

Key Data

H-share price (HK\$)	59.10
Target price (HK\$)	NA
Upside potential (%)	NA
52Wk H/L(HK\$)	68.6 / 37.4
Issued shares:	
H-shares (mn)	3,130
A-shares (mn)	4,786
H-share mkt cap (HK\$m)	427,646
30-day avg vol (HK\$m)	560.6
Major shareholder (%):	
HSBC	15.6
Shenzhen Investments	6.1

Source: Company, Bloomberg, ABCI Securities

Segmental profit composition in 2011 (%)

Life	44.2
P&C	22.0
Banking	35.3
Securities & Others	(1.5)

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	0.2	(3.8)
3-mth	6.4	3.9
6-mth	(11.0)	1.3

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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Ping An Group (2318 HK) – Unrated Life & health industry

All weak except for P&C (1H12 result review)

Ping An just released its 1H12 results, with better-than-expected EV, net profits and P&C performance. However, key disappointments came in with Life, Banking and Investment. Currently, the stock is trading at 1.39x 2012E PEV and 5.8x 2012E VNB as per consensus. It has been underperforming both China Life and China Pacific since early Jun. Despite a mediocre result, we believe most of these negatives should have been priced in. As a major index play (about 2.4% weighting in MSCI China and 2.0% of HSI), we believe Ping An can serve as a catch-up play against China Life and China Pacific in near term.

Slightly better EV. Group EV came in at Rmb259bn, 1.1% better than street consensus of Rmb256.2bn and up 9.9% HoH. This is mainly due to a narrowing unrealized loss in AFS reserves (a reversal of Rmb6.0bn).

Major disappointment in Life VNB. Life VNB was reported at Rmb9.2bn, undershot street consensus of Rmb9.9bn by 7.4% and down 8.6% YoY. This is due to a 28.1% YoY decline in FYP and narrowing margins.

Surprisingly good results by P&C. Combined ratios was 93.1%, flattish HoH and YoY. Divisional profits came in at Rmb2.7bn, up 2.0% YoY and ahead of a 33% YoY decline of China Pacific.

Worrying signs with banking division. SDB reported narrowing NIM (down 11bps HoH), lower CAR (11bps lower HoH), higher NPL (up 20bps HoH) and lower NPL coverage (down 82.7ppt HoH) in 1H12.

Investment results not sound. Gross investment yield was 3.7% (vs 3.9% of China Pacific) and net investment yield was 4.5% (vs 4.9% of China Pacific). Also, Ping An reported mark-to-market loss of Rmb7.0bn in 1H12.

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

Valuation

FY ended Dec 31	2008	2009	2010	2011
Revenue (Rmb mn)	82,415	147,793	194,349	250,744
Chg (YoY)		79.3	31.5	29.0
Net profit (Rmb mn)	1,418	13,883	17,311	19,475
Chg (YoY)		879.1	24.7	12.5
EPS (HK\$)	0.22	2.15	2.70	3.00
PER (x)	269.7	27.5	21.9	19.7
BPS (HK\$)	10.4	14.2	18.2	26.4
P/B (x)	5.7	4.2	3.2	2.2
EVPS (HK\$)	19.0	23.1	31.3	40.0
PEV (x)	3.1	2.6	1.9	1.5
VNB (HK\$)	1.3	1.8	2.4	2.7
VNB (x)	30.4	19.8	11.5	7.2

Source: Company, Bloomberg, ABCI Securities



1H12 result review

Slightly better EV. Ping An' Group EV came in at Rmb259bn, 1.1% better than street consensus of Rmb256.2bn and up 9.9% HoH. This is mainly due to a narrowing unrealized loss in AFS reserves (-ve Rmb14.4bn to -ve Rmb8.4bn). Group book value increased 12% HoH to Rmb146.8bn. This is a slight positive surprise to market

Major disappointment in Life VNB. Life value of new business (VNB) was reported at Rmb9.2bn, undershot street consensus of Rmb9.9bn by 7.4% and down 8.6% YoY. This is primarily because of a 28.1% YoY decline in FYP (5% YoY decline in individual FYP) and narrowing new business margins (APE basis, down from 39.5% in 2011 to 35.2% in 1H12). This is a major disappointment to market in our view.

Higher net profits on consolidation effect of SDB. Net profits recorded Rmb14.0bn, ahead of Bloomberg consensus of Rmb13.1bn and up 9.4% YoY. This is driven by the consolidated profits from Shenzhen Development Bank since 2H11. In 1H11, SDB's profits were booked as an associate (Ping An holding 29.9% stake temporarily). Thus the banking profits rose by 181% YoY to Rmb6.7bn in 1H12. Otherwise, all other divisions are merely reporting single digit growth or even profit decline on a YoY basis.

Investment results not sound, weaker than China Pacific. Gross investment yield was 3.7% for the first half (versus 3.9% of China Pacific). Net investment yield was 4.5% during the same period (weaker than 4.9% of China Pacific). To our negative surprise, Ping An still needed to book realized and impairment loss on equities amounting to Rmb7.0bn (4.7% of book value and 2.7% of Group EV in 1H12).

Key negative on Life underwriting. Individual FYP regular decreased by 5.0% YoY to Rmb23bn (up 14% YoY by China Pacific). Bancassurance FYP (both regular and single) dropped by 51.6% YoY, far worse than China Pacific. This is reflected in a YoY decline of 8.6% in VNB (up 6.0% YoY by China Pacific) in 1H12. This is absolutely a key disappointment to investors, we believe.

Surprisingly good results by P&C. Combined ratios was 93.1%, flattish both HoH and YoY. This is comparable to the market leader's recently announced combined ratio of 92.4% in 1H12. Divisional profits came in at Rmb2.7bn, up 2% YoY. This is ahead of a 33% YoY decline of China Pacific. We estimate its divisional annualized ROE to reach 23-24%, much better than 17-18% estimated for China Pacific.

Worrying signs with banking division. While net profits were up by 181% YoY due to the consolidation effect of SDB, we witness narrowing NIM (down 11bps HoH), lower CAR (11bps lower HoH), higher NPL (up 20bps HoH) and lower NPL coverage (down 82.7ppt HoH) for the bank. These underlying trends were definitely worse than other joint stock banks in the same half. We see both credit quality and capital risk for SDB going forward.

Flattish solvency. Group solvency rose to 176.7%, up 10ppt HoH. Life solvency went up to 167.3%, up 11.2ppt HoH. P&C solvency remained flattish HoH at 164.5%. Banking CAR was 11.40%, down 11bps HoH. We view this as average and continue to believe in a drag-on fund raising concern of Ping An.



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, 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, 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, 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, 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
Persistence 13 mo (%)	94	94	95	93	94	91	(1)	(2)
Solvency (%)	167	156	158	180	206	227	11	9

Source: Company, 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, 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, ABCI Securities



Ping An: Embedded Value (EV) Movement Analysis

	2006	2007	2008	2009	2010	2011	1H11	1H12
	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn
Group Embedded Value								
Life insurance EV	38,344	73,406	69,643	100,703	121,086	144,400	134,198	156,198
Book Value of Other Businesses	67,712	77,786	53,216	54,554	79,900	91,277	99,768	102,807
Group EV	106,056	151,192	122,859	155,257	200,986	235,677	233,966	259,005
Life Embedded Value								
Adjusted net worth	19,056	30,128	25,800	40,052	43,673	48,219	46,252	50,019
Value of in-force	27,076	52,863	55,519	74,965	94,958	117,550	116,877	129,726
Cost of solvency margin	(7,788)	(9,585)	(11,676)	(14,314)	(17,545)	(21,369)	(28,933)	(23,547)
Embedded value	38,344	73,406	69,643	100,703	121,086	144,400	134,196	156,198
Vnb (long term)	5,132	7,187	8,541	11,805	15,507	16,822	10,148	9,160
EV Movement Analysis								
Opening Embedded Value	54,485	38,344	73,406	69,643	100,703	121,086		
Expected return								
- SHF's	1,028	1,048	1,657	1,419	2,203	2,402		
- In-force	1,249	1,963	4,450	6,107	7,620	9,846		
Value of New Business (VNB)	5,132	7,187	8,541	11,805	15,507	16,822		
Inv't R Var + Mkt Val Adj	12,605	20,235	(29,942)	8,393	(1,327)	(12,268)		
Capital Raising & Dividends	(1,982)	(4,170)	15,439	748	(1,967)	7,968		
OpEx Var, Model Chg & Others	(34,173)	8,799	(3,908)	2,588	(1,653)	(1,456)		
Closing Embedded Value	38,344	73,406	69,643	100,703	121,086	144,400		
EVPS (HK\$)	6	11	11	16	19	22		
Group EVPS (HK\$)	17	22	19	23	31	36		
EV Contributions 1								
Expected Return on Beg EV	5%	8%	8%	11%	10%	10%		
IRV + MVA Contribution to Beg	26%	53%	-41%	12%	-1%	-10%		
VNB Contribution to Beg EV	9%	19%	12%	17%	15%	14%		
VNB Contribution to Beg VIF	23%	27%	16%	21%	21%	18%		
EVPS (HK\$) Growth	-30%	73%	0%	45%	21%	16%		
EV Contributions 2								
Beginning EV	142%	52%	105%	69%	83%	84%		
Expected return								
- SHF's	3%	1%	2%	1%	2%	2%		
- In-force	3%	3%	6%	6%	6%	7%		
Inv't R Var + Mkt Val Adj	33%	28%	-43%	8%	-1%	12%		
Value of New Business (VNB)	13%	10%	12%	12%	13%	-8%		
Capital Raising & Dividends	-5%	-6%	22%	1%	-2%	6%		
OpEx Var, Model Chg & Others	-89%	12%	-6%	3%	-1%	-1%		
Ending EV	100%	100%	100%	100%	100%	100%		

Source: Company, ABCI Securities



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