

# Ping An Insurance (Group) Company of China (2318.HK)



Phillip Securities (Hong Kong) Ltd  
Phillip Securities Research

## Strong profit growth in 2013

Bloomberg | Reuters | POEMS

2318.HK | 2318.HK | 2318.HK

Industry: Financial

2014-02-25

## Obvious profit growth in 2013 and the growth rate will go down in future

Rating: Buy, CP: HK\$63.05, TP:HK\$80.00

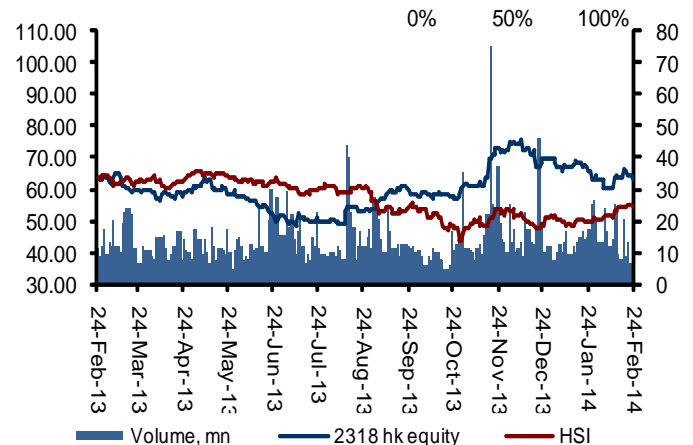
### Company Introduction

Ping An was established in 1988 in Shenzhen, which is the first joint-stock insurance company in China, Ping An's core businesses include insurance, banking and investment. According to premiums incomes in Oct 2012, Ping An Life and P&C are both ranked as the second largest in China. Ping An was ranked No.131 in the Financial Times Global 500 list in 2012.

### Summary

- Ping An (or "the Group") will announced 2013 results next month, and according to its 3Q2013 results, as at the end of Sep 2013, the gross premiums amounted to RMB204.531 billion, up 13.69% y-y, and the growth maintained stable. Especially, in 2014, the Group's premiums increased significantly, and therefore we believe the growth of premium in 2014 will be slightly higher than that of 2013. According to the lasted data, as at the end of Jan 2014, the accumulated premiums of the Life and P&C insurance of Ping An increased strongly by 44.77% and 33.65% y-y to RMB37.236 and 15.417 billion respectively;
- During the period, Ping An's assets raised stably, by the end of Sep, the Group's total assets increased by 14.22% to RMB3.25 trillion compared to the end of 2012, equivalent to the BVPS of RMB22.74, up 12.75%;
- The Group's accumulated net profits achieved to RMB29.288 billion, up 45.10% y-y, much higher than our previous expectation mainly due to the strong growth of investment incomes affected by the improvement of the market in the first three quarters of 2013. Net investment incomes amounted to RMB41.840 billion, up significantly 117.83% y-y. However, we believe the growth rate of investment gains would decrease in 4Q2013 due to the large volatility in the market, but will also be over 100% in 2013;
- In summary, the profit performance of Ping An was better than our expectation and the Group's business structure would continue to be improved under the strategy of "Banking, Insurance, Investment", and the comprehensive synergistic effect improved obviously. Moreover, after the completion of internal equity capital raising in Ping An Bank, the CAR will increased obviously and the profit contribution will go up for the Group in future. Additionally, the incomes will maintain the stable increase under the improvement of market environment, and therefore we have confidence in Ping An's future development and increase the profit estimation in the next two years. However, although the share price dropped largely affected by the market recently, we increase the 12-m TP to HK\$80.00, 27% higher than the current price, equivalent to 13.7xP/E and 2.3xP/B in 2014 respectively, the valuation is attractive. Maintain Buy rating.

<b>Rating</b>	<b>1.00</b>	<b>Buy</b>
- Previous Rating	1.00	Buy
<b>Target Price (HKD)</b>	<b>80.00</b>	
- Previous Target Price (HKD)	71.62	
Closing Price (HKD)	63.05	
Expected Capital Gains (%)	26.9%	
Expected Dividend Yield (%)	1.4%	
<b>Expected Total Return (%)</b>	<b>28.3%</b>	
Raw Beta (Past 2yrs weekly data)	NA	
Market Cap. (HKD bn)	430,805	
Enterprise Value (HKD mn)	747,998	
52 week range (HKD)	47.85 - 76.5	
Closing Price in 52 week range		



### Key Financial Summary

FYE	12/12	12/13F	12/14F	12/15F
Net earned premiums (RMB mn)	213,144	238,661	272,525	316,548
Net Profit, adj. (RMB mn)	20,050	29,288	36,315	44,101
EPS, adj. (RMB)	2.53	3.70	4.59	5.57
P/E (X)	19.6	13.4	10.8	8.9
BVPS (RMB)	20.16	23.39	26.90	30.40
P/B (X)	2.5	2.1	1.8	1.6
DPS (RMB)	0.45	0.55	0.69	0.84
Div. Yield	0.9%	1.1%	1.4%	1.7%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

### Valuation Method

SOPT, EV

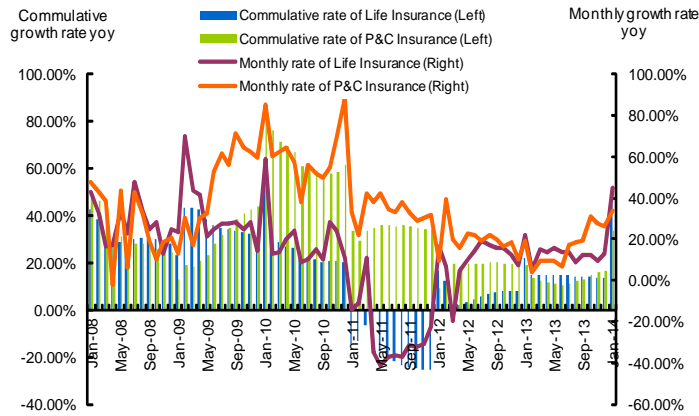
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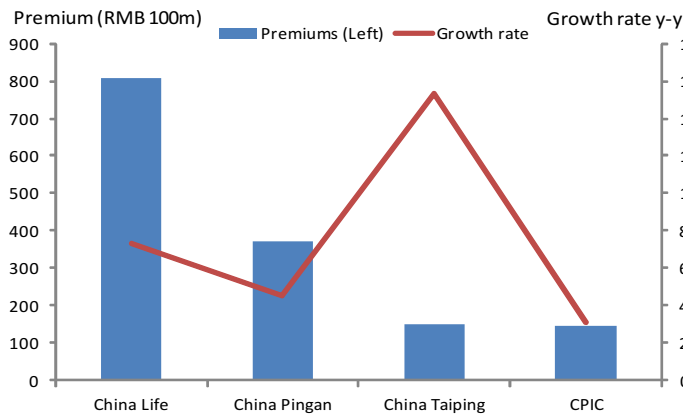
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Figure 1. The growth of premiums of Ping An



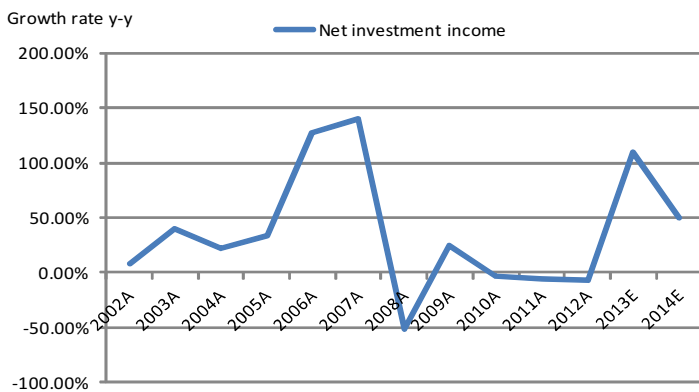
Source: the Company's report, CIRC, Phillip Securities

Figure 2. Premiums growth of Life insurance of some insurers in Jan 2014



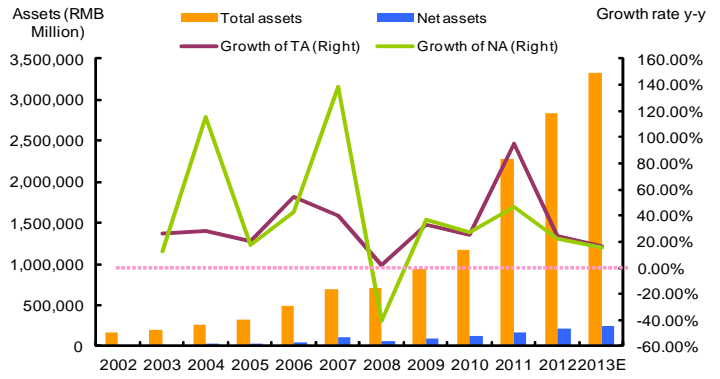
Source: the Company's report, Phillip Securities

Figure 3. Net investment income of Ping An



Source: the Company's report, Phillip Securities

Figure 4. The growth of Ping An's assets



Source: the Company's report, Phillip Securities

Table 1. Valuation of Ping An's embedded value

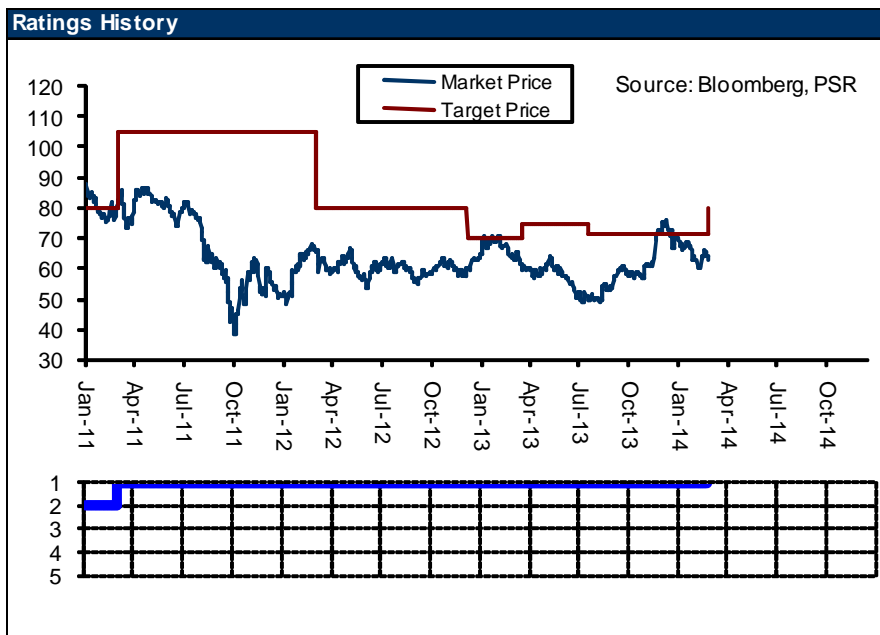
RMB Million	2011	2012	2013E	2014E	2015E
Adjust NAV	139,446	165,386	190,194	214,919	240,709
Adjust value of in-force insurance business	96,181	120,488	132,844	146,883	157,273
<b>Embedded value</b>	<b>235,627</b>	<b>285,874</b>	<b>323,038</b>	<b>361,802</b>	<b>397,982</b>
Adjust value of one year's new business	16,822	15,915	16,233	16,720	17,556
New business multiplier (X)	8	8	8	8	8
Value of new business	134,576	127,320	129,866	133,762	140,451
Adjust value	370,203	413,194	452,904	495,565	538,433
Share capital (Million)	7,916	7,916	7,916	7,916	7,916
<b>EV per share (RMB)</b>	<b>29.77</b>	<b>36.11</b>	<b>40.81</b>	<b>45.71</b>	<b>50.28</b>
Value of new business per share (RMB)	17.00	16.08	16.41	16.90	17.74
<b>Stock value per share (HK\$)</b>	<b>59.40</b>	<b>66.30</b>	<b>72.67</b>	<b>79.51</b>	<b>86.39</b>
Price/EV (X)	1.67	1.38	1.22	1.09	0.99

Source: the Company's report, Phillip Securities

## Financial Status

FYE	FY11	FY12	FY13F	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X)	19.8	19.6	13.4	10.8	8.9
P/B (X)	3.0	2.5	2.1	1.8	1.6
P/EV (X)	1.7	1.4	1.2	1.1	1.0
Dividend Payout ratio	16.26%	17.77%	15.00%	15.00%	15.00%
Dividend Yield	0.83%	0.91%	1.12%	1.39%	1.68%
<b>Per share data (RMB)</b>					
EPS, reported	2.50	2.53	3.70	4.59	5.57
EPS, adj.	2.50	2.53	3.70	4.59	5.57
DPS	0.41	0.45	0.55	0.69	0.84
BVPS	16.53	20.16	23.39	26.90	30.40
EVPS	29.77	36.11	40.81	45.71	50.28
<b>Growth</b>					
Net earned premiums	32.3%	14.2%	12.0%	14.2%	16.2%
Total income	39.0%	24.6%	22.5%	21.3%	23.9%
Profit before tax	34.4%	7.7%	43.8%	24.4%	22.4%
Net Income, adj.	12.5%	3.0%	46.1%	24.0%	21.4%
<b>Key Ratios</b>					
Net profit / Gross premiums	9.37%	8.57%	11.08%	11.95%	12.40%
Net profit / Net earned premiums	10.43%	9.41%	12.27%	13.33%	13.93%
<b>Income Statement (RMB mn)</b>					
	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY15F</b>
Gross written premiums and policy fees	207,802	233,940	264,352	304,005	355,686
Less: Premiums ceded to reinsurers	(10,970)	(12,851)	(17,349)	(22,554)	(29,320)
Net written premiums and policy fees	196,832	221,089	247,003	281,452	326,366
Increase in unearned premium reserves, net	(10,170)	(7,945)	(8,342)	(8,926)	(9,819)
<b>Net earned premiums</b>	<b>186,662</b>	<b>213,144</b>	<b>238,661</b>	<b>272,525</b>	<b>316,548</b>
Reinsurance commission income	3,656	4,529	5,661	7,190	8,987
Interest income of banking operations	39,314	74,852	89,822	116,769	157,638
Fees and commission income of non-insurance operations	8,614	10,891	14,158	18,831	23,538
Net investment income	29,265	27,378	57,494	86,241	112,113
Share of profits and losses of associates and jointly controlled entities	1,068	(46)	(150)	0	0
Other income	3,665	8,445	9,712	2,141	5,481
<b>Total income</b>	<b>272,244</b>	<b>339,193</b>	<b>415,359</b>	<b>503,697</b>	<b>624,305</b>
Claims and policyholders' benefits	(145,764)	(165,994)	(197,533)	(237,039)	(289,188)
Commission expenses of insurance operations	(17,767)	(20,437)	(24,524)	(28,939)	(34,148)
General and administrative expenses	(50,575)	(68,477)	(79,433)	(92,937)	(117,101)
Interest expenses of banking operations	(20,432)	(40,351)	(50,439)	(64,562)	(83,930)
Fees and commission expenses of non-insurance operations	(1,050)	(1,455)	(1,746)	(2,270)	(2,951)
Loan loss provision, net of reversals	(1,704)	(3,048)	(5,182)	(7,513)	(10,519)
Foreign exchange losses	(434)	255	(400)	(460)	(529)
Finance costs	(1,254)	(1,758)	(2,901)	(3,771)	(4,714)
Other expenses	(3,238)	(5,590)	(6,708)	(8,385)	(10,481)
<b>Total expense</b>	<b>(242,218)</b>	<b>(306,855)</b>	<b>(368,866)</b>	<b>(445,876)</b>	<b>(553,560)</b>
<b>Profit before tax</b>	<b>30,026</b>	<b>32,338</b>	<b>46,493</b>	<b>57,821</b>	<b>70,745</b>
Income tax	(7,444)	(5,588)	(9,500)	(11,875)	(14,606)
Income tax rate	32.96%	20.89%	20.43%	20.54%	20.65%
Profit for the year	22,582	26,750	36,993	45,946	56,140
Minority interest	(3,107)	(6,700)	(7,705)	(9,631)	(12,039)
<b>Net profit</b>	<b>19,475</b>	<b>20,050</b>	<b>29,288</b>	<b>36,315</b>	<b>44,101</b>
Dividend	3,166	3,562	4,393	5,447	6,615

Source: Company, PSR



**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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