

New China Insurance (1336.HK)

Investment gains continued to increase sharply

HONG KONG | INSURANCE | COMPANY NOTE

15 Jun 2015

Summary

- According to the first quarterly results of NCI (or the Group), its net profit increased largely by 132% y-y, especially for investment gains, mainly due to the improvement of the market environment, increased by 111% y-y approximately;
- According to CIRC, the Group's premiums of life insurance increased only by 6% y-y in April, and the market share also continued to go down, mainly due to the increase of the market competition, especially for challenges from CPIC and Taikan Life;
- Moreover, CPIC's total assets increased stably by 1.1% to RMB650.674 billion compared to the end of 2014, with net assets of RMB53.94 billion, up 11.5%, equivalent to the BVPS of RMB17.29;
- Considering the Group's stable performance in 1Q, we expect Chinese insurers' performance would increase largely under the current bull market, especially for investment gains. We hold optimistic views for NCI's future performance, and increase NCI's 12-month target price to HK\$65.00, around 33% higher than the latest closing price, equivalent to 12.6xP/E and 2.4xP/B in 2016 respectively, maintain Buy rating.

The strong growth of investment gains

By the end of 1Q2015, NCI's net profits amounted to RMB3.624 billion, increased largely by 132% y-y, and investment gains, mainly due to the improvement of the market environment, increased by 111% y-y approximately to RMB14.517 billion. We believe NCI's investment gains would increase strongly in 2015.

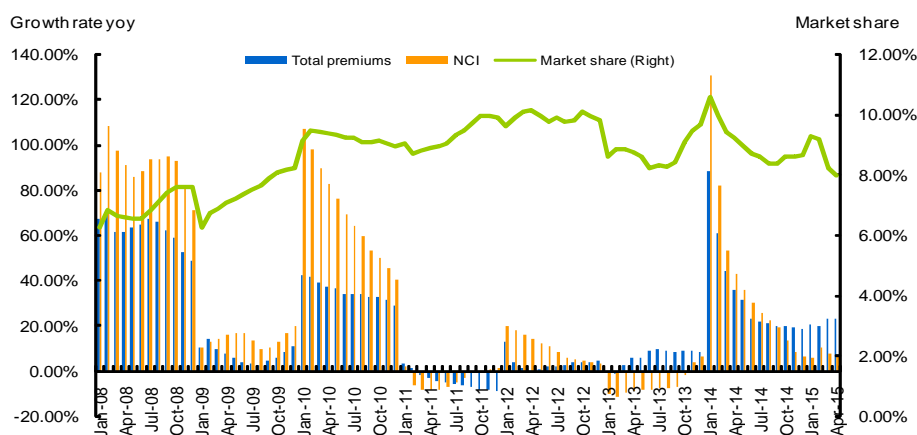
According to the current operating performance, we expect NCI's incomes would increase significantly in 2015, and net profit would increase by around 42% y-y.

Risk

The growth might be lower than our expectation due to the large volatility of investment gains;

Share price decreases obviously in the short run due to the deterioration of the market environment.

Growth and market share of NCI's monthly premiums



Source: CIRC, Phillip Securities (HK) Research

Buy (Maintain)

CMP: HK\$ 48.95

(Closing price as at 11 June 2015)

TARGET: HK\$ 65.00 (+33%)

COMPANY DATA

O/S SHARES (MN) :	1,034
MARKET CAP (HK\$ MN) :	50,620
52 - WK HI/LO (HK\$) :	56.55/ 23.80

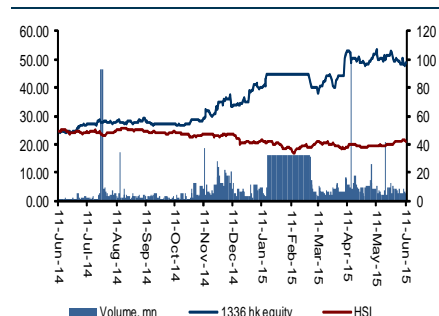
SHARE HOLDING PATTERN, %

HKSCC Nominees	32.88
Central Huijin Investment	31.34
Baosteel Group	15.11

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
NCI	-6.14	-6.94	101.03
HSI	-1.25	-3.96	16.11

PRICE & HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Net earned premiums (RMB mn)	103,615	109,470	117,540	129,269
Net Profit, adj. (RMB mn)	4,422	6,406	9,115	12,876
EPS, adj. (RMB)	1.42	2.05	2.92	4.13
P/E (X)	27.6	19.1	13.4	9.5
BVPS (RMB)	12.60	15.50	18.64	21.92
PIB (X)	3.1	2.5	2.1	1.8
EVPS (RMB)	20.64	27.33	34.87	42.21
PIE/PS (X)	1.9	1.4	1.1	0.9

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

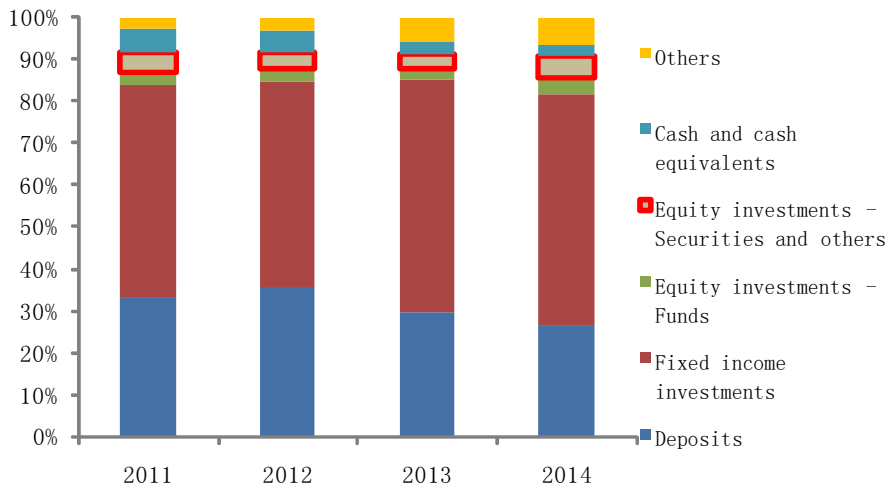
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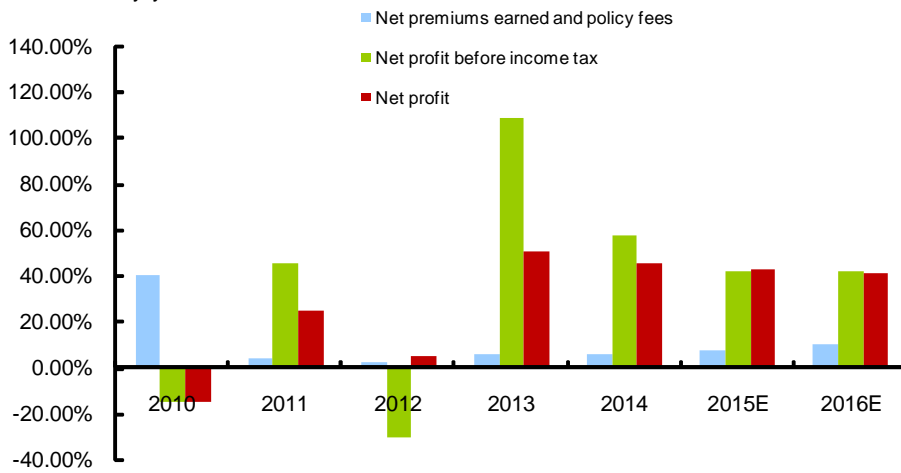
The distribution of NCI's investment assets



Source: Company, Phillip Securities (HK) Research

NCI's profit estimation

Growth rate-y-y



Source: Company, Phillip Securities (HK) Research

Financial Data

FYE	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X)	41.7	27.6	19.1	13.4	9.5
P/B (X)	3.4	3.1	2.5	2.1	1.8
P/EV/PS (X)	2.1	1.9	1.4	1.1	0.9
Dividend yield	0.82%	0.38%	0.54%	0.70%	0.91%
Per share data (RMB)					
DPS	0.32	0.15	0.21	0.27	0.35
EPS, reported	0.94	1.42	2.05	2.92	4.13
EPS, adj.	0.94	1.42	2.05	2.92	4.13
BV/PS	11.50	12.60	15.50	18.64	21.92
EV/PS	18.23	20.64	27.33	34.87	42.21
Growth					
Net written premiums and policy fees	2.5%	5.8%	5.7%	7.4%	10.0%
Investment income	6.3%	79.8%	30.4%	75.0%	45.0%
Net profit before income tax	-30.1%	116.7%	56.9%	41.6%	41.4%
Net profit	4.8%	50.8%	44.9%	42.3%	41.3%
Key Ratios					
Net profit / Net earned premiums	2.99%	4.27%	5.85%	7.75%	9.96%
Dividend payout ratio	34.09%	10.58%	10.22%	9.34%	8.60%
ROAE	8.73%	11.76%	14.61%	17.12%	20.35%
ROAA	0.67%	0.83%	1.06%	1.34%	1.72%
Total investment yield	3.18%	4.74%	5.41%	8.45%	11.13%
Administrative expenses ratio	9.98%	9.61%	10.34%	10.59%	10.59%
Commission and brokerage expenses ratio	7.18%	6.19%	6.97%	7.79%	8.63%
Total assets / liabilities	92.73%	93.05%	92.49%	91.83%	91.25%
Income Statement (RMB mn)					
Net written premiums and policy fees	98,086	103,780	109,663	117,772	129,559
Net change in unearned premium liabilities	(135)	(165)	(193)	(232)	(290)
Net premiums earned and policy fees	97,951	103,615	109,470	117,540	129,269
Investment income	13,559	24,374	31,784	55,622	80,652
Other income	189	228	840	1,386	1,940
Total revenues	111,699	128,217	142,094	174,548	211,862
Life insurance death and other benefits	(23,983)	(36,601)	(64,883)	(87,592)	(111,242)
Increase in long-term insurance contract liability	(64,831)	(65,954)	(46,019)	(49,240)	(54,164)
Insurance benefits and claims	(89,898)	(103,741)	(112,017)	(137,981)	(166,899)
Total benefits, claims and expenses	(107,666)	(121,652)	(132,680)	(161,676)	(194,287)
Net profit before income tax	2,288	4,959	7,782	11,017	15,578
Income tax	646	(535)	(1,375)	(1,900)	(2,700)
Tax rate	/	10.79%	17.67%	17.25%	17.33%
Net profit for the year/period	2,934	4,424	6,407	9,117	12,878
Minority interests	1	2	1	2	2
Net profit	2,933	4,422	6,406	9,115	12,876
Dividend	1,000	468	655	852	1,107
Balance Sheet (RMB mn)					
Investment in associates	708	9,404	10,150	10,556	11,612
Total financial assets	453,415	521,622	601,065	669,688	737,130
Cash and cash equivalents	25,066	18,570	14,503	11,602	9,862
Total assets	493,693	565,849	643,709	712,093	782,011
Insurance contracts	362,272	426,881	480,100	513,871	545,085
Financial liabilities	89,425	93,144	106,448	129,214	154,655
Other liabilities	4,258	4,584	5,090	5,854	7,024
Total liabilities	457,815	526,531	595,345	653,938	713,613
Share capital	3,120	3,120	3,120	3,120	3,120
Reserves	25,967	25,903	30,300	35,605	40,022
(Accumulated losses) / retained earnings	6,783	10,289	14,939	19,421	25,247
Net equity	35,870	39,312	48,359	58,145	68,389
Minority interests	8	6	5	10	10
Total equity	35,878	39,318	48,364	58,155	68,399
Total liabilities and equity	493,693	565,849	643,709	712,093	782,011

(Financial figures as at 11 Jun 2015)

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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