

# Ping An Insurance

2318 HK

Target (HKD): 100.00 → 110.00

Upside: 19.4%

20 Mar price (HKD): 92.10

- 1 Buy (unchanged)
- 2 Outperform
- 3 Hold
- 4 Underperform
- 5 Sell

## Emerging gateway

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- Results briefing reaffirms our positive stance on its leading business growth and profitability
- We believe Ping An's high premium growth, productivity, and profitability is the result of its growing customer stickiness
- Reiterating Buy (1); raising target price to HKD110

### What's new

Ping An held an analyst briefing session after posting encouraging 2014 results. We are glad to see Ping An's Internet finance initiatives and cross-selling business model delivering above-peer growth in multiple traditional business lines.

### What's the impact

**Cross-selling is delivering.** We believe Ping An is aiming to become the gateway for asset and health management for Chinese residents. Products across business lines were designed and sold under this principle. In 2014, 7mn customers migrated across different business lines within Ping An. The company provides incentives for customer referrals and monitors KPIs for the number of clients, number of active clients and value of clients during migration across business lines.

**Internet finance.** Ping An's Internet finance platforms attracted nearly 70mn annual active users in 2014. In our view, at the current stage Ping An is using its Internet finance platforms to accumulate its user base rapidly, with the aim of migrating them to its traditional businesses.

**P&C profitability.** Given its sound combined ratio for 2014, management is satisfied with Ping An P&C's overall results. However, given that competition is still intense and Ping An is actively seeking to achieve high premium growth, management believes its expense ratio is likely to be on an uptrend, especially for its auto business. Management also highlighted the high profitability in its credit guarantee insurance segment and forecasts continued growth in this area.

**Investment strategy.** Ping An stated it is seeking to broaden its product breadth and intensify supervision in the management of its insurance investment portfolio. In terms of breadth, it is looking into more asset classes such as preferred shares, hedge funds, debt schemes, and mezzanine debt, domestically and overseas. In terms of supervision, it is investing in technology to improve internal credit-risk control and better hedge its positions. Additionally, it seeks to delegate more portfolios to external professional asset managers.

### What we recommend

We continue to see Ping An's conglomerate financials business model as undervalued by the market, and believe its current valuation (1.3x 2015E P/EV) discounts many risks already. We raise our 12-month SOTP-based TP to HKD110 (from HKD100) due to the higher visibility

on its high VNB growth. Our TP implies a 1.6x P/EV (group) or a 2.1x PBR for 2015E. The key risk to our call is Ping An's relatively high exposure to non-standard assets. (See our recent report for details: [Ping An: conglomerate business model undervalued](#)).

### How we differ

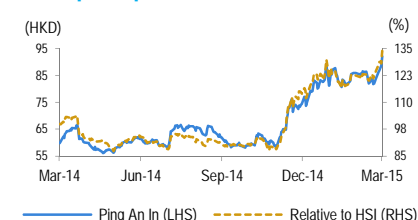
We are more confident than the market that Ping An will deliver higher-than-peers VNB and EV growth due to its effective conglomerate financial service model.

### Forecast revisions (%)

Year to 31 Dec	15E	16E	17E
Net premiums change	(0.2)	(0.3)	(0.3)
Net profit change	7.3	(0.4)	6.6
Core EPS (FD) change	7.3	(0.4)	6.6

Source: Daiwa forecasts

### Share price performance



12-month range	56.20-92.10
Market cap (USDbn)	108.48
3m avg daily turnover (USDm)	4,884.64
Shares outstanding (m)	9,140
Major shareholder	Charoen Pokphand Group (12.4%)

### Financial summary (CNY)

Year to 31 Dec	15E	16E	17E
Net premiums (m)	349,615	421,439	509,082
Net investment income (m)	78,263	92,262	102,468
Net profit (m)	50,202	57,718	59,609
Core EPS (fully-diluted)	5.496	6.315	6.522
EPS change (%)	18.0	14.9	3.3
Daiwa vs Cons. EPS (%)	6.3	7.4	10.9
PER (x)	13.4	11.6	11.3
Dividend yield (%)	0.7	0.9	0.9
DPS	0.550	0.631	0.652
PBR (x)	1.8	1.4	1.3
ROE (%)	15.1	13.6	11.8

Source: FactSet, Daiwa forecasts

**■ Ping An: P&L summary**

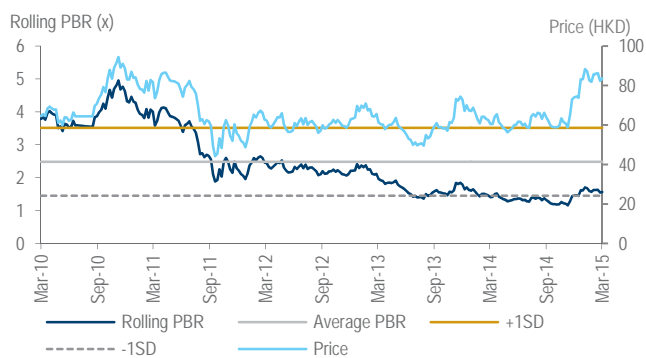
P&L summary (CNY m)	2014	2013	YoY
NEP & policy fees	288,779	240,199	20.2%
Investment Income	71,538	55,583	28.7%
Other Income	169,703	125,439	35.3%
<b>Operating Income</b>	<b>530,020</b>	<b>421,221</b>	<b>25.8%</b>
Commission expenses	(34,941)	(25,390)	37.6%
G&A expenses	(102,565)	(81,753)	25.5%
Total operating and other expenses	(467,667)	(374,997)	24.7%
<b>Profit before tax</b>	<b>62,353</b>	<b>46,224</b>	<b>34.9%</b>
Income tax	(14,423)	(10,210)	41.3%
<b>Net profit</b>	<b>47,930</b>	<b>36,014</b>	<b>33.1%</b>
Minority interests	(8,651)	(7,860)	10.1%
<b>Net profit to shareholders</b>	<b>39,279</b>	<b>28,154</b>	<b>39.5%</b>

Source: Company

**■ Ping An: key ratios**

Key ratios	2014	2013	YoY
Net earned premium (NEP) growth (%)	20.2%	12.7%	+7.5ppt
Net investment yield (%)	5.3%	5.1%	+0.2ppt
Total investment yield (%)	5.1%	5.1%	-
Commission expenses/NEP (%)	12.1%	10.6%	+1.5ppt
G&A expenses/NEP (%)	35.5%	34.0%	+1.5ppt
ROA (%)	1.1%	0.9%	+0.2ppt
ROE (%)	18.3%	16.4%	+1.9ppt

Source: Company, Daiwa estimates

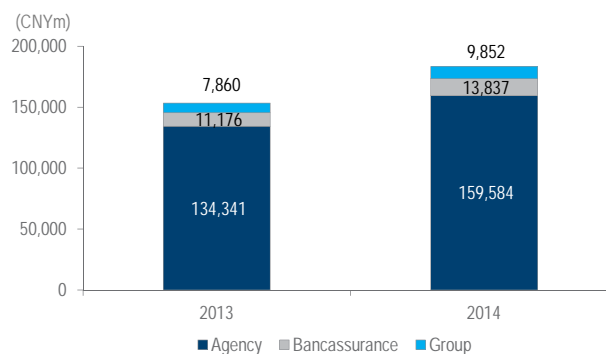
**■ Ping An: 12-month forward PBR and share price**


Source: Company, Daiwa

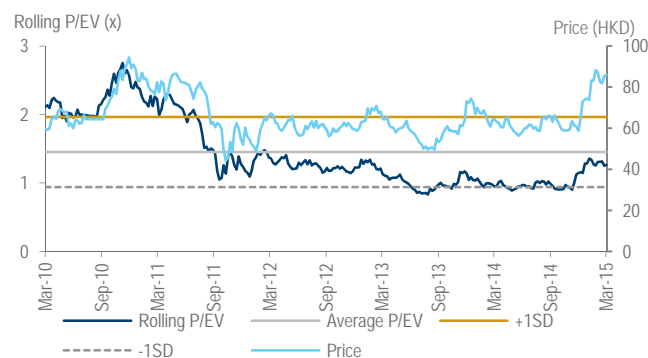
**■ Ping An: balance sheet and investment portfolio summary**

Balance sheet and investment portfolio summary (CNY m)	2014	2013	YoY
Total assets	4,005,911	3,360,312	19.2%
Total liability	3,652,095	3,120,607	17.0%
Shareholders' equity	289,564	182,709	58.5%

Source: Company

**■ Ping An: premium income composition**


Source: Company

**■ Ping An: 12-month forward P/EV and share price**


Source: Company, Daiwa

## Financial summary

### ■ Key assumptions

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Life premium growth (%)	89.4	28.1	8.7	13.7	19.5	23.5	24.5	24.5
VNB growth (%)	31.4	8.5	(5.4)	14.1	20.9	22.4	22.1	21.0
P&C premium growth (%)	61.2	33.9	18.4	16.7	23.8	18.1	13.9	14.0
Combined ratio (%)	93.2	93.5	95.3	97.3	95.3	95.8	96.4	96.4
Investment assets growth (%)	29.1	32.2	29.7	17.2	5.8	18.0	16.0	10.0
Net investment yield - Group	4.2	4.5	4.7	5.1	5.3	4.3	4.3	4.3
Embedded value growth (%)	29.5	17.2	21.3	15.3	39.2	15.6	16.1	17.2
Solvency ratio - Group (%)	198	167	186	174	205	163	177	170
Payout ratio (%)	24.3	16.3	17.8	14.1	14.1	10.0	10.0	10.0

### ■ Profit and loss (CNYm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Net written prem. & policy fees	151,203	196,832	221,089	248,017	301,763	365,911	440,111	530,503
Net earned premiums	141,124	186,662	213,144	240,199	288,779	349,615	421,439	509,082
Net claims incurred	(115,077)	(145,764)	(165,994)	(198,002)	(228,326)	(267,307)	(319,075)	(381,273)
Deferred policy acq. cost amort.	0	0	0	0	0	0	0	0
Underwriting & policy acq. cost	(14,545)	(17,767)	(20,437)	(25,390)	(34,941)	(46,419)	(55,758)	(67,003)
G&A expenses	(34,385)	(50,575)	(68,477)	(81,753)	(102,565)	(110,729)	(129,698)	(152,052)
P'holders' div. & profit particip.	0	0	0	0	0	0	0	0
Other underwriting inc./(exp.)	2,544	2,829	5,626	6,675	5,427	(3,138)	(10,207)	(18,903)
Underwriting profit/(loss)	(20,339)	(24,615)	(36,138)	(58,271)	(71,626)	(77,978)	(93,298)	(110,149)
Net investment inc./(exp.)	25,972	34,285	41,598	54,310	70,337	78,263	92,262	102,468
Net realised & unrealised gains/(losses) on inv.	5,111	(5,020)	(14,220)	1,273	1,201	11,484	13,746	14,793
<b>Associates' profits</b>	<b>1,465</b>	<b>1,068</b>	<b>(46)</b>	<b>(264)</b>	<b>(62)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other inc./(expenses)	(730)	(2,138)	(2,793)	(7,090)	(14,805)	(16,989)	(21,157)	(26,362)
<b>Profit before tax</b>	<b>22,347</b>	<b>30,026</b>	<b>32,338</b>	<b>46,224</b>	<b>62,353</b>	<b>80,246</b>	<b>92,261</b>	<b>95,282</b>
Tax	(4,409)	(7,444)	(5,588)	(10,210)	(14,423)	(16,049)	(18,452)	(19,056)
Min. int./pref. div./others	(627)	(3,107)	(6,700)	(7,860)	(8,651)	(13,995)	(16,090)	(16,617)
<b>Net profit (reported)</b>	<b>17,311</b>	<b>19,475</b>	<b>20,050</b>	<b>28,154</b>	<b>39,279</b>	<b>50,202</b>	<b>57,718</b>	<b>59,609</b>
<b>Net profit (adjusted)</b>	<b>17,311</b>	<b>19,475</b>	<b>20,050</b>	<b>28,154</b>	<b>39,279</b>	<b>50,202</b>	<b>57,718</b>	<b>59,609</b>
<b>EPS (reported) (CNY)</b>	<b>2.265</b>	<b>2.503</b>	<b>2.533</b>	<b>3.557</b>	<b>4.674</b>	<b>5.496</b>	<b>6.315</b>	<b>6.522</b>
<b>EPS (adjusted) (CNY)</b>	<b>2.265</b>	<b>2.503</b>	<b>2.533</b>	<b>3.557</b>	<b>4.674</b>	<b>5.496</b>	<b>6.315</b>	<b>6.522</b>
<b>EPS (adjusted, fully-diluted) (CNY)</b>	<b>2.265</b>	<b>2.503</b>	<b>2.533</b>	<b>3.545</b>	<b>4.659</b>	<b>5.496</b>	<b>6.315</b>	<b>6.522</b>
<b>DPS (CNY)</b>	<b>0.550</b>	<b>0.407</b>	<b>0.450</b>	<b>0.500</b>	<b>0.659</b>	<b>0.550</b>	<b>0.631</b>	<b>0.652</b>
<b>EV/share (CNY)</b>	<b>26.293</b>	<b>29.766</b>	<b>36.113</b>	<b>41.644</b>	<b>51.598</b>	<b>58.072</b>	<b>67.358</b>	<b>n.a.</b>

### ■ Change (YoY %) and margins (%)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Gross premium growth	42.0	30.4	12.6	15.0	21.3	21.1	20.0	20.2
Net premium growth	40.6	32.3	14.2	12.7	20.2	21.1	20.5	20.8
Net claims incurred	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Underwriting profit/(loss)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net investment income	36.2	32.0	21.3	30.6	29.5	11.3	17.9	11.1
Net profit (reported)	24.7	12.5	3.0	40.4	39.5	27.8	15.0	3.3
Net profit (adjusted)	24.7	12.5	3.0	40.4	39.5	27.8	15.0	3.3
EPS (reported)	19.8	10.5	1.2	40.4	31.4	17.6	14.9	3.3
EPS (adjusted)	19.8	10.5	1.2	40.4	31.4	17.6	14.9	3.3
EPS (adjusted, fully-diluted)	19.8	10.5	1.2	40.0	31.4	18.0	14.9	3.3
DPS	19.0	(26.0)	10.6	11.1	31.9	(16.6)	14.9	3.3
EV/share	24.4	13.2	21.3	15.3	23.9	12.5	16.0	n.a.
Underwriting margin (%)	(14.4)	(13.2)	(17.0)	(24.3)	(24.8)	(22.3)	(22.1)	(21.6)
PBT margin (%)	15.8	16.1	15.2	19.2	21.6	23.0	21.9	18.7
Net-profit margin (%)	12.3	10.4	9.4	11.7	13.6	14.4	13.7	11.7

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### ■ Balance sheet (CNYm)

As at 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Cash & bank balances	118,928	285,500	480,103	410,208	538,992	384,408	425,207	467,727
Total investment	775,390	1,043,104	1,449,577	1,813,646	2,045,128	1,926,032	2,234,197	2,457,616
Loans and advances	131,960	611,731	709,402	861,770	1,053,882	1,243,581	1,417,682	1,616,158
Deferred acquisition costs	0	0	0	0	0	0	0	0
Investment in associates	39,601	11,837	9,960	12,081	12,898	14,188	15,607	17,167
Net fixed assets	8,170	16,027	17,539	18,873	28,341	31,175	34,293	37,722
Goodwill & other intangibles	9,902	33,584	37,536	43,896	43,032	45,184	47,443	49,815
Assets under management	0	0	0	0	0	0	0	0
Reins. recov. on unpaid losses	6,178	7,892	9,341	13,839	15,587	18,908	21,933	24,784
Receivables	50,789	220,374	65,095	73,605	130,881	95,829	114,715	137,455
Other assets	30,709	55,375	65,713	112,394	137,170	967,672	1,172,216	1,387,674
<b>Total assets</b>	<b>1,171,627</b>	<b>2,285,424</b>	<b>2,844,266</b>	<b>3,360,312</b>	<b>4,005,911</b>	<b>4,726,975</b>	<b>5,483,291</b>	<b>6,196,119</b>
Customer deposits	214,785	1,031,744	1,407,251	1,700,981	1,966,601	2,087,739	2,217,214	2,355,672
Technical reserves	639,096	748,927	866,461	1,007,578	1,171,022	1,311,686	1,485,157	1,704,657
Unearned premium reserves	30,842	42,288	50,801	60,987	74,124	88,565	143,175	194,851
Payables	34,189	45,953	59,974	79,591	94,333	106,967	126,444	147,890
Borrowing	7,540	24,638	36,795	54,757	81,232	70,977	70,977	70,977
Other liabilities	128,292	220,532	213,335	216,713	264,783	607,017	870,927	1,078,653
<b>Total liabilities</b>	<b>1,054,744</b>	<b>2,114,082</b>	<b>2,634,617</b>	<b>3,120,607</b>	<b>3,652,095</b>	<b>4,272,951</b>	<b>4,913,894</b>	<b>5,552,700</b>
Share capital	7,644	7,916	7,916	7,916	8,892	9,140	9,140	9,140
Reserves & others	104,386	122,951	151,701	174,793	280,672	366,637	465,920	523,324
<b>Shareholders' equity</b>	<b>112,030</b>	<b>130,867</b>	<b>159,617</b>	<b>182,709</b>	<b>289,564</b>	<b>375,777</b>	<b>475,060</b>	<b>532,464</b>
Minority interests	4,853	40,475	50,032	56,996	64,252	78,247	94,337	110,954
<b>Total equity &amp; liabilities</b>	<b>1,171,627</b>	<b>2,285,424</b>	<b>2,844,266</b>	<b>3,360,312</b>	<b>4,005,911</b>	<b>4,726,975</b>	<b>5,483,291</b>	<b>6,196,119</b>

### ■ Key ratios (%)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
ROAE (adjusted)	17.6	16.0	13.8	16.4	16.6	15.1	13.6	11.8
Net earned premium/equity	126.0	142.6	133.5	131.5	99.7	93.0	88.7	95.6
Total investment return	4.9	4.0	2.9	5.1	5.1	4.9	5.0	4.9
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	19.7	24.8	17.3	22.1	23.1	20.0	20.0	20.0
Dividend payout	24.3	16.3	17.8	14.1	14.1	10.0	10.0	10.0

Source: FactSet, Daiwa forecasts

### ■ Company profile

Ping An Insurance is a diversified financial group, with life and non-life insurance businesses, a bank subsidiary, and a few diversified financial subsidiaries. The company was founded in 1988 as a P&C insurance company, shifted its focus to life insurance in 1994, and was listed in 2004. Ping An is China's second-largest life and non-life insurer based on total premiums, with market shares of 13.7% and 18.9%, respectively, for 2014.

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