

Ping An Insurance (Group) Company of China (601318.SH)

Stable operating performance with the large growth potential of share price

27 October 2015

CHINA | INSURANCE | COMPANY REPORT

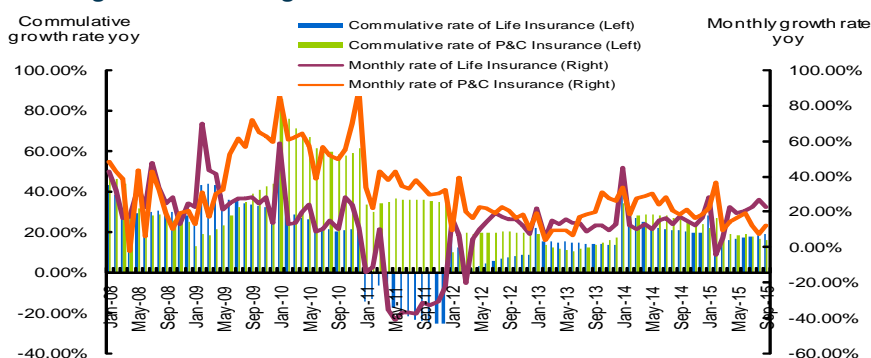
Summary

- As at the end of 1H2015, China Pingan's performance was better than our expectation. Net profit increased sharply by 62.2% y-y to RMB34.649 billion with the EPS of RMB1.90, up 48.4% y-y after the dilution due to double the amount of total capital shares;
- According to the latest data by China Insurance Regulatory Commission (CIRC), as at the end of Sep 2015, the premiums of the Life and P&C insurance of Ping An increased by 18.58% and 15.73% y-y to RMB163.992 and 121.638 billion respectively;
- Total assets increased stably by 15.6% to RMB4.63 trillion compared with the end of 2014, and net assets grew 14.4% to RMB331.19 billion;
- The synergy effects appeared under the current strategy of "Banking + Insurance + Investment", and will realize one-stop comprehensive service under mobile platform. Currently, the Group's comprehensive business structure is the main competitive advantage;
- Recently China Pingan will announce 3Q results, we believe its premiums would maintain at the double-digit growth, but considering the large market volatility in 3Q, investment income growth would slow down obviously. However, the share price decreased significantly recently, and the valuation is attractive now, therefore we give China Pingan's 12-m TP to RMB65.00, 93% higher than the current price, equivalent to 15.6xP/E and 2.0xP/B in 2016 respectively. Maintain "Buy" rating. (Closing price as at 23 Oct 2015)

Stable profit growth

China Ping An's large profit growth is mainly benefited from the stable increase of premiums. As at the end of Sep 2015, the premiums of the Life and P&C insurance of Ping An increased largely by 18.58% and 15.73% y-y to RMB163.992 and 121.638 billion respectively. Due to the development of the market, China Pingan's other businesses also increased sharply. By the end of Jun, total amount of the Group's investment portfolio reached to RMB1.64 trillion, up 11.2% compared with the end of 2014. Net interest incomes increased by 27.4% to RMB 40.622 billion, however, we expect it will go down obviously in 3Q2015. Meanwhile, the Group's banking business developed strongly, in 1H2015, net profit of the banking business grew 15% to RMB11.585 billion, but the asset quality went down obviously, the NPL ratio increased from 1.02% in 2014 to 1.32%, and the NPLs amounted to RMB15.729 billion, up 50% approximately. We expect the Group's asset quality would go down continually in future, and in 3Q, the NPL ratio would be around 1.50%-1.60%.

The premium growth China Ping An's Life and P&C insurance



Source: Company, Phillip Securities (HK) Research

Buy (Maintain)

CMP: RMB 33.73

(Closing price as at 23 Oct 2015)

TARGET: RMB 65.00 (+93%)

COMPANY DATA

O/S SHARES (MN) :	18,280
MARKET CAP (RMB MN) :	616,600
52 - WK HI/LO (RMB) :	94.30/ 39.96*

*After the adjustment of share price

SHARE HOLDING PATTERN, %

Shenzhen Investment Holdings:	5.27
All Gain Trading	4.32
Longfu Group	2.77

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
China Pingan	6.17	-14.88	62.87
SSCI	7.12	-15.24	46.67

KEY FINANCIALS

Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Net earned premiums (RMB mn)	240,199	288,779	332,096	385,231
Net Profit, adj. (RMB mn)	28,154	39,279	60,480	76,377
EPS, adj. (RMB)	3.56	4.93	3.31	4.18
PE(X)	9.5	6.8	10.2	8.1
BVPS (RMB)	23.08	32.56	21.38	32.25
PB(X)	1.5	1.0	1.6	1.0
DPS (RMB)	0.65	0.75	0.58	0.76
Div. Yield	1.93%	2.22%	1.73%	2.25%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

Research Analyst

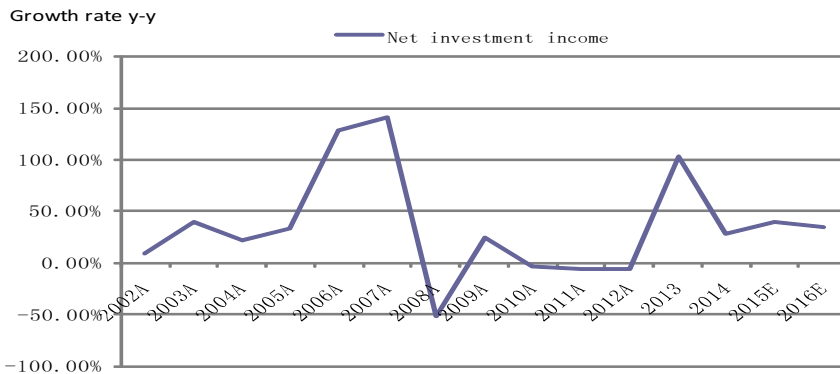
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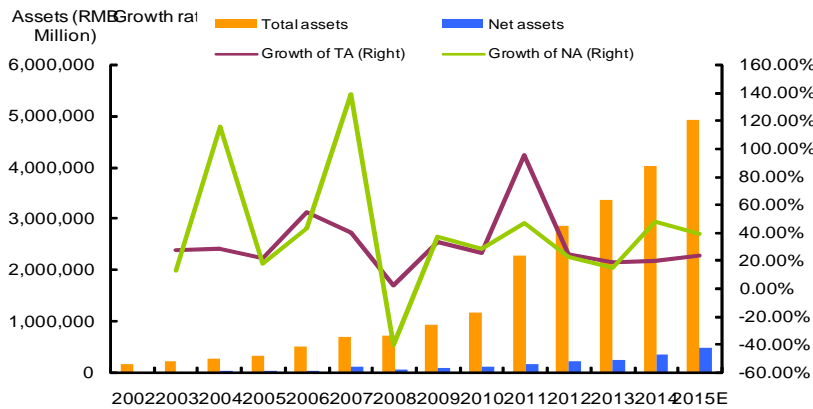
Overall, Ping An's operating performance met our expectations benefited from the stable growth of premiums and other main businesses. We still hold the optimistic view on the development of the sector, and the insurers' premiums would increase stably and investment gains will also increase obviously in 4Q2015. Therefore, we give China Pingan's 12-m TP in A Shares to RMB65.00, 93% higher than the current price, equivalent to 15.6xP/E and 2.0xP/B in 2016 respectively, the valuation is attractive. Recommend Buy rating.

The growth of China Ping An's investment income



Source: Company, Phillip Securities (HK) Research

Asset growth of China Ping An



Source: Company, Phillip Securities (HK) Research

Risk

Lower-than-expected growth of main business incomes;
Share price decreases sharply affected by the market environment in the short run.

FINANCIALS

Income Statement (RMB Mn)	2012	2013	2014	2015E	2016E
Gross written premiums and policy fees	233,940	269,051	326,423	424,350	530,437
Net earned premiums	213,144	240,199	288,779	332,096	385,231
Interest income of banking operations	34,501	42,430	54,895	65,874	77,731
Fees and commission income of non-insurance operations	9,436	13,836	22,413	30,258	37,822
Net investment income	32,996	54,917	78,735	102,356	148,415
Other income	8,935	11,034	17,636	22,927	28,659
Total income	299,372	362,631	462,882	569,345	711,681
Commission expenses of insurance operations	(80,512)	(90,663)	(102,659)	(112,925)	(135,510)
Extraction of insurance liability reserve	(72,810)	(94,545)	(108,419)	(122,513)	(144,566)
General and administrative expenses	(57,912)	(69,168)	(85,665)	(102,798)	(128,498)
Impairment losses	(10,017)	(8,966)	(24,896)	(38,589)	(57,883)
Other expenses	(13,528)	(17,431)	(27,104)	(35,235)	(47,568)
Total expense	(266,997)	(316,292)	(400,541)	(480,649)	(600,812)
Profit before tax	32,338	46,224	62,353	88,746	110,940
Income tax	(5,588)	(10,210)	(14,423)	(18,750)	(24,000)
Income tax rate	17.28%	22.09%	23.13%	21.13%	21.63%
Profit for the year	26,750	36,014	47,930	69,996	86,940
Minority interest	6,700	7,860	8,651	9,516	10,563
Net profit	20,050	28,154	39,279	60,480	76,377
Dividend	3,562	5,145	6,669	10,670	13,872
EPS	2.53	3.56	4.93	3.31	4.18
DPS	0.45	0.65	0.75	0.58	0.76
BVPS	20.16	23.08	32.56	21.38	32.25
EVPS	36.11	41.64	25.80	36.21	42.36
Dividend payout ratio	17.77%	18.28%	16.98%	17.64%	18.16%
Dividend yield	1.33%	1.93%	2.22%	1.73%	2.25%
Net profit / Gross premiums	8.57%	10.46%	12.03%	14.25%	14.40%
Net profit / Net earned premiums	9.41%	11.72%	13.60%	18.21%	19.83%
P/E (X)	13.3	9.5	6.8	10.2	8.1
P/B (X)	1.7	1.5	1.0	1.6	1.0
P/EV (x)	0.9	0.8	1.3	0.9	0.8

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 23 October 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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