



Company Report

China Pacific (2601 HK) – Buy Life & Health Insurance Industry 2013E TP: HK\$36.46 (from HK\$27.93 previously)

Key data

H-share price (HK\$)	31.10
Target price (HK\$)	36.46
Upside potential (%)	17.23
52Wk H/L(HK\$)	31.8/ 21.3
Issued shares:	
H-shares (mn)	2,775
A-shares (mn)	6,287
H-share mkt cap (HK\$m)	256,348
30-day avg vol (HK\$m)	404.8
Major shareholder (%):	
Fortune Investments (Baosteel)	17.4
Shenergy Group	16.6

Source: Company & Bloomberg

Premium breakdown in 2011 (%)

Life individual channel	27.6
Life bancassurance channel	28.7
Life direct sales	9.2
P&C motor	30.6
P&C non-motor	3.8

*Based on 2011 results

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	17.6	11.8
3-mth	26.7	11.5
6-mth	21.2	(2.4)

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 14 January 2012

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Most balanced player

We regard China Pacific the most balanced listed insurer in the market. Its Life VNB enjoyed a faster-than-peers turnaround towards end-2012. Its P&C premiums regained growth momentum, after a sloppy 1H12. Meanwhile, Changjiang Pension is set to benefit from tax deferred pension products piloted in Shanghai. Based on these, we maintain our BUY rating on China Pacific and upgrade our target price to HK\$36.46 (HK\$27.93 previously).

Further turnaround in Life. We regard China Pacific as the front-runner in recovery of the Life sector. In 1H12, its FYP declined at a slower rate than major peers. Per our channel check, its APE ceased to decline towards end-2012, compared to a 8% YoY drop in 1H12. Also, China Pacific continued to lengthen its regular FYP durations in 2H12. Hence, we forecast China Pacific to report a 10% YoY growth in VNB for 2013.

Most balanced player. Other than Life unit, China Pacific's P&C unit reported promising underwriting results till end-2012. Its premiums grew by 12.4% YoY in 11M12, rebounded from the year low of 2.0%. In 1H12, the unit reported underwriting profits of Rmb1.5bn, with combined ratios at 94.4%. During the half, the unit contributed 58.8% of group profits. Unlike Ping An, which was dragged by banking and trust, China Pacific enjoyed a more balanced growth.

First beneficiary of tax deferred pension products. We expect tax deferred pension products to be piloted in Shanghai as early as in mid-2013. Changjiang Pension, the wholly-owned subsidiary of China Pacific, is the market leader in the pension market of Shanghai. In 1H12, over 50% of its entrusted assets (Rmb29.4bn) came from Shanghai.

Maintain BUY; upgrade TP to HK\$36.46. We derive an appraisal value of Rmb243,706 mn for 2013E, also adopting it as TP, or HK\$36.46/ share (previously HK\$27.93). The implied valuation of our TP is 1.67x 2013E PEV and 10.0x 2013E VNB. This represents 17.2% upside potential from the current share price. As such, we maintain our BUY recommendation on China Pacific. This is our preferred composite play in the sector.

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 (Rmb mn)	141,327	155,517	169,164	189,410	204,596
Chg (YoY)	35.6	10.0	8.8	12.0	8.0
Net profit (Rmb mn)	8,557	8,313	7,016	8,533	9,502
Chg (YoY)	16.3	(2.8)	(15.6)	21.6	11.4
EPS (HK\$)	19.8	19.9	1.19	1.18	0.99
PER (x)	11.3	11.1	31.5	26.1	23.0
BPS (HK\$)	2.1	2.1	13.6	14.6	15.7
P/B (x)	15.3	16.1	2.3	2.1	2.0
EVPS (HK\$)	1.5	1.5	19.4	21.9	25.2
PEV (x)	0.8	0.9	1.6	1.4	1.2
VNB (HK\$)	7.5	4.3	1.0	1.1	1.2
VNB (x)	19.8	19.9	8.2	4.9	1.3

Source: Company data, ABCI Securities estimates



China Pacific: 1H12 profit & loss

	2009	2010	2011	1H10	2H10	1H11	2H11	1H12	Change	Change
	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn	(h-h %)	(y-y %)
GWP & Policy fees	96,342	139,555	154,958	76,066	63,489	86,875	68,083	90,511	33	4
(-) Premiums to Reinsurers	(9,791)	(13,661)	(13,384)	(7,500)	(5,209)	(7,306)	(6,078)	(6,625)	9	(9)
NWP & Policy fees	86,551	125,894	141,574	68,566	58,280	79,569	62,005	83,886	35	5
Chg. in Unearned Premium Res.	(2,424)	(6,143)	(4,336)	(5,379)	(1,814)	(4,447)	111	(2,983)	(2,787)	(33)
NEP & policy fees	84,127	119,751	137,238	63,187	56,466	75,122	62,116	80,903	30	8
Investment Income	19,316	20,657	16,392	9,131	11,651	10,187	6,205	8,419	36	(17)
Other Income	746	919	1,887	460	462	496	1,391	590	(58)	19
Total Revenue	104,189	141,327	155,517	72,778	68,579	85,805	69,712	89,912	29	5
Claims, Surrenders, Annuities / Maturities	(31,916)	(37,847)	(49,518)	(17,827)	(19,972)	(23,399)	(26,119)	(28,748)	10	23
Div. & Int. to PH & Net Inc. in PH Res.	(37,058)	(59,241)	(62,127)	(33,339)	(25,902)	(35,514)	(26,613)	(36,394)	37	2
Ttl. Claims / PH Benefits	(72,897)	(102,209)	(111,645)	(53,701)	(48,460)	(58,913)	(52,732)	(65,142)	24	11
General & Administrative Expense	(21,475)	(28,063)	(33,120)	(13,813)	(14,368)	(16,629)	(16,491)	(19,248)	17	16
Finance Expense	(396)	(373)	(848)	(205)	(168)	(311)	(537)	(1,072)	100	245
Total Operating Expense	(21,871)	(28,436)	(33,968)	(14,018)	(14,536)	(16,940)	(17,028)	(20,320)	19	20
Total Expenses	(94,768)	(130,645)	(145,613)	(67,719)	(62,996)	(78,781)	(66,832)	(86,431)	29	10
Net profit before tax	9,421	10,682	9,904	5,059	5,583	7,024	2,880	3,481	21	(50)
Associate / JV - Profits / Losses	85	(12)	495	(22)	(38)	495	0	0		
Tax Expense	(2,033)	(2,005)	(2,006)	(999)	(1,096)	(1,636)	(370)	(813)	120	(50)
Net profit after tax	7,473	8,665	8,393	4,038	4,449	5,883	2,510	2,668	6	(55)
Minority Interest	(117)	(108)	(80)	(63)	(45)	(67)	(13)	(30)	131	(55)
NP to CPIC shareholders	7,356	8,557	8,313	3,975	4,404	5,816	2,497	2,638	6	(55)

Source: Company data, ABCI Securities

China Pacific: Embedded Value (EV), Value of New Business (VNB) & New Business Margins (NBM)

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
ANAV	76,824	72,664	71,261	75,905	74,321	72,368	6	8
VIF	56,604	51,959	48,903	43,991	38,628	33,971	9	16
Solvency Cost	(11,595)	(11,059)	(10,156)	(9,212)	(8,226)	(7,516)	5	14
EV	121,833	113,564	110,008	110,089	104,723	98,371	7	11
EVPS (HK\$)	17.42	16.15	15.58	15.26	13.97	12.98	8	12
APE	11,016	19,304	11,951	20,601	10,910	15,273	50	(8)
VNB	4,061	6,714	3,830	6,100	3,238	5,000	41	6
NBM (APE Basis - (%))	36.86	34.78	32.05	29.61	29.68	32.74	2.1	4.8
FYP	24,942	46,936	30,353	54,186	32,091	38,147	50	(18)
VNB	4,061	6,714	3,830	6,100	3,238	5,000	41	6
NBM (FYP Basis - (%))	16.28	14.30	12.62	11.26	10.09	13.11	2.0	3.7
VNB (HK\$)	0.58	0.93	0.54	0.85	0.43	0.66	50	7
Group solvency	271	284	298	357			(13.0)	(27.0)

Source: Company data, ABCI Securities



China Pacific: Investment & Yields

(%)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Cash Equivalents	4.8	2.9	3.4	4.1	5.7	8.3	1.9	1.4
Deposits	28.8	26.3	26.1	24.6	23.7	23.6	2.5	2.7
Bonds	54.7	59.3	51.6	58.4	55.1	50.8	(4.6)	3.1
Equities	10.6	10.3	12.9	11.6	10.9	12.3	0.4	(2.3)
Infrastructure	1.1	1.3	6.0	1.3	4.6	5.0	(0.2)	(4.9)
Total Inv'ts (RMB bn)	586.6	522.5	490.5	435.8	395.1	366.0	12	20
Ann. Net Inv't Yield (%)	4.9	4.7	4.4	4.3	4.2	4.1	0.3	0.4
Ann. Total Inv't Yield (%)	3.9	3.7	4.4	5.2	4.3	5.0	(0.7)	(1.5)

Source: Company data, ABCI Securities

China Pacific: Life operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	55,229	93,203	54,574	87,873	48,959	61,998	43	1
Individual	28,210	42,818	23,212	35,525	18,615	29,570	44	22
Bancassurance	21,709	44,450	28,006	48,201	28,385	29,514	32	(22)
Direct sales & new channels	5,310	5,935	3,178	4,147	1,861	2,914	93	67
FYP	24,942	46,936	30,353	54,186	32,091	38,147	50	(18)
Regular Individual FYP	6,880	10,065	6,030	8,389	4,511	6,880	71	14
Ind. Agents #	270,000	292,000	282,000	280,000	252,000	254,000	(8)	(4)
Regular FYP per head (Rmb)	25,481	34,469	42,766	29,961	35,802	27,087	(26)	(40)
Persistency 13 mo - Ind. (%)	91.6	92.7	93.1	92.0	92.0	87.1	(1.1)	(1.5)
Persistency 25 mo - Ind. (%)	90.6	89.8	89.9	84.0	82.0	82.0	0.8	0.7
Solvency (%)	183	187	192	241	236	208	(4.0)	(9.0)

Source: Company data, ABCI Securities

China Pacific: P&C operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	35,246	61,687	32,267	51,622	27,078	34,289	20	9
Motor	26,226	47,409	23,812	39,636	20,242	25,449	11	10
Other P&C	9,020	14,278	8,455	11,986	6,836	8,840	55	7
Loss Ratios (%)	59.6	58.6	56.6	57.4	54.5	61.0	1.0	3.0
Expense Ratios (%)	34.6	34.5	34.5	36.3	40.0	36.5	0.1	0.1
Combined Ratios (%)	94.2	93.1	91.1	93.7	94.5	97.5	1.1	3.1
Solvency (%)	194	233	175	167			(39.0)	19.1

Source: Company data, ABCI Securities

China Pacific - share price & valuation

		CHINA PACIFIC			
		2009	2010	2011	2012E
Share Price (HK\$)	Hi	30.95	35.85	35.35	28.65
	Lo	28.00	27.95	20.15	21.50
	Av	29.91	31.17	31.15	24.74
PEV(X)	Hi	2.38 x	2.35 x	2.20 x	1.48 x
	Lo	2.16 x	1.83 x	1.25 x	1.11 x
	Av	2.30 x	2.04 x	1.94 x	1.28 x
EVPS YoY Growth (%)		26%	18%	5%	21%
VNB(X)	Hi	27.70 x	24.79 x	20.63 x	9.43 x
	Lo	23.15 x	15.28 x	4.36 x	2.15 x
	Av	26.09 x	19.16 x	16.13 x	5.45 x
VNB YoY Growth (%)		23%	28%	12%	5%

Source: Bloomberg, Company data, ABCI Securities



China Pacific: Embedded Value

(Rmb mn)	2009	2010	2011	2012E	2013E	1H12
Embedded value						
Adjusted net worth	72,368	75,905	72,664	86,952	95,314	76,824
Value of in-force	33,971	43,991	52,671	62,196	73,367	56,604
Cost of solvency margin	(7,516)	(9,212)	(11,059)	(11,503)	(11,966)	(11,595)
Embedded value	98,371	110,089	113,564	137,645	156,715	121,833
Vnb (long term)	4,915	5,996	6,599	6,973	7,568	4,061
Multiplier	10	7	6	12	11	
New business value (long term)	48,870	42,713	42,129	83,359	86,991	
Appraisal value	147,241	152,803	155,693	221,003	243,706	
EV movement analysis						
Opening embedded value	69,669	98,371	110,089	113,564	137,645	
Expected return						
- SHF's	2,698	3,763	3,947	3,779	4,522	
- In-force	2,772	2,578	3,307	6,057	7,153	
Value of new business (VNB)	4,915	5,996	6,599	6,973	7,568	
Inv't r var + mkt val adj	(226)	(2,556)	(9,080)	2,000	3,000	
Capital raising & dividends	18,080	(2,580)	(3,010)	5,272	(3,172)	
OpEx var, model chg & others	463	4,518	1,712	-	-	
Closing embedded value	98,371	110,089	113,564	137,645	156,715	
EVPS (HK\$)	12.98	15.26	16.08	19.39	21.90	
AVPS (HK\$)	20.06	24.73	28.30	34.69	36.47	
PEV implied	1.55	1.62	1.76	1.79	1.67	
VNB (HK\$)	0.65	0.83	0.93	0.98	1.06	
VNB implied (x)	10.91	11.41	13.08	11.87	9.99	
EV contributions 1 (%)						
Expected return on beg EV	8%	6%	7%	9%	8%	
IRV + MVA contribution to beg EV	0%	-3%	-8%	2%	2%	
VNB contribution to beg EV	7%	6%	6%	6%	5%	
VNB contribution to beg VIF	20%	18%	15%	13%	12%	
EVPS (HK\$) growth	26%	18%	5%	21%	13%	
EV contributions 2 (%)						
Beginning EV	71%	89%	97%	83%	88%	
Expected return						
- SHF's	3%	3%	3%	3%	3%	
- In-force	3%	2%	3%	4%	5%	
Inv't r var + mkt val adj	0%	-2%	-8%	1%	2%	
Value of new business (VNB)	5%	5%	6%	5%	5%	
Capital raising & dividends	18%	-2%	-3%	4%	-2%	
OpEx var, model chg & others	0%	4%	2%	0%	0%	
Ending EV	100%	100%	100%	100%	100%	

Source: Company data, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Insurance

China Pacific: Financial Statements

Profit & loss (Rmb mn)						Operating ratios (%)					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
GWP & policy fees	134,963	154,958	164,630	179,154	193,602	Gross written premium growth	40.1%	11.0%	6.2%	8.8%	8.1%
(-) Premiums to reinsurers	(13,148)	(13,384)	(12,736)	(14,309)	(15,542)	Net earned premium growth	39.3%	14.6%	6.5%	6.8%	8.0%
NWP & policy fees	121,815	141,574	151,893	164,845	178,060	Claims/benefits - of NEP	30.2%	36.1%	34.8%	36.3%	36.5%
Chg. in unearned premium res.	(4,656)	(4,336)	(5,793)	(8,841)	(9,601)	Div to PH & net inc. in PH res. of NEP	50.7%	40.9%	43.7%	45.5%	45.3%
NEP & policy fees	117,159	137,238	146,100	156,004	168,460	Ttl. claim/PH benefits to NEP	80.9%	76.9%	78.5%	81.9%	81.8%
Investment income	18,403	16,392	20,957	30,976	33,323	Claims/benefits - of total revenue	25.9%	31.8%	30.0%	29.9%	30.0%
Other income	812	1,887	2,107	2,430	2,814	Net inc. in PH res. - of total revenue	43.6%	36.0%	37.8%	37.5%	37.3%
Total revenue	136,374	155,517	169,164	189,410	204,596	Ttl. claim/PH benefits to total revenue	69.5%	67.9%	67.8%	67.4%	67.3%
Claims, surrenders, annuities/maturities	(35,354)	(49,518)	(50,791)	(56,707)	(61,456)	Commission cost ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Div. & int. to PH & net inc. in PH res.	(59,405)	(56,063)	(63,898)	(71,028)	(76,306)	General & admin. cost ratio	21.0%	21.3%	22.1%	20.9%	20.9%
Ttl. claims/PH benefits	(99,225)	(111,645)	(120,630)	(136,738)	(147,434)	Other exp. & stat. levy ratio					
Commission expenses	-	-	-	-	-	Total expense ratio	94.1%	93.6%	94.6%	94.2%	94.0%
General & administrative expense	(28,637)	(33,120)	(37,301)	(39,550)	(42,813)	Gross investment yield	4.5%	3.4%	3.6%	4.6%	4.5%
Finance expense	(410)	(848)	(2,144)	(2,144)	(2,144)	CPIC Life	259.3%	187.3%	173.6%	166.0%	160.6%
Other expense	0	0	0	0	0	CPIC P&C	206.1%	233.1%	222.3%	227.6%	230.8%
Total operating expense	(29,047)	(33,968)	(39,445)	(41,694)	(44,957)						
Total expenses	(128,272)	(145,613)	(160,075)	(178,432)	(192,392)						
Net profit before tax	8,102	9,904	9,090	10,978	12,205	Balance sheet (Rmb mn)					
Associate/JV - Profits/losses	100	495	21	18	15		2010	2011	2012E	2013E	2014E
Tax expense	(1,615)	(2,006)	(1,987)	(2,336)	(2,579)	Financial assets	433,385	522,530	627,769	734,755	849,654
Net profit after tax	6,587	8,393	7,123	8,660	9,641	Reinsurance assets	12,347	14,118	14,959	16,493	18,183
Minority interest	(38)	(80)	(107)	(127)	(138)	Insurance receivables	5,409	6,252	10,202	11,247	12,400
NP to CPIC shareholders	6,550	8,313	7,016	8,533	9,502	PP&E	6,831	7,833	7,987	7,827	7,671
						Others	17,739	19,879	29,243	29,791	30,777
Financial summary						Assets	475,711	570,612	690,159	800,113	918,685
	2010	2011	2012E	2013E	2014E	Insurance contract liabilities	302,640	374,931	439,606	522,262	611,092
EPS (RMB)	0.76	1.18	0.99	1.19	1.35	Investment contract liabilities	52,690	47,182	46,261	49,079	52,068
<i>EPS growth (%)</i>	-20.0%	-0.7%	-16.0%	20.7%	13.2%	Financial liabilities	19,836	58,847	91,405	105,610	122,679
PER (x)	35.1	19.9	31.5	26.1	23.0	Deferred revenue	-	-	-	-	-
PBV (x)	2.95	2.12	2.29	2.13	1.98	Others	27,476	11,597	13,755	18,659	22,012
PEV (x)	2.18	1.46	1.60	1.42	1.24	Liabilities	402,642	492,557	591,028	695,610	807,851
VNB multiple (x)	26.71	4.26	8.21	4.91	1.26	Net assets	76,605	76,796	97,760	103,005	109,198
Dividend per share (RMB)	0.40	0.35	0.35	0.35	0.35	Minority interests	1,202	1,259	1,371	1,498	1,636
Yield (%)	1.5%	1.8%	1.4%	1.4%	1.4%	Net equity to shareholders	77,854	78,055	99,142	104,503	110,834
Payout ratio (%)	52.5%	29.7%	35.4%	29.4%	25.9%						
Return on equity (%)	8.5%	10.4%	7.9%	8.4%	8.8%						
Return on assets (%)	1.5%	1.6%	1.1%	1.1%	1.1%						
Tax rate (%)	19.9%	20.3%	21.9%	21.3%	21.1%						

Source: Company data, ABCI Securities estimates



Disclosures

Analyst Certification

I, Chan Wing Fu (Francis Chan), being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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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