



# Company Report

## AIA Group - Buy Life & Health Insurance Industry

### Key sector data

H-share price (HK\$)	29.90
Target price (HK\$)	35.13
Upside potential (%)	17.5
52Wk H/L(HK\$)	31.9 / 22.5
Issued shares:	12,044
Market cap (HK\$mn)	368,546
30-day avg vol (HK\$mn)	945
Major shareholder (%):	
AIA Aurora (AIG)	12.6
JPMorgan Chase	6.8

\* valuations as of 2013E

Source: Company & Bloomberg

### Revenue composition in FY11 (%)

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

\* data as of 2011

Source: Company data

### Sector performance (%)

	Absolute	Relative*
1-mth	1.3	(1.7)
3-mth	8.7	0.5
6-mth	17.9	(1.1)

\* Relative to MSCI Hong Kong Index

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

### Analyst

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### Favorable trading performance post AIG's unloading

The 3-month lock-up period for AIG on its AIA's stake expired on 10 Dec, after its recent share placement in early Sep. Upon its need of repayment to US Treasury, AIG could soon sell down its AIA's stake for cash. Based on history, AIA share price performed well on absolute and relative terms, right after AIG's unloading in Mar and Sep. As such, we reiterate our positive stance towards AIA in near term, and maintain our BUY recommendation.

**Favorable trading performance after two unloadings.** In early Mar and Sep, AIG placed 1,720mn and 592mn of AIA shares respectively. Since then, AIA recorded significant absolute and relative trading performance in 1 day and 1 month. AIA rose by 2.8% in 1 day and 5.2% in 1 month after the Mar placement, which was priced at a 7.0% discount to last close. This is compared to flatish and 0.6% decline for MSCI HK during the same periods. By the same token, AIA went up by 6.8% in 1 day and 13.9% in 1 month after the Sep placement, which was priced at a 0.7% premium to last close. This is compared to 3.3% and 10.1% rise for MSCI HK during the same periods. Such outcomes implied a strong market demand on AIA's shares in block. Therefore, we believe the prospective increase in free-float will not negatively impact its share performance. The residual AIG holdings represent 394 days turnover of AIA.

**Always a safe harbor.** AIA Group was always regarded as a safe harbor among the constituents of MSCI HK. AIA Group logged significant outperformance against relevant benchmarks and peers during the period of European sovereignty crisis. Going forward, we remain confident of AIA's status as a safe harbor to investors.

**Maintain BUY & TP.** We derived an appraisal value of US\$54,447mn for FY13E and are using it as our target price for AIA Group. It is equivalent to HK\$35.13/share. In FY13E, its EVPS and VNB are HK\$22.40 and HK\$0.79, respectively. The implied valuation of our TP is 1.57x FY13E PEV and 16.2x FY13E VNB. This represents 17.5% upside from the current trading price. As such, we maintain our BUY recommendation on AIA Group.

**Risk factors:** worse-than-expected underwriting and investment performance, tighter-than-expected regulations

### Results and valuation

FY ended Nov 30	FY10	FY11	FY12E	FY13E	FY14E
Revenue (US\$ mn)	18,394	14,388	19,550	21,678	24,305
Chg (YoY)	(3)	(22)	36	11	12
Net profit (US\$ mn)	2,701	1,600	2,538	2,766	3,114
Chg (YoY)	54	(41)	59	9	13
EPS (HK\$)	1.75	1.04	1.64	1.79	2.02
PER (x)	17.1	28.9	18.2	16.7	14.8
BPS (HK\$)	12.6	13.7	15.2	16.7	18.4
P/B (x)	2.4	2.2	2.0	1.8	1.6
EVPS (HK\$)	16.0	17.6	20.0	22.4	25.1
PEV (x)	1.9	1.7	1.5	1.3	1.2
VNB (HK\$)	0.43	0.60	0.73	0.79	0.88
VNB (x)	32.4	20.5	13.6	9.5	5.4

Source: Company, ABCI Securities estimates



**AIA Group: share price performance against benchmarks after the previous two AIG's unloadings**

(%)	AIA Group	MSCI HK FIN	MSCI HK	HSI
1 day from Mar placement	2.8	0.1	0.0	(0.9)
1 day from Sep placement	6.8	3.7	3.3	3.1
1 month from Mar placement	5.2	(2.3)	(0.6)	(1.0)
1 month from Sep placement	13.9	11.4	10.1	9.4

Source: Company, Bloomberg, ABCI Securities

**AIA Group: AIG's stake in AIA Group**

AIG's stake in AIA Group	(mn shares)	(%)	Offering price (HK\$)	Av. Turnover 2012 (mn shares)	Turnover (days)	Consideration (US\$ mn)
Total number of shares	12,044	100.0%				
IPO shares in Oct 2010	8,083	67.1%	19.68			20,498
AIG stake as of Jan 2012	3,961	32.9%				
AIG Stake sold in Mar 2012	1,720	14.3%	27.15	4.19	411	6,018
AIG Stake sold in Sep 2012	592	4.9%	26.50	4.19	141	2,021
			<i>Current Price</i>			<i>Residual Value</i>
AIG Stake Balance	1,649	13.7%	29.90	4.19	394	6,355

Source: Company, Bloomberg, ABCI Securities

**AIA Group: US Treasury's stake in AIG**

US Treasury's stake in AIG	(mn shares)	Offering Price (US\$ / share)	Consideration (US\$ mn)
AIG total number of shares before buyback	1,897		
<b>US Treasury stake</b>			
as of May 2011	1,469		
<b>Shares buyback by AIG</b>			
Mar 2012	14.0	29.0	407
May 2012	135.4	30.5	4,130
Aug 2012	156.9	32.5	5,098
Sep 2012	739.2	30.5	22,546
<b>Stakes held by US Treasury</b>	(%)		
as of May 2011	77.45		
after buyback by AIG in Mar 2012	76.71		
after buyback by AIG in May 2012	69.57		
after buyback by AIG in Aug 2012	61.30	<i>Current Price</i>	<i>Residual Value</i>
after buyback by AIG in Sep 2012	22.33	33.36	10,352

Source: Company, Bloomberg, ABCI Securities

**AIA Group: relative performance against trading peers and relevant benchmarks**

(%)	AIA Group	China Life	Ping An	Manulife	Prudential	HK Property	MSCI HK Fin.	HSI
Early Apr - early Oct 2011 VS peers & benchmarks	(17.60)	(43.10)	(54.90)	(40.46)	(33.63)	(38.82)	(34.60)	(33.39)
		OP	OP	OP	OP	OP	OP	OP
Late Feb - early Jun 2012 VS peers & benchmarks	(14.29)	(29.42)	(20.49)	(18.67)	(11.10)	(15.85)	(17.14)	(15.78)
		OP	OP	OP	UP	OP	OP	OP
Since Feb High VS peers & benchmarks	1.70	(3.51)	(11.20)	3.59	26.84	4.52	4.65	2.75
		OP	OP	UP	UP	UP	UP	UP

Source: Bloomberg, ABCI Securities Note: OP – Out-perform, UP – Underperform, PP – Peer-perform



## 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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