



Company Report

China Taiping (966 HK) – Buy Life & Health Insurance Industry Initiation

Key data

H-share price (HK\$)	12.18
Target price (HK\$)	13.42
Upside potential (%)	10.20
52Wk H/L(HK\$)	18.6 / 10.1
Issued shares:	1,714
Market cap (HK\$mn)	20,778
30-day avg vol (HK\$mn)	26.2
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	18.5	14.4
3-mth	(2.9)	(5.9)
6-mth	(19.8)	(15.7)

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 3 October 2012

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An undervalued small-cap

China Taiping has been constantly overlooked by investors due to its small-cap status. However, we see strong turnaround stories in its Reinsurance and P&C units. While we are still concerned with its Life operations, the stock is trading at only 0.87x 2013E PEV, compared to 2.31x of historical average. Based on these, we initiate coverage on China Taiping with a BUY recommendation.

Reinsurance recovery at sight. 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. We expect TPRE to report net profits of HK\$103 mn in 2012E, against net loss of HK\$94 mn in 2011. The swing factor totals HK\$197 mn.

P&C returning to underwriting profits. TPI started making underwriting profits of Rmb53 mn in 1H12, against losses during 2008-10. We expect the unit to achieve better economies of scale in operations, when premium income surpassed Rmb6.0 bn in 2012E (Rmb5.8bn in 2011). TPI's turnaround is another investment merit for China Taiping.

Attractive valuation. China Taiping closed at HK\$11.50, down 20.4% year to date. It is trading at 0.87x 2013E PEV and (2.6)x 2013E VNB, much cheaper than the sector average of 1.07x 2013E PEV. We expect China Taiping to grow its EVPS by 21.4% YoY in 2012E and 15.5% YoY in 2013E. Despite the weakness of its Life operations, the stock is trading at a very attractive low valuation.

Initiate coverage with a BUY rating; TP of HK\$13.42. We derive an appraisal value of HK\$23,006 mn for 2013E, also adopting it as TP, or HK\$13.42/ share. The implied valuation of our TP is 0.96x 2013E PEV and 1.1x 2013E VNB. This represents 10.2% upside potential from the current share price. We initiate coverage of China Taiping with a BUY recommendation.

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	59,449	64,930	69,928
Chg (YoY)	53	3	12	9	8
Net profit (HK\$ mn)	2,248	495	1,357	1,657	1,915
Chg (YoY)	172	(78)	174	22	16
EPS (HK\$)	1.3	0.3	0.8	1.0	1.1
PER (x)	9.2	42.0	15.4	12.6	10.9
BPS (HK\$)	7.5	6.7	7.6	8.6	8.6
P/B (x)	1.6	1.8	1.4	1.2	1.0
EVPS (HK\$)	9.2	10.0	12.1	14.0	16.0
PEV (x)	1.3	1.2	1.0	0.9	0.8
VNB (HK\$)	0.5	0.7	0.7	0.7	0.7
VNB (x)	5.5	3.2	0.1	(2.6)	(5.4)

Source: Company data, ABCI Securities estimates



Investment Positives

Reinsurance recovery at sight. TPRE, the reinsurance arm of China Taiping, reported net losses of HK\$248 mn in 2H11 and HK\$75 mn in 1H12. This is mainly because of the three major natural disasters in 2011, namely; flooding in Thailand, earthquake / tsunami in Japan and earthquake in New Zealand. The claim ratio was as high as 113% in 2H11 and 1H12. In 2H12 and 2013, we expect the unit to benefit from the increase of global reinsurance pricing and fading residual claims from 2011. We expect TPRE to report net profits of HK\$103 mn in 2012E, against net loss of HK\$94 mn in 2011. The swing factor totals HK\$197 mn for China Taiping. We forecast TPRE's ROE to normalize to 14% in 2013E, compared to (4)% in 2011 and 4% in 2012E.

P&C returning to underwriting profits. TPI, the China P&C arm of China Taiping, continued to make underwriting losses since the beginning of operations. But in 1H12, it turned profitable in underwriting, with a combined ratio at 98%. This is attributable to the falling claim ratio. TPI reported underwriting profits of Rmb53 mn, compared to losses of Rmb347mn in 2008. We expect the unit to achieve better economies of scale in operations, when annualized premiums surpassed Rmb6.0 bn in 2012E (Rmb5.8bn in 2011). The turnaround of TPI is another major investment merit for China Taiping.

Attractive valuation. China Taiping closed at HK\$11.50, down 20.4% year to date. It is trading at 0.87x 2013E PEV and (2.6)x 2013E VNB, much cheaper than the sector average of 1.07x 2013E PEV. We expect China Taiping to grow its EVPS by 21.4% YoY in 2012E and 15.5% YoY in 2013E. Despite the weakness of its Life operations, the stock is trading at a very attractive valuation.

EV sensitive to investment upturn. Per the company disclosure, 10% change in equity values will lead to 5.5% change in China Taiping's EV in 1H12. This is high compared to 5.4% of China Life, 2.8% of Ping An, 1.3% of China Pacific and 1.7% of New China Life. In 1H12, Taiping Life allocated Rmb13.4bn, or 7.8% of investment portfolio, in equity. We expect the insurer to benefit from the upcoming recovery of A-share markets.

Investment Concerns

Life under margin pressure. In 1H12, Taiping Life reported VNB of HK\$1,283 mn, up 2.4% YoY. However, the unit could have reported a 15% YoY decline in VNB, if not for the change in actuarial assumptions. During the same half, the company lower discount rate from 11.5% to 11.0%, and increase long term investment assumption from 4.5% to 5.0%. Excluding such impact, Taiping Life will report VNB at HK\$1,065 mn. The implied NBM was only 26.5%, flattish HoH. In the meantime, all of its peers reported better NBM. The firm pushed health and critical illness products along with its peers earlier this year. However, its products were sold through bancassurance channels and were not well received. Also, the unit has optimized its regular premium product structure. Further room for improvement could be limited.

Limped by small-cap status. China Taiping has been constantly overlooked by insitutiional investors, due to its small market cap and low index weighting in major benchmarks compared to its peer group. At present, its market cap is US\$2.6bn, compared to US\$80.5bn of China Life, US\$59.4bn of Ping An and US\$26.5bn of China Pacific. In MSCI China, its index



weighting is 0.3%, smaller than 3.0% of China Life, 2.5% of Ping An and 0.8% of China Pacific. For not being a major index stock, CTIH does not appeal to many mutual fund investors. As a result, despite its recovering fundamentals, its small-cap status may hinder its share price recovery.

Inadequate solvency. Taiping Life reported a solvency of 169.0%. This is the lowest in the sector. More importantly, the insurer has exceeded the limit of sub-debt issuance set by CIRC. It can no longer resort to the instrument for boosting solvency. As of now, its solvency is merely 19ppt over the recommended level of CIRC.

Valuation & Recommendation

We forecast high-teens EV Growth. China Taiping reported group EV of HK\$17,074 mn in 2011 and HK\$20,505 mn in 1H12. In 2012E, we expect the company to report investment return variance of HK\$500 mn, due to slightly improved capital markets in China and Hong Kong, compared to 2011. Besides, we forecast VNB of HK\$2,412 mn in 2012E and HK\$2,379 mn in 2013E, on the back of weak NBM's averaging 29.5%. This assumption was formulated based on the latest actuarial assumption of Taiping Life. As such, we forecast the EV to reach HK\$20,725 mn in 2012E, up 21.4% YoY, and HK\$23,941 mn in 2013E, up 15.5% YoY.

Expecting a sharp growth in earnings. Based on a net premium growth of 6.0% YoY and gross investment yield of 4.1%, we estimate China Taiping to report net earnings of HK\$1,657 mn in 2013E, up 22.1% YoY from HK\$1,357 mn in 2012E. Because of the low base earnings in 2011, we forecast China Taiping to grow its profits by 174.4% YoY this year. Our earnings forecast is behind consensus of HK\$1,734 mn, due to more conservative assumption on policyholders benefits. We estimate the company to pay higher policyholder dividends due to better investment return.

TP and recommendation. Based on the aforementioned assumptions, we derive an appraisal value of HK\$23,006 mn for China Taiping in 2013E and also adopt it as our target price. It is equivalent to HK\$13.42/ share. Our appraisal value consists of the valuation of non-Life unit at HK\$6,013 mn. We forecast 2013E EVPS and VNB of HK\$13.97 and HK\$0.69, respectively. The implied valuation of our TP is 0.96x 2013E PEV and 1.1x 2013E VNB. This represents 10.2% upside potential from the current share price. We initiate coverage of China Taiping with a BUY recommendation.



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, 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, 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, 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, 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, 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, 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	1.51 x
	Lo	0.72 x	1.47 x	1.34 x	1.30 x	2.32 x	1.37 x	0.85 x
	Av	1.35 x	3.16 x	2.65 x	2.61 x	2.72 x	1.90 x	1.13 x
EVPS YoY Growth (%)			26%	28%	11%	38%	4%	21%
VNB(X)	Hi	37.00 x	101.14 x	60.90 x	58.31 x	37.94 x	22.70 x	8.73 x
	Lo	(6.65x)	10.68 x	6.91 x	5.17 x	23.61 x	5.34 x	(2.60x)
	Av	8.33 x	49.44 x	33.94 x	28.19 x	30.84 x	12.98 x	2.31 x
VNB YoY Growth (%)			33%	43%	31%	35%	28%	2%

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	3,965	4,515	4,806
Value of in-force	10,353	14,156	23,469	26,152	30,380	24,088
Cost of solvency margin	(2,135)	(2,653)	(3,061)	(3,357)	(3,559)	(3,079)
TPL embedded value	13,626	17,511	23,668	26,760	31,336	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	13,394	15,684	12,920
Other businesses at 1x PBV	5,014	6,967	5,228	7,331	8,257	7,585
Group embedded value	11,834	15,731	17,074	20,725	23,941	20,505
Vnb (long term)	1,353	1,827	2,359	2,412	2,379	1,055
Multiplier	7	4	1	1	1	
New business value (long term)	10,048	6,812	2,642	2,260	2,615	
CTIH shareholding	50.05%	50.05%	50.05%	50.05%	50.05%	
CTIH share of TPL NBV	5,029	3,409	1,322	1,131	1,309	
CIRe goodwill less cap. corp. exp.	(1,789)	(1,962)	(1,819)	(2,150)	(2,244)	
Group appraisal value	15,074	17,178	16,577	19,706	23,006	
EV movement analysis						
Opening embedded value	8,548	13,626	17,486	21,664	26,760	
Expected return						
- SHF's	154	270	300	205	250	
- In-force	733	1,139	1,248	1,479	1,648	
Value of new business (VNB)	1,353	1,827	2,359	2,412	2,379	
Inv't r var + mkt val adj	771	495	(4,024)	500	300	
Capital raising & dividends	1,590	-	1,585	-	-	
OpEx var, model chg & others	477	129	2,710	500	-	
Closing embedded value	13,626	17,486	21,664	26,760	31,336	
Group EVPS (HK\$)	6.95	9.24	9.96	12.09	13.97	
AVPS (HK\$)	8.86	10.09	9.67	11.50	13.42	
PEV implied	1.27	1.09	0.97	0.95	0.96	
VNB (HK\$)	0.40	0.54	0.69	0.70	0.69	
VNB implied (x)	7.43	3.73	1.12	0.94	1.10	
EV contributions 1 (%)						
Expected return on beg EV	10%	10%	9%	8%	7%	
IRV + MVA contribution to beg EV	9%	4%	-23%	2%	1%	
VNB contribution to beg EV	16%	13%	13%	10%	9%	
VNB contribution to beg VIF	20%	18%	17%	10%	9%	
EVPS (HK\$) growth	11%	33%	8%	21%	16%	
EV contributions 2 (%)						
Beginning EV	63%	78%	81%	81%	85%	
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%	2%	1%	
Value of new business (VNB)	10%	10%	11%	9%	8%	
Capital raising & dividends	12%	0%	7%	0%	0%	
OpEx var, model chg & others	3%	1%	13%	2%	0%	
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	55,975	59,918	64,139	Gross written premium growth	57.2%	2.7%	11.7%	7.0%	7.0%
(-) Premiums to reinsurers	2,308	1,968	2,362	2,674	2,928	Net earned premium growth	57.9%	3.5%	10.5%	6.0%	6.8%
NWP & policy fees	44,792	48,130	53,613	57,244	61,211	Claims/benefits - of NEP	21.3%	25.2%	24.7%	23.5%	23.8%
Chg. in unearned premium res.	(1,002)	(521)	(999)	(1,469)	(1,650)	Div to PH & Net Inc. in PH Res. of NEP	59.9%	56.8%	55.3%	58.3%	58.7%
NEP & policy fees	43,790	47,609	52,614	55,775	59,561	Ttl. claim/PH benefits to NEP	81.2%	82.0%	80.0%	81.9%	82.5%
Investment income	4,798	5,197	6,606	8,958	10,110	Claims/benefits - of total revenue	18.9%	22.6%	21.9%	20.2%	20.3%
Other income	269	363	229	197	257	Net inc. in PH res. - of total revenue	53.2%	50.9%	49.0%	50.1%	50.0%
Total revenue	48,857	53,169	59,449	64,930	69,928	Ttl. claim/PH benefits to total revenue	72.1%	73.4%	70.8%	70.3%	70.2%
Claims, surrenders, annuities/maturities	(10,368)	(12,007)	(13,002)	(13,121)	(14,166)	Commission cost ratio	7.9%	8.3%	8.4%	8.3%	8.2%
Div. & int. to PH & net inc. in PH res.	(22,854)	(27,039)	(29,102)	(32,539)	(34,949)	General & admin. cost ratio	16.3%	16.0%	15.4%	16.0%	15.9%
Ttl. claims/PH benefits	(33,222)	(39,046)	(42,104)	(45,660)	(49,115)	Other cost ratio	0.7%	1.1%	1.0%	0.9%	0.8%
Commission expenses	(4,611)	(4,409)	(4,998)	(5,371)	(5,761)	Operating expense ratio	24.9%	25.4%	24.8%	25.2%	24.9%
General & administrative expense	(8,697)	(8,508)	(9,182)	(10,382)	(11,104)	Gross investment yield	4.8%	3.4%	3.5%	4.1%	4.1%
Finance expense	(328)	(566)	(581)	(580)	(580)	TPRe solvency	555.8%	389.7%	360.7%	346.0%	331.5%
Other expense	0	0	0	0	0	Taiping life solvency	270.3%	177.7%	170.9%	168.5%	165.6%
Total expenses	(13,636)	(13,482)	(14,761)	(16,333)	(17,445)	Taiping insurance solvency	153.5%	152.2%	174.7%	171.6%	176.7%
Net profit before tax	1,999	641	2,585	2,937	3,369	Balance sheet (HK\$ mn)					
Associate/JV - Profits/losses	55	251	189	203	203		2010	2011	2012E	2013E	2014E
Tax expense	(208)	28	(505)	(616)	(709)	PP&E	1,304	2,916	4,024	4,034	4,047
Net profit after tax	1,846	920	2,269	2,524	2,863	Bonds	86,452	116,230	137,027	151,894	170,840
Minority interest	(752)	(425)	(912)	(867)	(948)	Equities	12,245	8,669	14,307	17,098	19,240
NP to CTIH shareholders	1,094	495	1,357	1,657	1,915	Investment funds	4,251	5,672	(4,747)	9,046	10,155
						Cash	29,412	37,776	57,958	52,158	59,040
						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	231,645	257,611	286,959
						Life insurance funds	96,670	122,564	145,400	172,795	202,151
						Unearned premium	4,067	4,808	5,336	6,310	7,416
						Outstanding claims	7,639	9,209	9,942	10,785	11,718
						Tax liabilities	1,491	558	1,007	1,007	1,007
						Interest bearing notes	10,231	11,041	10,985	13,085	15,185
						Other	15,903	26,318	37,052	28,268	20,341
						Liabilities	136,002	174,498	209,722	232,250	257,818
						Net assets	18,482	16,874	21,923	25,361	29,142
						Minority interests	5,769	5,439	7,161	8,029	8,977
						Net equity to shareholders	12,712	11,435	14,761	17,332	20,165

Source: Company data, ABCI Securities estimates



Disclosures

Analyst Certification

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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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