

Key Sector Data

Average PER (x)	15.2
Average PBV (x)	1.6
Average PEV (x)	1.1
Average VNB (x)	0.6
Average Dividend Yield (%)	1.0

Sector Market cap (HK\$bnn)	1,417
Average 30-day avg vol (HK\$mnn)	1,813
Sector Weighting in MSCI China	~ 8%

Source: Company, Bloomberg, ABCI Securities

Sector Premium composition in 2011 (%)

Life	60.6
Health	4.8
Personal Accident	2.3
Property & Casualty	32.2

Source: Companies, CIRC

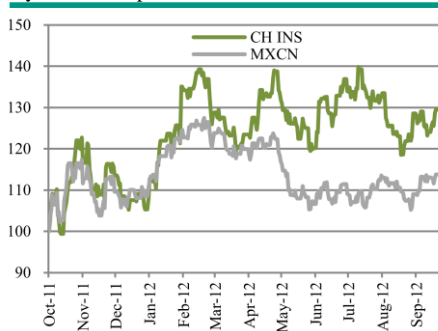
Sector performance (%)

	Absolute	Relative*
1-mth	2.57	(1.58)
3-mth	(1.46)	(5.73)
6-mth	6.94	11.08

Source: Bloomberg

*Relative to MSCI China

1 year relative performance vs MSCI China



Source: Bloomberg

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China Insurance Sector - Overweight Life & Health Insurance Industry

Health sales benefiting from underfunded Medicare plans

According to State Council, national Medicare plan (医保基金) has a balance funding of about Rmb130bn, only sufficient for the use in the coming three years. Meanwhile, urban employee medical plans have a balance funding of Rmb402bn. But such funding ceases to grow due to losses in equity markets. In our view, the underfunded nature of Medicare plans will induce more health sales in China. Therefore, we reiterate our OVERWEIGHT rating on China Insurance.

Rural Medicare fund (新农合基金) averaged Rmb40 per capita.

Medicare plan starts to cover expenses on major illnesses since the National Day in 2012. However, the funding averaged only Rmb40 per capita. Per Chinese Academy of Social Science, the residual funding is only sufficient for the use in the coming three years. But the new funding source has not been identified.

Medical expenses up 15% p.a.. State Council stated that medical expenses grew at an annual rate of 15% in average. But the contributions to Medicare plans are shrinking due to the aging population.

Flourishing Health sales. In our opinion, urban and rural dwellers will seek for their own health care plans, as a result of the underfunded public plans. In fact, Health premiums grew 25.7% YoY year to Jul 2012. Such growth far exceeded that of normal Life premiums. We forecast Health premiums to grow at a double digit rate in 2012E and 2013E.

29.2% market share by Big Four. Big Four insurers contributed 29.2% of national A&H sales in 1H12. China Life is the market leader with Rmb8.6bn premium sales (18.5% market share). We are more positive on China Life and China Pacific in the Health market. Both of them have successfully launched new critical illness products since early 2012.

Maintain OVERWEIGHT; Top picks: China Life & China Pacific.

We are optimistic on the development of health products. As such, we reiterate our Overweight rating on China Insurance. Our top picks are China Life and China Pacific. Our SELL is Ping An. Also, we have 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

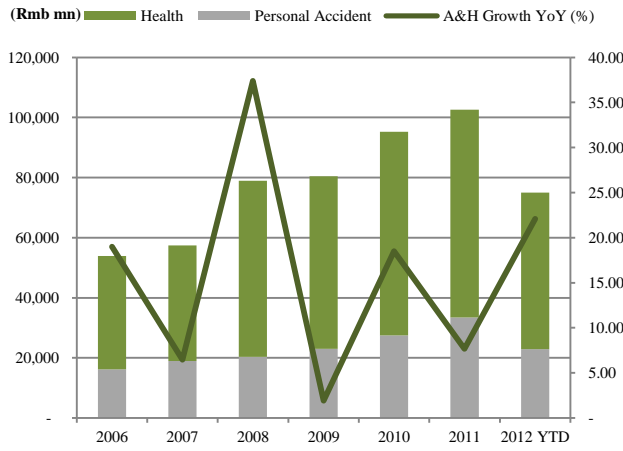
Sector Valuation Summary

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	22.50	636	BUY	26.45	17.1	2.1	1.3	5.7	1.8%
Ping An	2318 hk	59.85	474	SELL	58.04	13.3	1.7	1.2	3.5	1.1%
China Pacific	2601 hk	23.10	209	BUY	27.93	18.5	1.6	1.1	(2.0)	1.9%
New China Life	1336 hk	24.80	77	HOLD	24.85	14.5	1.5	0.9	(1.5)	0.0%
China Taiping	0966 hk	12.12	21	BUY	13.42	12.5	1.2	0.9	(2.7)	0.0%
Sector Average						15.2	1.6	1.1	0.6	1.0%

Source: Company, Bloomberg, ABCI Securities



CH INS: Accident & Health [A&H] (2006 – 2012 YTD)



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

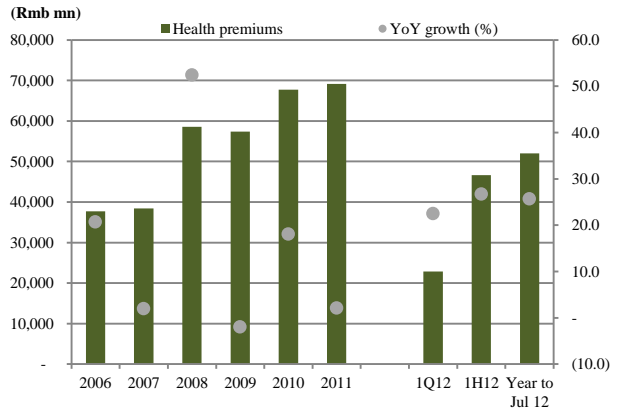
CH INS: Medicare coverage in urban areas (2008 vs 2011)

	Urban Population with Medicare (mn)	Total Urban Population (mn)	% covered
2008	317	607	52.3
2011	473	691	68.5

	Gov't subsidy per head (Rmb)	Disposable income per head (Rmb)	Subsidy as % of Disposable income
2008	80	15,781	0.5
2011	200	21,810	0.9

Source: Xinhua, NBS, company data, ABCI Securities

CH INS: Health insurance sales (2006 – 2012 YTD)



Source: CIRC, company data, ABCI Securities

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

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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