

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

The performance met expectation

1 December 2015

CHINA | INSURANCE | COMPANY REPORT

Summary

- As at the end of 3Q2015, China Pingan's performance met our expectation. Net profit increased sharply by 52.4% y-y to RMB48.276 billion with the EPS of RMB2.64;
- According to the latest data by China Insurance Regulatory Commission (CIRC), as at the end of Oct 2015, the premiums of the Life and P&C insurance of Ping An increased by 18.98% and 15.36% y-y to RMB178.285 and 134.238 billion respectively;
- Total assets increased stably by 16.5% to RMB4.67 trillion compared with the end of 2014, and net assets increased by 13.4% to RMB328.337 billion;
- The current strategy of "Banking + Insurance + Investment" owns the obvious competitive advantage. China Pingan's Internet Finance business increased sharply with the clients of 197 million, up 43.2% compared with the end of 2014 ;
- In all, China Pingan's results met expectation, although there was the large market volatility in 3Q, investment incomes maintained the stable growth. The share price decreased significantly recently, and the valuation is attractive now, therefore we maintain China Pingan's 12-m TP at RMB65.00, 92% higher than the current price, equivalent to 15.6xP/E and 2.0xP/B in 2016 respectively. Maintain Buy rating. (Closing price as at 27 Nov 2015)

Buy (Maintain)

CMP: RMB 33.84

(Closing price as at 27 Nov 2015)

TARGET: RMB 65.00 (+92%)

COMPANY DATA

O/S SHARES (MN) :	18,280
MARKET CAP (RMB MN) :	618,595
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
CSF	2.99

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
China Pingan	0.80	28.38	41.35
SSCI	0.20	17.39	31.94

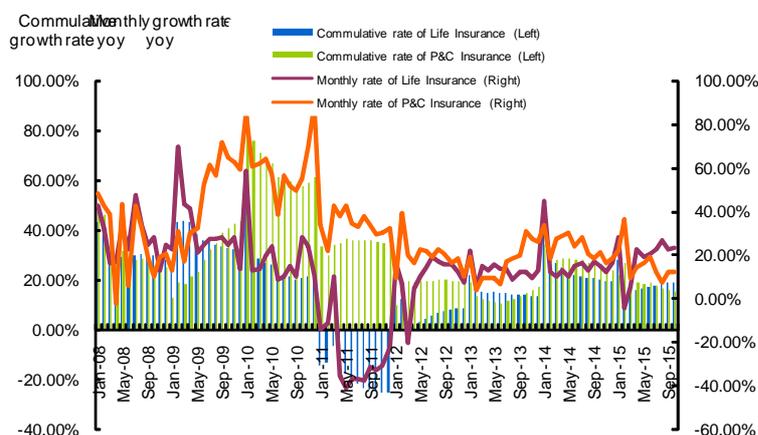
Operating performance met expectation

As at the end of Oct 2015, the premiums of the Life and P&C insurance of Ping An increased by 18.98% and 15.36% y-y to RMB178.285 and 134.238 billion respectively

Although there was the deterioration of the market in 3Q, China Pingan's investment incomes increased stably. By the end of Sep, total amount of the Group's investment portfolio reached to RMB1.61 trillion, decreased by RMB30 billion compared with 2Q, and up 9.5% compared with the end of 2014. Net return on investment achieved to 5.6%. Net profit increased sharply by 52.4% y-y to RMB48.276 billion with the EPS of RMB2.64. The changes met our previous expectation.

Meanwhile, the Group's banking business developed stably, in 3Q2015, net profit of the banking business grew 13% to RMB17.74 billion, but the asset quality went down obviously, the NPL ratio increased from 1.02% in 2014 to 1.34%, and down 0.02ppts compared with the end of 2Q, and the NPLs amounted to RMB16.199 billion. We expect the Group's asset quality would go down continually in future, but should be better than our expectation.

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



Source: Company, Phillip Securities (HK) Research

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
P/E (X)	9.5	6.9	10.2	8.1
BV/PS (RMB)	23.08	32.56	21.38	32.25
P/B (X)	1.5	1.0	1.6	1.0
DPS (RMB)	0.65	0.75	0.58	0.76
Div. Yield	1.92%	2.22%	1.72%	2.24%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

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Overall, Ping An's operating performance met our expectations benefited from the stable growth of businesses. We still hold the optimistic view on the development of the sector, and therefore, we maintained China Pingan's 12-m TP in A Shares at RMB65.00, 92% higher than the current price, equivalent to 15.6xP/E and 2.0xP/B in 2016 respectively, the valuation is attractive. Recommend Buy rating. (Closing price as at 27 Nov 2015)

Risk

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

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%	1.92%	2.22%	1.72%	2.24%
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)	13.4	9.5	6.9	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 1 December 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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