



FY 12 Annual result

Rating: Accumulate Closing Price: \$33.60 target Price: \$36.50

AIA is a major life insurance group in the Asia-Pacific region, the group is rooted more than 90 years, providing insurance protection, savings, investment and retirement and other financial services, providing services throughout 15 countries and cities.

FY 12 Financial Summary

Financial Summary

Value (USD\$ Million)	FY 10	FY 11	FY 12	FY11/12(%)
Value of New Business (VONB)	667	932	1,188	27%
Value of New Business Margin	32.6%	37.2%	43.6%	6.4%
Annualised New Premium (ANP)	2,025	2,472	2,696	9%
Embedded Value (EV)	24,748	27,239	31,408	15%

Financial Result

TWPI	13,013	14,442	15,360	6%
Expense Ratio	8.8%	8.7%	8.7%	0%
Operating Profit After Tax	1,699	1,922	2,159	12%
Net Profit	2,701	1,600	3,019	89%

Capital & Dividend

Shareholders' Equity	19,555	21,313	26,697	25%
HKICO Solvency Ratio	337%	311%	353%	42%
Dividend per Share (HK cents)	N/A	33	37	12%

Source: Company report, PSHK

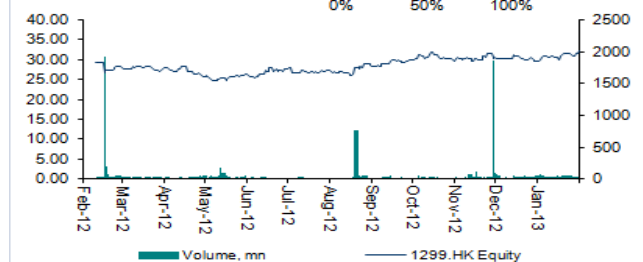
AIA recorded desirable growth last year. The main business indicators are better than our estimates:

- The value of new business (VONB) recorded high growth, up 27% yoy to USD1.188 billion, slightly higher than our estimate of USD1.12 billion (approximately 6% higher).
- Profit margin of new business rose from 6.4% to 43.6%, slightly higher than our estimate of 40% (approximately 3.6% higher).
- Annualized new premiums climbed 17% yoy to USD2.696 billion.
- Embedded value increased 15% yoy to USD31.408 billion, slightly higher than our estimate of USD30.934 billion (about 1.5% higher).
- Strong growth in net profit, up 89% yoy to USD3.019 billion, slightly higher than our estimate of USD2.789 billion (about 8.3% higher).
- Strong return on investment, which increased 2.65 times yoy.
- 2012 full year dividend was HK\$37 cents per share, up 12% yoy.

AIA recorded sharp growth in 2012. The financial indicators outperformed than our estimates, especially new business value, which is the major indicator of value creating. In addition, as we expected in previous reports, the Group benefited from the improved investment sentiment and the return on investment surged 2.65 times yoy. Fair values of equities improved from net loss of USD2.181 billion in 2011 to net gain of USD2.328 billion in 2012. The development potential of insurance and wealth management business in Asia is huge, we estimate that Group will enjoy high growth in the next 6 years, especially the core insurance and wealth management business. With the bright performance last year, we give "overweight" investment rating to AIA and raised the EPS of next two years to HK\$2.3 and HK\$2.5, up 15% and 13.6%

AIA GROUP LTD

Rating	2.00	Accumulate
- Previous Rating	2.00	Accumulate
Target Price (HKD)	36.5	
- Previous Target Price (HKD)	34	
Closing Price (HKD)	33.60	
Expected Capital Gains (%)	8.6%	
Expected Dividend Yield (%)	1.3%	
Expected Total Return (%)	9.9%	
Market Cap. (HKD mn)	11,749	
Enterprise Value (HKD mn)	15,989	
3M Average Daily T/O (mn)	69.4	
52 week range (HKD)	24.05 - 33.8	
Closing Price in 52 week range		



Major Shareholders

1. Capital Group Companies INC	8.4
2. JP MORGAN	7.9
3. BlackRock	7.2

Income Statement (USD\$ Mn)	FY10	FY11	FY12	FY13E	FY14E
Premium and fee income	11,557	12,935	13,816	16,985	17,973
Premium to reinsurers	-478	-634	-762	-1,068	-1,230
Net Premium and fee income	11,079	12,301	13,054	15,917	16,743

Investment Return:	7,240	1,973	7,206	8,203	8,097
Recurrent return	3,557	4,150	4,463	4,943	4,750
Realised & unrealised gain/(losses)	3,683	-2,177	2,743	3,150	3,227
Other income and expenses	75	114	127	110	120
Total Revenue:	18,394	14,388	20,387	24,120	24,840
Total ins. & invest. contract benefit	-12,080	-9,072	-13,374	-14,850	-15,550

Total expenses:	-14,836	-12,232	-16,689	-19,477	-19,840
Commission expenses	-1,438	-1,649	-1,641	-2,305	-2,210
Operating expenses	-1,146	-1,253	-1,340	-1,907	-1,728
Other Expenses	-172	-258	-334	-415	-352
Net Profit before tax	3,558	2,156	3,698	4,643	5,000
Associate/JV Profits/Losses	-9	12	16	16	16
Tax expenses	-839	-560	-685	-1,089	-1,135
Net Profit after tax	2,710	1,608	3,029	3,570	3,881
Minority interest	-9	-8	-10	-10	-11
Attributable net profit	2,701	1,600	3,019	3,560	3,870

Balance Sheet (USD\$Mn)	FY10	FY11	FY12	FY13E	FY14E
Bonds	62,207	67,952	80,862	95,720	100,232
Equities	22,054	19,012	23,656	25,120	22,150
Deposits	4,276	6,650	6,425	5,930	6,715
Other investments	3,684	3,839	3,921	4,120	5,293
Total Investments:	92,221	97,453	114,864	130,890	134,390
Deferred Acquisition Costs	12,006	12,818	14,161	13,615	14,721
Fixed Assets	433	359	412	596	570
Other Assets	3,205	3,831	5,002	3,625	3,882
Total Assets	107,865	114,461	134,439	148,726	153,563
Insurance Contract liabilities	73,205	78,752	90,574	99,520	100,450
Investment Contract liabilities	9,091	8,360	8,865	9,830	9,313
Borrowings	597	559	766	720	933
Obligations under Repo	1,091	670	1,792	1,853	1,985
Tax Liabilities	2,041	2,100	2,557	2,952	2,520
Other Liabilities	2,205	2,605	3,057	2,890	3,530
Total Liabilities	88,230	93,046	107,611	117,765	118,731
Minority Interest	80	102	131	124	135
Shareholders' equity	19,635	21,415	26,828	30,961	34,832

Source: Company report, PSHK, Bloomberg

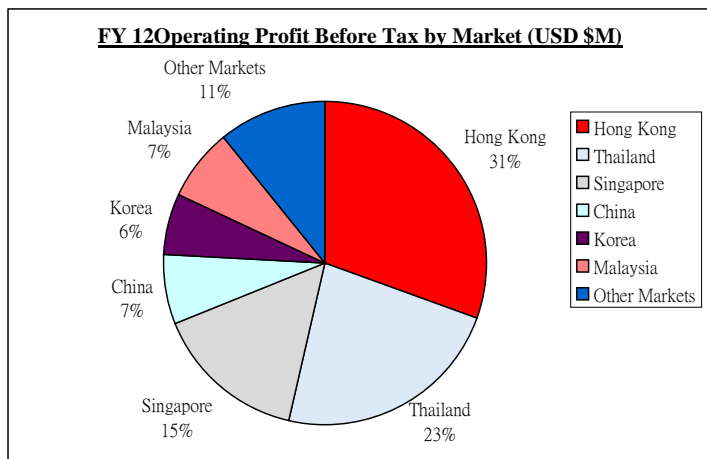
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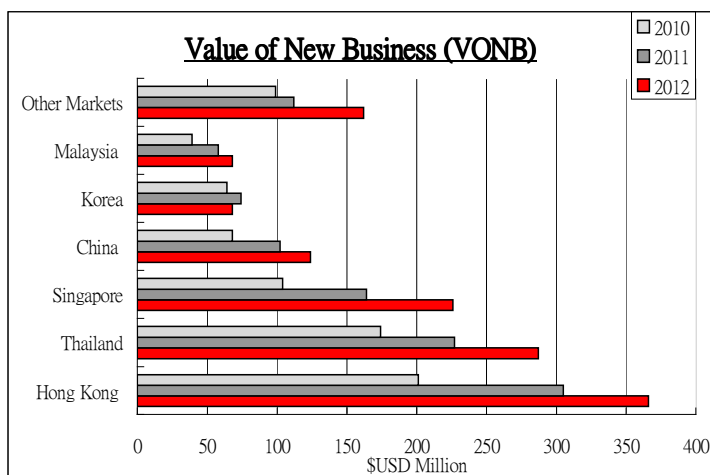
Operating Profit



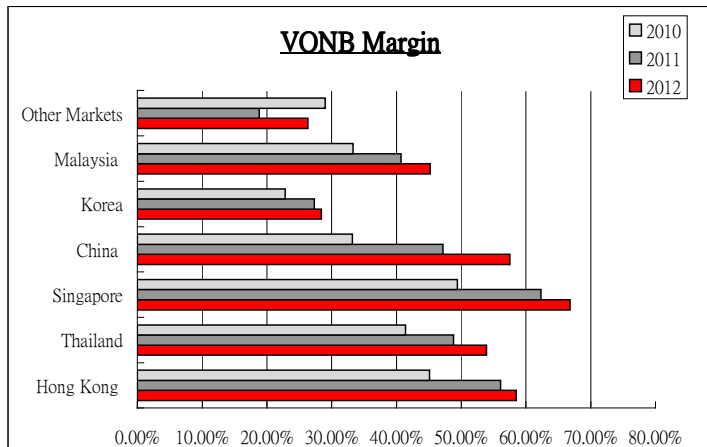
Source: Company report, PSHK

VONB

The VONB is calculated by the present value of estimated profit after tax in terms of sales generated by new business, less the operating cost supporting the new business, which is more than the required capital.



Source: Company report, PSHK



Source: Company report, PSHK

Annualized new premiums

Annualized new premiums is a index to measure the quality of new business, which is equal to the sum of 100% of annualized first year premiums and 10% of single premiums before reinsurance.

Annualized First Year Premium and New Business Valum by Geographical

USD \$Mn	1H/10	2H/10	1 H/11	2 H/11	1 H/12	2 H/12
Annualized FYPs:						
Hong Kong	165	284	223	299	243	361
Thailand	181	239	223	242	244	288
Singapore	82	128	120	144	152	187
China	92	114	109	106	76	139
Korea	146	136	149	121	108	129
Malaysia	61	56	67	75	104	47
Other Markets	160	181	203	391	260	358
Total	887	1,138	1,094	1,378	1,187	1,509
VONB:						
Hong Kong	95	115	121	184	140	226
Thailand	67	107	101	126	131	156
Singapore	49	55	78	86	99	127
China	18	21	22	36	60	64
Korea	30	38	44	58	33	35
Malaysia	39	25	42	32	31	37
Other Markets	46	53	44	68	66	96
Sub-total :	344	414	452	590	560	741
Others	-41	-50	-53	-57	-48	-65
Total	303	364	399	533	512	676

Source: Company report, PSHK

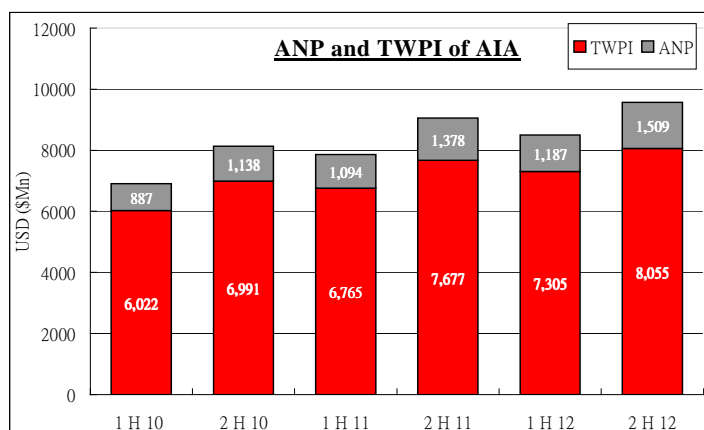
AFYP breakdown

	FY10	FY11	FY12	FY13E	FY14E
Hong Kong	22%	21%	21%	18%	18%
Thailand	21%	19%	20%	18%	17%
Singapore	10%	11%	13%	8%	8%
China	10%	9%	9%	10%	12%
Korea	14%	10%	9%	9%	9%
Malaysia	6%	6%	6%	12%	12%
Other Markets	17%	24%	23%	25%	24%

Source: Company report, PSHK

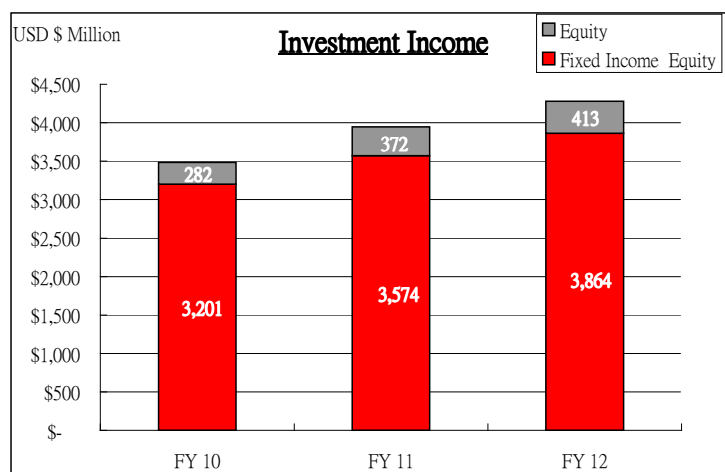
Total weighted premium income (TWPI)

TWPI consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums.



Source: Company report, PSHK

Investment Income (interest, dividend and rental)



Source: Company report, PSHK

Embedded value (EV)

EV is an estimate of economic value of life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business.

EV Breakdown by geographical market

USD \$ Million	FY 12	%	FY 12(E)	%
Hong Kong	10,059	32%	9,985	32%
Thailand	6,577	21%	6,187	20%
Singapore	3,639	12%	3,393	11%
China	2,192	7%	1,628	5%
Korea	1,731	6%	1,865	6%
Malaysia	1,206	4%	1,782	6%
Other Markets	3,929	13%	3,403	11%
Corporate and others	5,708	18%	5,805	19%
Sub-Total	35,041	112%	34,048	110%
Adj to reflect HK Reserve & Capital Req	-3,031	-10%	-2,475	-8%
After tax value of group office expenses	-602	-2%	-619	-2%
Total	31,408	100%	30,934	100%

Source: Company report, PSHK

EV Movement Analysis US\$Mh	FY10	%of	FY11	%of	FY12	%of
EV at the beginning of the year	20,965	100%	24,748	100%	27,239	100%
Expected return of EV	1,846	9%	2,029	8%	2,192	8%
Value of new business	667	3%	932	4%	1,188	4%
Operating experience variance	-105	-1%	165	1%	140	1%
Operating assumption changes	3	0%	-21	0%	-29	0%
Investment experience variance	1,073	5%	-297	-1%	933	3%
Economic assumption changes	-333	-2%	-26	0%	-105	0%
Other non-operating variances	-150	-1%	18	0%	-113	0%
Total EV Profit	3,002	14%	2,800	11%	4,206	15%
Dividends	0	0%	-170	-1%	-530	-2%
Capital movement	0	0%	-89	0%	-42	0%
Foreign exchange gains/losses	780	4%	-50	0%	535	2%
EV at the end of the year	24,748	118%	27,239	110%	31,408	115%
Adjusted net worth	9,524		10,906		13,170	
Value of in-force business	15,224		16,333		18,238	
EV at the end of the year	24,748	118%	27,239	110%	31,408	115%

Source: Company, PSR

Valuation Summary USD \$Mn	FY 12 (E)	HK\$/Share	FY 12 A	HK\$/Share
EV at the beginning of yr	27,239	17.64	27,239	17.64
Expected return of EV	2,315	1.50	2,192	1.42
Value of new business	1,120	0.73	1,188	0.77
Operating experience variance	195	0.13	140	0.09
Operating assumption changes	-20	-0.01	-29	-0.02
Investment experience variance	545	0.35	933	0.60
Economic assumption changes	-20	-0.01	-105	-0.07
Other non-operating variances	23	0.01	-113	-0.07
Capital movement	-362	-0.23	-572	-0.37
Foreign exchange gains/losses	-100	-0.06	535	0.35
EV at the end of the year	30,934	20.03	31,408	20.34
Adjusted net worth	12,374	8.00	13,170	8.52
Value of in-force business	18,561	12.02	18,238	11.81
EV at the end of year	30,934	20.03	31,408	20.34
New Business Value	1,120	0.73	1,188	0.77
New Business Multiple	19X	19X	19X	21X
12M TP		\$34 HKD		\$36.50 HKD

Source: Company, PSR

Actuarial Data USD \$mn	FY12E	FY12A	(Act-Est)
Embedded Value (EV)	30,904	31,408	504
EV Growth	13%	15%	2%
NBV	1120	1,188	68
NBV Growth	20%	27%	7%
New Business Margin	43%	43.6%	0.6%

Source: Company report, PSHK

Valuation

Assumption for H Model:

Dividend in FY12	\$0.37 HKD
Long term Average Growth rate	6.34%
Short-term Average Growth rate	9%
Required Return	7.50%
Length of high growth period	6 Years

Source: PSR

We expect that the Group will grow at 9% annually in the coming six years and grow at 6.34% (rose 4bp) annually afterwards. Corresponding to a discount rate of 7.5%, we expect the insurance industry is over a period of high growth, after that, the growth rate will be with a linear decline. The Group distributed dividend of HK\$37 cents per share in the FY12. By the H model, we calculated the intrinsic value per share of HK\$ 36.50. Corresponding to current P/B rate about 2.106 times and P/E ratio about 18.70 times, embedded value multiples of the new business is around 21 times.

Major Risk

European crisis continues to worsen, negative impact on global economy

The Group's growth slower than expected

China's economy is deteriorating

Financial Status

Income Statement (USD\$ Mn)	FY10	FY11	FY12	FY13E	FY14E
Premium and fee income	11,557	12,935	13,816	16,985	17,973
Premium to reinsurers	-478	-634	-762	-1,068	-1,230
Net Premium and fee income	11,079	12,301	13,054	15,917	16,743
Investment Return:	7,240	1,973	7,206	8,203	8,097
Recurrent return	3,557	4,150	4,463	4,943	4,750
Realised & unrealised gain/(losses)	3,683	-2,177	2,743	3,150	3,227
Other income and expenses	75	114	127	110	120
Total Revenue:	18,394	14,388	20,387	24,120	24,840
Total ins. & invest. contract benefit	-12,080	-9,072	-13,374	-14,850	-15,550
Total expenses :	-14,836	-12,232	-16,689	-19,477	-19,840
Commission expenses	-1,438	-1,649	-1,641	-2,305	-2,210
Operating expenses	-1,146	-1,253	-1,340	-1,907	-1,728
Other Expenses	-172	-258	-334	-415	-352
Net Profit before tax	3,558	2,156	3,698	4,643	5,000
Associate/JV Profits/Losses	-9	12	16	16	16
Tax expenses	-839	-560	-685	-1,089	-1,135
Net Profit after tax	2,710	1,608	3,029	3,570	3,881
Minority interest	-9	-8	-10	-10	-11
Attributable net profit	2,701	1,600	3,019	3,560	3,870

Source: Company, PSR

Balance Sheet (USD\$Mn)	FY10	FY11	FY12	FY13E	FY14E
Bonds	62,207	67,952	80,862	95,720	100,232
Equities	22,054	19,012	23,656	25,120	22,150
Deposits	4,276	6,650	6,425	5,930	6,715
Other investments	3,684	3,839	3,921	4,120	5,293
Total Investments:	92,221	97,453	114,864	130,890	134,390
Deferred Acquisition Costs	12,006	12,818	14,161	13,615	14,721
Fixed Assets	433	359	412	596	570
Other Assets	3,205	3,831	5,002	3,625	3,882
Total Assets	107,865	114,461	134,439	148,726	153,563
Insurance Contract liabilities	73,205	78,752	90,574	99,520	100,450
Investment Contract liabilities	9,091	8,360	8,865	9,830	9,313
Borrowings	597	559	766	720	933
Obligations under Repo	1,091	670	1,792	1,853	1,985
Tax Liabilities	2,041	2,100	2,557	2,952	2,520
Other Liabilities	2,205	2,605	3,057	2,890	3,530
Total Liabilities	88,230	93,046	107,611	117,765	118,731
Minority Interest	80	102	131	124	135
Shareholders' equity	19,635	21,415	26,828	30,961	34,832

Source: Company, PSR

Peers Comparison	P/E	P/B	P/EV	Dividend yield %
1299.HK	17.33	1.95	1.65	1.1006
945.HK	15.99	1.21	N/A	3.4225
2318.HK	19.95	2.81	1.5911	0.7683
2628.HK	35.27	2.47	1.5801	1.2306
2601.HK	23.65	2.57	1.7374	1.5256
1339.HK	23.71	4.18	N/A	N/A
1336.HK	20.35	2.51	1.6051	0.3567

Source: Company, PSR, Bloomberg

Actuarial Data	FY10	FY11	FY12	FY13E	FY14E
Embedded Value (EV)	24,748	27,239	31,408	34,612	38,765
EV Growth	18%	10%	15%	10%	12%
NBV	667	932	1,188	1,286	1,504
NBV Growth	22%	40%	27%	18%	17%
New Business Margin	33%	37%	43.6%	41%	42%

Source: Company, PSR (USD \$mn)

Per Share data (HKD \$)	FY10	FY11	FY12	FY13E	FY14E
EPS	1.72	1.02	1.95	2.3	2.5
BV/PS	12.64	14	17.33	20	22.5
DPS	0	0.33	0.37	0.42	0.46
Payout Ratio	0	32%	19%	18%	18%
EV per share	16	17.64	20	23	25.5
No. of shares (Mn)	12,044	12,044	12,044	12,044	12,044

Source: Company, PSR

AFYP breakdown	FY10	FY11	FY12	FY13E	FY14E
Hong Kong	22%	21%	21%	18%	18%
Thailand	21%	19%	20%	18%	17%
Singapore	10%	11%	13%	8%	8%
China	10%	9%	9%	10%	12%
Korea	14%	10%	9%	9%	9%
Malaysia	6%	6%	6%	12%	12%
Other Markets	17%	24%	23%	25%	24%

Source: Company, PSR

Solvency margin ratio trend (As at the end of)						
USD \$Mn	1 H/10	2 H/10	1 H/11	2 H/11	1H/12	2H/12
Total Available Capital	5,185	6,207	6,955	6,168	6,955	4,811
Required Capital	1,664	1,844	1,956	1,984	1,956	1,362
Solvency Margin Ratio	312%	337%	356%	311%	356%	353%

Source: Company report, PSR,

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

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 appreciation, and speculative undertones surrounding the stock, before making our final recommendation

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