

Key Data

H-share price (HK\$)	10.56
Target price (HK\$)	NA
Upside potential (%)	NA
52Wk H/L(HK\$)	18.6 / 10.1
Issued shares:	1,714
Market cap (HK\$m)	18,100
30-day avg vol (HK\$m)	23.4
Major shareholder (%):	
China Taiping Insurance Gp	37.7
Easiwell	8.1

Source: Company, Bloomberg, ABCI Securities

Segmental profit composition in 2011 (%)

Life	78.9
P&C	97.2
Reinsurance	(19.0)
Corporate & eliminations	(57.1)

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(9.8)	(4.1)
3-mth	(13.4)	(12.6)
6-mth	(34.3)	(23.1)

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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China Taiping (966 HK) – Unrated Life & health industry

Deep value pending unleash

China Taiping failed to revive in share price performance since 1H12 results. EV and VNB advanced nicely, only because of adopting more aggressive actuarial assumptions. Underlying trends in operations failed to excite the market, with a 15% YoY decline in VNB excluding the effect from actuarial assumption changes. Reinsurance remained at a loss of HK\$75mn, following a loss of HK\$248mn in 2H11. However, we see deep value with the stock, which trades at 0.79x 2012E PEV and (1.8)x 2012E VNB, compared to sector average of 1.15x and 2.8x. Positive catalysts, such as recovering life and reinsurance underwriting, are emerging for China Taiping in 2H12.

Latest actuarial assumptions at PAR with peers. China Taiping was accused of adopting more aggressive actuarial assumptions in 1H12. However, its latest discount rate assumption of 11% is in fact the same as China Life and Ping An. Its latest long term investment assumption of 4.6% was still more conservative than 5.5% of China Life and Ping An, and 5.2% of China Pacific and New China Life.

Life operations to recovery on more agents. Despite YoY declines in FYP and VNB, Taiping Life increased number of agents by 10.7% HoH in 1H12. With more agents in operations, we turn more positive on its VNB outlook, in light of further restructuring of channel and product mix in 2H12.

Reinsurance becoming profitable again. Per the management, reinsurance still ran at a loss due to the aftermath of Thai Flooding. Such impact may fade and reinsurance will return to profits in 2H12.

Consensus implying sharp improvements. 2012E consensus EV is at HK\$21bn, up 23% YoY and 7% HoH. 2012E net profit is at HK\$1.2bn with up 150% YoY. The equivalent ROE is 9.3%, versus 4.1% in 2011.

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

Valuation

FY ended Dec 31	2008	2009	2010	2011
Revenue (HK\$ mn)	16,197	33,918	51,815	53,169
Chg (YoY)		109	53	3
Net profit (HK\$ mn)	(486)	826	2,248	495
Chg (YoY)		(270)	172	(78)
EPS (HK\$)		0.5	1.3	0.3
PER (x)	(33.7)	20.0	8.0	36.4
BPS (HK\$)	4.9	6.0	7.5	6.7
P/B (x)	2.1	1.7	1.4	1.6
EVPS (HK\$)	6.3	7.0	9.2	10.0
PEV (x)	1.7	1.5	1.1	1.1
VNB (HK\$)	0.3	0.4	0.5	0.8
VNB (x)	14.14	9.07	2.45	0.77

Source: Company, Bloomberg, ABCI Securities

Disclosures

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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 (~15%)

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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