

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



Phillip Securities (Hong Kong) Ltd
Phillip Securities Research

Profit growth in 2013 met expectation

Bloomberg | Reuters | POEMS

2318.HK | 2318.HK | 2318.HK

Industry: Financial

2014-03-19

Strong profit growth in 2013 with obvious advantages in a comprehensive financial model

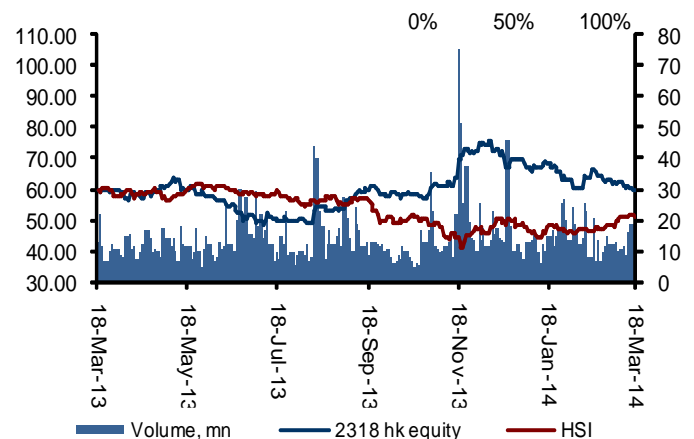
Company Introduction

Ping An was established in 1988 in Shenzhen, which is the first joint-stock insurance company in China, and core businesses include insurance, banking and investment. According to premiums incomes in 2013, Ping An Life and P&C both ranked as the second largest in China, and became a Global systemically Important Insurer. Ping An ranked No.181 in Fortune Global 500, maintained No.1 in the non-SOE category in China, and also ranked No.137 in the Financial Times Global 500.

Summary

- Ping An (or "the Group") announced 2013 results last weekend, and the results met our previous expectation, as at the end of 2013, gross premiums amounted to RMB269.051 billion, up 15.01% y-y, and net premiums increased by 12.18% y-y to RMB 248.017 billion, maintained stable growth. In 2014, we believe the Group's premiums will increase faster than that of 2013 due to the development of the market, and 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;
- Ping An's assets also maintained stable growth, its total assets increased by 18.1% to RMB3.36 trillion compared to the end of 2012, and net asset increased by 14.5% to RMB182.709 billion, equivalent to the BVPS of RMB23.08;
- The Group's accumulated net profits achieved to RMB28.154 billion, up 40.42% y-y, mainly due to the strong growth of incomes affected by the improvement of the market in 2013, especially for commission fees and investment incomes, increased by 45.21% and 103.02% y-y to RMB15.815 billion and RMB55.583 billion respectively. However, net interest incomes from the banking business, the largest part of non-premiums, increased by 24.63% y-y to RMB93.291 billion;
- In summary, the profit performance of Ping An in 2013 met our expectation. The Group's business structure would continue to be improved under the strategy of "Banking, Insurance, Investment", and meanwhile, it pays close attention to develop E-financial business, and integrate its businesses to realize one-stop comprehensive service under mobile platform. We believe Ping An's profits will maintain stable increase in future but the growth rate will go down, and therefore we cut the profit estimation slightly in the next two years. Although the share price dropped largely affected by the market recently, we maintain the 12-m TP to HK\$80.00, 33% higher than the current price, equivalent to 13.9xP/E and 2.4xP/B in 2014 respectively, the valuation is attractive. Maintain Buy rating.

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (HKD)	80.00	
- Previous Target Price (HKD)	80.00	
Closing Price (HKD)	59.95	
Expected Capital Gains (%)	33.4%	
Expected Dividend Yield (%)	1.4%	
Expected Total Return (%)	34.8%	
Raw Beta (Past 2yrs weekly data)	NA	
Market Cap. (HKD bn)	405,765	
Enterprise Value (HKD mn)	747,998	
52 w week range (HKD)	47.85 - 76.5	
Closing Price in 52 week range		



Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Net earned premiums (RMB mn)	213,144	240,199	272,647	312,798
Net Profit, adj. (RMB mn)	20,050	28,154	36,253	43,974
EPS, adj. (RMB)	2.53	3.56	4.58	5.56
P/E (X)	18.9	13.4	10.4	8.6
BVPS (RMB)	20.16	23.08	26.54	30.26
P/B (X)	2.4	2.1	1.8	1.6
DPS (RMB)	0.45	0.53	0.69	0.83
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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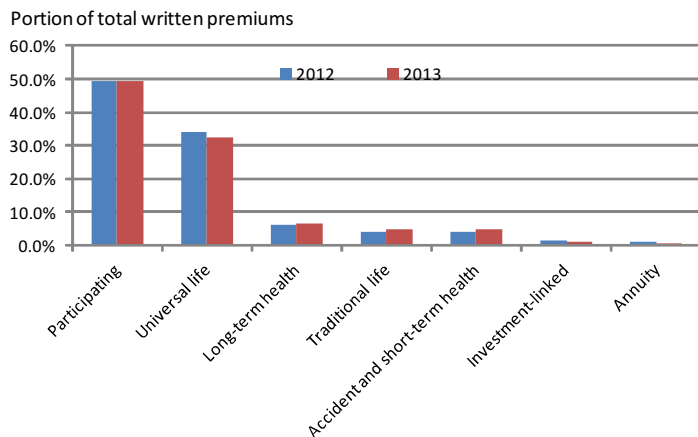
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Table 1. Real value and estimated value of Ping An's profits in 2013

Income Statement (RMB Million)	2013E	2013	Growth rate of RV y-y	Difference (RV/EV)
Gross written premiums and policy fees	264,352	269,051	15.01%	1.8%
Net written premiums and policy fees	247,003	248,017	12.18%	0.4%
Net earned premiums	238,661	240,199	12.69%	0.6%
Reinsurance commission income	5,661	6,584	45.37%	16.3%
Interest income of banking operations	89,822	93,291	24.63%	3.9%
Fees and commission income of non-insurance operations	14,158	15,815	45.21%	11.7%
Net investment income	57,494	55,583	103.02%	-3.3%
Other income	9,712	10,013	18.57%	3.1%
Total income	415,359	421,221	24.18%	1.4%
Claims and policyholders' benefits	(197,533)	(198,002)	19.28%	0.2%
Commission expenses on insurance operations	(24,524)	(25,390)	24.24%	3.5%
General and administrative expenses	(79,433)	(81,753)	19.39%	2.9%
Interest expenses on banking operations	(50,439)	(50,861)	26.05%	0.8%
Total expense	(368,866)	(374,997)	22.21%	1.7%
Profit before tax	46,493	46,224	42.94%	-0.6%
Income tax	(9,500)	(10,210)	82.71%	7.5%
Profit for the year	36,993	36,014	34.63%	-2.6%
Minority interest	(7,705)	(7,860)	17.31%	2.0%
Net profit	29,288	28,154	40.42%	-3.9%
EPS (RMB)	3.70	3.56	1.18%	-3.9%
BVPS (RMB)	23.39	23.08	21.97%	-1.3%
EVPS (RMB)	40.81	41.64	21.31%	2.0%

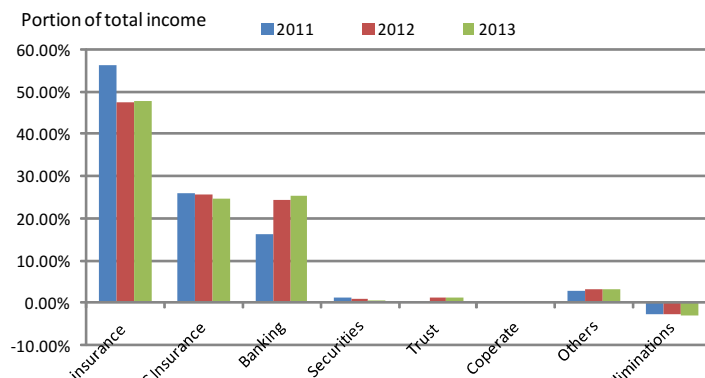
Source: the Company's report, Phillip Securities

Figure 1. Proportion of Ping An's products



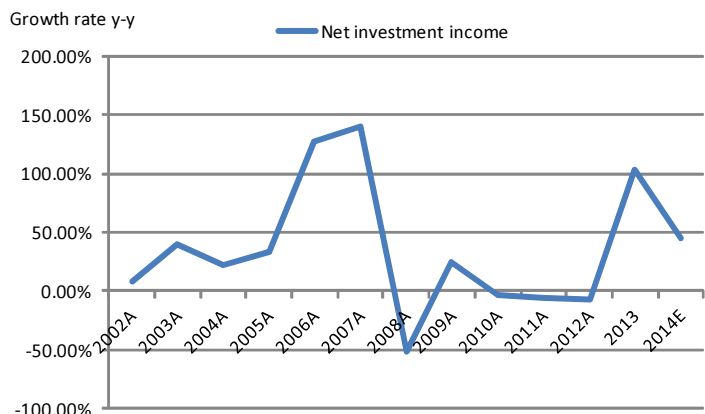
Source: the Company's report, Phillip Securities

Figure 2. Proportion of Ping An's businesses



Source: the Company's report, Phillip Securities

Figure 3. Net investment income of Ping An



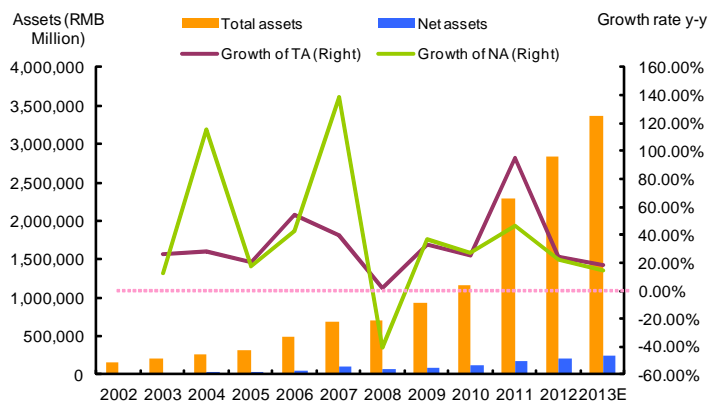
Source: the Company's report, Phillip Securities

Table 2. Proportion of Ping An's investment assets

	2011	2012	2013
Term deposits	19.60%	22.50%	18.30%
Bond investments	57%	52.10%	51.90%
Debt schemes investment	1.20%	3.50%	8.70%
Others	3.20%	3.30%	3.30%
Fixed maturity investments	81.00%	81.40%	82.20%
Equity investment funds	2.90%	2.40%	2.70%
Equity securities	8.60%	7.10%	7.10%
Equity investments	11.50%	9.50%	9.80%
Infrastructure investments	1.00%	0.80%	0.70%
Investment property	0.90%	1.50%	1.70%
Cash, cash equivalents and others	5.60%	6.80%	5.60%
Total investments	100.00%	100.00%	100.00%

Source: the Company's report, Phillip Securities

Figure 4. The growth of Ping An's assets



Source: the Company's report, Phillip Securities

Table 3. Valuation of Ping An's embedded value

RMB Million	2011	2012	2013	2014E	2015E
Adjust NAV	139,446	165,386	189,371	213,989	239,668
Adjust value of in-force insurance business	96,181	120,488	140,282	155,222	166,465
Embedded value	235,627	285,874	329,653	369,211	406,132
Adjust value of one year's new business	16,822	15,915	18,163	18,708	19,643
New business multiplier (X)	8	8	8	8	8
Value of new business	134,576	127,320	145,304	149,663	157,146
Adjust value	370,203	413,194	474,957	518,874	563,279
Share capital (Million)	7,916	7,916	7,916	7,916	7,916
EV per share (RMB)	29.77	36.11	41.64	46.64	51.31
Value of new business per share (RMB)	17.00	16.08	18.36	18.91	19.85
Stock value per share (HK\$)	58.73	65.55	75.35	82.31	89.36
Price/EV (X)	1.60	1.32	1.15	1.02	0.93

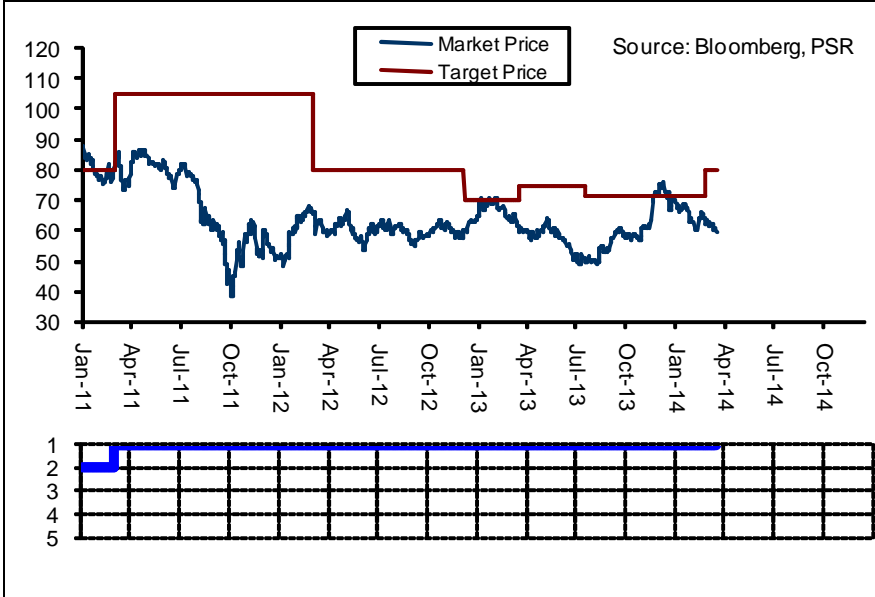
Source: the Company's report, Phillip Securities

Financial Status

FYE	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X)	19.1	18.9	13.4	10.4	8.6
P/B (X)	2.9	2.4	2.1	1.8	1.6
P/EV (X)	1.6	1.3	1.1	1.0	0.9
Dividend Payout ratio	16.26%	17.77%	15.00%	15.00%	15.00%
Dividend Yield	0.86%	0.94%	1.08%	1.38%	1.68%
Per share data (RMB)					
EPS, reported	2.50	2.53	3.56	4.58	5.56
EPS, adj.	2.50	2.53	3.56	4.58	5.56
DPS	0.41	0.45	0.53	0.69	0.83
BVPS	16.53	20.16	23.08	26.54	30.26
EVPS	29.77	36.11	41.64	46.64	51.31
Growth					
Net earned premiums	32.3%	14.2%	12.7%	13.5%	14.7%
Total income	39.0%	24.6%	24.2%	22.3%	21.7%
Profit before tax	34.4%	7.7%	42.9%	27.1%	21.2%
Net Income, adj.	12.5%	3.0%	40.4%	28.8%	21.3%
Key Ratios					
Net profit / Gross premiums	9.37%	8.57%	10.46%	11.72%	12.25%
Net profit / Net earned premiums	10.43%	9.41%	11.72%	13.30%	14.06%
Income Statement (RMB m n)					
Gross written premiums and policy fees	207,802	233,940	269,051	309,409	358,914
Less: Premiums ceded to reinsurers	(10,970)	(12,851)	(21,034)	(28,396)	(36,915)
Net written premiums and policy fees	196,832	221,089	248,017	281,013	321,999
Increase in unearned premium reserves, net	(10,170)	(7,945)	(7,818)	(8,365)	(9,202)
Net earned premiums	186,662	213,144	240,199	272,647	312,798
Reinsurance commission income	3,656	4,529	6,584	9,020	11,726
Interest income of banking operations	39,314	74,852	93,291	119,412	155,236
Fees and commission income of non-insurance operations	8,614	10,891	15,815	22,141	29,890
Net investment income	29,265	27,378	55,583	80,595	104,774
Share of profits and losses of associates and jointly controlled entities	1,068	(46)	(264)	0	0
Other income	3,665	8,445	10,013	11,515	12,666
Total income	272,244	339,193	421,221	515,331	627,091
Claims and policyholders' benefits	(145,764)	(165,994)	(198,002)	(237,602)	(287,499)
Commission expenses of insurance operations	(17,767)	(20,437)	(25,390)	(30,468)	(35,038)
General and administrative expenses	(50,575)	(68,477)	(81,753)	(98,104)	(117,724)
Interest expenses of banking operations	(20,432)	(40,351)	(50,861)	(65,102)	(82,680)
Fees and commission expenses of non-insurance operations	(1,050)	(1,455)	(1,979)	(2,573)	(3,087)
Loan loss provision, net of reversals	(1,704)	(3,048)	(6,709)	(9,728)	(13,619)
Foreign exchange losses	(434)	255	(381)	(438)	(504)
Finance costs	(1,254)	(1,758)	(3,202)	(4,163)	(5,203)
Other expenses	(3,238)	(5,590)	(6,720)	(8,400)	(10,500)
Total expense	(242,218)	(306,855)	(374,997)	(456,578)	(555,855)
Profit before tax	30,026	32,338	46,224	58,754	71,236
Income tax	(7,444)	(5,588)	(10,210)	(13,069)	(15,944)
Income tax rate	32.96%	20.89%	22.09%	22.24%	22.38%
Profit for the year	22,582	26,750	36,014	45,685	55,292
Minority interest	(3,107)	(6,700)	(7,860)	(9,432)	(11,318)
Net profit	19,475	20,050	28,154	36,253	43,974
Dividend	3,166	3,562	4,223	5,438	6,596

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

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

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