, annuities/maturities	(35,354)	(49,518)	(50,791)	(56,707)	(61,456)	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)	(63,898)	(71,028)	(76,306)	General & admin. cost ratio	21.0%	21.3%	22.1%	20.9%	20.9%
Ttl. claims/PH benefits	(99,225)	(111,645)	(120,630)	(136,738)	(147,434)	Other exp. & stat. levy ratio					
Commission expenses	-	-	-	-	-	Total expense ratio	94.1%	93.6%	94.6%	94.2%	94.0%
General & administrative expense	(28,637)	(33,120)	(37,301)	(39,550)	(42,813)	Gross investment yield	4.5%	3.4%	3.6%	4.6%	4.5%
Finance expense	(410)	(848)	(2,144)	(2,144)	(2,144)	CPIC Life	259.3%	187.3%	173.6%	166.0%	160.6%
Other expense	0	0	0	0	0	CPIC P&C	206.1%	233.1%	222.3%	227.6%	230.8%
Total operating expense	(29,047)	(33,968)	(39,445)	(41,694)	(44,957)						
Total expenses	(128,272)	(145,613)	(160,075)	(178,432)	(192,392)						
Net profit before tax	8,102	9,904	9,090	10,978	12,205	Balance sheet (Rmb mn)					
Associate/JV - Profits/losses	100	495	21	18	15		2010	2011	2012E	2013E	2014E
Tax expense	(1,615)	(2,006)	(1,987)	(2,336)	(2,579)	Financial assets	433,385	522,530	627,769	734,755	849,654
Net profit after tax	6,587	8,393	7,123	8,660	9,641	Reinsurance assets	12,347	14,118	14,959	16,493	18,183
Minority interest	(38)	(80)	(107)	(127)	(138)	Insurance receivables	5,409	6,252	10,202	11,247	12,400
NP to CPIC shareholders	6,550	8,313	7,016	8,533	9,502	PP&E	6,831	7,833	7,987	7,827	7,671
						Others	17,739	19,879	29,243	29,791	30,777
						Assets	475,711	570,612	690,159	800,113	918,685
Financial summary						Insurance contract liabilities	302,640	374,931	439,606	522,262	611,092
	2010	2011	2012E	2013E	2014E	Investment contract liabilities	52,690	47,182	46,261	49,079	52,068
EPS (RMB)	0.76	1.18	0.99	1.19	1.35	Financial liabilities	19,836	58,847	91,405	105,610	122,679
<i>EPS growth (%)</i>	-20.0%	-0.7%	-16.0%	20.7%	13.2%	Deferred revenue	-	-	-	-	-
PER (x)	35.1	19.9	31.5	26.1	23.0	Others	27,476	11,597	13,755	18,659	22,012
PBV (x)	2.95	2.12	2.29	2.13	1.98	Liabilities	402,642	492,557	591,028	695,610	807,851
PEV (x)	2.18	1.46	1.60	1.42	1.24	Net assets	76,605	76,796	97,760	103,005	109,198
VNB multiple (x)	26.71	4.26	8.21	4.91	1.26	Minority interests	1,202	1,259	1,371	1,498	1,636
Dividend per share (RMB)	0.40	0.35	0.35	0.35	0.35	Net equity to shareholders	77,854	78,055	99,142	104,503	110,834
Yield (%)	1.5%	1.8%	1.4%	1.4%	1.4%						
Payout ratio (%)	52.5%	29.7%	35.4%	29.4%	25.9%						
Return on equity (%)	8.5%	10.4%	7.9%	8.4%	8.8%						
Return on assets (%)	1.5%	1.6%	1.1%	1.1%	1.1%						
Tax rate (%)	19.9%	20.3%	21.9%	21.3%	21.1%						

Source: Company data, ABCI Securities estimates



Company Report

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

2013E target price: HK\$68.46 (from HK\$58.04 previously)

Key data

H-share price (HK\$)	66.95
Target price (HK\$)	68.46
Upside potential (%)	2.26
52Wk H/L(HK\$)	71.6/ 50.9
Issued shares:	
H-shares (mn)	3,130
A-shares (mn)	4,786
H-share mkt cap (HK\$m)	474,718
30-day avg vol (HK\$m)	1,078.1
Major shareholder (%):	
HSBC	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	10.6	5.2
3-mth	9.8	(3.4)
6-mth	10.9	(10.7)

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 14 January 2013

Name: Francis Chan
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A structural underperformer

We regard Ping An as a structural underperformer in 2013. Its existing Life products are not as competitive as those of peers. Besides, the group will be dragged by a weak banking franchise and risky trust business. Therefore, we maintain our SELL recommendation on Ping An. But we upgraded our target price to HK\$68.46 (HK\$58.04 previously) for better investment assumptions.

A structural underperformer. Throughout 2012, China Life, China Pacific and New China Life shifted sales focus to long term regular premiums through banc. channel. This cannibalized Ping An's regular premium sales. Also they launched new critical illness products and out-competed Ping An mainstream products. Lastly, the Group is dragged by a weak banking operations and risky trust business. Therefore, we regard Ping An a structural underperformer against trading peers in 2013.

Dragging by banking and trust. In 1H12 and 9M12, Ping An Bank reported worse-than-peers NIM, NPL and capital ratios. This is a poor quality Joint Stock Bank in our view. Also, Ping An Trust is highly leveraged and may face heavy repayment risk when trust sales are further restricted by regulators in 2013.

Overhang of a public placement by HSBC. The HSBC sale of Ping An stake to Charoen Pokphand Group may be halted by Chinese regulators, according to press. This may pose an overhang of a possible public placement by HSBC. Per our analysis, such 15.6% stake is equivalent to 67.8%, or 108.3 days of the current H-share turnover of Ping An. As such, Ping An may face selling pressure, due to a possible increase in free float.

Maintain SELL rating; upgrade TP to HK\$68.46. We derive an appraisal value of Rmb427,975 mn for 2013E, also adopting it as TP, or HK\$68.46/ share (HK\$58.04 previously). The implied valuation of our TP is 1.27x 2013E PEV and 4.6x 2013E VNB. This represents 2.3% upside potential from the current share price. As such, we maintain our SELL recommendation on Ping An. This is our top sell in the sector.

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	302,688	343,683	373,034
Chg (YoY)	31.5	29.0	20.7	13.5	8.5
Net profit (Rmb mn)	17,311	19,475	26,414	34,951	36,748
Chg (YoY)	24.7	12.5	35.6	32.3	5.1
EPS (HK\$)	2.70	3.00	4.15	5.59	5.98
PER (x)	21.7	19.6	16.1	12.0	11.2
BPS (HK\$)	18.2	26.4	31.9	37.4	43.3
P/B (x)	3.2	2.2	2.1	1.8	1.5
EVPS (HK\$)	31.3	36.2	45.9	53.8	62.5
PEV (x)	1.9	1.6	1.5	1.2	1.1
VNB (HK\$)	2.4	2.7	2.5	2.5	2.7
VNB (x)	11.3	8.4	8.5	5.2	1.7

Source: Company data, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Insurance

Ping An: 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	112,213	159,384	207,802	85,079	74,305	116,080	91,722	127,812	39.3	10.1
(-) Premiums to Reinsurers	(6,347)	(8,181)	(10,970)	(4,542)	(3,639)	(5,857)	(5,113)	(7,173)	40.3	22.5
NWP & Policy fees	105,866	151,203	196,832	80,537	70,666	110,223	86,609	120,639	39.3	9.4
Chg. in Unearned Premium Res.	(5,483)	(10,079)	(10,170)	(5,952)	(4,127)	(6,824)	(3,346)	(5,068)	51.5	(25.7)
NEP & policy fees	100,383	141,124	186,662	74,585	66,539	103,399	83,263	115,571	38.8	11.8
Investment Income	32,023	31,083	29,265	10,909	20,154	15,912	13,353	14,960	12.0	(6.0)
Net Interest Income of Bk. Op.	4,210	9,331	18,882	2,786	6,544	3,548	15,334	16,866	10.0	375.4
Fee & Comm. Inc.	5,794	8,159	11,220	2,264	3,812	3,094	8,126	4,422	(45.6)	42.9
Other income	5,383	4,652	3,665	4,341	3,322	3,547	118	6,092	5,062.7	71.8
Total Revenue	147,793	194,349	249,694	94,885	100,370	129,500	120,194	157,911	31.4	21.9
Claims, Surrenders, Annuities / Maturities	(36,906)	(52,311)	(53,816)	(20,823)	(31,488)	(30,784)	(23,032)	(33,399)	45.0	8.5
Div. & Int. to PH & Net Inc. in PH Res.	(47,183)	(62,766)	(91,948)	(35,571)	(27,424)	(52,588)	(39,360)	(57,053)	45.0	8.5
Ttl. Claims / PH Benefits	(84,089)	(115,077)	(145,764)	(56,394)	(58,912)	(83,372)	(62,392)	(90,452)	45.0	8.5
Commission Expenses	(12,013)	(14,545)	(17,767)	(7,663)	(6,302)	(9,388)	(8,379)	(11,141)	33.0	18.7
General & Administrative Expense	(26,271)	(34,385)	(50,575)	(15,611)	(18,782)	(19,160)	(31,415)	(30,439)	(3.1)	58.9
Loan Loss Provisions	(194)	(626)	(1,704)	(110)	(543)	(261)	(1,443)	(1,536)	6.4	488.5
Other Expense	(5,489)	(8,834)	(4,926)	(3,181)	(7,010)	(2,212)	(2,714)	(3,804)	40.2	72.0
Total Expenses	(43,967)	(58,390)	(74,972)	(26,565)	(32,637)	(31,021)	(43,951)	(46,920)	6.8	51.3
Net profit before tax	19,737	20,882	28,958	11,926	8,822	15,107	13,851	20,539	48.3	36.0
Associate / JV - Profits / Losses	182	1,465	1,068	282	1,465	1,159	(91)	(18)	(80.2)	(101.6)
Tax Expense	(5,437)	(4,409)	(7,444)	(2,342)	(2,038)	(3,268)	(4,176)	(2,994)	(28.3)	(8.4)
Net Profit after Tax	14,482	17,938	22,582	9,866	8,249	12,998	9,584	17,527	82.9	34.8
Minority Interest	(599)	(627)	(3,107)	(255)	(364)	(241)	(2,866)	(3,568)	24.5	1,380.5
NP to Ping An Shareholders	13,883	17,311	19,475	9,611	7,885	12,757	6,718	13,959	107.8	9.4

Source: Company data, ABCI Securities

Ping An: Embedded Value (EV), Value of New Business (VNB) & New Business Margins (NBM)

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Group ANAV	152,826	139,446	146,020	123,573	112,865	94,606	10	5
ANAV of Life Biz	50,019	48,219	46,252	43,673	42,557	40,052	4	8
-ve Spread Bk	(8,251)	(8,549)	(9,005)	(9,858)	(10,504)	(11,614)	(3)	(8)
VIF after 1999	137,977	126,099	116,877	104,816	98,838	86,579	9	18
Solvency Cost	(23,547)	(21,369)	(19,928)	(17,545)	(16,862)	(14,314)	10	18
Group EV	259,005	235,627	233,966	200,986	184,338	155,258	10	11
Life EV	156,198	144,400	134,198	121,086	114,029	100,704	8	16
Group solvency (%)	177	190	200	198	218	302	10	(23)
APE	26,058	42,643	26,059	43,907	26,612	31,406	57	(0)
VNB	9,160	16,822	10,148	15,507	9,122	11,805	35	(9)
NBM (APE Basis - %)	35.2	39.5	38.9	35.3	34.3	37.6	(4.3)	(3.3)
FYP	33,502	70,917	46,610	76,050	45,297	64,984	38	(28)
VNB	9,160	16,822	10,148	15,507	9,122	11,805	35	(9)
NBM (FYP Basis - %)	27.3	23.7	21.8	20.4	20.1	18.2	3.6	5.8
VNB (HK\$ per share)	1.42	2.60	1.56	2.41	1.36	1.82	34.13	(8.33)

Source: Company data, ABCI Securities

Ping An - share price & valuation

		2004	2005	2006	2007	2008	2009	2010	2011	2012E
Share Price (HK\$)	Hi	13.80	14.45	44.90	117.00	82.55	75.60	94.40	88.30	68.35
	Lo	9.50	11.75	14.95	32.35	24.00	30.35	58.00	38.30	48.70
	Av	11.51	12.88	23.79	62.83	53.29	56.01	70.47	70.49	60.36
PEV(X)	Hi	2.44 x	1.91 x	2.62 x	5.30 x	4.35 x	3.28 x	3.01 x	2.44 x	1.49 x
	Lo	1.68 x	1.55 x	0.87 x	1.47 x	1.26 x	1.32 x	1.85 x	1.06 x	1.06 x
	Av	2.04 x	1.70 x	1.39 x	2.85 x	2.81 x	2.43 x	2.25 x	1.95 x	1.32 x
EVPS YoY Growth (%)			34%	126%	29%	-14%	21%	36%	16%	27%
VNB(X)	Hi	13.71 x	9.68 x	33.54 x	90.51 x	48.16 x	28.81 x	26.09 x	19.52 x	9.07 x
	Lo	6.47 x	5.88 x	(2.62x)	9.80 x	3.80 x	4.00 x	11.03 x	0.77 x	1.14 x
	Av	9.86 x	7.47 x	8.05 x	38.86 x	25.99 x	18.07 x	16.19 x	12.84 x	5.85 x
VNB YoY Growth (%)			20%	17%	27%	26%	38%	33%	10%	-7%

Source: Bloomberg, Company data, ABCI Securities



Ping An: Segmental profits

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Life	7,031	9,974	6,762	8,417	6,551	10,374	119	4
P&C	2,746	4,979	2,693	3,865	1,088	675	20	2
Banking	6,731	7,977	2,397	2,882	1,104	1,080	21	181
Securities & Others	1,019	1,604	1,146	2,774	1,123	2,353	122	(11)
Consolidation Adj.		(1,952)						
Net Profit	17,527	22,582	12,998	17,938	9,866	14,482	83	35
Mix (%)								
Life	40.1	44.2	52.0	46.9	66.4	71.6	(4.1)	(11.9)
P&C	15.7	22.0	20.7	21.5	11.0	4.7	(6.4)	(5.1)
Banking	38.4	35.3	18.4	16.1	11.2	7.5	3.1	20.0
Securities & Others	5.8	7.1	8.8	15.5	11.4	16.2	(1.3)	(3.0)
Consolidation Adj.		(8.6)						

Source: Company data, ABCI Securities

Ping An: Investment & Yields

(%)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Cash Equivalents	8	7	9	11	11	12	2	(1)
Deposits	23	20	19	18	16	16	3	4
Bonds	55	61	59	60	64	61	(6)	(4)
Equities	13	12	12	10	8	9	1	1
Infrastructures	0.9	1.0	1.2	1.2	1.4	3.3	(0.1)	(0.3)
Total Investments (RMB bn)	986	867	838	763	656	590	14	18
Net Inv't Yield	4.5	4.5	4.3	4.2	4.1	3.9	0.0	0.2
Total Inv't Yield	3.7	4.0	4.1	4.9	3.7	6.4	(0.3)	(0.4)
AFS Reserves (RMB mn)	(8,367)	(14,412)	(4,702)	(175)	208	4,612	(42)	78

Source: Company data, ABCI Securities



Ping An: Life operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	114,837	187,256	112,630	164,448	93,125	134,503	54	2
Individual	102,367	159,990	94,860	130,146	73,358	99,863	57	8
Bancassurance	7,598	18,941	13,459	27,783	16,269	27,783	39	(44)
Group	4,872	8,324	4,311	7,204	3,498	6,857	21	13
Individual FYP	21,822	45,833	22,963	42,699	23,840	31,024	(5)	(5)
Ind. Agents #	493,589	486,911	474,600	453,392	411,709	416,570	1	4
FYP per agent (Rmb)	6,787	14,565	9,821	7,922	10,311	6,261	43	(31)
# of Ind. Customers ('000)	51,888	49,784	47,926	45,318	43,044	40,737	4	8
Persistency 13 mo (%)	94	94	95	93	94	91	(1)	(2)
Solvency (%)	167	156	158	180	206	227	11	9

Source: Company data, ABCI Securities

Ping An: P&C operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	48,914	83,708	40,922	62,507	30,191	38,774	14	20
Motor	36,660	65,292	30,792	49,420	22,990	29,561	6	19
Other P&C	12,254	18,416	10,130	13,087	7,201	9,213	48	21
Loss Ratios (%)	58.5	57.8	58.2	55.4	55.8	57.0	0.7	0.3
Expense Ratios (%)	34.6	35.7	34.7	37.8	40.7	41.9	(1.1)	(0.1)
Combined Ratios (%)	93.1	93.5	92.9	93.2	96.5	98.9	(0.4)	0.2
Solvency (%)	165	166	196	180	136	144	(2)	(31)

Source: Company data, ABCI Securities

Ping An: Banking operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Net interest margin (%)	2.42	2.53	2.44	2.33	2.10	1.89	(0.11)	(0.02)
Total loans	682,906	620,642	144,414	130,798	120,621	107,562	10	373
Corporate loans	485,228	413,019	96,399	85,427	81,565	67,828	17	403
Retail loans + Bills	197,678	207,623	48,015	45,371	39,056	39,734	(5)	312
NPL (%)	0.73	0.53	0.32	0.41	0.45	0.46	0.20	0.41
Provision coverage (%)	238	321	286	211	157	156	(83)	(48)
CAR (%)	11.40	11.51	10.78	10.96	11.80	13.00	(0.11)	0.62

Source: Company data, ABCI Securities



Ping An: Embedded Value

(Rmb mn)	2009	2010	2011	2012E	2013E	1H12
Group embedded value						
Life insurance EV	100,703	121,086	144,400	172,406	201,971	156,198
Life insurance NBV	49,620	19,695	5,154	70,394	71,309	
Life insurance AV	150,323	140,781	149,554	242,801	273,280	
Valuation of non-life businesses						
P&C insurance	10,581	61,975	73,663	50,686	52,826	
Banking	35,195	51,251	64,517	52,710	55,073	
Financial services	22,284	32,003	11,202	12,077	13,559	
Corporate office and unallocated	2,043	5,145	35,023	33,959	33,235	
Book value of other businesses	54,554	79,900	91,227	119,463	134,624	102,807
Group EV	155,257	200,986	235,627	291,869	336,595	259,005
Group AV	220,426	291,154	333,958	392,234	427,975	
Life embedded value						
Adjusted net worth	40,052	43,673	48,219	68,279	97,446	50,019
Value of in-force	74,965	94,958	117,550	126,562	128,078	129,726
Cost of solvency margin	-14,314	-17,545	-21,369	-22,434	-23,553	-23,547
Embedded value	100,703	121,086	144,400	172,406	201,971	156,198
Vnb (long term)	11,805	15,507	17,343	15,778	15,671	9,160
Multiplier	4	1	0	4	5	
New business value (long term)	49,620	19,695	5,154	70,394	71,309	
Appraisal value	150,323	140,781	149,554	242,801	273,280	
EV movement analysis						
Opening embedded value	69,643	100,703	121,086	144,400	172,406	
Expected return						
- SHF's	1,419	2,203	2,402	2,652	3,755	
- In-force	6,107	7,620	9,846	12,931	13,922	
Value of new business (VNB)	11,805	15,507	17,343	15,778	15,671	
Inv't r var + mkt val adj	8,393	(1,327)	(12,268)	3,000	2,000	
Capital raising & dividends	748	(1,967)	7,968	(4,354)	(3,483)	
OpEx var, model chg & others	2,588	(1,653)	(1,977)	(2,000)	(2,300)	
Closing embedded value	100,703	121,086	144,400	172,406	201,971	
EVPS (HK\$)	15.56	18.88	22.21	27.09	32.31	
Group EVPS (HK\$)	23.05	31.34	36.24	45.87	53.84	
AVPS (HK\$)	32.73	45.39	51.36	61.64	68.46	
PEV implied	1.42	1.45	1.42	1.34	1.27	
VNB (HK\$)	1.82	2.42	2.67	2.48	2.51	
VNB implied (x)	5.30	5.81	5.67	4.46	4.55	
EV contributions 1 (%)						
Expected return on beg EV	11%	10%	10%	11%	10%	
IRV + MVA contribution to beg EV	12%	-1%	-10%	2%	1%	
VNB contribution to beg EV	17%	15%	14%	11%	9%	
VNB contribution to beg VIF	21%	21%	18%	13%	12%	
EVPS (HK\$) growth	45%	21%	18%	22%	19%	
EV contributions 2 (%)						
Beginning EV	69%	83%	84%	84%	85%	
Expected return						
- SHF's	1%	2%	2%	2%	2%	
- In-force	6%	6%	7%	8%	7%	
Inv't r var + mkt val adj	8%	-1%	-8%	2%	1%	
Value of new business (VNB)	12%	13%	12%	9%	8%	
Capital raising & dividends	1%	-2%	6%	-3%	-2%	
OpEx var, model chg & others	3%	-1%	-1%	-1%	-1%	
Ending EV	100%	100%	100%	100%	100%	

Source: Company data, ABCI Securities estimates



Company Report

China Taiping (966 HK) – Buy

Life & Health Insurance Industry

2013E target price: HK\$18.36 (from HK\$13.42 previously)

Key data

H-share price (HK\$)	15.58
Target price (HK\$)	18.36
Upside potential (%)	17.84
52Wk H/L(HK\$)	18.6 / 10.1
Issued shares:	1,714
Market cap (HK\$mn)	26,578
30-day avg vol (HK\$mn)	35.0
Major shareholders (%):	
China Taiping Insurance Gp	37.7
Easiwell	8.1

Source: Company & Bloomberg

Segmental profits in 2011 (%)

Life	78.9
P&C	97.2
Reinsurance	(19.0)
Corporate & eliminations	(57.1)

*Based on 2011 results

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	12.7	7.2
3-mth	16.1	2.2
6-mth	29.8	4.5

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 14 January 2013

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Déjà vu of a growth story

China Taiping re-emerged to be a growth stock in the sector. Its Life premium growth topped the sector at 14.2% YoY towards end-2012. Also, its Reinsurance and P&C units are set for a strong rebound from previous losses in 2013. The stock trades at only 1.07x 2013E PEV, well below 1.25x of sector average. As such, we maintain BUY on China Taiping and upgrade its TP to HK\$18.36 (HK\$13.42 previously).

Life recovery topped the sector. China Taiping accelerated in premium growth towards end-2012. Its premium growth reached 14.2 YoY in 11M12, compared to the year low of a 7.0% YoY. Such growth topped the sector. Thanks for the robust sales of its new saving products launched in Aug 2012. Per our estimates, China Taiping will enjoy a NBM of 29.5% and VNB growth of 8.2% YoY in this year.

Rosy outlook for Reinsurance and P&C. TPre reported heavy net losses in 2H11 and in 1H12, mainly due to three major natural disasters in 2011. In 2H12 and 2013, we expect the unit to benefit from the increase of global reinsurance pricing and fading residual claims from 2011. Meanwhile, TPI started to make underwriting profits of Rmb53 mn in 1H12, against losses during 2008-10. We expect the unit to achieve better economies of scale, and make net profits of Rmb120 mn in 2013.

Attractive valuation. China Taiping is trading at 1.07x 2013E PEV and 1.4x 2013E VNB, much cheaper than the sector average of 1.25x 2013E PEV. We expect China Taiping to report faster than sector growth in EV & VNB. Therefore, the stock is trading at a very attractive valuation.

Maintain BUY; upgrade TP to HK\$18.36. We derive an appraisal value of HK\$31,468 mn for 2013E, also adopting it as TP, or HK\$18.36/ share (HK\$13.42 previously). The implied valuation of our TP is 1.27x 2013E PEV and 6.7x 2013E VNB. This represents 17.8% upside potential from the current share price. We maintain our BUY rating on China Taiping.

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 (HK\$ mn)	51,815	53,169	61,011	70,106	78,508
Chg (YoY)	53	3	15	15	12
Net profit (HK\$ mn)	2,248	495	1,401	1,803	2,070
Chg (YoY)	172	(78)	183	29	15
EPS (HK\$)	1.3	0.3	0.8	1.1	1.2
PER (x)	9.2	42.0	19.1	14.8	12.9
BPS (HK\$)	7.5	6.7	7.6	10.4	10.4
P/B (x)	1.6	1.8	1.5	1.3	1.1
EVPS (HK\$)	9.2	10.0	12.3	14.5	16.5
PEV (x)	1.3	1.2	1.3	1.1	0.9
VNB (HK\$)	0.5	0.7	0.7	0.8	0.9
VNB (x)	5.5	3.2	4.6	1.4	(1.1)

Source: Company data, ABCI Securities estimates



China Taiping: 1H12 profit & loss

	2009	2010	2011	1H10	2H10	1H11	2H11	1H12	HoH	YoY
	HK\$mn	HK\$mn	HK\$mn	HK\$mn	HK\$mn	HK\$mn	HK\$mn	HK\$mn	(%)	(%)
GWP & Policy fees	31,023	48,759	50,098	27,273	21,486	27,159	22,939	31,489	37	16
(-) Premiums to Reinsurers	1,688	1,942	1,968	1,063	879	1,161	807	(1,295)	(260)	(212)
NWP & Policy fees	29,335	46,817	48,130	26,210	20,607	25,998	22,132	30,194	36	16
Chg. in Unearned Premium Res.	(207)	(836)	(521)	(915)	79	(596)	75	(924)	(1,335)	55
NEP & policy fees	29,128	45,981	47,609	25,295	20,686	25,402	22,207	29,270	32	15
Investment Income	4,483	5,513	5,197	2,481	3,032	3,137	2,060	2,572	25	(18)
Other Income	307	318	363	119	198	224	139	157	13	(30)
Total Revenue	33,918	51,815	53,169	27,895	23,917	28,763	24,406	31,999	31	11
Claims, Surrenders, Annuities / Maturities	(9,426)	(9,799)	(11,887)	(4,627)	(5,172)	(5,458)	(6,430)	(7,312)	14	34
Div. & Int. to PH & Net Inc. in PH Res.	(12,252)	(27,544)	(27,159)	(15,777)	(11,767)	(15,695)	(11,463)	(16,181)	41	3
Ttl. Claims / PH Benefits	(21,678)	(37,342)	(39,046)	(20,404)	(16,939)	(21,153)	(17,893)	(23,493)	31	11
Commission Expenses	(3,558)	(4,105)	(4,409)	(2,318)	(1,786)	(2,320)	(2,089)	(2,574)	23	11
General & Administrative Expense	(6,907)	(8,426)	(8,508)	(4,040)	(4,386)	(3,979)	(4,529)	(4,555)	1	14
Finance Expense	(318)	(353)	(566)	(164)	(189)	(278)	(287)	(291)	1	4
Other Expense	0	0	0	0	0	0	0	0		
Total Expenses	(10,782)	(12,884)	(13,482)	(6,523)	(6,362)	(6,577)	(6,905)	(7,419)	7	13
Net profit before Tax	1,458	1,588	641	969	616	1,033	(392)	1,087	(377)	5
Associate / JV - Profits / Losses	23	1,272	251	5	1,267	4	247	88	(64)	2,014
Tax Expense	(293)	(207)	28	(26)	(180)	15	13	(192)	(1,560)	(1,414)
Net Profit after Tax	1,188	2,653	920	948	1,702	1,052	(132)	983	(846)	(6)
Minority Interest	(362)	(409)	(425)	(345)	(63)	(326)	(99)	(447)	353	37
NP to CTIH shareholders	826	2,245	495	603	1,639	726	(230)	537	(333)	(26)

Source: Company data, ABCI Securities

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

(HK\$ mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Taiping Life	25,815	21,574	19,110	17,511	14,187	13,626	19.7	35.1
CTIH Stake (50.05%)	12,920	10,798	9,565	8,764	7,101	6,820	19.7	35.1
Book Value of Other Biz (Excl. MI)	6,860	6,276	7,935	6,967	5,421	5,014	9.3	(13.6)
Group Embedded Value	19,780	17,074	17,500	15,731	12,522	11,834	15.8	13.0
Per Share (HK\$)								
CTIH Stake in TPL	7.54	6.34	5.62	5.15	4.17	4.01	18.8	34.1
Book Value of Other Biz (Excl. MI)	4.00	3.69	4.66	4.09	3.19	2.95	8.5	(14.2)
Group Embedded Value	11.54	10.03	10.28	9.24	7.36	6.95	15.0	12.2
(HK\$ mn)								
APE	4,024	8,464	4,477	9,297	5,413	6,948	1	(10)
VNB	1,283	2,244	1,253	1,827	1,055	1,353	29	2
NBM (APE Basis-%)	31.89	26.51	27.98	19.65	19.49	19.47	5.38	3.90
FYP	9,679	18,202	10,606	24,752	15,190	14,879	27	(9)
VNB	1,283	2,244	1,253	1,827	1,055	1,353	29	2
NBM (FYP Basis-%)	13.26	12.33	11.81	7.38	6.95	9.09	0.93	1.44

Source: Company data, ABCI Securities

China Taiping: Segmental profits

(HK\$ mn)	1H12	2011	1H11	2010	1H10	% HoH	% YoY
Life	789	781	333	940	357	76	137
P&C	317	498	323	339	234	81	(2)
Reinsurance	(76)	(94)	160	373	174	(70)	(147)
Other businesses	(47)	(265)	(81)	1,002	(161)	(74)	(41)
Group net profits	983	920	736	2,653	603	434	34
(Mix - %)							
Life	80	85	45	35	59	(5)	35
P&C	32	54	44	13	39	(22)	(12)
Reinsurance	(8)	(10)	22	14	29	3	(29)
Other businesses	(5)	(29)	(11)	38	(27)	24	6
Group net profits	100	100	100	100	100		

Source: Company data, ABCI Securities



China Taiping: Life operating data

(HK\$ mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	23,657	38,530	21,002	37,875	21,233	21,636	35	13
Individual	9,487	14,410	7,538	10,319	5,429	6,652	38	26
Banc.	13,625	22,295	12,865	25,472	15,296	14,265	44	6
Group + Others	544	1,825	600	978	507	719	(56)	(9)
FYP Regular	3,395	7,382	3,796	7,760	4,326	6,066	(5)	(11)
(#)								
Branches or Outlets	815	832	788	740	646	611	(2)	3
Ind. Agents	51,008	46,064	46,124	50,527	57,435	60,781	11	11
FYP Regular / head (Rmb)	54,115	131,036	69,160	129,054	64,380	87,549	(13)	(22)
(%)								
Total Inv. Yield	3.60	3.60	4.10	5.00	4.80	5.50	-	(0.50)
Persistence 13 mo - Ind.	92.70	92.00	91.70	88.20	88.40	85.00	0.70	1.00
Persistence 13 mo - Banc.	88.30	93.20	93.30	94.00	93.90	92.00	(4.90)	(5.00)
Solvency	169	178	231	270	176	222	(9.00)	(62.00)

Source: Company data, ABCI Securities

China Taiping: Reinsurance operating data

(HK\$ mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	2,128	3,431	1,862	2,650	1,566	1,775	36	14
(%)								
Loss Ratios	77.90	74.70	65.80	62.90	54.50	65.30	3.20	12.10
Expense Ratios	32.70	31.00	35.50	31.10	36.90	27.20	1.70	(2.80)
Combined Ratios	110.60	105.70	101.30	94.00	91.40	92.50	4.90	9.30
Total Inv. Yield	4.70	2.10	3.90	6.10	5.80	6.80	2.60	0.80

Source: Company data, ABCI Securities

China Taiping: P&C operating data

(HK\$ mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	4,508	6,994	3,456	6,135	3,041	5,106	27	30
Motor	3,488	5,559	2,658	5,021	2,447	4,150	20	31
Other P&C	1,019	1,435	798	1,114	594	957	60	28
(%)								
Loss Ratios	48.90	53.40	54.80	56.40	54.00	62.20	(4.50)	(5.90)
Expense Ratios	49.10	46.50	43.60	44.60	45.90	46.00	2.60	5.50
Combined Ratios	98.00	99.90	98.40	101.00	99.90	108.20	(1.90)	(0.40)
Total Inv. Yield	3.90	3.30	5.00	4.30	6.00	4.60	0.60	(1.10)
Solvency	168	152	153	154	156	192	16.00	15.00

Source: Company data, ABCI Securities

CH INS: China Taiping - share price & valuation

		2006	2007	2008	2009	2010	2011	2012E
Share Price (HK\$)	Hi	9.80	26.45	24.80	30.15	30.00	25.60	18.24
	Lo	2.80	7.16	8.36	9.01	22.30	13.64	10.26
	Av	5.20	15.43	16.59	18.17	26.18	18.90	13.72
PEV(X)	Hi	2.53 x	5.42 x	3.96 x	4.34 x	3.12 x	2.57 x	1.48 x
	Lo	0.72 x	1.47 x	1.34 x	1.30 x	2.32 x	1.37 x	0.83 x
	Av	1.35 x	3.16 x	2.65 x	2.61 x	2.72 x	1.90 x	1.12 x
EVPS YoY Growth (%)			26%	28%	11%	38%	4%	23%
VNB(X)	Hi	37.00 x	101.14 x	60.90 x	58.31 x	37.94 x	22.70 x	8.27 x
	Lo	(6.65x)	10.68 x	6.91 x	5.17 x	23.61 x	5.34 x	(2.83x)
	Av	8.33 x	49.44 x	33.94 x	28.19 x	30.84 x	12.98 x	1.98 x
VNB YoY Growth (%)			33%	43%	31%	35%	28%	4%

Source: Bloomberg, Company data, ABCI Securities



China Taiping: Embedded Value

(HK\$ mn)	2009	2010	2011	2012E	2013E	1H12
Group embedded value						
Adjusted net worth	5,408	6,008	3,260	3,465	4,684	4,806
Value of in-force	10,353	14,156	23,469	24,326	29,287	24,088
Cost of solvency margin	(2,135)	(2,653)	(3,061)	(3,480)	(3,945)	(3,079)
TPL embedded value	13,626	17,511	23,668	24,311	30,026	25,815
CTIH shareholding	50.05%	50.05%	50.05%	50.05%	50.05%	50.05%
CTIH share of TPL EV	6,820	8,764	11,846	12,168	15,028	12,920
Other businesses at 1x PBV	5,014	6,967	5,228	8,904	9,815	7,585
Group embedded value	11,834	15,731	17,074	21,072	24,844	20,505
Vnb (long term)	1,353	1,827	2,359	2,463	2,664	1,055
Multiplier	7	4	1	7	7	
New business value (long term)	10,048	6,812	2,642	18,107	17,754	
CTIH shareholding	50.05%	50.05%	50.05%	50.05%	50.05%	
CTIH share of TPL NBV	5,029	3,409	1,322	9,063	8,886	
CIRe goodwill less cap. corp. exp.	(1,789)	(1,962)	(1,819)	(2,158)	(2,261)	
Group appraisal value	15,074	17,178	16,577	27,977	31,468	
EV movement analysis						
Opening embedded value	8,548	13,626	17,486	21,664	24,311	
Expected return						
- SHF's	154	270	300	205	218	
- In-force	733	1,139	1,248	1,479	1,533	
Value of new business (VNB)	1,353	1,827	2,359	2,463	2,664	
Inv't r var + mkt val adj	771	495	(4,024)	-	1,000	
Capital raising & dividends	1,590	-	1,585	-	-	
OpEx var, model chg & others	477	129	2,710	(1,500)	300	
Closing embedded value	13,626	17,486	21,664	24,311	30,026	
Group EVPS (HK\$)	6.95	9.24	9.96	12.29	14.49	
AVPS (HK\$)	8.86	10.09	9.67	16.32	18.36	
PEV implied	1.27	1.09	0.97	1.33	1.27	
VNB (HK\$)	0.40	0.54	0.69	0.72	0.78	
VNB implied (x)	7.43	3.73	1.12	7.35	6.66	
EV contributions 1 (%)						
Expected return on beg EV	10%	10%	9%	8%	7%	
IRV + MVA contribution to beg EV	9%	4%	-23%	0%	4%	
VNB contribution to beg EV	16%	13%	13%	10%	11%	
VNB contribution to beg VIF	20%	18%	17%	10%	11%	
EVPS (HK\$) growth	11%	33%	8%	23%	18%	
EV contributions 2 (%)						
Beginning EV	63%	78%	81%	89%	81%	
Expected return						
- SHF's	1%	2%	1%	1%	1%	
- In-force	5%	7%	6%	6%	5%	
Inv't r var + mkt val adj	6%	3%	-19%	0%	3%	
Value of new business (VNB)	10%	10%	11%	10%	9%	
Capital raising & dividends	12%	0%	7%	0%	0%	
OpEx var, model chg & others	3%	1%	13%	-6%	1%	
Ending EV	100%	100%	100%	100%	100%	

Source: Company data, ABCI Securities estimates



China Taiping: Financial Statements

Profit & loss (HK\$ mn)						Operating ratios (%)					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
GWP & policy fees	47,100	50,098	57,499	64,704	72,369	Gross written premium growth	57.2%	2.7%	14.8%	12.5%	11.8%
(-) Premiums to reinsurers	2,308	1,968	2,374	2,712	2,994	Net earned premium growth	57.9%	3.5%	13.7%	11.8%	11.9%
NWP & policy fees	44,792	48,130	55,124	61,992	69,375	Claims/benefits - of NEP	21.3%	25.2%	24.4%	22.8%	22.7%
Chg. in unearned premium res.	(1,002)	(521)	(991)	(1,455)	(1,631)	Div to PH & Net Inc. in PH Res. of NEP	59.9%	56.8%	55.4%	58.8%	59.0%
NEP & policy fees	43,790	47,609	54,134	60,537	67,744	Ttl. claim/PH benefits to NEP	81.2%	82.0%	79.8%	81.6%	81.8%
Investment income	4,798	5,197	6,649	9,372	10,507	Claims/benefits - of total revenue	18.9%	22.6%	21.7%	19.7%	19.6%
Other income	269	363	229	197	257	Net inc. in PH res. - of total revenue	53.2%	50.9%	49.2%	50.7%	50.9%
Total revenue	48,857	53,169	61,011	70,106	78,508	Ttl. claim/PH benefits to total revenue	72.1%	73.4%	70.8%	70.5%	70.5%
Claims, surrenders, annuities/maturities	(10,368)	(12,007)	(13,213)	(13,822)	(15,394)	Commission cost ratio	7.9%	8.3%	8.4%	8.3%	8.3%
Div. & int. to PH & net inc. in PH res.	(22,854)	(27,039)	(30,001)	(35,576)	(39,990)	General & admin. cost ratio	16.3%	16.0%	15.4%	15.8%	15.7%
Ttl. claims/PH benefits	(33,222)	(39,046)	(43,213)	(49,398)	(55,384)	Other cost ratio	0.7%	1.1%	1.0%	0.8%	0.7%
Commission expenses	(4,611)	(4,409)	(5,142)	(5,799)	(6,497)	Operating expense ratio	24.9%	25.4%	24.8%	24.9%	24.7%
General & administrative expense	(8,697)	(8,508)	(9,425)	(11,082)	(12,300)	Gross investment yield	4.8%	3.4%	3.5%	4.2%	4.1%
Finance expense	(328)	(566)	(581)	(580)	(580)	TPRe solvency	555.8%	389.7%	362.3%	349.1%	334.5%
Other expense	0	0	0	0	0	Taiping life solvency	270.3%	177.7%	194.9%	186.6%	178.2%
Total expenses	(13,636)	(13,482)	(15,148)	(17,462)	(19,378)	Taiping insurance solvency	153.5%	152.2%	174.7%	171.6%	176.7%
Net profit before tax	1,999	641	2,650	3,246	3,746	Balance sheet (HK\$ mn)					
Associate/JV - Profits/losses	55	251	189	203	203		2010	2011	2012E	2013E	2014E
Tax expense	(208)	28	(514)	(673)	(784)	PP&E	1,304	2,916	4,024	4,034	4,047
Net profit after tax	1,846	920	2,325	2,777	3,166	Bonds	86,452	116,230	139,726	156,420	178,442
Minority interest	(752)	(425)	(924)	(974)	(1,096)	Equities	12,245	8,669	9,066	11,473	13,103
NP to CTIH shareholders	1,094	495	1,401	1,803	2,070	Investment funds	4,251	5,672	7,303	11,403	12,987
						Cash	29,412	37,776	52,370	57,576	65,943
						Reinsurance recoverable	2,168	2,437	2,716	3,020	3,277
						Interest in associates	1,179	1,580	1,609	1,609	1,609
						Other	17,473	16,091	18,752	18,752	18,752
						Assets	154,484	191,372	235,566	264,287	298,160
						Life insurance funds	96,670	122,564	146,189	176,209	209,954
						Unearned premium	4,067	4,808	5,327	6,288	7,374
						Outstanding claims	7,639	9,209	9,938	10,779	11,712
						Tax liabilities	1,491	558	1,007	1,007	1,007
						Interest bearing notes	10,231	11,041	13,310	15,410	17,510
						Other	15,903	26,318	34,715	25,824	17,749
						Liabilities	136,002	174,498	210,486	235,516	265,306
						Net assets	18,482	16,874	25,080	28,771	32,854
						Minority interests	5,769	5,439	7,174	8,148	9,244
						Net equity to shareholders	12,712	11,435	17,905	20,622	23,610

Source: Company data, ABCI Securities estimates



Company Report

New China Life (1336 HK) – Hold

Life & Health Insurance Industry

2013E target price: HK\$34.30 (from HK\$24.85 previously)

Key data

H-share price (HK\$)	31.45
Target price (HK\$)	34.30
Upside potential (%)	9.1
52Wk H/L(HK\$)	36.9 / 22.3
Issued shares:	
H-shares (mn)	1,034
A-shares (mn)	2,083
H-share mkt cap (HK\$m)	102,528
30-day avg vol (HK\$m)	101.4
Major shareholder (%):	
Central Huijin	31.2
Baosteel Group	15.1

Source: Company & Bloomberg

Revenue breakdown in 2011 (%)

Net earned premiums (NEP)	88.1
Investment income	11.7
Other income	0.2

*Based on 2011 results

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	15.2	11.4
3-mth	23.3	12.1
6-mth	9.3	(10.3)

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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Rallying only on A-share market rebound

Recently, New China Life outperformed its peers and benchmark indices, only due to its big EV increment led by A-share market rebound. The company is the only insurer reporting a decelerating premium growth towards end-2012. Also, it reported the lowest NBM among peers in 1H12. Other than being cheap, we see minimal merits for the insurer. Based on these, we maintain HOLD on New China Life. But we upgrade its TP to HK\$34.30 (HK\$24.85 previously) due to better investment assumptions.

Only life insurer with a decelerating premium growth. Its premium growth decelerated to 3.9% YoY in 11M12, compared to the year high of a 20.0% YoY. Such trend is the worst among peers. New China Life lacks new products with competitiveness. Per our estimates, New China Life will report a NBM of 23.0% and VNB growth of 4.6% YoY in this year.

With the lowest NBM with no proper reason. New China Life reported its NBM at 23.3% in 1H12. It has improved by only 0.9ppt HoH. Also, its NBM is the lowest among peers. It is inconceivable as the insurer has shifted sales focus to 10-years plus duration products during 2012. NBM should have advanced further on lengthening product duration.

Rising only on A-share market rally. Per our analysis, New China Life's EV rose by 10.6% due to the recent 17.7% rally of A-share markets. In our opinion, this is the only reason for its recent outperformance.

Trading at a low valuation still. New China Life is trading at 1.07x 2013E PEV, cheaper than 1.25x of sector average. Therefore, we remain Neutral on its share price outlook, despite its weak fundamentals.

Maintain HOLD; upgrade TP to HK\$34.30. We derive an appraisal value of Rmb84,510 mn for 2013E, also adopting it as TP, or HK\$34.30 / share (HK\$24.85 previously). The implied valuation of our TP is 1.17x 2013E PEV and 2.7x 2013E VNB. This represents 9.1% upside potential from the current share price. We maintain HOLD on New China Life.

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

Results and valuation

FY ended Dec 31	2010	2011	2012E	2013E	2014E
Revenue (Rmb mn)	102,709	108,610	121,366	140,699	158,647
Chg (YoY)	39.0	5.7	11.7	15.9	12.8
Net profit (Rmb mn)	2,249	2,799	3,615	4,578	5,064
Chg (YoY)	(15.5)	24.5	29.1	26.6	10.6
EPS (HK\$)	2.23	1.51	1.44	1.86	2.09
PER (x)	11.1	16.4	21.8	16.9	15.1
BPS (HK\$)	6.5	12.3	14.9	17.3	19.8
P/B (x)	3.8	2.0	2.1	1.8	1.6
EVPS (HK\$)	27.9	19.1	24.2	29.4	35.3
PEV (x)	0.9	1.3	1.3	1.1	0.9
VNB (HK\$)	4.71	1.70	1.74	1.82	1.94
VNB (x)	(0.6)	3.4	4.2	1.1	(2.0)

Source: Company data, ABCI Securities estimates



New China Life: 1H12 profit & loss

	2009	2010	2011	1H10	2H10	1H11	2H11	1H12	HoH	YoY
	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	Chg (%)	Chg (%)
GWP & Policy fees	65,422	91,956	95,151	53,675	38,281	50,843	44,308	56,114	27	10
(-) Premiums to Reinsurers	(30)	(32)	(584)	(18)	(14)	(238)	(346)	(40)	(88)	(83)
NWP & Policy fees	65,452	91,988	95,735	53,693	38,295	51,081	44,654	56,154	26	10
Chg. in Unearned Premium Res.	(72)	(128)	(71)	(165)	37	(193)	122	(227)	(286)	18
NEP & policy fees	65,380	91,860	95,664	53,528	38,332	50,888	44,776	55,927	25	10
Investment income	8,362	10,521	12,754	4,114	6,407	6,813	5,941	7,303	23	7
Other income	164	328	192	118	210	101	91	83	(9)	(18)
Total revenue	73,906	102,709	108,610	57,760	44,949	57,802	50,808	63,313	25	10
Claims & Life insurance benefits	(10,763)	(13,250)	(21,178)	(5,908)	(7,342)	(9,896)	(11,282)	(12,046)	7	22
Div. & Int. to PH & Net Inc. in PH Res.	(46,961)	(71,133)	(66,608)	(43,333)	(27,800)	(37,966)	(28,642)	(40,494)	41	7
Ttl. Claims / PH Benefits	(57,724)	(84,383)	(87,786)	(49,241)	(35,142)	(47,862)	(39,924)	(52,540)	32	10
U/W & Policy Acq. Expense	(5,623)	(7,252)	(7,317)	(3,884)	(3,368)	(3,689)	(3,628)	(3,825)	5	4
General & Administrative Expense	(7,206)	(8,410)	(9,229)	(3,925)	(4,485)	(3,998)	(5,231)	(4,517)	(14)	13
Other Expense	(509)	(147)	(199)	194	(341)	108	(307)	(135)	(56)	(225)
Total Expenses	(13,338)	(15,809)	(16,745)	(7,615)	(8,194)	(7,579)	(9,166)	(8,477)	(8)	12
Net profit before Tax	2,844	2,517	4,079	904	1,613	2,361	1,718	2,296	34	(3)
Associate P&L and Finance Cost	(193)	(262)	(804)	(62)	(200)	(311)	(493)	(788)	60	153
Tax Expense	10	(5)	(475)	(265)	260	(275)	(200)	397	(299)	(244)
Net profit after Tax	2,661	2,250	2,800	577	1,673	1,775	1,025	1,905	86	7
Minority interest	(1)	(1)	(1)	0	(1)	0	(1)	(1)	0	
NP to New China Life Shareholders	2,660	2,249	2,799	577	1,672	1,775	1,024	1,904	86	7

Source: Company data, ABCI Securities

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

(Rmb mn)	1H12	2011	1H11	2010	2009	% HoH	% YoY
ANAV	26,348	21,966	17,673	6,400		20	49
VIF	40,257	36,818	33,798	29,866		9	19
Solvency Cost	(10,456)	(9,793)	(9,149)	(8,181)		7	14
EV	56,150	48,991	42,322	28,085		15	33
EVPS (HK\$)	22.16	19.22	19.70	27.85		15	12
APE	10,040	19,494	11,302	25,297	20,466	23	(11)
VNB	2,338	4,360	4,710	4,741		18	(1)
NBM (APE Basis %)	23.29	22.37	41.67	18.74		0.92	2.30
FYP	22,523	42,863	24,112	55,966	44,769	20	(7)
VNB	2,338	4,360	4,710	4,741		18	(1)
NBM (FYP Basis %)	10.38	10.17	19.53	8.47		0.21	0.54
VNB (HK\$)	0.92	1.71	2.19	4.70		52	(16)

Source: Company data, ABCI Securities

New China Life: Investment & Yields

(%)	1H12	2011	1H11	2010	2009	% HoH	% YoY
Cash Equivalents	6.8	5.6	5.8	9.3	6.4	1.2	1.0
Deposits	36.0	32.9	30.2	18.9	9.6	3.1	5.8
Bonds	46.8	50.9	52.3	56.2	70.2	(4.1)	(5.5)
Equities	7.4	7.8	9.2	13.3	11.7	(0.4)	(1.8)
Others	3.0	2.8	2.5	2.3	2.1	0.2	0.5
Total Inv'ts (RMB bn)	453	374	335	293	197	21.1	35.4
Net Investment Yield (%)	4.40	4.10	4.00	3.80	3.90	0.30	0.40
Total Investment Yield (%)	3.60	3.80	4.40	4.30	4.60	(0.20)	(0.80)

Source: Company data, ABCI Securities



New China Life: Operating data

(Rmb mn)	1H12	2011	1H11	2010	2009	% HoH	% YoY
Gross premiums	55,950	94,797	50,662	91,679	65,040	27	10
Individual Agency	23,030	35,871	18,791	28,688	20,248	35	23
Banc.	31,393	56,692	30,731	61,690	43,962	21	2
Wealth Management	622	932	368	221		10	69
Group	905	1,302	772	1,080	830	71	17
FYP Regular	8,653	16,897	9,879	21,889	17,766	23	(12)
% of FYP Ind. Regular	38.4	39.4	41.0	39.1	39.7	(1.0)	(2.6)
# of agents	207,000	200,000	204,380	198,771	226,776	3	1
FYP Regular per agent (Rmb)	41,802	44,390	24,009	47,924	29,637	(6)	74
Individual FYP	5,851	9,758	5,374	10,416	7,299	(40)	9
Individual FYP per agent (Rmb)	28,266	48,790	26,294	52,402	32,186	(42)	7
Persistence 13 mo (%)	90.6	91.5	92.4	91.7	89.4	(0.9)	(1.8)
Solvency (%)	159	156.0	106.1	35.0	36.2	2.8	52.7

Source: Company data, ABCI Securities

New China Life - share price & valuation

		NEW CHINA LIFE	
		2011	2012E
Share Price (HK\$)	Hi	28.10	36.28
	Lo	23.41	21.55
	Av	24.90	29.04
PEV(X)	Hi	1.47 x	1.50 x
	Lo	1.22 x	0.89 x
	Av	1.30 x	1.20 x
EVPS YoY Growth (%)		-31%	26%
VNB(X)	Hi	5.26 x	6.97 x
	Lo	2.51 x	(1.51x)
	Av	3.38 x	2.80 x
VNB YoY Growth (%)		-64%	2%

Source: Bloomberg, Company data, ABCI Securities



New China Life: Embedded Value

(Rmb mn)	2010	2011	2012E	2013E	1H12
Embedded value					
Adjusted net worth	6,400	21,966	28,081	34,159	26,348
Value of in-force	29,866	36,818	43,330	50,289	40,257
Cost of solvency margin	(8,181)	(9,793)	(10,772)	(12,065)	(10,456)
Embedded value	28,085	48,991	60,638	72,383	56,149
Vnb (long term)	4,741	4,360	4,352	4,472	2,419
Multiplier	(2)	(1)	3	3	
New business value (long term)	(9,515)	(5,297)	12,460	12,127	
Appraisal value	18,570	43,694	73,099	84,510	
EV movement analysis					
Opening embedded value	20,333	28,383	49,290	60,638	48,991
Expected return					
- SHF's	300	333	1,142	1,460	535
- In-force	2,654	3,525	4,234	4,983	1,895
Value of new business (VNB)	5,095	4,681	4,672	4,802	2,419
Inv't r var + Mkt val adj	(203)	(11,894)	3,000	1,500	2,539
Capital raising & dividends	-	25,621	(500)	-	(221)
OpEx var, model chg & others	204	(1,359)	(1,200)	(1,000)	(9)
Closing embedded value	28,383	49,290	60,638	72,383	56,149
EVPS (HK\$)	27.89	19.14	24.18	29.38	22.16
AVPS (HK\$)	18.44	17.07	29.15	34.30	
PEV implied	0.66	0.89	1.21	1.17	
VNB (HK\$)	4.71	1.70	1.74	1.82	
VNB implied (x)	(2.01)	(1.21)	2.86	2.71	
EV contributions 1 (%)					
Expected return on beg EV		14%	11%	11%	5%
IRV + MVA contribution to beg EV		-42%	6%	2%	5%
VNB contribution to beg EV		17%	10%	8%	5%
VNB contribution to beg VIF		16%	13%	11%	6%
EVPS (HK\$) growth		-31%	26%	22%	
EV contributions 2 (%)					
Beginning EV	72%	58%	81%	84%	87%
Expected return					
- SHF's	1%	1%	2%	2%	
- In-force	9%	7%	7%	7%	4%
Inv't r var + mkt val adj	-1%	-24%	5%	2%	5%
Value of new business (VNB)	18%	9%	8%	7%	4%
Capital raising & dividends	0%	52%	-1%	0%	0%
OpEx var, model chg & others	1%	-3%	-2%	-1%	0%
Ending EV	100%	100%	100%	100%	100%

Source: Company data, ABCI Securities estimates



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ABC SECURITIES COMPANY LIMITED

China Insurance

New China Life Financial Statements

Profit & loss (Rmb mn)						Operating ratios (%)					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
GWP & policy fees	91,956	95,151	104,666	117,226	131,293	Gross written premium growth	40.6%	3.5%	10.0%	12.0%	12.0%
(-) Premiums to reinsurers	32	584	209	234	263	Net earned premium growth	40.5%	4.1%	9.5%	12.0%	12.0%
NWP & policy fees	91,988	95,735	104,875	117,460	131,556	Claims/benefits - % of NEP	90.9%	91.1%	93.0%	95.5%	96.5%
Chg. in unearned premium res.	(128)	(71)	(105)	(117)	(132)	Div to PH & net inc. in PH res. % of NEP	0.8%	0.7%	1.0%	1.0%	1.0%
NEP & policy fees	91,860	95,664	104,771	117,343	131,424	Ttl. claim/PH benefits to NEP	91.8%	91.7%	94.0%	96.5%	97.5%
Investment income	10,521	12,754	16,423	23,174	27,032	Claims/benefits - % of total revenue	81.4%	80.2%	80.3%	79.6%	79.9%
Other income	328	192	173	181	191	Net inc. in PH res. - % of total revenue	0.8%	0.6%	0.9%	0.8%	0.8%
Total revenue	102,709	108,610	121,366	140,699	158,647	Ttl. claim/PH benefits to total revenue	82.2%	80.8%	81.1%	80.5%	80.8%
Insurance benefits & claims	(83,611)	(87,151)	(97,437)	(112,063)	(126,824)	Commission cost ratio	7.9%	7.6%	7.0%	7.2%	7.2%
Investment contract benefits	(772)	(635)	(1,048)	(1,173)	(1,314)	General & admin. cost ratio	9.2%	9.6%	8.5%	8.5%	8.5%
Total Claims / PH Benefits	(84,383)	(87,786)	(98,484)	(113,236)	(128,139)	Other exp. & stat. levy ratio	0.2%	0.2%	0.2%	0.2%	0.2%
Commission and brokerage expenses	(7,252)	(7,317)	(7,334)	(8,449)	(9,463)	Operating expense ratio	17.2%	17.5%	15.7%	15.9%	15.9%
Administrative expenses	(8,410)	(9,229)	(8,905)	(9,974)	(11,171)	New investment yield	3.8%	4.1%	4.3%	4.2%	4.2%
Other expenses	(147)	(199)	(210)	(235)	(263)	Gross investment yield	4.3%	3.8%	3.9%	4.4%	4.3%
Total Operating Expenses	(15,809)	(16,745)	(16,449)	(18,658)	(20,896)	Solvency ratio	35.0%	155.9%	181.2%	183.0%	177.6%
Finance Expenses	(263)	(806)	(2,417)	(2,701)	(2,860)	Balance sheet (Rmb mn)					
Associate / JV - Profits / Losses	1	2	2	2	2		2010	2011	2012E	2013E	2014E
Net profit before tax	2,255	3,275	4,018	6,106	6,754	Cash	27,368	21,095	30,921	51,376	60,839
Tax expense	(5)	(475)	(402)	(1,527)	(1,688)	Investments	265,498	352,861	444,793	519,471	615,148
Net profit after tax	2,250	2,800	3,616	4,580	5,065	PP&E / Investment Properties	3,435	4,735	4,972	5,220	5,481
Minority interest	1	1	1	2	2	Reinsurance Assets	4,535	4,202	4,411	4,646	4,908
NP to NCI shareholders	2,249	2,799	3,615	4,578	5,064	Premium Receivables	979	1,395	1,443	1,588	1,778
Financial summary						Other assets	2,751	2,483	3,889	3,778	7,027
	2010	2011	2012E	2013E	2014E	Total Assets	304,566	386,771	490,430	586,080	695,181
EPS (HK\$)	2.23	1.51	1.44	1.86	2.09	Long-term insurance contracts liabilities	233,821	292,818	378,258	473,062	577,357
<i>EPS growth (%)</i>	-11.7%	-32.2%	-4.7%	28.9%	12.4%	Short-term insurance contracts liabilities	804	996	1,094	1,225	1,372
PER (x)	11.1	16.4	21.8	16.9	15.1	Investment contracts	19,912	19,001	20,049	21,222	22,536
PBV (x)	3.81	2.03	2.11	1.82	1.59	Borrowings (Sub-debt)	0	5,073	15,214	17,000	18,000
PEV (x)	0.89	1.30	1.30	1.07	0.89	Financial assets under repo agreement	24,712	32,481	33,094	25,383	21,740
VNB multiple (x)	(0.65)	3.35	4.19	1.14	(1.97)	Unearned premiums	390	504	522	574	643
Dividend per share (HK\$)	0.00	0.00	0.00	0.00	0.00	Other Liabilities	18,354	4,585	4,771	5,105	5,459
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	Total liabilities	297,993	355,458	453,001	543,571	647,107
Payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	Net assets	6,573	31,313	37,429	42,509	48,074
Return on equity (%)	41.6%	14.8%	10.5%	11.5%	11.2%	Minority interests	6	7	9	11	13
Return on assets (%)	0.9%	0.8%	0.8%	0.9%	0.8%	Net equity to shareholders	6,567	31,306	37,420	42,498	48,061
Tax rate (%)	0.2%	14.5%	10.0%	25.0%	25.0%						

Source: Company data, ABCI Securities estimates



Appendix I – Industry data

China Insurance: LIFE & P&C Gross Written Premium Data (11M 2012)

		Cumulative Premium Growth YoY (%)					
Life Insurers	Stock Code	2010	2011	Sep-12	Oct-12	Nov-12	Comments
China Life	2628 HK	12.9%	-4.4%	-0.4%	-0.8%	-0.8%	Flattish
Ping An Life	2318 HK	20.2%	-25.2%	7.4%	8.0%	8.3%	Flattish
China Pacific Life	2601 HK	36.1%	1.3%	0.5%	0.3%	0.3%	Flattish
New China Life	1336 HK	40.2%	1.2%	4.7%	4.6%	3.9%	Decelerates
China Taiping	966 HK	46.2%	-4.7%	10.0%	11.9%	14.2%	Accelerates
Taikang Life	Not Listed	29.5%	-21.7%	-7.8%	-8.3%	-8.9%	Decelerates
Industry		28.9%	-9.0%	3.6%	3.5%	3.5%	Flattish

		Cumulative Premium Growth YoY (%)					
P&C Insurers	Stock Code	2010	2011	Sep-12	Oct-12	Nov-12	Comments
Ping An P&C	2318 HK	61.4%	34.2%	20.0%	19.6%	19.5%	Flattish
China Pacific P&C	2601 HK	50.5%	19.5%	11.1%	11.7%	12.4%	Accelerates
Industry		34.5%	18.7%	15.1%	15.3%	15.5%	Flattish

		Monthly Premium Growth YoY (%)					
Life Insurers	Stock Code	Jan-12	Feb-12	Sep-12	Oct-12	Nov-12	Comments
China Life	2628 HK	11.9%	-25.6%	23.8%	-6.1%	-1.0%	Accelerates
Ping An Life	2318 HK	16.5%	6.6%	15.5%	15.7%	12.1%	Decelerates
China Pacific Life	2601 HK	4.2%	-3.4%	5.9%	-2.2%	0.4%	Accelerates
New China Life	1336 HK	19.6%	15.0%	-3.5%	4.1%	-5.7%	Decelerates
China Taiping	966 HK	10.7%	9.6%	38.4%	32.6%	39.3%	Accelerates
Taikang Life	Not Listed	3.6%	-13.5%	-6.2%	-14.5%	-15.9%	Decelerates
Industry		12.7%	-6.5%	12.6%	1.6%	4.5%	Accelerates

		Monthly Premium Growth YoY (%)					
P&C Insurers	Stock Code	Jan-12	Feb-12	Sep-12	Oct-12	Nov-12	Comments
Ping An P&C	2318 HK	9.4%	39.3%	20.2%	16.3%	18.6%	Accelerates
China Pacific P&C	2601 HK	2.0%	29.8%	15.6%	17.2%	20.3%	Accelerates
Industry		3.9%	38.5%	16.4%	17.5%	17.5%	Flattish

		Market Share (%)			Total Premiums (Rmb mn)			
Life Insurers	Stock Code	2010	2011	Nov-12	2010	2011	Oct-12	Nov-12
China Life	2628 HK	31.7%	33.3%	32.3%	333,040	318,253	279,841	298,772
Ping An Life	2318 HK	15.1%	12.4%	12.9%	159,064	118,967	109,793	119,184
China Pacific Life	2601 HK	8.8%	9.7%	9.5%	92,000	93,203	81,774	88,144
New China Life	1336 HK	8.9%	9.9%	10.0%	93,643	94,797	86,381	92,219
China Taiping	966 HK	3.1%	3.3%	3.6%	33,025	31,458	29,717	32,998
Taikang Life	Not Listed	8.3%	7.1%	6.3%	86,765	67,937	54,247	58,017
Industry		100.0%	100.0%	100.0%	1,050,088	956,000	857,296	925,275

		Market Share (%)			Total Premiums (Rmb mn)			
P&C Insurers	Stock Code	2010	2011	Nov-12	2010	2011	Oct-12	Nov-12
Ping An P&C	2318 HK	15.4%	17.4%	17.9%	62,116	83,333	80,992	89,273
China Pacific P&C	2601 HK	12.8%	12.9%	12.6%	51,529	61,591	56,933	62,795
Industry		100.0%	100.0%	100.0%	402,689	477,906	454,119	499,165

Source: CIRC, Bloomberg, Companies



Valuation summary of Global & Regional Insurance Companies (2012E - 2013E)

Company Name	Stock Code	Nation	Trading Ccy	Share Price	Market Cap (US\$m)	20 days Vol (US\$m)	Buy Rec. (%)	PER		PBV		Div. Yield		Return on Equity		
								12E	13E	12E	13E	12E	13E	12E	13E	
REGIONAL LIFE / LIFE FOCUS																
China Life	2628HK	CN H-share	HK\$	26.0	94,702	124.7	35.5	51.0	25.4	3.5	3.1	0.7	1.2	7.3	11.9	
Ping An	2318HK	CN H-share	HK\$	67.0	68,299	139.3	67.7	23.5	18.3	3.4	2.9	0.7	0.9	15.1	16.7	
China Pacific	2601HK	CN H-share	HK\$	31.1	36,318	90.4	75.8	47.2	27.3	3.1	2.8	0.8	1.1	7.1	10.6	
New China Life	1336HK	CN H-share	HK\$	31.5	12,645	24.2	50.0	87.4	22.9	3.2	2.4	0.7	0.5	14.3	10.6	
China Taiping	966HK	CN / HK	HK\$	15.6	3,441	7.5	58.3	23.8	15.5	1.9	1.8	0.5	1.1	8.3	10.7	
ALA Group	1299HK	APAC	HK\$	30.0	46,530	498.3	76.9	18.8	16.4	2.0	1.8	1.3	1.5	11.0	11.3	
Prudential PLC	2378HK	UK/Global	HK\$	115.0	37,762	0.0	70.4	13.3	11.8	2.4	2.1	2.9	3.2	17.8	17.5	
Manulife	945HK	CA/Global	HK\$	110.8	25,330	2.1	50.0	15.2	10.6	1.2	1.1	3.6	3.6	7.6	10.8	
AMP	AMPAU	Australia	AUD	5.1	15,636	47.6	26.7	16.6	14.8	2.0	1.9	5.0	5.4	12.4	13.2	
Korea Life	088350KS	S. Korea	KRW	7,790	6,415	4.7	66.7	11.3	10.3	1.0	0.9	2.8	3.0	8.9	9.3	
Samsung Life	032830KS	S. Korea	KRW	96,100	18,223	13.9	87.5	18.0	15.6	1.0	0.9	2.0	2.0	5.7	6.0	
Tong Yang Life	082640KS	S. Korea	KRW	10,800	1,102	0.9	29.4	7.8	6.8	0.9	0.8	3.6	3.8	11.4	11.4	
Great Eastern	GE SP	Singapore	SGD	16.1	6,224	0.5	100.0	9.1	13.9	1.7	1.5	4.9	3.4			
T&D	8795JP	Japan	JPY	1,147	8,793	35.2	50.0	20.7	18.4	1.1	1.1	2.0	2.0	5.9	6.4	
Sony Financial	8729JP	Japan	JPY	1,540	7,535	17.6	61.1	17.1	15.6	1.4	1.6	1.5	1.6	9.5	10.1	
Shin Kong Fin.	2888TT	Taiwan	NTD	8.3	2,430	5.5	10.5	6.9	10.1	0.9	0.8	-	0.4	13.9	9.1	
Cathay Fin.	2882TT	Taiwan	NTD	31.9	11,964	23.5	66.7	23.1	21.4	1.5	1.4	1.4	1.6	6.3	6.4	
Fubon Financial	2881TT	Taiwan	NTD	36.7	11,996	22.1	66.7	13.5	12.8	1.3	1.2	2.7	2.8	9.8	9.3	
China Life	2823TT	Taiwan	NTD	27.8	2,293	15.2	69.2	14.0	13.3			2.6	2.3			
Average							56.5	58.9	23.1	15.9	1.9	1.7	2.1	2.2	10.1	10.7
High							498.3	100.0	87.4	27.3	3.5	3.1	5.0	5.4	17.8	17.5
Low							0.0	10.5	6.9	6.8	0.9	0.8	-	0.4	5.7	6.0
REGIONAL P&C																
IAG	IAG AU	Australia	AUD	4.9	10,720	29.5	35.3	13.1	12.0	2.2	2.1	4.9	5.3	16.7	18.6	
QBE	QBE AU	Australia	AUD	11.8	14,934	57.3	13.3	14.0	10.3	1.2	1.2	4.6	6.3	9.0	12.3	
SUNCORP	SUN AU	Australia	AUD	10.7	14,546	35.4	66.7	13.0	11.7	1.0	0.9	5.9	6.3	7.6	8.5	
Samsung F&M	000810KS	S. Korea	KRW	211,000	9,478	27.1	91.7	11.0	9.7	1.1	1.1	2.3	2.6	11.3	11.2	
Dongbu Ins	005830KS	S. Korea	KRW	43,000	2,887	23.5	77.1	6.2	5.7	1.1	0.9	3.2	3.5	19.6	17.8	
LG Ins	002550KS	S. Korea	KRW	24,250	1,380	5.0	87.5	5.3	4.7	0.8	0.7	4.0	4.4	18.5	16.7	
Tokio Marine	8766JP	Japan	JPY	2,687	23,259	80.8	77.8	20.9	16.3	1.0	1.1	2.0	2.2	5.0	6.2	
Average							36.3	61.2	12.2	10.4	1.5	1.3	3.6	4.1	14.1	14.3
High							80.8	91.7	20.9	16.3	3.2	2.7	5.9	6.3	25.2	22.7
Low							5.0	13.3	5.3	4.7	0.8	0.7	2.0	2.0	5.0	6.2
GLOBAL INSURANCE																
AFLAC	AFL US	USA	US\$	53.4	25,026	155.4	47.8	8.1	7.9	1.7	1.4	2.5	2.7	23.4	20.5	
Hartford Fin.	HIG US	USA	US\$	24.1	10,502	115.3	61.9	9.1	7.5	0.5	0.5	1.7	2.2	6.1	7.2	
Metlife	MET US	USA	US\$	36.6	39,921	424.8	66.7	7.0	6.9	0.7	0.7	2.1	2.7	10.7	10.4	
AIG	AIG US	USA	US\$	35.8	52,852	826.6	65.2	9.4	10.5	0.5	0.5	-	0.2	6.9	5.1	
Manulife	MFC CN	Canada	CAD	14.1	26,102	108.5	50.0	15.0	10.4	1.1	1.1	3.7	3.7	7.6	10.8	
Sun Life	SLF CN	Canada	CAD	27.7	16,806	75.4	17.6	11.2	10.8	1.2	1.2	5.2	5.2	10.8	10.9	
AXA	CS FP	France	EUR	13.7	24,579	61.8	62.9	7.4	7.3	0.7	0.7	5.3	5.7	9.0	9.1	
Allianz	ALV GR	Germany	EUR	104.8	35,995	119.9	66.7	9.1	8.7	0.9	0.9	4.4	4.7	11.0	10.6	
Aegon	AGN NA	Netherlands	EUR	5.0	7,453	26.0	43.6	7.8	7.7	0.4	0.4	4.1	4.6	5.9	5.6	
ING Groep NV	INGA NA	Netherlands	EUR	7.7	22,210	79.1	53.1	8.2	6.7	0.6	0.5	0.1	1.2	7.3	8.2	
Prudential PLC	PRU LN	UK/Global	GBP	924	38,078	56.4	66.7	13.4	11.8	2.4	2.1	2.9	3.1	17.8	17.5	
Zurich Ins	ZURN VX	Swiss	CHF	254	28,341	60.9	43.6	10.8	8.8	1.1	1.0	7.1	7.2	10.9	12.2	
Average							175.9	53.8	9.7	8.7	1.0	0.9	3.3	3.6	10.6	10.7
High							826.6	66.7	15.0	11.8	2.4	2.1	7.1	7.2	23.4	20.5
Low							26.0	17.6	7.0	6.7	0.4	0.4	-	0.2	5.9	5.1

Source: Bloomberg consensus, companies



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

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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