

Key Sector Data

Average PER (x)	16.1
Average PBV (x)	1.7
Average PEV (x)	1.1
Average VNB (x)	1.8
Average Dividend Yield (%)	0.9

Sector Market cap (HK\$bnn)	1,479
Average 30-day avg vol (HK\$mnn)	1,871
Sector Weighting in MSCI China	~ 8%

Source: Company, Bloomberg, ABCI Securities

Sector Premium composition in 2011 (%)

Life	60.6
Health	4.8
Personal Accident	2.3
Property & Casualty	32.2

Source: Companies, CIRC

Sector performance (%)

	Absolute	Relative*
1-mth	4.34	(2.51)
3-mth	(3.73)	(18.00)
6-mth	(2.71)	(3.32)

Source: Bloomberg

*Relative to MSCI China

1 year relative performance vs MSCI China



Source: Bloomberg

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China Insurance Sector - Overweight Life & Health Insurance Industry

Improving premiums sales implying further recovery

China Insurance sector reported premiums figures for Sep 2012 lately. Four insurers reported sequentially better life and P&C premium growth. Together with a recovery of A-share markets and QE3 announced in US, the sector traded up 12.6% since early Sep. Currently, China insurers have further recovered in valuation, trading at an average of 1.13x 2013E PEV and 1.8x 2012E VNB. We expect the sector to outperform the market for the rest of 2012. We favor China Life and China Pacific currently, mainly due to their substantial NBM improvement in 1H12.

China Life's downtrend reversed. Sep life premiums reached Rmb263.1bn, flattish YoY (down 3.2% YoY year to Aug) during the period. Monthly Sep premiums recorded Rmb33.8bn, up 24.0% YoY, reversing from down 10.0% YoY for the month of Jul. China Life continues to benefit from the good sales of Kang Ning CI and the new direct sales products.

Ping An Life with slight sequential improvements. Sep life premiums reached Rmb100.9bn, up 7.4% YoY (up 6.6% YoY year to Aug) during the period. P&C premium was reported at Rmb73.9bn, up 20.0% YoY (flattish MoM). We consider this a slightly better result sequentially.

China Pacific holding up well. Sep life premiums reached Rmb74.9bn, flattish YoY during the period. P&C premium was reported at Rmb51.9bn, up 11.1% YoY (up 10.5% YoY year to Aug). In our view, Life premiums are stabilizing for China Pacific.

Taiping life much better off. Sep life premiums reached Rmb26.7bn, up 10.0% YoY (up 7.0% YoY year to Aug) during the period. Meanwhile, the product mix further improves, with 82.1% of total premium sales as regular. This is compared to 79.9% in 2011. As such, we expect its new business margins to hold up well in 2H12 (1H12 -31.9%, 2011 -26.5%).

Maintain OVERWEIGHT; Top picks: China Life & China Pacific. We are optimistic on the development of health products. As such, we reiterate our Overweight rating on China Insurance. Our top picks are China Life and China Pacific. Our SELL is Ping An. Also, we have a HOLD rating on New China Life and a BUY rating on China Taiping.

Risk factors: worse-than-expected underwriting and investment performance, tighter-than-expected regulations for the sector

Sector Valuation Summary

Companies	Code	Price (HK\$)	MCap (HK\$ bn)	ABCI Rec.	TP (HK\$)	PER 2013E	PBV 2013E	PEV 2013E	VNB 2013E	Yield 2013E
China Life	2628 hk	22.90	647	BUY	26.45	17.5	2.1	1.3	6.1	1.8%
Ping An	2318 hk	63.35	501	SELL	58.04	14.0	1.8	1.2	4.9	1.1%
China Pacific	2601 hk	25.05	227	BUY	27.93	20.0	1.7	1.2	0.0	1.7%
New China Life	1336 hk	25.65	80	HOLD	24.85	15.0	1.5	0.9	(1.1)	0.0%
China Taiping	0966 hk	13.36	23	BUY	13.42	13.8	1.3	1.0	(0.9)	0.0%
Sector Average						16.1	1.7	1.1	1.8	0.9%

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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