

CPIC (2601.HK)

Better-than-expected profit growth in 2015

HONG KONG | INSURANCE | COMPANY NOTE

1 February 2016

Summary

- CPIC (or the Group) maintained the strong growth in 2015. According to the latest announcement, as at the end of Dec 2015, the Group's net profit amounted to RMB17.8 billion compared with that of 2014, up 60% y-y approximately, better than our previous expectation;
- According to CIRC's records, CPIC's accumulated premiums of life insurance and P&C insurance amounted to RMB203 billion, increased by 6% y-y. The strong net profit growth was mainly benefited from the large increase of investment gains in 2015;
- Considering the Group's stable operating performance in 2015 and the current price is low, the valuation becomes attractive, and we still hold the positive view on CPIC's future performance. We decrease the 12-m TP to HK\$35.00 to reflect the current market risks, around 32% higher than the latest closing price, equivalent to 10.8xP/E and 1.7xP/B in 2016E respectively. Maintain at Buy rating. (Closing price as at 28 Jan 2016)

The strong growth of investment gains

According to CIRC's records, as at the end of Dec 2015, CPIC's accumulated premiums of life insurance and P&C insurance amounted to RMB203 billion, increased by 6% y-y. The premiums of life insurance and P&C insurance businesses increased by 5.34% y-y and 8.13% y-y to RMB4.614 billion and 9.045 billion respectively. The strong net profit growth was mainly benefited from the large increase of investment gains in 2015. By the end of 3Q, investment gains increased by 53.6% y-y to RMB43.83 billion, and we expect it should increase by around 60%-70% y-y in 2015.

According to the latest announcement, by the end of 2015, the Group's net profit amounted to RMB17.8 billion compared with that of 2014, up 60% y-y approximately, better than our previous expectation, and we will discuss it in details after the official announcement of annual results.

Risk

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

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

Buy (Maintain)

CMP: HK\$ 26.55

(Closing price as at 28 Jan 2016)

TARGET: HK\$ 35.00 (+32%)

COMPANY DATA

| | |
|------------------------|--------------|
| O/S SHARES (MN) : | 2,775 |
| MARKET CAP (HK\$ MN) : | 73,684 |
| 52 - WK HI/LO (HK\$) : | 47.10/ 24.80 |

SHARE HOLDING PATTERN, %

| | |
|---------------------------------------|-------|
| Hong Kong Securities Clearing Company | 30.59 |
| Huabao Investment | 14.17 |
| Shenergy Group | 13.52 |

PRICE PERFORMANCE, %

| | 1MTH | 3MTH | 1YR |
|------|--------|--------|--------|
| CPIC | -17.42 | -13.94 | -29.76 |
| HSI | -12.74 | -15.88 | -21.96 |

KEY FINANCIALS

Key Financial Summary

| FYE | 12/13 | 12/14 | 12/15F | 12/16F |
|---------------------------|---------|---------|---------|---------|
| Total income (RMB mn) | 176,923 | 191,805 | 203,313 | 225,678 |
| Net Profit, adj. (RMB mn) | 9,261 | 11,049 | 17,820 | 23,597 |
| EPS, adj. (RMB) | 1.02 | 1.22 | 1.97 | 2.60 |
| P/E (X) | 21.9 | 18.4 | 11.4 | 8.6 |
| BVPS (RMB) | 10.92 | 12.93 | 14.48 | 16.51 |
| P/B (X) | 2.1 | 1.7 | 1.5 | 1.4 |
| DPS (RMB) | 0.35 | 0.50 | 0.65 | 0.85 |
| Div. Yield | 1.6% | 2.2% | 2.9% | 3.8% |

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Source: Company reports, Phillip Securities Est.

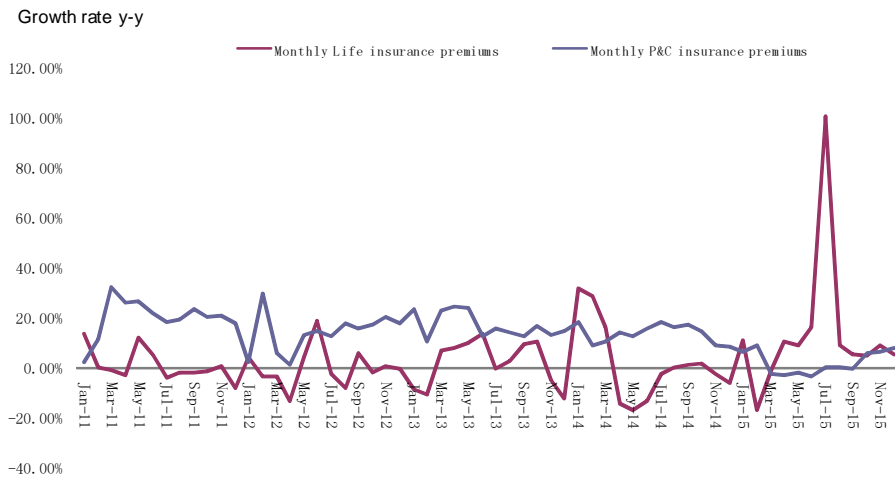
Research Analyst

Xingyu CHEN

(+ 86 21 51699400-105)

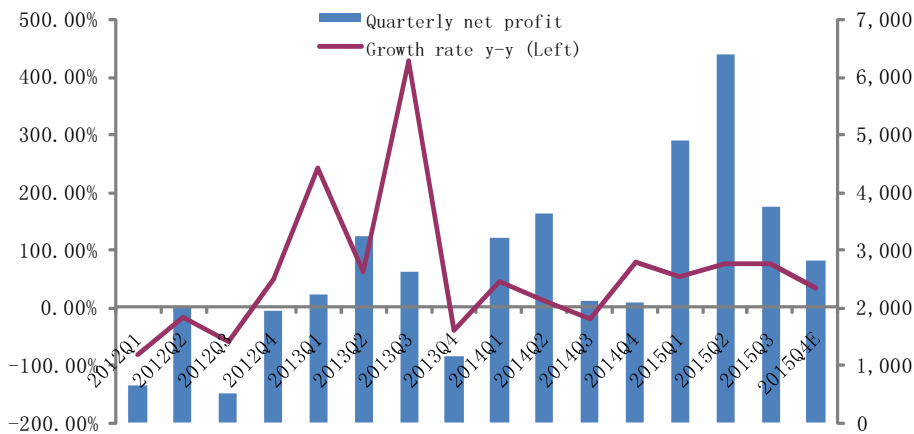
chenxingyu@phillip.com.cn

The growth of CPIC's monthly premium incomes



Source: Company, Phillip Securities (HK) Research

The growth of CPIC's quarterly net profit



Source: Company, Phillip Securities (HK) Research

Financials

| Income Statement (RMB Million) | 2012A | 2013A | 2014A | 2015E | 2016E |
|---|--------------|--------------|--------------|--------------|--------------|
| Net written premiums and police fees | 151,433 | 161,628 | 178,368 | 188,533 | 208,680 |
| Net change in unearned premiums reserves | -3,594 | -2,003 | -5,477 | -6,846 | -8,216 |
| Net premiums earned and policy fees | 147,839 | 159,625 | 172,891 | 181,686 | 200,464 |
| Investment income | 18,060 | 30,972 | 41,428 | 70,428 | 95,077 |
| Total income | 167,157 | 192,217 | 216,205 | 254,189 | 297,824 |
| Total benefits, claims and expenses | -161,044 | -180,303 | -201,727 | -231,346 | -268,452 |
| Profit before tax | 6,113 | 11,914 | 14,500 | 22,913 | 29,442 |
| Income tax | -983 | -2,519 | -3,255 | -4,883 | -5,615 |
| Income tax rate | 16.08% | 21.14% | 22.45% | 21.31% | 19.07% |
| Net profit for the period | 5,130 | 9,395 | 11,245 | 18,030 | 23,827 |
| Net profit attributable to equity holders of the parent | 5,077 | 9,261 | 11,049 | 17,820 | 23,597 |
| Minority interest | 53 | 134 | 196 | 210 | 230 |
| Items per share | 2012A | 2013A | 2014A | 2015E | 2016E |
| Basic EPS (RMB) | 0.59 | 1.02 | 1.22 | 1.97 | 2.60 |
| DPS (RMB) | 0.35 | 0.35 | 0.50 | 0.65 | 0.85 |
| BVPS (RMB) | 10.61 | 10.92 | 12.93 | 14.48 | 16.51 |
| Financial ratio | 2012A | 2013A | 2014A | 2015E | 2016E |
| Dividend payout ratio | 59.56% | 34.25% | 41.01% | 33.02% | 32.64% |
| Dividend yield | 1.56% | 1.56% | 2.23% | 2.90% | 3.80% |
| ROE | 6.02% | 9.26% | 10.22% | 14.36% | 16.80% |
| P/E (x) | 38.1 | 21.9 | 18.4 | 11.4 | 8.6 |
| P/B (x) | 2.1 | 2.1 | 1.7 | 1.5 | 1.4 |

(Financial figures as at 28 January 2016)

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2016 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005