

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

Key Data

H-share price (HK\$)	26.95
Target price (HK\$)	NA
Upside potential (%)	NA
52Wk H/L(HK\$)	29.9 / 19.8
Issued shares:	12,044
Market cap (HK\$m)	325,188
30-day avg vol (HK\$m)	672
Major shareholder (%):	
AIA Aurora (AIG)	17.6
JPMorgan Chase	6.8

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

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

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	0.9	(2.9)
3-mth	7.4	0.7
6-mth	(7.8)	(3.8)

Source: Bloomberg

*Relative to MSCI Hong Kong

1 year price performance



Source: Bloomberg

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A defensive financial stock in tough times

AIA Group maintains its status as a defensive financial stock throughout the year of 2012. Its trading beta with HSI was only 0.86x since its IPO in Oct 2010. Currently, the stock is trading at 1.38x 2012E PEV and 10.8x 2012E VNB as per consensus. It has been outperforming major trading peers and benchmarks year to date and since market high in Feb 2012. In 1H12, the company delivered a solid set of results, with a balance of growth and value. As a major index play (about 7.0% weighting in MSCI Hong Kong and 4.5% of HSI), we believe AIA will continue to serve as a safe harbor in near term.

Endless growth in VNB. AIA reported VNB of US\$280mn in 2Q12 and US\$512mn in 1H12. This has been the 10th consecutive quarter of VNB growth. Per our channel check, AIA will continue to fill the huge gap of protection coverage, indicated at US\$33tn by SwissRe, in the Asian insurance markets.

Continuous margin expansion. AIA recorded NBM at 43.5% in 2Q12 and 42.6% in 1H12. This far exceeded 32.6% in FY10 and 37.2% in FY11. Margin expansion was primarily achieved through increasing health and critical illness components, and lengthening payment duration of new policies. This is also for filling up the protection gap in the Asian markets.

Solid capital base. AIA maintained a solvency ratio of 446% in 1H12, higher than 270% of Prudential and 225% of Manulife. This is also better than all listed Chinese insurers. For better preserving capital, AIA runs a prudent investment strategy, with only 9% equities in investment portfolio.

Only overhang from residual stakes held by AIG. Bob Benmosche, AIG's CEO, indicated that AIG would further sell down their AIA shares in early Sep, post lock-up period. We estimate the sale size could reach 178mn shares (approximately 7 days turnover).

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

Valuation

FY ended Nov 30	FY08	FY09	FY10	FY11
Revenue (US\$ mn)	3,810	19,016	18,394	14,388
Chg (YoY)		399	(3)	(22)
Net profit (US\$ mn)	408	1,754	2,701	1,600
Chg (YoY)		330	54	(41)
EPS (HK\$)	0.27	1.14	1.75	1.04
PER (x)	101.6	23.7	15.4	26.0
BPS (HK\$)	5.8	9.6	12.6	13.7
P/B (x)	4.7	2.8	2.1	2.0
EVPS (HK\$)		13.5	16.0	17.6
PEV (x)		2.0	1.7	1.5
VNB (HK\$)		0.35	0.43	0.60
VNB (x)		38.4	25.5	15.6

Source: Company, Bloomberg, ABCI Securities

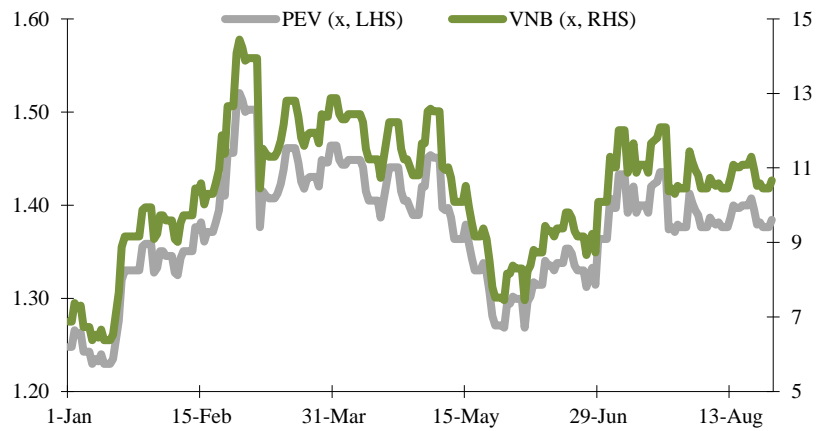


AIA Group: relative performance against trading peers and relevant benchmarks

(%)	AIA Group	China Life	Ping An	Manulife	Prudential	HK Property	MSCI HK Fin.	HSI
Since Feb High AIA vs Peers	(8.50)	(14.05) OP	(14.30) OP	(11.90) OP	9.17 UP	(8.91) OP	(5.51) UP	(8.41) PP
Year to date 2012 AIA vs Peers	10.93	8.33 OP	13.57 UP	6.18 OP	30.27 UP	9.15 OP	14.70 UP	7.72 OP

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

AIA Group: trading PEV & VNB in 2012 YTD



Source: Company, Bloomberg, ABCI Securities



Disclosures

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