

18 September 2014

PICC (1339.HK)

Strong growth of life insurance business

HONG KONG | FINANCIAL | COMPANY RESULTS

Rating: Buy

Maintain Buy

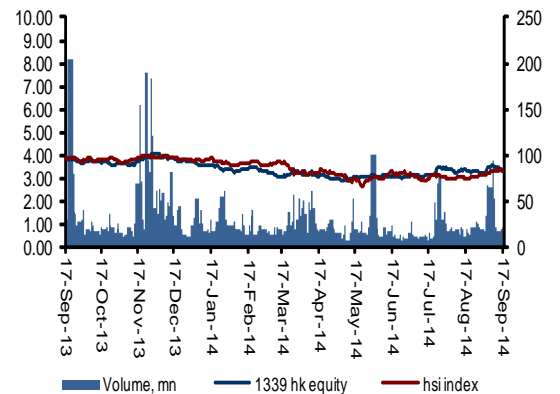
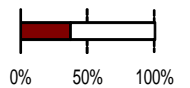
Table with 2 columns: Metric and Value. Metrics include Target Price (HKD), Forecast Dividend (HKD), Closing Price (HKD), and Potential Upside.

Company Description

The People's Insurance Company of China ("PICC" or "the Group") was founded in Oct 1949, which was the first national insurer in the PRC, and becomes one of the largest integrated insurance financial groups today.

Company Data

Table with 2 columns: Metric and Value. Metrics include Market Cap. (HKD mn), Enterprise Value (HKD mn), 52 week range (HKD), and Closing Price in 52 week range.



Major Shareholders

Table with 2 columns: Shareholder Name and Percentage. Shareholders include MOF (70.47%) and NSSF (8.96%).

Valuation Method

P/E, P/B, SOTP

Analyst

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- According to 2014 interim results, as at the end of June, PICC's premium income increased strongly, total premium and net written premium increased by 29.1% and 32.6% to RMB204.544 billion and RMB169.186 billion respectively. Total premiums of P&C insurance and life insurance reached to RMB132.162 billion and RMB58.375 billion, up 14.2% and 54.7% respectively, with the sharp growth of life insurance business. Net profits attributable to the shareholders of parent decreased by 12.3% to RMB6.614 billion due to the large growth of operating expenses;
Total assets of PICC increased stably by 7.29% to RMB810.36 billion compared with the end of 2013, and net assets amounted to RMB80.24 billion, up 12.11%. Equivalent to the BVPS of RMB1.89, but net assets was still obvious lower than other large insurers;
PICC's capital pressure declined due to the large increase of capital after the IPO in H Shares. As at the end of 1H2014, the Group's solvency margin ratios of P&C insurance and life insurance increased by 1ppts and 19ppts to 181% and 221% respectively compared with the end of 2013;
However, PICC's investment returns decreased. As at the end of June, the Group's investment returns dropped 7.78% to RMB14.145 billion. The returns from P&C insurance decreased by 16.6% from RMB6.055 billion in 1H2013 to RMB5.048 billion. The returns of life insurance dropped 3.3% y-y to RMB7.926 billion. This is mainly because of the high base from the accounting changes of returns in Industrial Bank during the period. We believe the growth of investment gains will go up in 2H due to the improvement of market environment this year, and maintain on 5% approximately in 2014;
In all, the performance of PICC met our expectation, and We forecast the EV of PICC health and life insurance would be RMB0.08 and 1.35 in 2015 respectively, and considering other businesses, such as P&C, based on the SOPT, we estimate PICC's intrinsic value should be around HK\$4.30 in 2015, and maintain its 12-m TP to HK\$4.09 considering the volatility in the markets recently, 5% discount of the intrinsic value and around 22.1% higher than the latest closing price, equivalent to 13.8P/E and 1.5P/B in 2015 respectively. Maintain Buy.

How we view this

The business scale of PICC increased sharply in recent years, especially for the profit growth. However, according to the Group's current business structure, the subsidiary in HK, PICC P&C took the large portion of its total profit, which makes the Group hang too much upon the development of its P&C insurance, therefore the Group started to increase the proportion of life insurance. By the end of June, market shares of P&C and life insurance increased by 0.1ppts and 0.6ppts to 34.5% and 7.6% respectively compared with the end of 2013. Life insurance business has increased rapidly since this year, and we expect its market share will go up obviously.

Investment Action

In all, PICC's performance maintains stable, and net profit will increase although it declined in 1H, and based on the SOPT, we maintain its 12-m TP to HK\$4.09, 5% discount of the intrinsic value and around 22.1% higher than the latest closing price, equivalent to 13.8P/E and 1.5P/B in 2015 respectively. Maintain Buy.

Key Financial Summary

FYE	12/13	12/14F	12/15F	12/16F
Net written premiums (RMB mn)	272,610	325,441	394,925	490,973
Net Profit, adj. (RMB mn)	8,121	8,678	9,929	11,569
EPS, adj. (RMB)	0.19	0.20	0.23	0.27
P/E (X)	14.0	13.0	11.3	9.7
BVPS (RMB)	1.69	1.98	2.23	2.42
P/B (X)	1.6	1.3	1.2	1.1
DPS (RMB)	0.0083	0.0100	0.0120	0.0143
Div. Yield	0.3%	0.4%	0.5%	0.5%

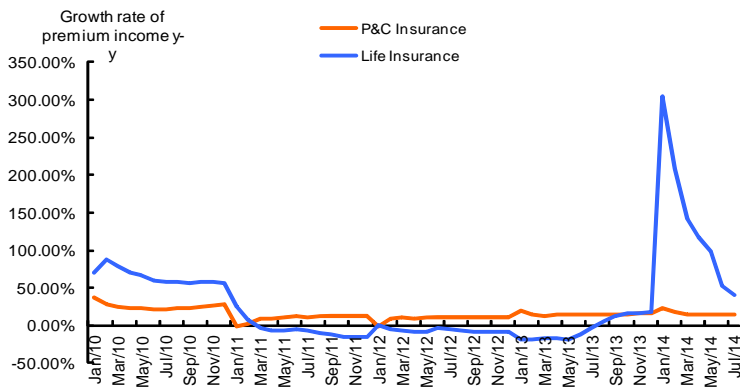
Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

	2013H1	2014H1	Growth rate y-y	Note
Net earned premiums	127,578	169,186	32.6%	Large growth of premiums
Reinsurance commission income	5,003	5,055	1.0%	
Investment income	15,339	14,145	-7.8%	
Other income	878	929	5.8%	
Total income	148,798	189,315	27.2%	
Claims and policyholder's benefit	96,527	134,596	39.4%	Sharp increase of Life insurance death and other benefits paid
Handling charges and commission	11,097	13,311	20.0%	
Finance costs	2,796	2,770	-0.9%	
Exchange (gains)/losses, net	407	(144)	-135.4%	
Other operating and administrative	26,991	29,355	8.8%	
Total benefits, claims and expenses	137,818	179,888	30.5%	
Share of profit of associates	924	2,535	174.4%	
Profit before tax	11,904	11,962	0.5%	
Income tax	(2,046)	(2,710)	32.5%	
Income tax rate	17.19%	22.66%		
Profit for the year	9,858	9,252	-6.1%	Strong growth of charge for the period in current income tax
Minority interest	2,316	2,638	13.9%	
Net profit attributable to equity holders	7,542	6,614	-12.3%	

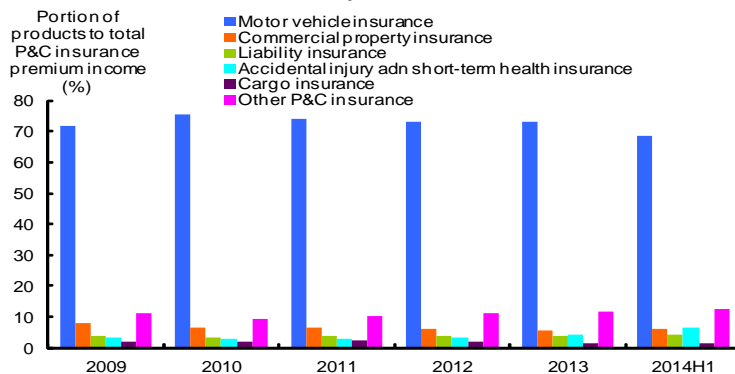
Source: PSR, Company report

Fig 1. Premium incomes of PICC's P&C and Life insurance



Source: PSR, Company report

Fig 2. Structure of PICC's P&C insurance products



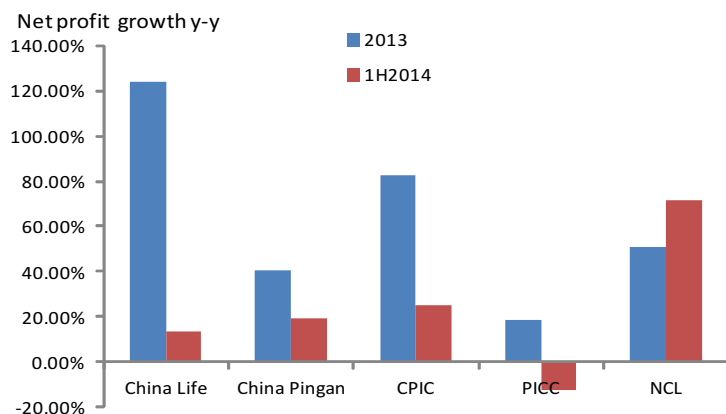
Source: PSR, Company report

Table 1. Changes of PICC's investment portfolio and yields

	2009		2010		2011		2012		2013		2014H1	
	Portion	Yield	Portion	Yield	Portion	Yield	Portion	Yield	Portion	Yield	Portion	Yield
Cash and cash equivalents	15.20%		10.90%		11.50%		12.40%		7.10%		6.40%	
Fixed-income investments	62.30%		69.30%		66.80%		58.96%		60.80%		61.60%	
Equity and fund investment	13.70%		13.20%		12.50%		15.69%		10.60%		10.60%	
Others	8.80%		6.60%		9.30%		12.96%		21.50%		21.40%	
Total investment assets	100%	5.42%	100%	5.18%	100%	3.63%	100%	4.20%	100%	5.20%	100%	5.10%

Source: PSR, Company report

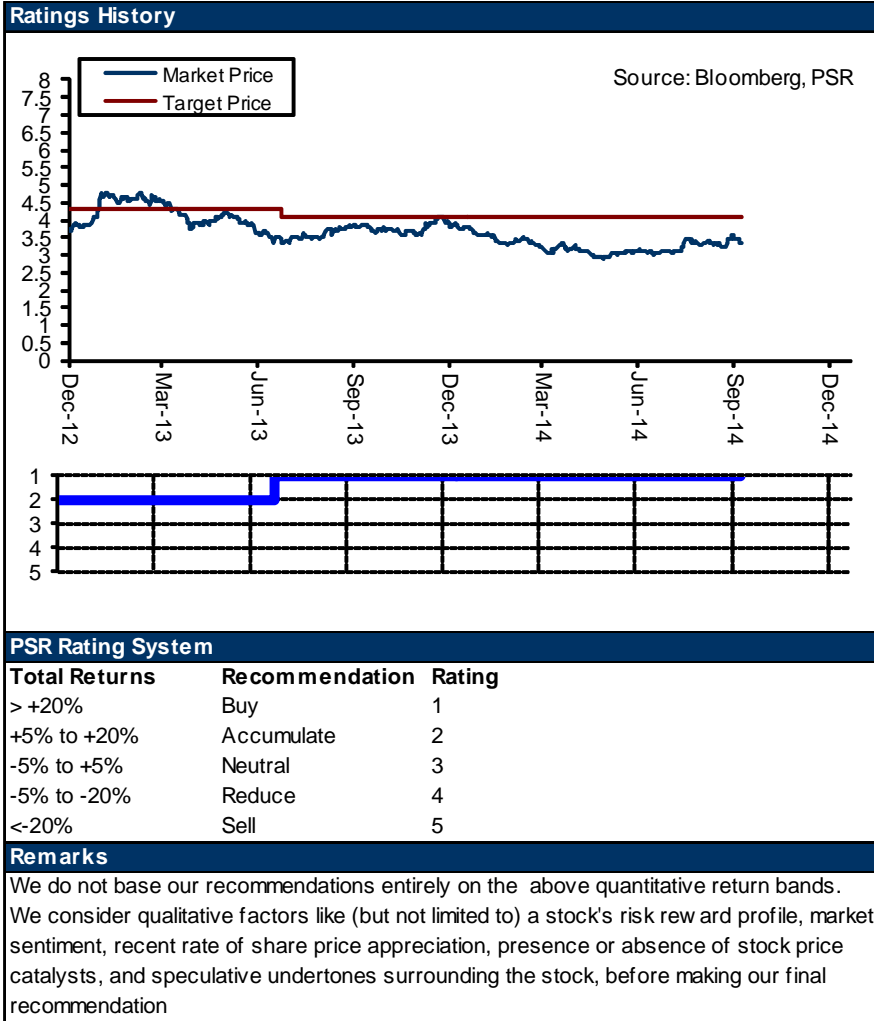
Fig 3. Net profit growth of main domestic insurers



Source: PSR, Company report

FYE	FY12	FY13	FY14F	FY15F	FY16F
Valuation Ratios					
P/E (X)	13.6	14.0	13.0	11.3	9.7
P/B (X)	1.7	1.6	1.3	1.2	1.1
Dividend Payout ratio	1.95%	4.37%	4.87%	5.11%	5.26%
Dividend Yield	0.1%	0.3%	0.4%	0.5%	0.5%
Per share data (RMB)					
EPS, reported	0.20	0.19	0.20	0.23	0.27
EPS, adj.	0.20	0.19	0.20	0.23	0.27
DPS	0.0038	0.0083	0.0100	0.0120	0.0143
BVPS	1.54	1.69	1.98	2.23	2.42
Growth					
Net written premiums	11.4%	16.6%	19.4%	21.4%	24.3%
Total income	8.9%	18.4%	17.7%	20.1%	23.4%
Profit before tax	30.5%	17.6%	9.2%	16.5%	18.0%
Net Income, adj.	31.8%	18.9%	6.9%	14.4%	16.5%
Key Ratios					
ROAE	15.95%	11.76%	11.15%	11.12%	11.73%
Income Statement (RMB mn)					
	FY12	FY13	FY14F	FY15F	FY16F
Gross written premiums	265,216	306,421	367,705	448,600	560,750
Premiums ceded to reinsurers	(31,406)	(33,811)	(42,264)	(53,675)	(69,777)
Net written premiums	233,810	272,610	325,441	394,925	490,973
Change in unearned premium reserves	(8,993)	(9,350)	(10,285)	(11,725)	(13,718)
Net earned premiums	224,817	263,260	315,156	383,200	477,255
Reinsurance commission income	10,438	11,477	11,936	12,891	14,567
Investment income	20,043	27,829	29,220	32,142	36,964
Other income	2,051	2,172	2,324	2,556	2,940
Total income	257,349	304,738	358,637	430,790	531,725
Life insurance death and other benefits paid	15,213	28,592	54,325	84,203	126,305
Claims incurred	102,255	125,166	142,689	168,373	205,415
Changes in long-term life insurance contract liabilities	50,072	51,209	52,233	54,323	57,039
Policyholder dividends	2,871	3,323	4,652	6,280	8,165
Claims and policyholder's benefits	170,411	208,290	253,899	313,180	396,924
Handling charges and commissions	20,205	21,659	25,341	30,409	37,099
Finance costs	4,989	5,512	5,567	5,845	6,430
Exchange (gains)/losses, net	50	646	100	120	144
Other operating and administrative expenses	48,945	55,932	61,525	68,908	77,866
Total benefits, claims and expenses	244,600	292,039	346,433	418,463	518,463
Share of profit of associates	571	2,971	4,902	7,598	10,258
Profit before tax	13,320	15,670	17,106	19,926	23,520
Income tax	(3,176)	(3,615)	(3,904)	(4,568)	(5,436)
Income tax rate	23.84%	23.07%	22.82%	22.92%	23.11%
Profit for the year	10,144	12,055	13,202	15,358	18,084
Minority interest	3,312	3,934	4,524	5,429	6,515
Net profit attributable to equity holders of the parent	6,832	8,121	8,678	9,929	11,569
Dividend	163	352	423	507	608

Source: 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 catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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