



Company Report

AIA Group - Buy Life & Health Insurance Industry Initiation

Key sector data

H-share price (HK\$)	30.70
Target price (HK\$)	35.13
Upside potential (%)	14.4
52Wk H/L(HK\$)	31.9 / 22.5
Issued shares:	12,044
Market cap (HK\$mn)	369,750
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	3.7	1.8
3-mth	14.8	5.4
6-mth	15.8	3.7

* Relative to MSCI Hong Kong Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 9 November 2012

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A defensive stock with stellar growth

We view AIA as a defensive stock with stellar growth. On one hand, it defied gravity in underwriting performance, reporting 11th consecutive quarters of VNB growth since its IPO. On the other, AIA has demonstrated its defensive nature, by outperforming relevant benchmarks and trading peers during the stock market downturns since early 2011. Therefore, we initiate our research coverage on AIA with a BUY recommendation.

Defying gravity in underwriting. AIA reported an across-the-board YoY increase in annual premium equivalent (APE) and value of new business (VNB) in its major markets of operations for FY11 and 1HFY12. The group APE rose 8.5% YoY (to US\$1,187mn) and group VNB reached US\$512mn (+28.3% YoY) in 1HFY12. The company reported VNB growth for the 11th consecutive quarters in 3QFY12. Moreover, AIA Group outshined Prudential Asia and Manulife Asia in VNB growth and margin expansion for FY11 & 1HFY12. Per our forecast, AIA will maintain fast growth in VNB through better product offering.

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 periods of early Apr to early Oct 2011, and late Feb to early Jun 2012. These are the periods of weak stock market performance, due to the European sovereignty crisis and weakening GDP growth in China. Going forward, we remain confident of AIA's status as a safe harbor to investors.

Initiate coverage with a BUY recommendation; target price at HK\$35.13. 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 14.4% upside from the current trading price. As such, we initiate coverage of AIA Group with a BUY recommendation.

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)	17.6	29.6	18.7	17.1	15.2
BPS (HK\$)	12.6	13.7	15.2	16.7	18.4
P/B (x)	2.4	2.2	2.0	1.8	1.7
EVPS (HK\$)	16.0	17.6	20.0	22.4	25.1
PEV (x)	1.9	1.7	1.5	1.4	1.2
VNB (HK\$)	0.43	0.60	0.73	0.79	0.88
VNB (x)	34.2	21.8	14.7	10.6	6.3

* Prices as of 8 November 2012

Source: Company, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

AIA Group Ltd.

Contents

Contents	2
Executive Summary – A defensive stock with stellar growth	3
Defying gravity in underwriting	6
Solid solvency & cash generation	9
Always a safe harbor	11
Positive impact from investments & forex	12
ING transaction boding well	15
Low EV operating margins	16
Overhang from AIG's placement	17
Valuation & Recommendation	18
Appendix I – Comparable Valuation Summary	21
Disclosures	22



Executive Summary – A defensive stock with stellar growth

A defensive stock with stellar growth; BUY; TP of HK\$35.13 on five positives

We are initiating coverage on AIA Group with a BUY recommendation and a target price (TP) of HK\$35.13. We believe the insurer is a defensive stock with stellar growth, judging by: (i) Defying gravity in underwriting; (ii) Solid solvency & cash generation; (iii) Always a safe harbor; and (iv) Positive impact from investments & forex; and (v) ING transaction boding well. However, we note that AIA also has a few investment negatives, which include: (a) Low EV operating margins and (b) Overhang from AIG's placement. As a result, while we are positive on the stock's fundamentals, we are holding a slightly conservative stance towards AIA Group. 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 14.4% upside from the current trading price. As such, we initiate coverage of AIA Group with a BUY recommendation.

Defying gravity in underwriting

Stellar and better-than-peers growth in VNB and APE in FY11 & 1HFY12

In our opinion, AIA Group defied gravity in underwriting performance since its IPO in Oct 2010. AIA Group reported an across-the-board YoY increase in annual premium equivalent (APE) and value of new business (VNB) in its major markets of operations for FY11 and 1HFY12. The group APE rose 8.5% YoY (to US\$1,187mn) and group VNB reached US\$512mn (+28.3% YoY) in 1HFY12. Most importantly, such a prolonged growth contrasts the negative growth of both APE and VNB in FY09, the year following the global financial crisis. In a relative basis, AIA Group outshined two major regional peers in VNB growth and margin expansion. AIA Group recorded faster VNB growth than Prudential Asia and Manulife Asia in FY11 and 1HFY12. Such growth was primarily achieved by AIA's improvement in New Business Margins (NBM).

Solid solvency & cash generation

Strong solvency and recovery of persistency ratios

AIA Group has shown solid solvency and cash generation since its IPO in Oct 2010. Its group solvency ratio has exceeded 300% on a consistent basis, compared to the regional regulatory requirement of 100-200%. Its renewal premium base accounted for 82-84% of its total premiums, implying strong cash generation from its value-in-force (VIF) book. Lastly, its persistency ratio recovered to 94%, its pre-global financial crisis level. These factors compose the Company's long-term investment merits.

Always a safe harbour

Consistent outperformance in market downturns

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 from early Apr to early Oct 2011. During this period, Hong Kong stock market was declining sharply and searching for its bottom, in view of the European sovereignty crisis. The Company outperformed the Hang Seng Index by 15.8% and MSCI HK Financials by 17.0% during the period. Extending into the year of 2012, investors continue to view AIA Group as a defensive stock. AIA Group has lost 14.3% in share price (compared to 15.8% for the HSI) from late Feb to early Jun 2012. This is a period of weak stock market performance during 2012. Most importantly, the stock outperformed most of its trading peers, except for Prudential, during



this period. On one hand, AIA Group has outperformed MSCI HK Financials by 2.9 ppts and Hong Kong Property by 1.6 ppts. On the other hand, the company outperformed China Life by 15.1 ppts and Ping An by 6.2 ppts. Accordingly, we are confident of AIA's status as a safe harbor to investors going forward.

Positive impact from investments & forex

Benefited from rising Asian stock markets and appreciating Asian currencies

Five out of six major equity markets in which AIA invested heavily have jumped over 5% since 1HFY12. As per our analysis, the weighted average rise in these markets based on AIA's regional EV mix reached 8.5% during the period. We estimate that this will lead to markups of US\$600mn to EV and US\$1,079mn to Profit & Loss for FY12E. We expect this trend to be sustained throughout 2013E, leading to further equity gains to AIA Group. Meanwhile, AIA Group will also benefit from the appreciation of Asian currencies, which rose by 1.9% against USD since 1HFY12. We estimate that this will lead to markups of US\$100mn to EV and to Profit & Loss for FY12E.

ING transaction boding well

Accretive deal on ING Malaysia, helping to strengthen AIA's foothold in the country

AIA Group announced to reach an agreement to purchase 100% stake of ING Malaysia from ING Insurance Asia. The consideration is EUR1,336mn (US\$1,730mn) payable in cash upon Completion of the Proposed Transaction. Firstly, this will strengthen AIA's foothold in Malaysia. Furthermore, AIA's free-surplus funds can be better employed through this acquisition. Lastly, the consideration of ING Malaysia is US\$1.7bn, or 1.70x 2011 PEV and 12.0x 2011 VNB. Such price tag deems accretive to AIA, which is trading 1.75x 2011 PEV and 21.8x 2011 VNB. Per the management, the transaction will generate cost synergies of US\$24mn by 2015, equivalent to 10.2% of pro-forma net profits from the combined entity in 2011.

Low EV operating margins

High-based VIF leading to lower EV operating margins and VNB contribution than Chinese peers

AIA logged lower EV operating margins than Chinese peers in FY11, because of its long-built book of value in force (VIF) since 1947. Due to the high-base effect, AIA reported EV operating margins of 11.4%, compared to an average 22.4% of Chinese life insurers. By the same token, AIA did not have a high EV contribution from its VNB. In FY11, its VNB contributed merely 3.4% of EV. This is lower than the average 10.5% of Chinese life insurers. To sum, AIA logged a slower organic growth in EV, relative to Chinese life insurers.

Overhang from AIG's placement

AIG may divest again as early as Jan 2013

From time to time, investors are concerned with the potential divestiture of AIA's stake by AIG. Since early 2012, AIG has offloaded AIA's shares for two times. AIA's share price faced immense selling pressure immediately after the two disposals. As of now, AIG still holds 1,649mn shares, or 13.7% stake in AIA Group. AIG is obliged to serve a three month lock-up period on further stake sale after Sep 2012. In other words, AIG may seek to further divest on AIA Group as early as Jan 2013. This serves as a major overhang to AIA's share price performance.



Valuation & Recommendation- Initiate coverage with a BUY rating and a TP of HK\$35.13/share

More conservative investment assumptions than the street

Based on our assumptions, we estimate that EV will reach US\$30,985mn in FY12E and US\$34,718mn in FY13E. Our EV estimates fall at the higher end of the consensus range. Also, we forecast AIA Group will report earnings of US\$2,538mn in FY12E and US\$2,766mn in FY13E. Our estimates are broadly in-line with Bloomberg consensus earnings despite our more conservative assumptions on investment return (5.0% gains in equity portfolio) and forex movement (0.5% appreciation of Asian currencies) than the street (7-10% gain in equity portfolio and 1% appreciation of Asian currencies). As such, we derive an appraisal value of US\$54,447mn for FY13E and are using it as our target price. 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 14.4% upside from the current trading price. We initiate coverage of AIA Group with a BUY recommendation.

AIA Group: investment positives & concerns

AIA Group(1299.hk), BUY, TP: HK\$35.13	'A defensive stock with stellar growth'
Investment positives	Investment concerns
Defying gravity in underwriting	Low EV operating margins
Solid solvency & cash generation	Overhang from AIG's placement
Always a safe harbor	
Positive impact from investments & forex	
ING transaction boding well	

Source: Company data, ABCI Securities



Defying gravity in underwriting

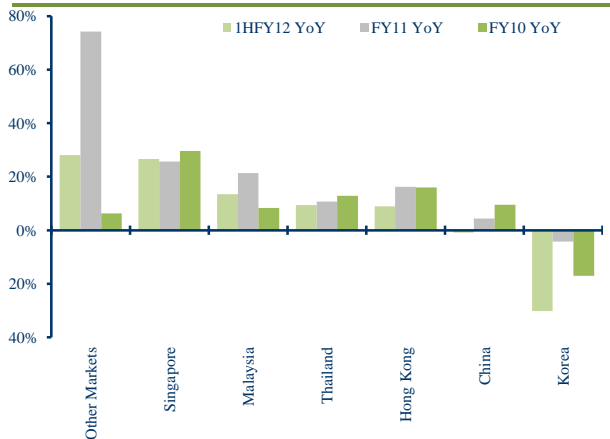
Stellar and better-than-peers growth in VNB and APE in FY11 & 1HFY12

In our opinion, AIA Group defied gravity in underwriting performance since its IPO in Oct 2010. Except for Korea, AIA Group reported an across-the-board YoY increase in annual premium equivalent (APE) and value of new business (VNB) in its major markets of operations for FY11 and 1HFY12. The group APE rose 8.5% YoY (to US\$1,187mn) and group VNB reached US\$512mn (+28.3% YoY) in 1HFY12. This is an extension of the strong performance demonstrated in FY11, with APE up 22.1% YoY and VNB up 39.7% YoY. More importantly, such a prolonged growth contrasts the negative growth of both APE and VNB in FY09, the year following the global financial crisis. In a relative basis, AIA Group outshined two major regional peers in VNB growth and margin expansion. AIA Group recorded faster VNB growth than Prudential Asia and Manulife Asia in FY11 and 1HFY12. Such growth was primarily achieved by its improvement in New Business Margins (NBM).

VNB growth in five out of six major markets in 1HFY12

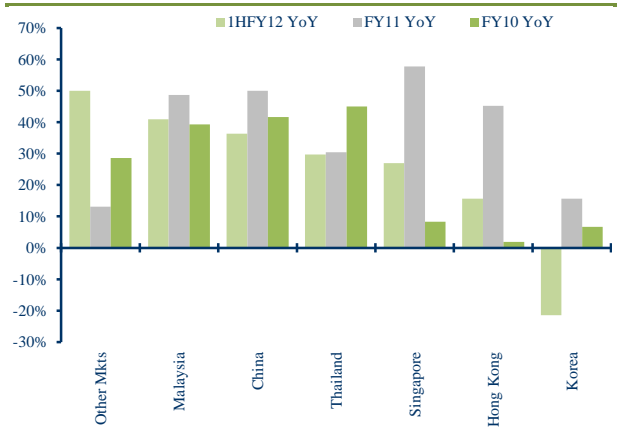
Going into FY12E, AIA Group shifted focus from volume to margin improvement. In 1HFY12, AIA Group recorded VNB YoY growth in five out six major markets. Also, “Other markets” recorded a sharp growth of 50.0% YoY in VNB. For the top four markets, Thailand, China and Singapore averaged 31.0% YoY growth in VNB during the period. For Hong Kong, VNB growth reached 15.7% YoY – also an impressive growth rate in our opinion. As a result, group VNB growth reached 28.3% in 1HFY12. This was supported by stellar improvement in NBM.

AIA: APE growth (FY10 – 1HFY12)



Source: Company data, ABCI Securities

AIA: VNB growth (FY10 – 1HFY12)



Source: Company data, ABCI Securities

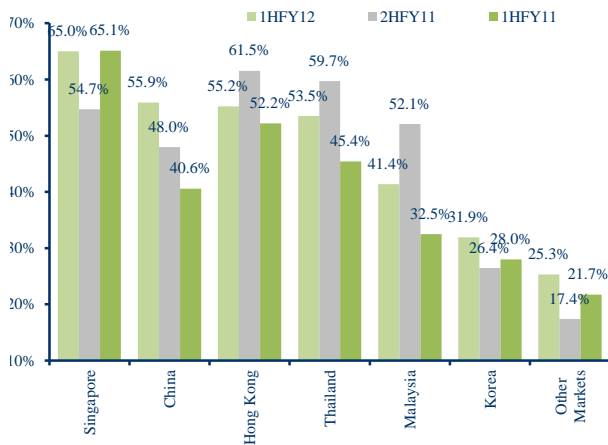
Margin expansion driven by new products since IPO

Group NBM was reported at 42.6% in 1HFY12. This is compared to 37.2% in FY11, 32.6% in FY10 and 28.3% in FY09. The margin expansion was mainly driven by Singapore, Thailand, China and Hong Kong. In Singapore, the margins improved primarily due to new product launches, such as “Family First” and a new generation of ILP. In Hong Kong, margins expanded because of the successful launch of integrated programs for the sale of protection products, which lifted productivity per agent by 20% YoY in FY11. In Thailand, NBM rose due to the re-pricing of existing participating products and increased sales of protection products. Besides, AIA Thailand practiced a re-engagement and extensive training of agents, which in turn lifted productivity per agent by 20%. In China, the development of its “Premier Agency” is the key reason for the robust productivity by agents,



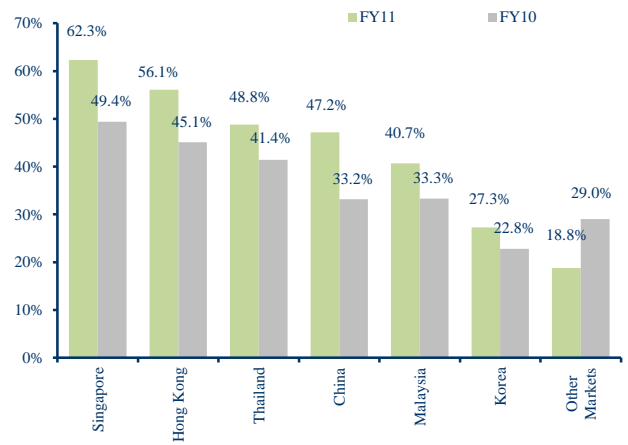
despite the adverse market environment for life insurance. NBM increased on the back of new incentives for agents to sell more protection products. To sum, the YoY expansion in NBM ranged from 10.1 to 22.7ppt in these markets from FY10 to 1HFY12.

AIA: half new business margins (1HFY11 – 1HFY12)



Source: Company data, ABCI Securities

AIA: annual new business margins (FY10 – FY11)



Source: Company data, ABCI Securities

Satisfactory results extending into 3QFY12

The strength in underwriting extended further into 3QFY12. Despite a YoY decline of 9.1% in APE (US\$696mn), VNB rose 22.4% YoY (to US\$300mn) during the quarter. NBM stayed high at 42.6% in 3QFY12, compared to 41.4% in 1HFY12 and 37.2% in FY11. According to the management, this trend is likely to be sustained in 4QFY12E and FY13E. The Company only began its rejuvenation process eighteen months ago, after its key subsidiaries have been building the book of value-in-force in the region since 1947. According to the company, there is ample room for margin improvement going forward.

AIA Group: quarterly TWPI, ANP, VNB & NBM (1QFY09 – 3QFY12)

Quarters	TWPI (US\$ mn)	YoY (%)	QoQ (%)	APE (US\$ mn)	YoY (%)	QoQ (%)	VNB (US\$ mn)	YoY (%)	QoQ (%)	NBM (%)	YoY (ppt)	QoQ (ppt)
1QFY09	2,626			355			95			25.4		
2QFY09	2,705		3.0%	418		17.7%	136		43.2%	31.5		6.1
3QFY09	3,047		12.6%	552		32.1%	144		5.9%	25.7		-5.8
4QFY09	3,254		6.8%	553		0.2%	170		18.1%	30.3		4.6
1QFY10	2,950	12.3%	-9.3%	437	23.1%	-21.0%	151	58.9%	-11.2%	33.9	8.5	3.6
2QFY10	3,072	13.6%	4.1%	450	7.7%	3.0%	152	11.8%	0.7%	33.6	2.1	-0.3
3QFY10	3,307	8.5%	7.6%	503	-8.9%	11.8%	160	11.1%	5.3%	31.5	5.8	-2.1
4QFY10	3,684	13.2%	11.4%	635	14.8%	26.2%	204	20.0%	27.5%	31.9	1.6	0.4
1QFY11	3,303	12.0%	-10.3%	512	17.2%	-19.4%	182	20.5%	-10.8%	35.2	1.3	3.3
2QFY11	3,462	12.7%	4.8%	582	29.3%	13.7%	217	42.8%	19.2%	36.7	3.1	1.5
3QFY11	3,752	13.5%	8.4%	766	52.3%	31.6%	245	53.1%	12.9%	32.0	0.5	-4.7
4QFY11	3,925	6.5%	4.6%	612	-3.6%	-20.1%	288	41.2%	17.6%	47.1	15.2	15.1
1QFY12	3,599	9.0%	-8.3%	543	6.1%	-11.3%	232	27.5%	-19.4%	42.1	6.9	-5.0
2QFY12	3,706	7.0%	3.0%	644	10.7%	18.6%	280	29.0%	20.7%	43.5	6.4	1.0
3QFY12	3,852	2.7%	3.9%	696	-9.1%	8.1%	300	22.4%	7.1%	42.6	10.6	-0.5

Source: Company data, ABCI Securities

Slower but solid volume growth, following the exponential growth recorded in FY11

For volume, the growth of group APE has tamed throughout the first three quarters of FY12. Yet we still consider the growth solid, given the high base of APE in FY11. APE increased by 8.5% YoY in 1HFY12 and dropped by 9.1% YoY in 3QFY12. This is compared to 22.1% YoY growth in FY11. Four out of six major markets reported YoY growth in APE during 1HFY12. Singapore performed the best in APE growth during the half. The market



recorded a growth of 26.7% YoY in APE (US\$120mn). Fast volume growth was led by the launch of new critical illness products and 50% higher sales in regular premium unit-linked products. In Thailand, AIA achieved APE growth of 9.4% YoY (US\$223mn). Such growth was driven by the newly launched AIA Health Lifetime product and increasing rider sales. In Malaysia, APE grew by 13.4% YoY to US\$67mn. Such growth was obtained through 32% higher sales in regular premium unit-linked products and successful sales campaign on accident and health (A&H) products. Lastly in Hong Kong, APE increased by 9.0% YoY to US\$223mn. The mild growth was achieved through the sales of new critical illness and other protection products. During the same half, Korea and China recorded negative YoY growth in APE. AIA Korea suffered from negative growth mainly because of the product mix restructuring. The unit is shifting sales focus from low margin quasi-deposit products to high margin protection products. In China, AIA was dragged by the stagnant industry sales during 1HFY12. Year to Aug 2012, industry life premiums grew by merely 2.6% YoY in China, according to CIRC.

Outshining peers due to better efforts in NBM improvement

In a relative basis, AIA Group outshined two major regional peers in VNB growth and margin expansion. AIA Group recorded faster VNB growth than Prudential Asia and Manulife Asia in FY11 and 1HFY12. AIA Group grew its VNB by 28.3% in 1HFY12 and 39.7% in FY11. This is much faster than the other two regional insurers. AIA Group achieved a better-than-peers growth in VNB mainly due to the expansion of NBM. AIA's margins rose 4.6ppt from 32.6% in FY10 to 37.2% in FY11. In 1HFY12, its NBM jumped further to 42.6%. Such rate of margin expansion allows AIA Group to grow VNB faster than its peers. Supported by AIA's track record over the past 24 months, we are confident of its continuous margin improvement going forward.

AIA: APE growth, VNB growth and new business margins (NBM) against major competitors

AIA (%)	APE Growth		VNB Growth		New Business Margins	
	1HFY12 YoY	FY11 YoY	1HFY12 YoY	FY11 YoY	1HFY12	FY11
AIA	8.50	22.10	28.30	39.70	42.60	37.20
Prudential Asia	21.00	11.00	18.00	19.00	61.00	65.00
Manulife Asia	27.00	15.00	21.00	(33.00)	NA	NA
AIA against Peers	3	1	1	1		

Source: Company data, ABCI Securities



Solid solvency & cash generation

Group solvency > 400%

Another investment merit of AIA is its solid solvency position. The group solvency margin was reported at 456% in 1HFY12, after the subsidiarisation of its branch operation in Singapore. In its major markets, the minimum solvency or risk-based capital (RBC) requirement ranges from 100% to 200%. In other words, AIA has a strong solvency position, with more than 200% surplus solvency over the minimum regulatory requirement. With the stabilizing investment markets, we project its solvency margin to remain solid at 442% in FY12E.

Project AIA to maintain ample solvency, regardless of the acquisition of ING Malaysia

We estimate that the ratio stay high at 439% in FY13E due to our forecast on a stabilized investment return and translation impact. AIA's free surplus reached US\$3,849mn (HKICO basis) in 1HFY12. It represents 5.5% of AIA's insurance liabilities, rebounding from 2.8% in FY08. With new capital generated from net profits, we estimate free surplus will reach US\$4,740mn in FY12E, US\$5,210m in FY13E. This represents 5.5% and 5.4% of insurance liabilities in FY12-13E. As such, we expect AIA's solvency position to remain solid over time, and that the Company will be free from any capital constraint by FY13E. Such solvency forecast will be subject to changes on the upcoming acquisition of ING Malaysia, pending for regulator's approval. The consideration was proposed at US\$1.7bn. We estimate the transaction to yield a minor deduction of US\$500-700mn to AIA's surplus capital.

AIA: required Solvency of Major Markets

(US\$ mn)	FY09	FY10	FY11	FY12E	FY13E	Required Solvency of Major Markets		
Total Available Capital	4,811	6,208	6,168	6,125	6,733	Hong Kong	150%	Min Solvency
Required Capital	1,547	1,844	1,984	1,386	1,532	Singapore	200%	Risk based capital
Solvency Margins	311%	337%	311%	442%	439%	Thailand	150%	Min Solvency
Free Surplus	3,264	4,364	4,184	4,740	5,201	Malaysia	170%	Risk based capital
Growth (%)	127.5%	33.7%	-4.1%	13.3%	9.7%	Korea	150%	Risk based capital
Insurance Liabilities	63,255	73,205	78,752	86,595	95,761	China	100%	Min Solvency
Growth (%)	21.3%	15.7%	7.6%	10.0%	10.6%			
Free Surplus / Ins. Liab.	5.2%	6.0%	5.3%	5.5%	5.4%			

Source: Company data, regulators, ABCI Securities estimates

Renewal premiums contributed to 82-84% of total premiums

AIA is strong at cash generation from its VIF book. In FY11, renewal premiums accounted for in the value in force (VIF) contributed US\$12,191mn (or 84.4%) of total premiums. This is a high contribution, compared to the US\$16.3bn VIF after-solvency costs reported in FY11. In 1HFY12, renewal contributions remained stable at 83.8% of total premiums. This ratio has improved substantially from 78.1% in FY07. We expect such a trend to be sustained and the ratio to remain at 82-84% in FY12-14E.

AIA: renewed premiums as a percentage of total premiums

(US\$ mn)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Renewed premiums	9,779	11,023	12,191	13,550	15,102	16,877
Total premiums (TWPI)	11,632	13,013	14,442	16,288	18,193	20,378
% of Renewal / TWPI	84.1%	84.7%	84.4%	83.2%	83.0%	82.8%

Source: Company data, ABCI Securities estimates



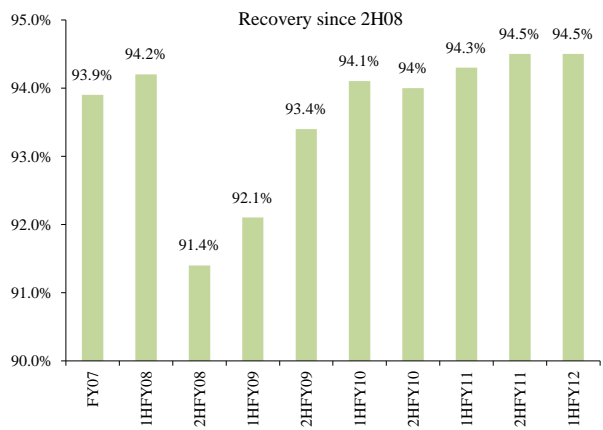
Strong recovery in persistency ratios

AIA’s persistency ratios have been improving since 2HFY08. In 2HFY08, AIG became financially insolvent due to the global financial crisis. As a wholly owned subsidiary of AIG, AIA Group’s brand name was negatively impacted and many of its existing policyholders chose to lapse their life policies. Since the bailout of AIG by the US Treasury, the Company has successfully restored the confidence of its policyholders. As such, persistency ratios recovered to 94.5%, or pre-crisis levels, in 2HFY11 and 1HFY12. This trend reinforces our belief in the strong cash generating capability of AIA Group going forward.

Satisfactory business margins on renewals

In addition to the stable cash inflow from VIF book, we view the business margins of renewals as satisfactory. As per our estimates, the business margin of renewals is 15.1%, relative to 37.2% of FYP in FY11. Since the VIF book to have run-off for a long period of time, we have high regard for its quality. This also serves as an assurance of AIA’s profitability in the long term. The firm will be less vulnerable to a slowdown in new premium sales than other Asia-based life insurers.

AIA: persistency ratios (FY07 – 1HFY12)



Source: Company data, ABCI Securities

AIA: business margins implied on renewals (FY12E)

(US\$ mn)	Distributed profits to shareholders		1 year average	FY12E Renewals	NBM Implied
	Discounted	Undiscounted			
2H12 – 2016	8,584	10,263	1,717	13,550	15.1%
2017 - 2021	5,533	10,077			
2022 – 2026	3,556	9,660			
2027 – 2031	2,117	8,586			

Source: Company data, ABCI Securities estimates

Always a safe harbor

Always a safe harbor among the constituents of MSCI HK

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 from early Apr to early Oct 2011. During this period, Hong Kong stock market was declining sharply and searching for its bottom, in view of the European sovereignty crisis. The Company outperformed the Hang Seng Index by 15.8% and MSCI HK Financials by 17.0% during the period. AIA Group continued to deliver good results (FY10 and 1HFY11), while its peers and Hong Kong Financials (Hong Kong properties and banks) did not generate positive fundamental catalysts during that period. Also, concerns over rising mortgages rates and a potential housing bubble in Hong Kong compromised the share price performances of Hong Kong property companies, which constitute an aggregate weighting of 45/50% in the MSCI HK and HSI. Hence, AIA Group emerged as a relatively attractive investment target and was regarded as the safe harbor in the MSCI Hong Kong basket.

Consistent outperformance year to date in 2012

Extending into the year of 2012, investors continue to view AIA Group as a defensive stock. Also, AIA Group depends less on investment returns and forex gains for its embedded value and profit growth, as compared to Chinese insurers. AIA Group has lost 14.3% in share price (compared to 15.8% down for the HSI) from late Feb to early Jun 2012. This is a period of weak stock market performance in 2012. Most importantly, the stock outperformed most of its trading peers, except for Prudential, during this period. On one hand, AIA Group has outperformed MSCI HK Financials by 2.9 pts and Hong Kong Property by 1.6 pts. On the other hand, the company outperformed China Life by 15.1 pts and Ping An by 6.2 pts. We consider such performance to be much stronger than its trading peers and relevant benchmarks. AIA remains an outperformer year to date in 2012. As a result, we are confident of AIA's status as a safe harbor to investors going forward.

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) OP	(54.90) OP	(40.46) OP	(33.63) OP	(38.82) OP	(34.60) OP	(33.39) OP
Late Feb - early Jun 2012 VS peers & benchmarks	(14.29)	(29.42) OP	(20.49) OP	(18.67) OP	(11.10) UP	(15.85) OP	(17.14) OP	(15.78) OP
Since Feb High VS peers & benchmarks	4.42	(4.55) OP	(9.58) OP	(2.97) OP	17.78 UP	0.41 OP	2.71 OP	(0.52) OP

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



Positive impact from investments & forex

Less sensitive on EV from equity investments

AIA Group's EV growth is less sensitive to equity gains / losses, relative to Chinese insurers. In FY11 and 1HFY12, equity gains (primarily reflected as investment return variance) contributed to respective +ve 1.1% and +ve 1.7% of ending balance EV. These contributions were driven by good stock market performance in the Asia-Pacific. However, the magnitude of contributions is smaller than that of Chinese insurers (for instance, +ve 6% for China Life in 1H12). Therefore, AIA Group maintains a stable growth in EV, which is less impacted by equity market performance. This is one of the key investment merits of AIA Group, as compared to Chinese insurers, in our opinion.

Most Asia-Pacific markets are up since end-May 2012

Despite being less sensitive to equity gains / losses, AIA Group will benefit from the buoyant stock markets at present. Five out of six major equity markets in which AIA invested heavily rose significantly since 1HFY12. As per our analysis, the weighted average increase in these markets based on AIA's regional EV mix reached 8.5% during the period. We estimate that this will lead to markups of US\$103mn to EV and US\$550mn to Profit & Loss for 2HFY12E.

Since 1HFY12 (the end of May), the SHCOMP have logged the weakest returns, down 12.7%. But for other indices, the performance was satisfactory. The HSI jumped 16.2% compared to a decline of 12.9% in 2QFY12. The SET rose 16.0% versus a decline of 2.0% in 2QFY12. Performances were also benign in other markets, with the STI up 9.7%, the KOSPI Index up 4.4%, and the Bursa Malaysia's KLCI up 4.3%, since the end of May 2012. AIA's operations in these six markets contributed to 74% of EV and 88% of VNB in 1HFY12.

AIA: stock market performance in AIA's major markets

(FY end Nov)	HSI Price	(HK) PER (x)	SET Price	(Thailand) PER (x)	STI Price	(Singapore) PER (x)	MY Bursa Price	(Malaysia) PER (x)	SHCOMP Price	(China) PER (x)	KOSPI Price	(Korea) PER (x)
Current	21,118	10.62	1,295	18.05	3,038	12.21	1,657	15.42	2,111	11.54	1,934	26.23
	Return (%)	Chg (x)	Return (%)	Chg (x)	Return (%)	Chg (x)	Return (%)	Chg (x)	Return (%)	Chg (x)	Return (%)	Chg (x)
1QFY10	-5.6%	(8.09)	4.7%	(10.42)	0.7%	(8.97)	0.9%	(3.22)	-4.5%	(5.67)	2.5%	(6.30)
2QFY10	-4.1%	(1.06)	4.0%	(1.71)	0.1%	(0.77)	1.1%	(1.31)	-15.1%	(1.12)	2.9%	(0.72)
3QFY10	3.9%	(1.23)	21.7%	2.44	7.2%	(1.04)	10.7%	(0.20)	1.8%	(1.26)	6.2%	0.65
4QFY10	12.0%	1.23	10.1%	0.56	6.6%	0.48	4.4%	0.11	6.9%	0.35	9.3%	1.60
FY10	5.4%	(8.93)	45.9%	(8.90)	15.1%	(10.22)	18.0%	(4.58)	-11.7%	(7.57)	22.4%	(4.56)
1QFY11	1.4%	(1.88)	-1.7%	(1.30)	-4.3%	(2.05)	0.4%	(0.33)	3.0%	(0.80)	1.8%	(4.24)
2QFY11	1.2%	(0.31)	8.0%	(0.43)	3.0%	0.04	3.7%	0.27	-6.0%	(1.43)	10.5%	2.36
3QFY11	-13.3%	(2.29)	-0.4%	(0.54)	-8.7%	(2.14)	-7.1%	(1.93)	-6.4%	(1.61)	-12.2%	(2.30)
4QFY11	-12.4%	(1.29)	-7.0%	(0.80)	-6.3%	(0.58)	1.7%	0.86	-9.1%	(1.41)	-1.7%	2.19
FY11	-21.8%	(5.73)	-1.0%	(2.98)	-14.1%	(4.54)	-0.9%	(1.00)	-17.3%	(5.59)	-3.0%	(1.98)
1QFY12	14.1%	1.64	13.9%	2.70	8.4%	2.16	5.7%	(0.80)	1.7%	0.71	6.0%	3.63
2QFY12	-12.9%	(1.22)	-2.0%	0.20	-6.9%	(0.86)	0.5%	(0.30)	-2.2%	(0.46)	-9.2%	2.02
Since end 1HFY12	16.2%	2.17	16.0%	2.07	9.7%	3.06	4.3%	(0.51)	-12.7%	(1.22)	4.4%	3.51
Since end FY11	19.9%	2.88	30.0%	4.95	11.5%	4.38	11.5%	(1.50)	-11.2%	(0.69)	3.6%	9.66
% of 1HFY12 EV	30		19		10		3		6		5	
% of 1HFY12 VNB	25		23		18		6		11		6	

Source: Company, Bloomberg, ABCI Securities

Equity gains partly contributing to double-digit EV growth in FY12E

In FY12E, we expect gross investment yield to increase to 5.4% (2.8% in 1HFY12) and investment return variance to amount to +ve US\$600mn (+ve US\$497mn in 1HFY12), primarily because of better stock market performance. In FY13E, we estimate that gross investment yield will come in at 5.2%, compared to the long-term investment return assumption of 5.5%. We forecast that investment return variance will reach +ve US\$300mn in FY13E. Also, we estimate that equity gains will reach US\$1,079mn in FY12E and US\$1,119mn in FY13E on Profit & Loss. By our estimates, this



will partly contribute to a 13.8% YoY growth in FY12E EV and a 12.1% YoY increase in FY13E EV. Such growth rates are higher than the market consensus of a low double-digit EV growth for both periods.

AIA: impacts of equity markdowns to EV & P&L

(FY end Nov)	FY10	FY11	FY12E	FY13E
US\$ mn				
Equity portfolio	22,054	19,012	26,587	29,936
Investment Return Variance	1,073	(297)	600	300
Ending EV	24,748	27,239	30,985	34,718
% of End EV	4.3%	-1.1%	1.9%	0.9%
Investment Experience	3,683	(2,178)	1,079	1,119
Net premiums	11,079	12,301	13,859	15,480
% of net premiums	33.2%	-17.7%	7.8%	7.2%
Pretax profits	3,558	2,156	3,461	3,771
% of pretax profits	103.5%	-101.0%	31.2%	29.7%

Source: Company data, ABCI Securities estimates

Across-the-board appreciation of Asia-Pacific currencies since May 2012

Asia-Pacific currencies have seen appreciation against the USD since the end of May 2012, reversing previous appreciation trend in 2QFY12. During this period, the KRW has appreciated 7.5%, followed by 5.2% of SGD, 4.1% of MYR, 3.4% of THB and 2.1% of CNY. This is compared with depreciation of 5.8% of MYR, 5.7% of KRW, 4.4% of THB, 3.1% of SGD and 1.1% of CNY in 2QFY12. In FY12E, we project forex movements to reach +ve US\$100mn (-ve US\$129mn in FY11) and total +ve 0.3% of end-period EV, primarily because of the appreciation of these Asian currencies against the USD. AIA's operations in these six markets contributed 74% of EV and 88% of VNB in 1HFY12.

AIA: change in exchange rates in AIA's major markets

(FY end Nov)	HKD	THB	SGD	MYR	CNY	KRW
1QFY10	-0.2%	0.5%	-1.6%	-0.3%	0.0%	0.3%
2QFY10	-0.3%	1.6%	0.5%	4.2%	0.0%	-3.7%
3QFY10	0.1%	3.8%	3.1%	3.4%	0.3%	0.3%
4QFY10	0.2%	3.4%	2.6%	-0.4%	2.1%	3.3%
FY10	-0.2%	9.1%	4.6%	6.8%	2.3%	0.3%
1QFY11	-0.3%	-1.3%	3.7%	3.6%	1.4%	2.6%
2QFY11	0.2%	0.8%	3.2%	0.8%	1.4%	4.0%
3QFY11	-0.1%	1.3%	2.4%	1.4%	1.6%	1.1%
4QFY11	0.2%	-3.1%	-6.4%	-6.9%	0.0%	-7.1%
FY11	0.0%	-2.2%	2.9%	-0.4%	4.3%	1.4%
1QFY12	0.2%	1.2%	2.3%	4.6%	1.1%	0.6%
2QFY12	-0.1%	-4.4%	-3.1%	-5.8%	-1.1%	-5.7%
Since end 1HFY12	0.1%	3.4%	5.2%	4.1%	2.0%	7.5%
Since end FY11	0.2%	0.6%	4.4%	3.7%	2.1%	4.6%
% of 1HFY12 EV	30	19	10	3	6	5
% of 1HFY12 VNB	25	23	18	6	11	6

Source: Company data, Bloomberg, ABCI Securities estimates

Forex gains partly contribute to double-digit EV growth in FY12E

In FY12E, we project forex gains to amount to US\$100mn, primarily because of USD depreciation. In FY13E, we estimate forex gains to stay at the level of US\$50mn. According to our forecast, the positive impact on Profit & Loss will reach 2.9% of FY12E pretax profits and 1.3% of FY13E pretax profits. We forecast that this will partly contribute to a 13.8% YoY growth in FY12E EV and a 12.1% YoY increase in FY13E EV. Such growth rates are higher than the market consensus of a low double-digit EV growth for both periods.



AIA: impacts of forex to EV & P&L

(FY end Nov) US\$ mn	FY10	FY11	FY12E	FY13E
Investment portfolio	92,221	97,453	109,413	123,083
Forex Movement	780	(50)	100	20
Ending EV	24,748	27,239	30,985	34,718
% of End EV	3.2%	-0.2%	0.3%	0.1%
Net forex G/L	(373)	(129)	100	50
Net premiums	11,079	12,301	13,859	15,480
% of net premiums	-3.4%	-1.0%	0.7%	0.3%
Pretax profits	3,558	2,156	3,461	3,771
% of pretax profits	-10.5%	-6.0%	2.9%	1.3%

Source: Company data, ABCI Securities estimates

ING transaction boding well

Announced buying ING Malaysia in Oct 2012

On 11 Oct 2012, AIA Group announced to reach an agreement to purchase 100% stake of ING Malaysia from ING Insurance Asia. The consideration is EUR1,336mn (US\$1,730mn) payable in cash upon Completion of the Proposed Transaction. Such transaction is subject to the regulatory approval by Bank Negara Malaysia (BNM) and execution of the appropriate legal documentation. We will incorporate ING Malaysia to our financial forecast, pending for the completion of transaction.

Reasonable price tag, accretive acquisition for AIA Group

Based on ING's disclosure, the EV of ING Malaysia recorded US\$952mn, and the VNB at around US\$48mn in 2011. As such, its price tag of US\$1.7bn is equivalent to 1.70x 2011 PEV and 12.0x 2011 VNB. This is slightly lower than the trading valuation of 1.75x 2011 PEV and 21.8x 2011 VNB. Besides, the management expected the transaction to generate cost synergies of US\$24 mn by 2015. This is equivalent to 10.2% of pro-forma net profits from the combined entity in 2011. That said, the transaction deems accretive to AIA Group.

Becoming market leader in Malaysia post transaction

AIA Malaysia reported APE of US\$142mn and VNB of US\$58mn in FY11. Its market share ranked the third in the country. This is compared to ING's APE of US\$189mn and VNB estimated at US\$48mn for 2011. Post-acquisition, AIA could become the market leader, with a 30% market share. As such, AIA Group will become market leader in four major life insurance markets in the region.

Better employment of free surplus funds

Per the announcement, AIA will fund the transaction with internal cash resources and external debt financing. AIA recorded group solvency at 456% and free surplus funds of US\$6.1bn in 1H12. The idle cash resources could be better employed through this acquisition. Based on ING's disclosure, we estimated the organic growth of EV for ING Malaysia at 14-15% per annum. We consider this an attractive return to AIA Group.

AIA: ING Malaysia versus AIA Malaysia (FY11)

	ING Malaysia	AIA Malaysia	Comments
Market share (%)	13.5	6	Becoming #1 in market share post merger
Gross premiums (US\$ mn)	1,105	928	Pro-forma contribution of 14.5% to group
APE (US\$ mn)	189	142	Pro-forma contribution of 12.4% to group
VNB (US\$ mn)	48	58	Pro-forma contribution of 10.8% to group
NBM (%)	25	41	Room for further improvement on ING MY
Net profits (US\$ mn)	103	132	Pro-forma contribution of 13.8% to group
Shareholder's funds (US\$ mn)	733	682	Pro-forma contribution of 6.4% to group
EV (US\$ mn)	952	1,046	Pro-forma contribution of 7.1% to group
Total number of customers	1.6 mn	1 mn	Totaled 2.6 mn
Total number of agents	9,200	7,400	Totaled 16,600

Source: Company data, ABCI Securities estimates



Low EV operating margins

Long-built book of VIF leading to a high-base effect

We view the low EV operating margins as one of the investment negatives for AIA Group. AIA has been operating in the region since 1947, after the end of Second World War. As a result, the insurer maintains a long-built book of value-in-force (VIF, i.e. value of renewed life policies). Because the high-base effect, AIA Group does not record high EV operating margins, as compared to Chinese insurers. Furthermore, the insurer does not have a high contribution to EV from its VNB, relative to its Chinese peers.

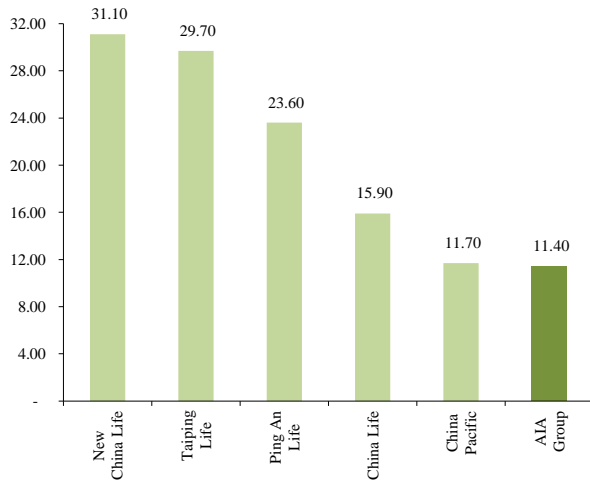
Lower EV operating margins than all Chinese life insurers

EV operating margins represent the percentage of profits on EV yielded from expected investment return and VNB, according to actuarial assumptions. In FY11, AIA group reported EV operating margins of 11.4%. This is far lower than 15.9% of China Life and 23.6% of Ping An Life. China Life and Ping An Life are the largest two life insurers in China. In other words, AIA Group embeds a slower organic growth, in comparison with major Chinese life insurers.

Stellar VNB growth not translating to similar EV growth

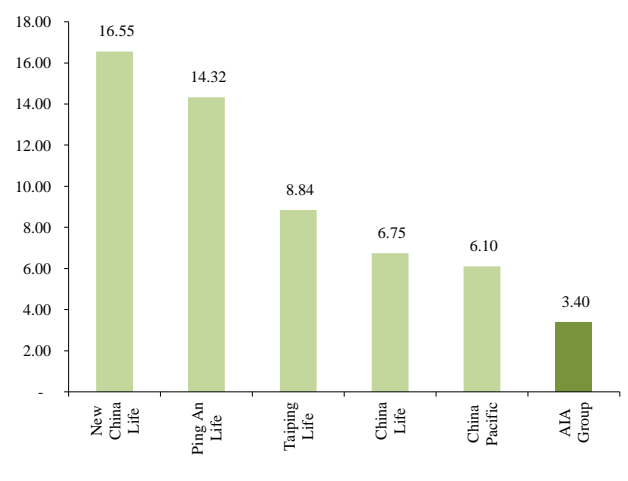
While AIA Group delivered stellar performance in VNB growth from 2009 to 1H12, its VNB does not have a big contribution to EV. In FY11, AIA's VNB contributed merely 3.4% of EV. This is compared to 6.8% of China Life and 14.3% of Ping An Life. While we are impressed with the exponential growth of AIA's VNB, such trend may not impact its EV and valuation as much.

AIA: EV operating margins vs Chinese insurers (FY11)



Source: Company data, ABCI Securities estimates

AIA: VNB contribution to EV vs Chinese insurers (FY11)



Source: Company data, ABCI Securities estimates

Overhang from AIG's placement

AIG may divest again as early as Jan 2013

From time to time, investors are concerned with the potential divestiture of AIA's stake by AIG. In fact, since the IPO of AIA Group, AIG continued to divest on AIA Group. Since early 2012, AIG has offloaded AIA's shares for two times. AIG sold 1,720mn shares, or 14.3% AIA's stake, in Mar 2012. This lot is equivalent to 411 days turnover of AIA Group. 6 months afterwards in Sep 2012, AIG sold another lot of AIA's shares (592mn or 4.9% AIA's stake). This is equivalent to 141 days turnover. AIA's share price faced immense selling pressure immediately after the two disposals. As of now, AIG still holds 1,649mn shares, or 13.7% stake in AIA Group. AIG is obliged to serve a three month lock-up period on further stake sale after Sep 2012. In other words, AIG may seek to further divest on AIA Group as early as Jan 2013. This serves as a major overhang to AIA's share price performance.

AIA: 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
AIG Stake Balance	1,649	13.7%	<i>Current Price</i> 30.70	4.19	394	<i>Residual Value</i> 6,525

Source: Company, Bloomberg, ABCI Securities

US Treasury still holds 22.33% stake in AIG

In fact, AIG viewed its stake in AIA as the cash resources supporting its own share buyback. AIG received financial support from US Treasury amid the Global Financial Crisis. Since then, US Treasury has controlled the board of directors of AIG. As of May 2011, US Treasury held 77.45% stake in AIG. Throughout the year of 2012, AIG has successfully regained the board control from US Treasury, through share buybacks. Nevertheless, US Treasury still holds 22.33% stake in AIG currently. In other worlds, AIG has not been fully freed from the management influence of US government. The residual value of AIG shares held by US Treasury amounted US\$10.4bn. Half of such can be funded by further divestiture of AIA's shares. Per the current share price, AIG's stake in AIA is valued at US\$6.5bn. As a result, AIG has every reason to further divest on AIA in 2013.

AIA: 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		
US Treasury stake as of May 2011	1,469		
Shares buyback by AIG			
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
Stakes held by US Treasury	(%)		
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	31.41	10,352

Source: Company, Bloomberg, ABCI Securities



Valuation & Recommendation

EV estimates fell on the higher boundary of the consensus range

AIA Group reported its EV at US\$27,239mn in FY11 and US\$28,840mn in 1H12. Given the 5.9% HoH growth in EV in 1H12, we believe that there will be mild investment and forex gains in 2HFY12E and FY13E. Therefore, we forecast its EV to grow 12.1- 13.8% per annum from FY12E to FY14E. Based on these assumptions, we forecast its EV to reach US\$30,985mn in FY12E and US\$34,718mn in FY13E. Our FY13E EV fell at the higher end of the market consensus range (from US\$33,064mn to US\$34,937mn). At the same time, our FY12E EV fell above the market consensus of US\$30,442mn.

In-line earnings forecast with Bloomberg consensus for FY12E and FY13E

On the other hand, based on total premium growth of 12.8% YoY and gross investment yield of 5.4%, we estimate AIA Group will report net earnings of US\$2,538mn in FY12E. This is 1.5% higher than the Bloomberg consensus earnings of US\$2,500mn. For FY13E, based on total premium growth of 11.7% YoY and gross investment yield of 5.2%, we forecast that net earnings will reach US\$2,766mn. This is in-line with the Bloomberg consensus earnings of US\$2,776mn.

Slightly more conservative assumptions than the street

We believe we have adopted conservative investment and forex assumptions. In our financial forecast, we assume a 5.0% gain in equity portfolio and 0.5% appreciation of Asian currencies, which is slightly more conservative than the street (7-10% gain in equity portfolio and 1% plus appreciation of Asian currencies).

Positive investment return variance forecast for FY12E

In FY12E, we estimate that expected return and positive investment return variance attributable to shareholders' funds and VIF will contribute 9.9% of EV. This is based on our gross-yield assumptions of 5.4% and the unwinding of actuarial discount rate of 9.0%. We forecast FY12E VNB at US\$1,127mn, or 3.6% of FY12E EV. This is based on our estimate of an APE growth of 10.8% YoY and NBM of 41.1% in FY12E.

Another year of positive investment return variance in FY13E

In FY13E, we estimate that expected return and positive investment return variance attributable to shareholders funds and VIF will contribute 8.7% of FY13E EV. This is based on our gross-yield assumptions of 5.2% and the unwinding of discount rate of 9.0%. We forecast 2013E VNB at US\$1,218mn, or 3.5% of FY13E EV. This is based on our forecast of an APE growth of 12.9% YoY and NBM of 39.4% in FY13E.

Initiate coverage with a BUY rating; implied 14.4% upside potential

We also extend our forecast on VNB to 2025E and apply a terminal growth rate of 1%, based on the mature nature of AIA's business. Based on the above assumptions, we derive an appraisal value of US\$54,447mn in FY13E and adopt it as our target price. It is equivalent to HK\$35.13/share. In FY13E, we forecast EVPS and VNB of 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 14.4% upside from the current share price. We initiate coverage of AIA Group with a BUY recommendation.



AIA Group: Embedded Value & Appraisal Value

(Year end in November)	FY10 (US\$mn)	FY11 (US\$mn)	FY12E (US\$mn)	FY13E (US\$mn)	FY14E (US\$mn)	1HFY11 (US\$mn)	1HFY12 (US\$mn)
Embedded value							
Net equity	19,635	21,415	23,629	25,975	28,685	21,230	23,012
Adjustments to net equity	(10,111)	(10,509)	(10,104)	(9,935)	(9,802)	(10,589)	(11,141)
Adjusted net worth	9,524	10,906	13,525	16,040	18,883	10,641	11,871
VIF after cost of capital	15,224	16,333	17,460	18,678	20,049	16,753	16,969
Embedded value	24,748	27,239	30,985	34,718	38,931	27,394	28,840
VNB (long term)	667	932	1,127	1,218	1,371	399	512
Multiplier	33	23	18	16	14		
New business value (long term)	22,204	21,612	20,704	19,729	19,451		
Appraisal value	46,952	48,851	51,688	54,447	58,382		
EV movement analysis							
Opening embedded value	20,965	24,748	27,239	30,985	34,718	24,748	27,239
Expected return							
- SHF's	2,591	2,643	3,098	3,525	3,949	1,297	1,362
- In-force	(745)	(614)	(720)	(819)	(917)	(259)	(288)
Value of new business (VNB)	667	932	1,127	1,218	1,371	399	512
Inv't R var + mkt val adj	1,073	(297)	600	300	300	541	497
Forex movement	780	(50)	100	20	20	493	(161)
Capital raising & dividends	-	(259)	(510)	(561)	(561)	-	(339)
OpEx var, model chg & others	(583)	136	50	50	51	175	18
Closing embedded value	24,748	27,239	30,985	34,718	38,931	27,394	28,840
EVPS (HK\$)	15.97	17.57	19.99	22.40	25.12	17.67	18.61
VNB (HK\$)	0.43	0.60	0.73	0.79	0.88		
AVPS (HK\$)	30.29	31.52	33.35	35.13	37.66		
AVPS/EVPS (x)	1.90x	1.79x	1.67x	1.57x	1.50x		
AVPS implied VNB (x)	33.29x	23.19x	18.38x	16.19x	14.19x		
EV contributions 1 (%)							
Expected return on beg EV	8.8%	8.2%	8.7%	8.7%	8.7%	4.2%	3.9%
IRV + MVA contribution to beg EV							
EV	5.1%	-1.2%	2.2%	1.0%	0.9%	2.2%	1.8%
VNB contribution to beg EV	3.2%	3.8%	4.1%	3.9%	3.9%	1.6%	1.9%
VNB contribution to beg VIF	5.1%	6.1%	6.9%	7.0%	7.3%	2.6%	3.1%
EVPS (HK\$) growth	18.0%	10.1%	13.8%	12.1%	12.1%	10.7%	5.9%
EV contributions 2 (%)							
Beginning EV	85%	91%	88%	89%	89%	90%	94%
Expected return							
- SHF's	10.5%	9.7%	10.0%	10.2%	10.1%	4.7%	4.7%
- In-force	-3.0%	-2.3%	-2.3%	-2.4%	-2.4%	-0.9%	-1.0%
Inv't R var + mkt val adj	4.3%	-1.1%	1.9%	0.9%	0.8%	2.0%	1.7%
Forex movement	3.2%	-0.2%	0.3%	0.1%	0.1%	1.8%	-0.6%
Value of new business (VNB)	2.7%	3.4%	3.6%	3.5%	3.5%	1.5%	1.8%
Capital raising & dividends	0.0%	-1.0%	-1.6%	-1.6%	-1.4%	0.0%	-1.2%
OpEx var, model chg & others	-2.4%	0.5%	0.2%	0.1%	0.1%	0.6%	0.1%
Ending EV	100%	100%	100%	100%	100%	100%	100%

Source: Company data, ABCI Securities estimates



AIA Group: Financial Statements

Profit & loss (US\$ mn)						Balance sheet (US\$ mn)					
(Year end in November)	FY10	FY11	FY12E	FY13E	FY14E	(Year end in November)	FY10	FY11	FY12E	FY13E	FY14E
Premiums & policy fees	11,557	12,935	14,589	16,295	18,252	Cash	2,595	4,303	3,798	4,277	4,825
(-) Premiums to reinsurers	-478	-634	-729	-815	-913	Financial investments (excl. cash)	88,798	92,254	104,719	117,911	133,018
Net premiums & policy fees	11,079	12,301	13,859	15,480	17,339	Investment properties	828	896	896	896	896
Investment return	7,240	1,973	5,565	6,060	6,814	Deferred acquisition costs	12,006	12,818	11,848	10,764	9,551
-Seg. Inv. income & Inv. linked products	3,557	4,150	4,486	4,941	5,559	Fixed assets	433	359	298	247	205
-Investment experience	3,683	-2,178	1,079	1,119	1,255	Other assets	3,205	3,831	4,204	4,607	5,056
Other income	75	114	125	138	152	Total assets	107,865	114,461	125,763	138,702	153,550
Total revenue	18,394	14,388	19,550	21,678	24,305	Insurance contract liabilities	73,205	78,752	86,595	95,761	106,481
Ttl. claims/PH benefits	-12,080	-9,072	-12,730	-14,152	-15,852	Investment contract liabilities	9,091	8,360	9,193	10,166	11,304
Commission expenses & other acq. cost	-1,438	-1,649	-1,802	-2,012	-2,254	Borrowings	597	559	615	680	756
Operating expenses	-1,146	-1,253	-1,386	-1,548	-1,734	Obligations under repo	1,091	670	1,300	1,300	1,300
Other expense	-172	-258	-171	-194	-221	Tax liabilities	2,041	2,100	2,393	2,464	2,573
Total expenses	-2,756	-3,160	-3,359	-3,755	-4,209	Other liabilities	2,205	2,605	2,039	2,356	2,452
Net profit before tax	3,558	2,156	3,461	3,771	4,243	Total liabilities	88,230	93,046	102,133	112,727	124,865
Associate/JV - Profits/losses	-9	12	19	21	24	Net assets	19,555	21,313	23,517	25,851	28,548
Tax expense	-839	-560	-934	-1,018	-1,145	Minority interests	80	102	113	124	137
Net profit after tax	2,710	1,608	2,546	2,774	3,122	Net equity to shareholders	19,635	21,415	23,629	25,975	28,685
Minority interest	-9	-8	-8	-8	-8	Financial investment portfolio					
NP to AIA Group shareholders	2,701	1,600	2,538	2,766	3,114	(Year end in November) (US\$ mn)	FY10	FY11	FY12E	FY13E	FY14E
Operating ratios (%)						Loans & receivables	3,762	4,565	5,426	6,109	6,892
(Year end in November)	FY10	FY11	FY12E	FY13E	FY14E	Cash & cash equivalents	2,624	4,332	3,827	4,306	4,854
Premiums & policy fees growth	10.8%	11.9%	12.8%	11.7%	12.0%	Debt	62,207	67,952	72,164	81,255	91,666
Net premiums & policy fees growth	9.7%	11.0%	12.7%	11.7%	12.0%	Equity	22,054	19,012	26,587	29,936	33,772
Ttl. claim/PH benefits to NEP	109.0%	73.8%	82.7%	82.7%	82.7%	Derivative	775	725	543	611	689
Ttl. claim/PH benefits to total revenue	65.7%	63.1%	65.1%	65.3%	65.2%	Total	91,422	96,586	108,546	122,216	137,872
Commission cost ratio	13.0%	13.4%	13.0%	13.0%	13.0%	(%)					
Operating expenses ratio	10.3%	10.2%	10.0%	10.0%	10.0%	Loans & receivables	4.1%	4.7%	5.0%	5.0%	5.0%
Other expense ratio	1.4%	2.3%	1.5%	1.5%	1.5%	Cash & cash equivalents	2.9%	4.5%	3.5%	3.5%	3.5%
Operating expense ratio	24.7%	25.9%	24.5%	24.5%	24.5%	Debt	68.0%	70.4%	66.5%	66.5%	66.5%
TWPI growth	11.9%	11.0%	12.8%	11.7%	12.0%	Equity	24.1%	19.7%	24.5%	24.5%	24.5%
FYP growth	8.4%	11.2%	21.0%	12.4%	12.8%	Derivative	0.8%	0.8%	0.5%	0.5%	0.5%
APE growth	7.8%	22.1%	10.8%	12.9%	13.3%	Total	100.0%	100.0%	100.0%	100.0%	100.0%
New business margins	32.9%	37.7%	41.1%	39.4%	39.5%	Financial summary					
Net investment yield	4.2%	4.4%	4.3%	4.3%	4.2%	(Year end in November)	FY10	FY11	FY12E	FY13E	FY14E
Gross investment yield	8.5%	2.1%	5.4%	5.2%	5.2%	EPS (HK\$)	1.75	1.04	1.64	1.79	2.02
Persistence ratios	94.0%	94.0%	94.0%	94.0%	94.0%	EPS growth (%)	54.0%	-40.8%	58.7%	9.0%	12.6%
Recurring ratios on FYP	85.0%	85.0%	85.0%	85.0%	85.0%	BVPS (HK\$)	12.62	13.75	15.17	16.68	18.42
Solvency ratio - AIA	336.7%	311.0%	442.1%	439.5%	436.4%	BVPS growth (%)	31.5%	9.0%	10.3%	9.9%	10.4%
Solvency ratio - AIA-B	321.3%	297.3%	232.3%	231.0%	229.4%	EVPS (HK\$)	15.97	17.57	19.99	22.40	25.12
						EVPS growth (%)	18.3%	10.1%	13.8%	12.1%	12.1%
						VNB (HK\$)	0.43	0.60	0.73	0.79	0.88
						VNB growth (%)	22.7%	39.7%	20.9%	8.2%	12.5%
						PER (x)	17.55x	29.63x	18.67x	17.14x	15.22x
						PBV (x)	2.43x	2.23x	2.02x	1.84x	1.67x
						PEV (x)	1.92x	1.75x	1.54x	1.37x	1.22x
						VNB multiple (x)	34.24x	21.83x	14.74x	10.56x	6.32x
						Dividend per share (HK\$)	0.00	0.11	0.33	0.36	0.36
						Yield (%)	0.0%	0.4%	1.1%	1.2%	1.2%
						Payout ratio (%)	0.0%	10.7%	20.0%	20.2%	18.0%
						Return on equity (%)	15.7%	7.8%	11.3%	11.2%	11.4%
						Return on assets (%)	2.7%	1.4%	2.1%	2.1%	2.1%
						Tax rate (%)	23.6%	26.0%	27.0%	27.0%	27.0%

Source: Company data, ABCI Securities estimates



Appendix I – Comparable Valuation Summary

Valuation summary of Global & Regional Insurance Companies (2012E - 2013E)

Company Name	Stock Code	Nation	Trading Ccy	Share Price	Market Cap (US\$m)	20 days Vol (US\$m)	Buy Rec. (%)	PER		PBV		Div. Yield		Return on Equity	
								12E	13E	12E	13E	12E	13E	12E	13E
REGIONAL LIFE / LIFE FOCUS															
China Life	2628HK	CN H-share	HK\$	22.9	83,411	104.1	31.3	39.7	21.5	2.9	2.7	0.9	1.5	8.4	12.4
Ping An	2318HK	CN H-share	HK\$	60.7	61,923	87.2	62.5	20.8	16.5	3.1	2.7	0.8	1.0	15.4	16.9
China Pacific	2601HK	CN H-share	HK\$	24.2	28,260	28.0	70.6	31.8	19.5	2.4	2.2	1.2	1.6	8.2	11.0
New China Life	1336HK	CN H-share	HK\$	25.4	10,212	8.1	60.0	70.8	18.2	0.9	2.0	0.9	0.7	14.5	10.4
China Taiping	966HK	CN / HK	HK\$	12.9	2,840	3.1	52.0	17.9	12.5	1.6	1.5	0.7	1.4	8.8	11.2
AIA Group	1299HK	APAC	HK\$	30.7	47,471	89.6	75.0	18.4	16.9	2.0	1.8	1.3	1.4	11.0	11.2
Prudential PLC	2378HK	UK/Global	HK\$	104.0	34,156	0.0	70.4	11.8	10.5	2.2	1.9	3.2	3.5	17.7	17.5
Manulife	945HK	CA/Global	HK\$	92.8	21,218	1.8	44.4	22.6	8.7	1.0	0.9	4.3	4.4	6.2	10.8
AMP	AMPAU	Australia	AUD	4.6	13,865	43.3	28.6	14.7	13.5	1.8	1.8	5.6	6.1	12.7	13.2
Korea Life	088350KS	S. Korea	KRW	7,380	5,876	2.6	66.7	10.8	9.7	0.9	0.9	3.0	3.1	8.9	9.5
Samsung Life	032830KS	S. Korea	KRW	91,400	16,759	9.7	84.4	16.8	14.5	1.0	0.9	2.1	2.1	5.8	6.3
Tong Yang Life	082640KS	S. Korea	KRW	11,650	1,149	2.1	38.1	8.2	7.2	1.0	0.9	3.4	3.7	11.6	11.6
Great Eastern	GE SP	Singapore	SGD	15.4	5,931	0.9	100.0	8.7	13.3	1.6	1.4	5.2	3.6		
T&D	8795JP	Japan	JPY	815	6,985	33.7	42.1	14.9	12.9	0.8	0.7	2.8	2.8	5.5	6.0
Sony Financial	8729JP	Japan	JPY	1,398	7,648	13.1	61.1	15.7	14.4	1.3	1.5	1.6	1.7	9.4	10.0
Shin Kong Fin.	2888TT	Taiwan	NTD	7.6	2,217	9.4	10.0	6.2	9.5	0.8	0.7	-	0.4	14.1	8.9
Cathay Fin.	2882TT	Taiwan	NTD	29.5	11,034	14.2	66.7	22.6	20.7	1.4	1.3	1.5	1.7	6.1	6.4
Fubon Financial	2881TT	Taiwan	NTD	31.1	10,122	13.2	66.7	11.5	11.1	1.1	1.1	3.2	3.3	9.6	9.2
China Life	2823TT	Taiwan	NTD	23.3	1,913	12.0	61.5	11.8	11.3			1.6	2.0		
Average						25.1	57.5	19.8	13.8	1.5	1.5	2.3	2.4	10.2	10.7
High						104.1	100.0	70.8	21.5	3.1	2.7	5.6	6.1	17.7	17.5
Low						0.9	10.0	6.2	7.2	0.8	0.7	0.7-	0.4	5.5	6.0
REGIONAL P&C															
PICC P&C	2328HK	CN H-share	HK\$	10.0	15,731	18.8	51.6	11.8	11.1	2.7	2.3	2.5	2.7	25.5	22.3
IAG	IAG AU	Australia	AUD	4.7	10,075	30.3	53.3	12.6	11.3	2.1	1.9	4.9	5.5	16.4	18.1
QBE	QBE AU	Australia	AUD	12.8	15,967	74.2	30.8	9.4	9.9	1.3	1.2	6.7	6.9	13.4	13.7
SUNCORP	SUN AU	Australia	AUD	9.3	12,383	40.3	66.7	11.4	10.1	0.8	0.8	6.6	7.3	7.2	8.4
Samsung F&M	000810KS	S. Korea	KRW	217,500	9,447	17.8	88.9	11.0	9.9	1.2	1.1	2.3	2.6	11.4	11.5
Dongbu Ins	005830KS	S. Korea	KRW	50,900	3,304	14.2	80.6	7.3	6.6	1.2	1.1	2.7	3.0	18.8	17.9
LIG Ins	002550KS	S. Korea	KRW	28,000	1,540	3.5	87.9	6.0	5.4	1.0	0.8	3.6	3.9	18.3	17.0
Tokio Marine	8766JP	Japan	JPY	2,030	19,647	73.8	73.7	14.1	12.2	0.8	0.8	2.7	2.8	5.5	6.0
Average						34.1	66.7	10.5	9.6	1.4	1.2	4.0	4.3	14.6	14.4
High						74.2	88.9	14.1	12.2	2.7	2.3	6.7	7.3	25.5	22.3
Low						3.5	30.8	6.0	5.4	0.8	0.8	2.3	2.6	5.5	6.0
GLOBAL INSURANCE															
AFLAC	AFL US	USA	US\$	49.7	23,314	137.4	50.0	7.5	7.2	1.6	1.3	2.7	2.9	23.6	21.0
Hartford Fin.	HIG US	USA	US\$	20.4	8,918	164.0	52.9	7.0	6.1	0.4	0.4	2.1	2.8	6.8	7.0
Metlife	MET US	USA	US\$	32.0	34,913	423.6	66.7	6.1	5.8	0.6	0.5	2.7	3.4	10.6	10.3
AIG	AIG US	USA	US\$	31.4	46,371	735.3	63.6	7.1	9.0	0.5	0.4	-	0.2	7.7	5.2
Manulife	MFC CN	Canada	CAD	11.8	21,521	61.5	44.4	22.3	8.6	1.0	0.9	4.4	4.4	6.2	10.8
Sun Life	SLF CN	Canada	CAD	25.3	15,089	49.5	27.8	10.0	9.6	1.1	1.1	5.7	5.7	11.0	11.1
AXA	CS FP	France	EUR	12.0	22,110	74.1	67.6	6.4	6.0	0.6	0.6	6.1	6.5	9.3	9.4
Allianz	ALV GR	Germany	EUR	93.7	33,506	135.7	66.7	8.3	7.8	0.9	0.8	4.9	5.2	10.8	10.5
Aegon	AGN NA	Netherlands	EUR	4.4	6,715	23.2	41.0	7.2	6.9	0.4	0.4	4.6	5.2	5.6	5.5
ING Groep NV	INGA NA	Netherlands	EUR	6.8	20,352	104.8	51.5	6.9	5.8	0.5	0.5	0.2	2.4	7.7	8.1
Prudential PLC	PRU LN	UK/Global	GBP	853	34,865	51.0	66.7	11.9	10.7	2.2	2.0	3.1	3.4	17.7	17.5
Zurich Ins	ZURN VX	Swiss	CHF	233	26,938	78.8	42.5	8.8	7.9	1.0	1.0	7.7	7.8	11.9	12.5
Average						169.9	53.5	9.1	7.6	0.9	0.8	3.7	4.2	10.7	10.7
High						735.3	67.6	22.3	10.7	2.2	2.0	7.7	7.8	23.6	21.0
Low						23.2	27.8	6.1	5.8	0.4	0.4	0.2	0.2	5.6	5.2

* Prices as of 8 November 2012

Source: Bloomberg consensus, companies



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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.

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