

New China Insurance (1336.HK)

Stable growth of market shares with strong rebound of profits in future



Phillip Securities (Hong Kong) Ltd
Phillip Securities Research

Bloomberg | Reuters | POEMS

1336.HK | 1336.HK | 1336.HK

Industry: Financial

Better profit performance than the peers in 2012

Rating: Buy, CP: HK\$32.15, TP: HK\$37.08

2013-01-16

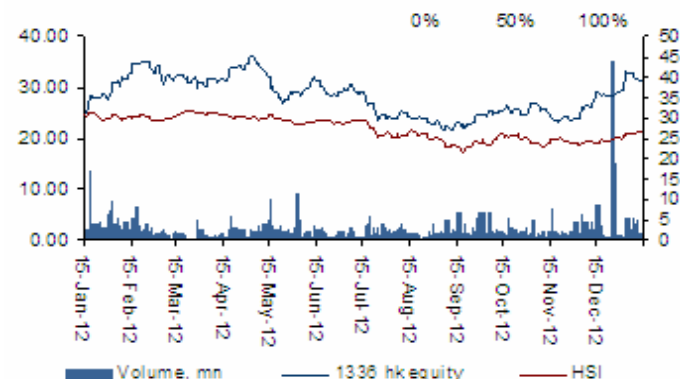
Company Introduction

New China Insurance (NCI or the Group) was founded in Beijing in Sep 1996, which is one of the largest insurers in China now. NCI were listed in A+H Shares in 2011, and currently it owns over 50,000 employees and 1,500 branches nationwide. According to the records of premiums incomes from CIRC, as at the end of Nov 2012, NCI was the third largest Life insurer in China.

Summary

- According to the data from CIRC, the premium incomes of NCI achieved to RMB92.219 billion, increased slightly by 3.89% y-y in Nov 2012, which was better than the performance of the industry with the growth rate of 3.54% during the same period although the Group's growth rate appeared to decrease month by month;
- According to 3Q report, the Group's total assets increased significantly by 24.5% to RMB481.358 billion compared to the end of 2011, equivalent to BVPS of RMB11.05, 10.1% higher than that of 2011;
- Accumulated net profits of NCI recorded to RMB2.324 billion, raised 2.42% y-y, better than the peers, while China Life recorded the loss of RMB2.2 billion and CPIC's net profits dropped 59% y-y approximately;
- However, we noted one of main reasons that NCI gained the better profit performance was the realization of deferred tax of assets with the amount of RMB444 million. Ignoring such accounting treatment, NCI's profits before tax would decrease by 26.41% y-y, consistent with market trend;
- On the other hand, there was a news that CSRC would approve domestic insurance companies to open retail fund management business in future, which may cause insurers' incomes to go up, and investment incomes would rebound obviously benefited from improvement of market environment. Therefore we expect NCI's profits would increase significantly in the next two years. The Group's net profits would rise 10% y-y approximately to RMB3.081 in 2012 with the EPS of RMB0.99;
- In summary, we hold optimistic views for NCI's future performance, and estimate the 12-month target price to HK\$37.08, around 15.30% higher than the latest closing price, equivalent to 2013P/E18.7x and P/B2.3x respectively. Maintain Buy rating.

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (HKD)	37.08	
- Previous Target Price (HKD)	42.21	
Closing Price (HKD)	32.15	
Expected Capital Gains (%)	15.3%	
Expected Dividend Yield (%)	#REF!	
Expected Total Return (%)	#REF!	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD mn)	106,348	
Enterprise Value (HKD mn)	N/A	
52 week range (HKD)	21.25 - 36.81	
Closing Price in 52 week range		



Key Financial Summary

FYE	12/11	12/12F	12/13F	12/14F
Net earned premiums (RMB mn)	95,664	101,636	111,806	125,203
Net Profit, adj. (RMB mn)	2,799	3,081	4,960	6,564
EPS, adj. (RMB)	1.24	0.99	1.59	2.10
P/E (X)	13.8	20.7	26.1	16.2
BVPS (RMB)	10.04	11.35	13.19	15.00
P/B (X)	4.7	2.6	2.3	2.0
DPS (RMB)	#REF!	#REF!	#REF!	#REF!
Div. Yield	#REF!	#REF!	#REF!	#REF!

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

EV

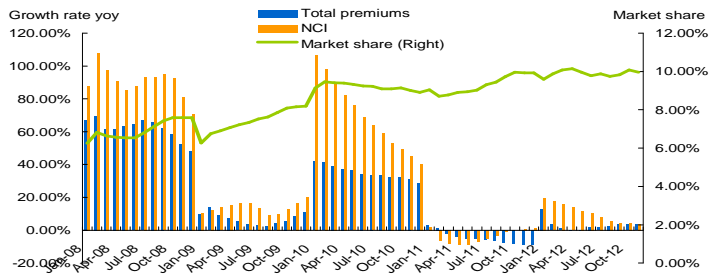
Research analyst

Xingyu Chen

chenxingyu@phillip.com.cn

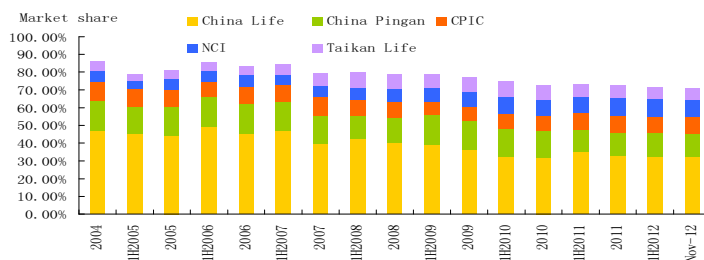
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Figure 1. Premium incomes of NCI



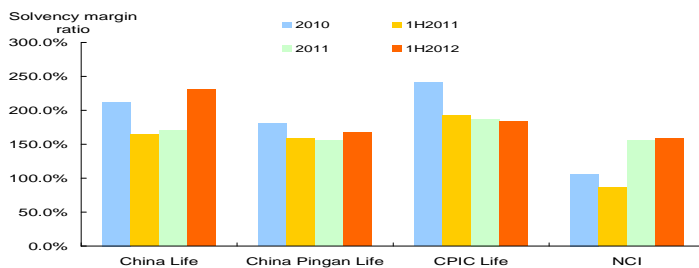
Source: CIRC, Phillip Securities

Figure 2. Market shares of main life insurers in China



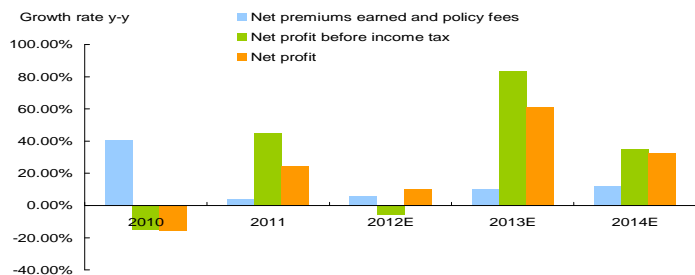
Source: CIRC, Phillip Securities

Figure 3. Solvency margin ratios of the largest four life insurers in China



Source: Company report, Phillip Securities

Figure 4. Profit estimation of NCI



Source: Company report, Phillip Securities

Table 1. Evaluated embedded value of NCI

RMB Million	2010	2011	2012E	2013E	2014E
Adjust NAV	6,400	21,966	30,752	36,887	43,053
Adjust value of in-force insurance business	21,685	27,025	32,430	35,762	43,781
Embedded value	28,085	48,991	63,182	72,650	86,834
Adjust value of one year's new business	4,741	4,360	4,250	4,335	4,465
New business multiplier	10	10	10	10	10
Value of new business	47,410	43,600	42,500	43,350	44,651
Adjust value	75,495	92,591	105,682	116,000	131,484
Share capital (million)	1,200	3,117	3,120	3,120	3,120
EV per share (RMB)	23.40	15.72	20.25	23.29	27.83
Value of new business per share (RMB)	39.51	13.99	13.62	13.89	14.31
Stock value per share (RMB)	62.91	29.71	33.87	37.18	42.14
Price/EV	1.10	1.64	1.27	1.11	0.93

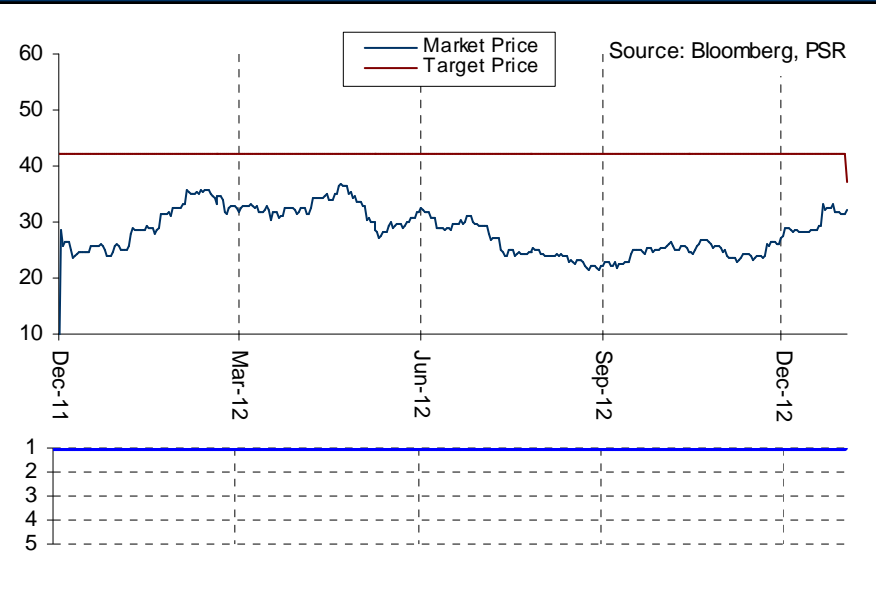
Source: Company report, Phillip Securities

Financial Status

FYE	FY10	FY11	FY12F	FY13F	FY14F
Valuation Ratios					
P/E (X)	13.8	20.7	26.1	16.2	12.3
P/B (X)	4.7	2.6	2.3	2.0	1.7
P/EV PS (X)	1.1	1.6	1.3	1.1	0.9
Per share data (RMB)					
EPS, reported	1.87	1.24	0.99	1.59	2.10
EPS, adj.	1.87	1.24	0.99	1.59	2.10
BVPS	5.47	10.04	11.35	13.19	15.00
EV PS	23.40	15.72	20.25	23.29	27.83
Growth					
Gross w ritten premiums and policy fees	40.6%	3.5%	7.0%	10.0%	12.0%
Investment income	25.8%	21.2%	45.0%	35.0%	30.0%
Minority interests	0.0%	0.0%	0.0%	0.0%	0.0%
Net profit of equity holders of the company	-15.5%	24.5%	10.1%	61.0%	32.3%
Key Ratios					
Net profit / Net earned premiums	2.45%	2.94%	3.03%	4.43%	5.23%
Income Statement (RMB mn)					
Gross w ritten premiums and policy fees	91,956	95,151	101,812	111,993	125,432
Premiums ceded out	32	584	30	60	80
Net w ritten premiums and policy fees	91,988	95,735	101,842	112,053	125,512
Net change in unearned premium liabilities	(128)	(71)	(206)	(247)	(309)
Net premiums earned and policy fees	91,860	95,664	101,636	111,806	125,203
Investment income	10,521	12,754	18,493	24,966	32,456
Other income	328	192	557	724	977
Total revenues	102,709	108,610	120,686	137,495	158,636
Life insurance death and other benefits	(12,548)	(20,311)	(24,373)	(32,660)	(44,091)
Increase in long-term insurance contract liabilities	(70,361)	(65,973)	(72,570)	(75,473)	(79,247)
Insurance benefits and claims	(83,611)	(87,151)	(97,897)	(109,325)	(124,828)
Commission and brokerage expenses	(7,252)	(7,317)	(7,683)	(8,451)	(9,465)
Administrative expense	(8,410)	(9,229)	(10,060)	(11,569)	(13,535)
Total benefits, claims and expenses	(100,192)	(104,531)	(116,557)	(130,422)	(149,134)
Net profit before income tax	2,255	3,275	3,082	5,661	7,665
Income tax	(5)	(475)	0	(700)	(1,100)
Tax rate	0.22%	14.50%	0.00%	12.37%	14.35%
Net profit for the year/period	2,250	2,800	3,082	4,961	6,565
Minority interests	1	1	1	1	1
Net profit of equity holders of the compai	2,249	2,799	3,081	4,960	6,564
Balance Sheet (RMB mn)					
Property, plant and equipment	2,922	4,284	5,783	7,518	9,398
Investment property	513	451	586	692	789
Intangible assets	57	65	75	86	99
Investment in associates	707	709	710	717	724
Debt securities	164,726	190,464	219,147	248,613	273,029
Equity securities	38,874	29,051	33,693	38,038	41,765
Term deposits	55,210	122,949	174,588	235,693	294,617
Other financial assets	61,898	133,346	190,957	258,639	325,178
Total financial assets	265,498	352,861	443,796	545,290	639,972
Cash and cash equivalents	27,368	21,095	31,643	41,135	55,533
Total assets	304,566	386,771	493,145	608,485	722,889
Long-term insurance contracts liabilities	233,821	292,818	354,310	425,172	493,199
Short-term insurance contracts liabilities	804	996	1,494	2,166	3,141
Insurance contracts	234,625	293,814	355,804	427,338	496,340
Financial liabilities	44,624	56,555	96,990	133,812	171,420
Other liabilities	17,371	3,405	3,337	4,338	6,073
Total liabilities	297,993	355,458	457,713	567,337	676,072
Share capital	1,200	3,117	3,120	3,120	3,120
Reserves	1,889	22,468	24,580	29,136	33,917
(Accumulated losses) / retained earnings	3,478	5,721	7,723	8,882	9,770
Net equity	6,567	31,306	35,423	41,138	46,807
Minority interests	6	7	9	10	10
Total equity	6,573	31,313	35,432	41,148	46,817
Total liabilities and equity	304,566	386,771	493,145	608,485	722,889

Source: Company, PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 37, 530 Collins Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96298380
Fax (613) 96148309
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel (86-21) 51699200
Fax (86-21) 63512940
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005