

CPIC (2601.HK)

Sharp profit growth with the strong rebound of share price in future



Phillip Securities (Hong Kong) Ltd

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Phillip Securities Research

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The profit expects to increase largely in 2013

Rating: Accumulate, CP: HK\$26.75, TP: HK\$30.45

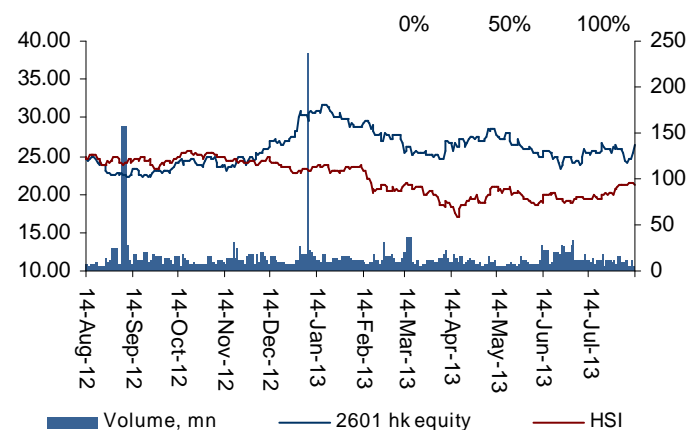
Company introduction

CPIC's predecessor was founded in 1991, and was restructured as China Pacific Insurance (Group) Company in 2001. It is one of the largest Chinese insurance groups, and listed in A and H Shares in 2007 and 2009 respectively. Based on premiums income, CPIC ranked the 3rd and 4th largest P&C and life insurer in Mainland China at the end of 2012.

Summary

- According to 1Q2013 results, the profits of CPIC (or "the Group") recorded significant increase compared with the same period of 2012, and the operating performance was better than our expectation. The premium incomes continued to increase stably where total and net premiums raised 4.11% and 4.15% y-y to RMB51.421 and 47.898 billion respectively. As at the end of June, according to CIRC, the premiums of monthly Life insurance and P&C insurance increased by 13.24% and 12.78% to RMB10.924 billion and 6.99 billion, and the accumulated premiums amounted to RMB56.27 billion and 42.307 billion respectively;
- The profits of CPIC increased significantly in 1Q, and accumulated net profits recorded RMB2.225 billion, increased significantly by 241.26% y-y, much higher than our expectation, and it mainly benefited from the large increase of investment income due to the strong rebound of stock market, up 51.57% largely y-y to RMB7.013 billion;
- On the other hand, the Group's total assets increased stably by 2.6% to RMB699.388 billion compared to the end of 2012, with net assets of RMB99.482 billion, up 3.4%, equivalent to the BVPS of RMB10.98. We expect net asset of CPIC would over RMB100 billion, and the BVPS may achieve to RMB11.20;
- In all, due to the obvious development of the market environment, the profits of insurers will increase significantly in 2013, especially for investment income. However, according to the performance of the previous two quarters, we believe the performance in 2Q would be worse than that of 1Q. Therefore the incomes would increase higher firstly then go down during the first half of the year;

Rating	2.00	Accumulate
- Previous Rating	1.00	Buy
Target Price (HKD)	30.45	
- Previous Target Price (HKD)	33.91	
Closing Price (HKD)	26.45	
Expected Capital Gains (%)	15.1%	
Expected Dividend Yield (%)	1.7%	
Expected Total Return (%)	16.8%	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD bn)	206,762	
Enterprise Value (HKD mn)	N/A	
52 week range (HKD)	22.3 - 32.5	
Closing Price in 52 week range		



Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Total income (RMB mn)	155,517	167,157	194,976	219,991
Net Profit, adj. (RMB mn)	8,313	5,077	10,116	12,399
EPS, adj. (RMB)	0.97	0.59	1.12	1.37
P/E (X)	21.6	35.5	18.7	15.3
BVPS (RMB)	8.93	10.61	11.67	12.84
P/B (X)	2.3	2.0	1.8	1.6
DPS (RMB)	0.35	0.35	0.35	0.35
Div. Yield	1.7%	1.7%	1.7%	1.7%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

PB, DDM, EV

Research Analyst

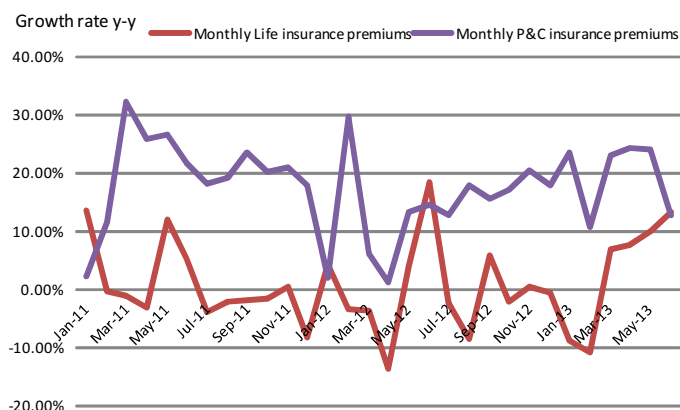
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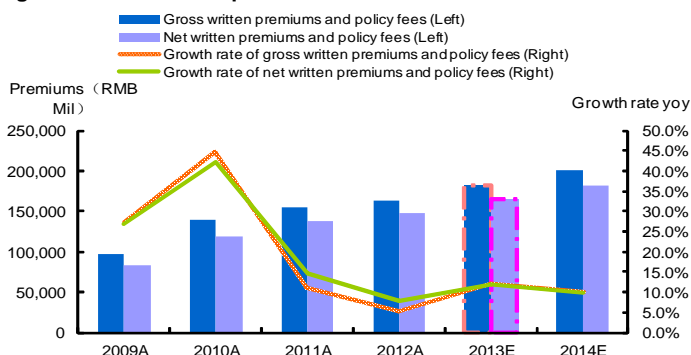
- CPIC will announce its 1H results soon, we expect it will maintain high profit growth, and its net profit may increase by 90% y-y approximately. Therefore we hold optimistic view on the Group's business in future. However, the share price of CPIC dropped largely in 2Q due to the large volatility of the markets, and based on the valuation of Embedded Value, SOPT and 3-stage DDM, we take the average value of methods and cut CPIC's 12-month target price to HK\$30.45 to reflect current market risks, 14% higher than the latest closing price and equivalent to 17.6xP/E and 1.9xP/B in 2013 respectively, the valuation is quite reasonable. We recommend Accumulate rating.

Figure 1. The year-on-year growth rate of monthly premiums of CPIC



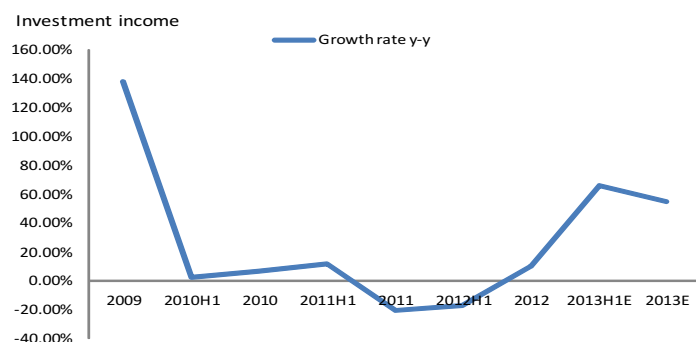
Source: CRIC, Phillip Securities

Figure 2. Total and net premiums of CPIC



Source: Company report, Phillip Securities

Figure 3. The trend of the growth of CPIC's investment income



Source: Company report, Phillip Securities

Table 1. Estimation of CPIC's embedded value

RMB Million	2010	2011	2012	2013E	2014E
Adjust NAV	75,905	72,664	86,237	94,861	106,244
Adjust value of in-force insurance business	34,184	40,900	49,043	56,399	65,987
Embedded value	110,089	113,564	135,280	151,260	172,231
Adjust value of one year's new business	6,100	6,714	7,060	7,131	7,202
New business multiplier (X)	10	10	10	10	10
Value of new business	61,000	67,140	70,600	71,306	72,019
Adjust value	171,089	180,704	205,880	222,566	244,250
Share capital (million)	8,600	8,600	9,062	9,062	9,062
EV per share (RMB)	12.80	13.21	14.93	16.69	19.01
Value of new business per share (RMB)	7.09	7.81	7.79	7.87	7.95
Stock value per share (HK\$)	25.20	26.61	28.77	31.11	34.14
Price/EV (X)	1.61	1.56	1.38	1.24	1.09

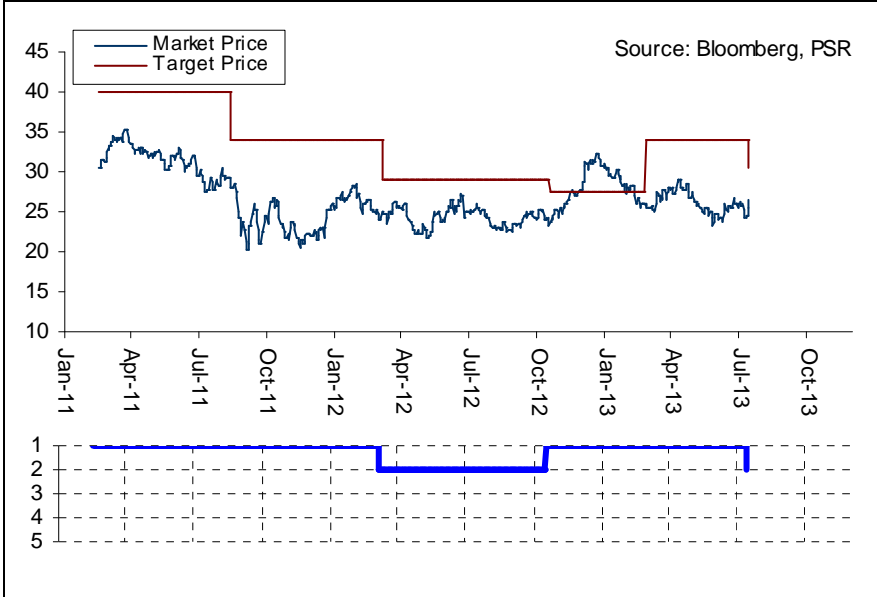
Source: Company report, Phillip Securities

Financial Status

FYE	FY10	FY11	FY12	FY13F	FY14F
Valuation Ratios					
P/E (X)	21.0	21.6	35.5	18.7	15.3
P/B (X)	2.2	2.3	2.0	1.8	1.6
Dividend Payout ratio	35.13%	36.21%	59.56%	31.35%	25.58%
Dividend Yield	1.7%	1.7%	1.7%	1.7%	1.7%
Per share data (RMB)					
EPS, reported	1.00	0.97	0.59	1.12	1.37
EPS, adj.	1.00	0.97	0.59	1.12	1.37
DPS	0.35	0.35	0.35	0.35	0.35
BVPS	9.34	8.93	10.61	11.67	12.84
Growth					
Net written premiums and police fees	45.7%	12.2%	7.0%	12.1%	10.0%
Total income	35.6%	10.0%	7.5%	16.6%	12.8%
Total benefits, claims and expenses	37.9%	11.5%	10.6%	13.1%	12.1%
Net Income, adj.	16.3%	-2.9%	-38.9%	99.3%	22.6%
Key Ratios					
ROE	10.98%	10.58%	6.02%	6.37%	7.94%
Income Statement (RMB mn)					
Gross written premiums and police fees	139,555	154,958	163,228	182,815	201,097
Less: premiums ceded to reinsurers	(13,422)	(13,384)	(11,795)	(13,092)	(14,402)
Net written premiums and police fees	126,133	141,574	151,433	169,723	186,695
Net change in unearned premiums reserves	(6,382)	(4,336)	(3,594)	(4,061)	(4,549)
Net premiums earned and policy fees	119,751	137,238	147,839	165,662	182,147
Investment income	20,657	16,392	18,060	27,993	36,391
Other operating income	919	1,887	1,258	1,321	1,453
Other income	21,576	18,279	19,318	29,314	37,844
Total income	141,327	155,517	167,157	194,976	219,991
Net policyholders' benefits and claims	(100,487)	(109,388)	(118,817)	(131,618)	(144,323)
Life insurance death and other benefits paid	(17,018)	(21,508)	(20,596)	(22,656)	(25,374)
Claims incurred	(20,829)	(28,010)	(35,815)	(44,411)	(52,849)
Changes in long-term life insurance contract liabilities	(59,241)	(56,063)	(58,501)	(60,256)	(61,461)
Policyholder dividends	(3,399)	(3,807)	(3,905)	(4,296)	(4,639)
Financial costs	(373)	(848)	(2,288)	(2,700)	(3,051)
interest credited to investment contracts	(1,722)	(2,257)	(1,715)	(1,972)	(2,229)
Other operating and administrative expenses	(28,063)	(33,120)	(38,224)	(45,869)	(54,584)
Total benefits, claims and expenses	(130,645)	(145,613)	(161,044)	(182,159)	(204,187)
Profit before tax	10,670	10,399	6,113	12,852	15,844
Income tax	(2,005)	(2,006)	(983)	(2,556)	(3,195)
Income tax rate	18.79%	19.29%	16.08%	19.89%	20.16%
Net profit for the period	8,665	8,393	5,130	10,296	12,649
Net profit attributable to equity holders of the p	8,557	8,313	5,077	10,116	12,399
Minority interest	108	80	53	180	250

Source: 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

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

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