

Key Data

H-share price (HK\$)	29.65
Target price (HK\$)	NA
Upside potential (%)	NA
52Wk H/L(HK\$)	30.2 / 19.8
Issued shares:	12,044
Market cap (HK\$m)	357,105
30-day avg vol (HK\$m)	893
Major shareholder (%):	
AIA Aurora (AIG)	12.6
JPMorgan Chase	6.8

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

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

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	5.3	2.6
3-mth	9.0	(0.8)
6-mth	8.6	4.7

Source: Bloomberg

*Relative to MSCI Hong Kong

1 year price performance



Source: Bloomberg

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AIA Group (1299 HK) – Unrated

Life & health insurance industry

Positives mostly priced-in for ING Malaysia & 3Q12#

AIA Group just announced the acquisition of ING Malaysia and 3Q12 operating figures. The market has been contented with the fair pricing (1.8x 2011 PEV), immediate earnings accretion and strengthening foothold in Malaysia from the transaction. Also, AIA demonstrated another quarter of strong growth in VNB, up 22.4% YoY, in 3Q12. Nevertheless, we render most positives should have been priced in for AIA. In fact, the stock outperformed most of its trading peers and relevant benchmarks by big margins year to date in 2012.

Immediate accretion from ING Malaysia. Mark Tucker, the CEO, alleged that the transaction would be immediately earnings accretive to AIA. The deal will generate pretax cost synergies of US\$24mn p.a., or 0.6% of 2012E earnings per Bloomberg consensus, by 2015. Also, the transaction will facilitate a better use of surplus funding (US\$6.2bn in 1H12).

3Q12 VNB beating expectation. AIA reported VNB of US\$300mn, up 22.4% YoY (38.0% excluding one-offs), in 3Q12. NBM was maintained at 42.6%, up 10.6ppt YoY. This is the 10th straight quarter of VNB growth.

But positives mostly priced-in. While we are thrilled with the positive fundamental development of AIA, its share price rose by 22.1% year to date. It outperformed 13.9% up of HSI, 16.8% up of HK properties, 19.3% up of China Life and 18.3% up of Ping An. AIA only underperformed Prudential, which is primarily listed in London. The stock is trading at 1.48x 2012E PEV and 13.2x 2012E VNB. Such valuation is two standard deviations higher than the 2012E average of 1.35x PEV and 9.6x VNB. As such, we render most of its positives should have been priced in.

Overhang of AIG disposal remains. AIG will serve a three month lock-up period on its AIA's stake, after the recent disposal on 6 Sep. That said, potential disposal could come as early as Jan 2013. AIG is still holding 12.6% or approximately 1.5bn shares of AIA Group.

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

Valuation

FY ended Nov 30	FY08	FY09	FY10	FY11
Revenue (US\$ mn)	3,810	19,016	18,394	14,388
Chg (YoY)		399	(3)	(22)
Net profit (US\$ mn)	408	1,754	2,701	1,600
Chg (YoY)		330	54	(41)
EPS (HK\$)	0.27	1.14	1.75	1.04
PER (x)	111.6	26.1	16.9	28.6
BPS (HK\$)	5.8	9.6	12.6	13.7
P/B (x)	5.1	3.1	2.3	2.2
EVPS (HK\$)		13.5	16.0	17.6
PEV (x)		2.2	1.9	1.7
VNB (HK\$)		0.35	0.43	0.60
VNB (x)		45.9	31.7	20.0

Source: Company, Bloomberg, ABCI Securities

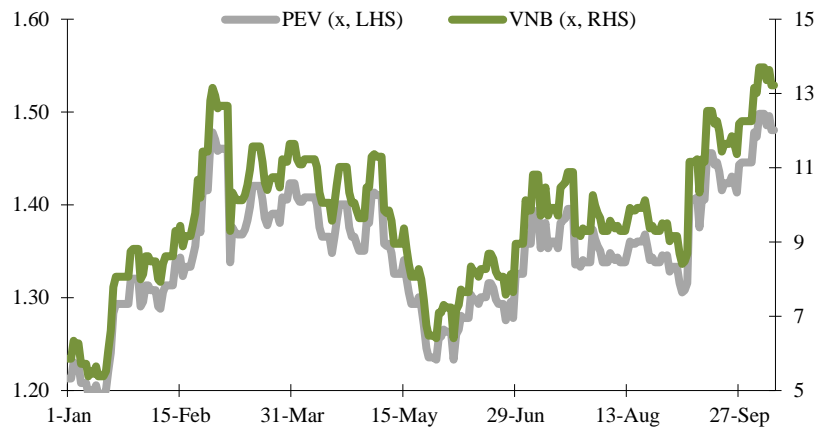


AIA Group: relative performance against trading peers and relevant benchmarks

(%)	AIA Group	China Life	Ping An	Manulife	Prudential	HK Property	MSCI HK Fin.	HSI
Since Feb High AIA vs Peers	0.68	(5.37) OP	(10.76) OP	(3.44) OP	16.76 UP	(2.52) OP	0.23 OP	(3.14) OP
Year to date 2012 AIA vs Peers	22.06	19.27 OP	18.26 OP	16.38 OP	39.32 UP	16.80 OP	21.68 OP	13.91 OP

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

AIA Group: trading PEV & VNB in 2012 YTD



Source: Company, Bloomberg, ABCI Securities

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, Bloomberg, ABCI Securities

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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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