



Apr 1, 2015
Company Report
Rating: UNRATED

Share price (HK\$) 3.98

Analyst : Pandora Leung
Tel: (852) 2147 8809
Email: pandoraleung@abci.com.hk

Key Data

52wk H/L(HK\$)	4.06/2.88
Issued shares (mn)	
Domestic shares	33,698
H shares	8,726
Market cap of H shares(HK\$ mn)	34,729
3-mth avg daily turnover (HK\$ mn)	161
Major shareholder(s) (%):	
MOF	70.5

Source(s): Company, Bloomberg, ABCI Securities

2014 Revenue breakdown (%)

P&C	67
Life	28
Health	4
Others	1

Source(s): Company, ABCI Securities

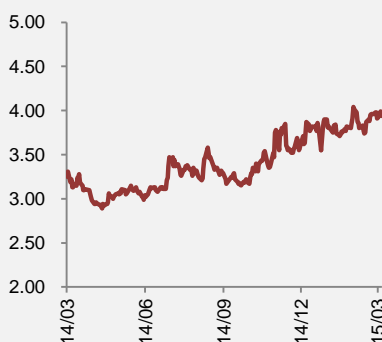
Share performance (%)

	Absolute	Relative*
1-mth	0.00	-0.78
3-mth	9.64	3.18
6-mth	25.55	14.79

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

PICC Group (1339 HK)
FY14 results review

- PICC Group's 2014 net profit grew 61% yoy to RMB 13,109mn; P&C contributed 91% of total net profit
- VNB declined by 9.9% and 42.6% for PICC Life and PICC Health. VNB in PICC Life was mainly weighed down by the bancassurance channel, whose VNB slid 28.3% yoy
- P&C recorded a net profit of RMB 15,115mn, up 43.2% yoy. Underwriting profits rose 22% yoy to RMB 7,291mn. Combined ratio improved to 96.5% from 96.7% in 2013, outperforming the industry average
- Going forward, shifting the focus from bancassurance to agency channel is the key to improve VNB growth in PICC Life

PICC Group announced FY14 results. Net profit grew 61% yoy to RMB 13,109mn. P&C and Life insurance accounted for 91% and 10% of total net profit, while Health insurance recorded a loss of RMB 386mn. Investment income grew 42.3% yoy to RMB 13.8bn; total investment yield rose to 6.0% from 5.2% in 2013 while net investment yield increased to 5.8% from 5.1%. The Group's solvency margin ratio improved by 34ppt yoy to 182%. (P&C: 239%, Life: 301%, Health: 187%)

Weak results from PICC Life and PICC Health. VNB declined by 9.9% and 42.6% for PICC Life and PICC Health. The VNB decline for PICC Life was mainly caused by the bancassurance channel, whose VNB slid 28.3% yoy and accounted for 43.4% of total in 2014 (2013: 54.5%). In contrast, VNB from agency channel increased 10% yoy, accounting for 42.4% of total. Policy surrender rate was unexpectedly high—the 13-month persistency ratio for life policy fell sharply from 81.0% in 2013 to 50.8% in 2014, while the 25-month persistency fell to 75.9% from 86.3%. Embedded value of PICC Life and PICC Health grew 28.6% yoy and 79.2% yoy to RMB 47,414mn and RMB 4,463mn, mainly driven by investment variance, capital change and market value adjustment.

P&C remained strong. P&C recorded a net profit of RMB 15,115mn, up 43.2% yoy; underwriting profits rose 22% yoy to RMB 7,291mn. Combined ratio improved to 96.5% from 96.7% in 2013, outperforming the industry average. The improvement is attributable to the fallen loss ratio, which was down by 1.8 ppts to 64.4%, offsetting the 1.6ppts increase in expense ratio.

Shifting the focus to agency channels. Capital position continued to improve. P&C insurance maintained its market leading position, but Life and health insurances, only showed limited contributions in earnings. We believe shifting the focus from bancassurance to the agency channel would be the key to improve VNB growth in PICC Life.

Risk factors: 1) Earnings growth for P&C operation deteriorated; 2) Sharp decline in A-share market would erode investment income; 3) Failure to expand agency channel sales for Life. 4) Slower-than-expected growth in cross-selling channels.

Financial Summary

FY ended Dec 31	2012A	2013A	2014A
Gross written premiums (RMB mn)	265,216	306,421	349,169
Chg (% YoY)	6.5	15.5	14.0
Net profit (RMB mn)	6,832	8,121	13,109
Chg (% YoY)	31.8	18.9	61.4
EPS (RMB)	0.20	0.19	0.31
Chg (% YoY)	1.6	18.9	61.4
BVPS (RMB)	1.54	1.69	2.18
Chg (% YoY)	60.8	9.5	29.3
P/E (x)	16.0	16.3	10.1
P/B (x)	2.0	1.9	1.4
ROAE (%)	14.1	11.9	16.0
ROAA (%)	1.1	1.1	1.7
DPS(RMB)	0.00	0.01	0.01
Yield (%)	0.1	0.3	0.3

Source(s): Bloomberg, ABCI Securities



Consolidated income statement (2012A-2014A)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A
Gross written premiums & policy fees	265,216	306,421	349,169
Premium ceded to reinsurers	31,406	33,811	32,788
Net written premiums (NWP)	233,810	272,610	316,381
Net change in unearned premium reserves	8,993	9,350	10,767
Net earned premiums (NEP)	224,817	263,260	305,614
Life insurance death and other benefits paid	15,213	28,592	95,422
Net claims paid	102,255	125,166	141,157
Changes in long-term life insurance contract liabilities	50,072	51,209	(2,171)
Policy holder dividends	2,871	3,323	4,352
Policyholders benefits and claims	170,411	208,290	238,760
Reinsurance commission income	10,438	11,477	10,109
Handling charges and commissions	20,205	21,659	26,464
Other operating and administrative expenses	48,945	55,932	63,678
Total operating expenses	58,712	66,114	80,033
Underwriting profits	(4,306)	(11,144)	(13,179)
Investment income	20,043	27,829	33,426
Other income	2,051	2,172	2,347
Finance costs	4,989	5,512	5,053
Exchange (gains)/losses, net	50	646	(34)
Share of profits and losses of associates	571	2,971	5,845
Profit before tax	13,320	15,670	23,420
Tax	3,176	3,615	4,705
Profit for the year	10,144	12,055	18,715
Minority interests	3,312	3,934	5,606
Net profit	6,832	8,121	13,109
Growth (%)			
Gross written premiums & policy fees	6.5	15.5	14.0
Net written premiums	11.4	16.6	16.1
Net earned premiums	9.0	17.1	16.1
Policyholders benefits and claims	6.3	22.2	14.6
Net profit	31.8	18.9	61.4
Life & Health VNB	5.5	(4.6)	(13.3)
Life & Health EV	38.6	10.9	31.8
Operating performance (%)			
Total investment return	4.2	5.2	6.0
Solvency ratio - Group	152.0	148.0	182.0
Combined ratio	95.1	96.7	96.5
Effective tax rate	23.8	23.1	20.1
Dividend payout	2.0	4.3	3.1
ROAE	14.1	11.9	16.0
ROAA	1.1	1.1	1.7

Source(s): Company, ABCI Securities



Consolidated balance sheet (2012A-2014A)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A
Cash and cash equivalents	73,873	46,607	39,307
Derivative financial assets	73	16	23
Debt securities	217,369	243,756	235,905
Equity securities and trust schemes	119,729	97,612	92,637
Insurance receivables, net	23,305	26,762	18,475
Reinsurance assets	23,875	27,222	25,857
Term deposits	120,115	137,607	164,408
Restricted statutory deposits	7,880	8,992	9,346
Investments in associates and joint venture	3,361	28,268	36,128
Investment properties	8,450	10,075	10,682
Property and equipment	21,942	22,054	21,590
Intangible assets	398	533	808
Prepaid land premiums	3,708	3,754	3,902
Deferred tax assets	2,215	1,545	1,086
Other assets	62,357	100,516	122,067
Total assets	688,650	755,319	782,221
	-	-	-
Securities sold under agreement to repurchase	71,290	44,448	35,488
Derivatives financial liabilities	3	10	2
Income tax payable	72	57	979
Due to banks and other Financial institutions	362	501	687
Subordinated debts	34,855	46,837	47,914
Insurance contract liabilities	391,577	461,776	478,640
Investment contract liabilities for policy holders	50,312	41,640	25,520
policyholder dividends payable	5,486	7,806	7,966
Pension benefit obligation	2,952	2,614	2,862
Deferred tax liabilities	98	435	915
Other liabilities	48,301	54,394	55,671
Total liabilities	605,308	660,518	656,644
	-	-	-
Issued share cap	42,424	42,424	42,424
Reserves	22,950	29,151	50,157
Total shareholders' fund	65,374	71,575	92,581
Minority interests	17,968	23,226	32,996
Total equity	83,342	94,801	125,577

Source(s): Company, ABCI Securities



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 2010-2014

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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183**