



# Company Report

## China Taiping (966 HK) – Buy

Life & Health Insurance Industry

2013E target price: HK\$18.36 (from HK\$13.42 previously)

### Key data

H-share price (HK\$)	15.58
Target price (HK\$)	18.36
Upside potential (%)	17.84
52Wk H/L(HK\$)	18.6 / 10.1
Issued shares:	1,714
Market cap (HK\$mn)	26,578
30-day avg vol (HK\$mn)	35.0
Major shareholders (%):	
China Taiping Insurance Gp	37.7
Easiwell	8.1

Source: Company & Bloomberg

### Segmental profits in 2011 (%)

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

\*Based on 2011 results

Source: Company

### Share performance (%)

	Absolute	Relative*
1-mth	12.7	7.2
3-mth	16.1	2.2
6-mth	29.8	4.5

\*Relative to MSCI China

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

### Analyst

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## Déjà vu of a growth story

**China Taiping re-emerged to be a growth stock in the sector. Its Life premium growth topped the sector at 14.2% YoY towards end-2012. Also, its Reinsurance and P&C units are set for a strong rebound from previous losses in 2013. The stock trades at only 1.07x 2013E PEV, well below 1.25x of sector average. As such, we maintain BUY on China Taiping and upgrade its TP to HK\$18.36 (HK\$13.42 previously).**

**Life recovery topped the sector.** China Taiping accelerated in premium growth towards end-2012. Its premium growth reached 14.2 YoY in 11M12, compared to the year low of a 7.0% YoY. Such growth topped the sector. Thanks for the robust sales of its new saving products launched in Aug 2012. Per our estimates, China Taiping will enjoy a NBM of 29.5% and VNB growth of 8.2% YoY in this year.

**Rosy outlook for Reinsurance and P&C.** TPre reported heavy net losses in 2H11 and in 1H12, mainly due to three major natural disasters in 2011. In 2H12 and 2013, we expect the unit to benefit from the increase of global reinsurance pricing and fading residual claims from 2011. Meanwhile, TPI started to make underwriting profits of Rmb53 mn in 1H12, against losses during 2008-10. We expect the unit to achieve better economies of scale, and make net profits of Rmb120 mn in 2013.

**Attractive valuation.** China Taiping is trading at 1.07x 2013E PEV and 1.4x 2013E VNB, much cheaper than the sector average of 1.25x 2013E PEV. We expect China Taiping to report faster than sector growth in EV & VNB. Therefore, the stock is trading at a very attractive valuation.

**Maintain BUY; upgrade TP to HK\$18.36.** We derive an appraisal value of HK\$31,468 mn for 2013E, also adopting it as TP, or HK\$18.36/ share (HK\$13.42 previously). The implied valuation of our TP is 1.27x 2013E PEV and 6.7x 2013E VNB. This represents 17.8% upside potential from the current share price. We maintain our BUY rating on China Taiping.

**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 (HK\$ mn)	51,815	53,169	61,011	70,106	78,508
Chg (YoY)	53	3	15	15	12
Net profit (HK\$ mn)	2,248	495	1,401	1,803	2,070
Chg (YoY)	172	(78)	183	29	15
EPS (HK\$)	1.3	0.3	0.8	1.1	1.2
PER (x)	9.2	42.0	19.1	14.8	12.9
BPS (HK\$)	7.5	6.7	7.6	10.4	10.4
P/B (x)	1.6	1.8	1.5	1.3	1.1
EVPS (HK\$)	9.2	10.0	12.3	14.5	16.5
PEV (x)	1.3	1.2	1.3	1.1	0.9
VNB (HK\$)	0.5	0.7	0.7	0.8	0.9
VNB (x)	5.5	3.2	4.6	1.4	(1.1)

Source: Company data, ABCI Securities estimates



**China Taiping: 1H12 profit & loss**

	2009	2010	2011	1H10	2H10	1H11	2H11	1H12	HoH	YoY
	HK\$mn	(%)	(%)							
GWP & Policy fees	31,023	48,759	50,098	27,273	21,486	27,159	22,939	31,489	37	16
(-) Premiums to Reinsurers	1,688	1,942	1,968	1,063	879	1,161	807	(1,295)	(260)	(212)
NWP & Policy fees	29,335	46,817	48,130	26,210	20,607	25,998	22,132	30,194	36	16
Chg. in Unearned Premium Res.	(207)	(836)	(521)	(915)	79	(596)	75	(924)	(1,335)	55
NEP & policy fees	29,128	45,981	47,609	25,295	20,686	25,402	22,207	29,270	32	15
Investment Income	4,483	5,513	5,197	2,481	3,032	3,137	2,060	2,572	25	(18)
Other Income	307	318	363	119	198	224	139	157	13	(30)
Total Revenue	33,918	51,815	53,169	27,895	23,917	28,763	24,406	31,999	31	11
Claims, Surrenders, Annuities / Maturities	(9,426)	(9,799)	(11,887)	(4,627)	(5,172)	(5,458)	(6,430)	(7,312)	14	34
Div. & Int. to PH & Net Inc. in PH Res.	(12,252)	(27,544)	(27,159)	(15,777)	(11,767)	(15,695)	(11,463)	(16,181)	41	3
Ttl. Claims / PH Benefits	(21,678)	(37,342)	(39,046)	(20,404)	(16,939)	(21,153)	(17,893)	(23,493)	31	11
Commission Expenses	(3,558)	(4,105)	(4,409)	(2,318)	(1,786)	(2,320)	(2,089)	(2,574)	23	11
General & Administrative Expense	(6,907)	(8,426)	(8,508)	(4,040)	(4,386)	(3,979)	(4,529)	(4,555)	1	14
Finance Expense	(318)	(353)	(566)	(164)	(189)	(278)	(287)	(291)	1	4
Other Expense	0	0	0	0	0	0	0	0		
Total Expenses	(10,782)	(12,884)	(13,482)	(6,523)	(6,362)	(6,577)	(6,905)	(7,419)	7	13
Net profit before Tax	1,458	1,588	641	969	616	1,033	(392)	1,087	(377)	5
Associate / JV - Profits / Losses	23	1,272	251	5	1,267	4	247	88	(64)	2,014
Tax Expense	(293)	(207)	28	(26)	(180)	15	13	(192)	(1,560)	(1,414)
Net Profit after Tax	1,188	2,653	920	948	1,702	1,052	(132)	983	(846)	(6)
Minority Interest	(362)	(409)	(425)	(345)	(63)	(326)	(99)	(447)	353	37
NP to CTIH shareholders	826	2,245	495	603	1,639	726	(230)	537	(333)	(26)

Source: Company data, ABCI Securities

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

(HK\$ mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Taiping Life	25,815	21,574	19,110	17,511	14,187	13,626	19.7	35.1
CTIH Stake (50.05%)	12,920	10,798	9,565	8,764	7,101	6,820	19.7	35.1
Book Value of Other Biz (Excl. MI)	6,860	6,276	7,935	6,967	5,421	5,014	9.3	(13.6)
Group Embedded Value	19,780	17,074	17,500	15,731	12,522	11,834	15.8	13.0
<b>Per Share (HK\$)</b>								
CTIH Stake in TPL	7.54	6.34	5.62	5.15	4.17	4.01	18.8	34.1
Book Value of Other Biz (Excl. MI)	4.00	3.69	4.66	4.09	3.19	2.95	8.5	(14.2)
Group Embedded Value	11.54	10.03	10.28	9.24	7.36	6.95	15.0	12.2
<b>(HK\$ mn)</b>								
APE	4,024	8,464	4,477	9,297	5,413	6,948	1	(10)
VNB	1,283	2,244	1,253	1,827	1,055	1,353	29	2
NBM (APE Basis-%)	31.89	26.51	27.98	19.65	19.49	19.47	5.38	3.90
FYP	9,679	18,202	10,606	24,752	15,190	14,879	27	(9)
VNB	1,283	2,244	1,253	1,827	1,055	1,353	29	2
NBM (FYP Basis-%)	13.26	12.33	11.81	7.38	6.95	9.09	0.93	1.44

Source: Company data, ABCI Securities

**China Taiping: Segmental profits**

(HK\$ mn)	1H12	2011	1H11	2010	1H10	% HoH	% YoY
Life	789	781	333	940	357	76	137
P&C	317	498	323	339	234	81	(2)
Reinsurance	(76)	(94)	160	373	174	(70)	(147)
Other businesses	(47)	(265)	(81)	1,002	(161)	(74)	(41)
Group net profits	983	920	736	2,653	603	434	34
<b>(Mix - %)</b>							
Life	80	85	45	35	59	(5)	35
P&C	32	54	44	13	39	(22)	(12)
Reinsurance	(8)	(10)	22	14	29	3	(29)
Other businesses	(5)	(29)	(11)	38	(27)	24	6
Group net profits	100	100	100	100	100		

Source: Company data, ABCI Securities



**China Taiping: Life operating data**

(HK\$ mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	23,657	38,530	21,002	37,875	21,233	21,636	35	13
Individual	9,487	14,410	7,538	10,319	5,429	6,652	38	26
Banc.	13,625	22,295	12,865	25,472	15,296	14,265	44	6
Group + Others	544	1,825	600	978	507	719	(56)	(9)
FYP Regular	3,395	7,382	3,796	7,760	4,326	6,066	(5)	(11)
(#)								
Branches or Outlets	815	832	788	740	646	611	(2)	3
Ind. Agents	51,008	46,064	46,124	50,527	57,435	60,781	11	11
FYP Regular / head (Rmb)	54,115	131,036	69,160	129,054	64,380	87,549	(13)	(22)
(%)								
Total Inv. Yield	3.60	3.60	4.10	5.00	4.80	5.50	-	(0.50)
Persistence 13 mo - Ind.	92.70	92.00	91.70	88.20	88.40	85.00	0.70	1.00
Persistence 13 mo - Banc.	88.30	93.20	93.30	94.00	93.90	92.00	(4.90)	(5.00)
Solvency	169	178	231	270	176	222	(9.00)	(62.00)

Source: Company data, ABCI Securities

**China Taiping: Reinsurance operating data**

(HK\$ mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	2,128	3,431	1,862	2,650	1,566	1,775	36	14
(%)								
Loss Ratios	77.90	74.70	65.80	62.90	54.50	65.30	3.20	12.10
Expense Ratios	32.70	31.00	35.50	31.10	36.90	27.20	1.70	(2.80)
Combined Ratios	110.60	105.70	101.30	94.00	91.40	92.50	4.90	9.30
Total Inv. Yield	4.70	2.10	3.90	6.10	5.80	6.80	2.60	0.80

Source: Company data, ABCI Securities

**China Taiping: P&C operating data**

(HK\$ mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross Premiums	4,508	6,994	3,456	6,135	3,041	5,106	27	30
Motor	3,488	5,559	2,658	5,021	2,447	4,150	20	31
Other P&C	1,019	1,435	798	1,114	594	957	60	28
(%)								
Loss Ratios	48.90	53.40	54.80	56.40	54.00	62.20	(4.50)	(5.90)
Expense Ratios	49.10	46.50	43.60	44.60	45.90	46.00	2.60	5.50
Combined Ratios	98.00	99.90	98.40	101.00	99.90	108.20	(1.90)	(0.40)
Total Inv. Yield	3.90	3.30	5.00	4.30	6.00	4.60	0.60	(1.10)
Solvency	168	152	153	154	156	192	16.00	15.00

Source: Company data, ABCI Securities

**CH INS: China Taiping - share price & valuation**

		2006	2007	2008	2009	2010	2011	2012E
Share Price (HK\$)	Hi	9.80	26.45	24.80	30.15	30.00	25.60	18.24
	Lo	2.80	7.16	8.36	9.01	22.30	13.64	10.26
	Av	5.20	15.43	16.59	18.17	26.18	18.90	13.72
PEV(X)	Hi	2.53 x	5.42 x	3.96 x	4.34 x	3.12 x	2.57 x	1.48 x
	Lo	0.72 x	1.47 x	1.34 x	1.30 x	2.32 x	1.37 x	0.83 x
	Av	1.35 x	3.16 x	2.65 x	2.61 x	2.72 x	1.90 x	1.12 x
EVPS YoY Growth (%)			26%	28%	11%	38%	4%	23%
VNB(X)	Hi	37.00 x	101.14 x	60.90 x	58.31 x	37.94 x	22.70 x	8.27 x
	Lo	(6.65x)	10.68 x	6.91 x	5.17 x	23.61 x	5.34 x	(2.83x)
	Av	8.33 x	49.44 x	33.94 x	28.19 x	30.84 x	12.98 x	1.98 x
VNB YoY Growth (%)			33%	43%	31%	35%	28%	4%

Source: Bloomberg, Company data, ABCI Securities



China Taiping: Embedded Value

(HK\$ mn)	2009	2010	2011	2012E	2013E	1H12
<b>Group embedded value</b>						
Adjusted net worth	5,408	6,008	3,260	3,465	4,684	4,806
Value of in-force	10,353	14,156	23,469	24,326	29,287	24,088
Cost of solvency margin	(2,135)	(2,653)	(3,061)	(3,480)	(3,945)	(3,079)
TPL embedded value	13,626	17,511	23,668	24,311	30,026	25,815
CTIH shareholding	50.05%	50.05%	50.05%	50.05%	50.05%	50.05%
CTIH share of TPL EV	6,820	8,764	11,846	12,168	15,028	12,920
Other businesses at 1x PBV	5,014	6,967	5,228	8,904	9,815	7,585
Group embedded value	11,834	15,731	17,074	21,072	24,844	20,505
Vnb (long term)	1,353	1,827	2,359	2,463	2,664	1,055
Multiplier	7	4	1	7	7	
New business value (long term)	10,048	6,812	2,642	18,107	17,754	
CTIH shareholding	50.05%	50.05%	50.05%	50.05%	50.05%	
CTIH share of TPL NBV	5,029	3,409	1,322	9,063	8,886	
CIRe goodwill less cap. corp. exp.	(1,789)	(1,962)	(1,819)	(2,158)	(2,261)	
Group appraisal value	15,074	17,178	16,577	27,977	31,468	
<b>EV movement analysis</b>						
Opening embedded value	8,548	13,626	17,486	21,664	24,311	
Expected return						
- SHF's	154	270	300	205	218	
- In-force	733	1,139	1,248	1,479	1,533	
Value of new business (VNB)	1,353	1,827	2,359	2,463	2,664	
Inv't r var + mkt val adj	771	495	(4,024)	-	1,000	
Capital raising & dividends	1,590	-	1,585	-	-	
OpEx var, model chg & others	477	129	2,710	(1,500)	300	
Closing embedded value	13,626	17,486	21,664	24,311	30,026	
Group EVPS (HK\$)	6.95	9.24	9.96	12.29	14.49	
AVPS (HK\$)	8.86	10.09	9.67	16.32	18.36	
PEV implied	1.27	1.09	0.97	1.33	1.27	
VNB (HK\$)	0.40	0.54	0.69	0.72	0.78	
VNB implied (x)	7.43	3.73	1.12	7.35	6.66	
<b>EV contributions 1 (%)</b>						
Expected return on beg EV	10%	10%	9%	8%	7%	
IRV + MVA contribution to beg EV	9%	4%	-23%	0%	4%	
VNB contribution to beg EV	16%	13%	13%	10%	11%	
VNB contribution to beg VIF	20%	18%	17%	10%	11%	
EVPS (HK\$) growth	11%	33%	8%	23%	18%	
<b>EV contributions 2 (%)</b>						
Beginning EV	63%	78%	81%	89%	81%	
Expected return						
- SHF's	1%	2%	1%	1%	1%	
- In-force	5%	7%	6%	6%	5%	
Inv't r var + mkt val adj	6%	3%	-19%	0%	3%	
Value of new business (VNB)	10%	10%	11%	10%	9%	
Capital raising & dividends	12%	0%	7%	0%	0%	
OpEx var, model chg & others	3%	1%	13%	-6%	1%	
Ending EV	100%	100%	100%	100%	100%	

Source: Company data, ABCI Securities estimates



**China Taiping: Financial Statements**

Profit & loss (HK\$ mn)						Operating ratios (%)					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
<b>GWP &amp; policy fees</b>	<b>47,100</b>	<b>50,098</b>	<b>57,499</b>	<b>64,704</b>	<b>72,369</b>	Gross written premium growth	57.2%	2.7%	14.8%	12.5%	11.8%
(-) Premiums to reinsurers	2,308	1,968	2,374	2,712	2,994	<b>Net earned premium growth</b>	<b>57.9%</b>	<b>3.5%</b>	<b>13.7%</b>	<b>11.8%</b>	<b>11.9%</b>
<b>NWP &amp; policy fees</b>	<b>44,792</b>	<b>48,130</b>	<b>55,124</b>	<b>61,992</b>	<b>69,375</b>	Claims/benefits - of NEP	21.3%	25.2%	24.4%	22.8%	22.7%
Chg. in unearned premium res.	(1,002)	(521)	(991)	(1,455)	(1,631)	Div to PH & Net Inc. in PH Res. of NEP	59.9%	56.8%	55.4%	58.8%	59.0%
<b>NEP &amp; policy fees</b>	<b>43,790</b>	<b>47,609</b>	<b>54,134</b>	<b>60,537</b>	<b>67,744</b>	<b>Ttl. claim/PH benefits to NEP</b>	<b>81.2%</b>	<b>82.0%</b>	<b>79.8%</b>	<b>81.6%</b>	<b>81.8%</b>
Investment income	4,798	5,197	6,649	9,372	10,507	Claims/benefits - of total revenue	18.9%	22.6%	21.7%	19.7%	19.6%
Other income	269	363	229	197	257	Net inc. in PH res. - of total revenue	53.2%	50.9%	49.2%	50.7%	50.9%
<b>Total revenue</b>	<b>48,857</b>	<b>53,169</b>	<b>61,011</b>	<b>70,106</b>	<b>78,508</b>	<b>Ttl. claim/PH benefits to total revenue</b>	<b>72.1%</b>	<b>73.4%</b>	<b>70.8%</b>	<b>70.5%</b>	<b>70.5%</b>
Claims, surrenders, annuities/maturities	(10,368)	(12,007)	(13,213)	(13,822)	(15,394)	Commission cost ratio	7.9%	8.3%	8.4%	8.3%	8.3%
Div. & int. to PH & net inc. in PH res.	(22,854)	(27,039)	(30,001)	(35,576)	(39,990)	General & admin. cost ratio	16.3%	16.0%	15.4%	15.8%	15.7%
<b>Ttl. claims/PH benefits</b>	<b>(33,222)</b>	<b>(39,046)</b>	<b>(43,213)</b>	<b>(49,398)</b>	<b>(55,384)</b>	Other cost ratio	0.7%	1.1%	1.0%	0.8%	0.7%
Commission expenses	(4,611)	(4,409)	(5,142)	(5,799)	(6,497)	<b>Operating expense ratio</b>	<b>24.9%</b>	<b>25.4%</b>	<b>24.8%</b>	<b>24.9%</b>	<b>24.7%</b>
General & administrative expense	(8,697)	(8,508)	(9,425)	(11,082)	(12,300)	Gross investment yield	4.8%	3.4%	3.5%	4.2%	4.1%
Finance expense	(328)	(566)	(581)	(580)	(580)	TPRe solvency	555.8%	389.7%	362.3%	349.1%	334.5%
Other expense	0	0	0	0	0	Taiping life solvency	270.3%	177.7%	194.9%	186.6%	178.2%
<b>Total expenses</b>	<b>(13,636)</b>	<b>(13,482)</b>	<b>(15,148)</b>	<b>(17,462)</b>	<b>(19,378)</b>	<b>Taiping insurance solvency</b>	<b>153.5%</b>	<b>152.2%</b>	<b>174.7%</b>	<b>171.6%</b>	<b>176.7%</b>
<b>Net profit before tax</b>	<b>1,999</b>	<b>641</b>	<b>2,650</b>	<b>3,246</b>	<b>3,746</b>	<b>Balance sheet (HK\$ mn)</b>					
Associate/JV - Profits/losses	55	251	189	203	203		2010	2011	2012E	2013E	2014E
Tax expense	(208)	28	(514)	(673)	(784)	PP&E	1,304	2,916	4,024	4,034	4,047
<b>Net profit after tax</b>	<b>1,846</b>	<b>920</b>	<b>2,325</b>	<b>2,777</b>	<b>3,166</b>	Bonds	86,452	116,230	139,726	156,420	178,442
Minority interest	(752)	(425)	(924)	(974)	(1,096)	Equities	12,245	8,669	9,066	11,473	13,103
<b>NP to CTIH shareholders</b>	<b>1,094</b>	<b>495</b>	<b>1,401</b>	<b>1,803</b>	<b>2,070</b>	Investment funds	4,251	5,672	7,303	11,403	12,987
						Cash	29,412	37,776	52,370	57,576	65,943
						Reinsurance recoverable	2,168	2,437	2,716	3,020	3,277
						Interest in associates	1,179	1,580	1,609	1,609	1,609
						Other	17,473	16,091	18,752	18,752	18,752
						<b>Assets</b>	<b>154,484</b>	<b>191,372</b>	<b>235,566</b>	<b>264,287</b>	<b>298,160</b>
						Life insurance funds	96,670	122,564	146,189	176,209	209,954
						Unearned premium	4,067	4,808	5,327	6,288	7,374
						Outstanding claims	7,639	9,209	9,938	10,779	11,712
						Tax liabilities	1,491	558	1,007	1,007	1,007
						Interest bearing notes	10,231	11,041	13,310	15,410	17,510
						Other	15,903	26,318	34,715	25,824	17,749
						<b>Liabilities</b>	<b>136,002</b>	<b>174,498</b>	<b>210,486</b>	<b>235,516</b>	<b>265,306</b>
						Net assets	18,482	16,874	25,080	28,771	32,854
						Minority interests	5,769	5,439	7,174	8,148	9,244
						<b>Net equity to shareholders</b>	<b>12,712</b>	<b>11,435</b>	<b>17,905</b>	<b>20,622</b>	<b>23,610</b>

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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