

Analyst: Paul Sham
PING AN INSURANCE (GROUP) COMPANY OF CHINA, LTD. (中國平安)

| | | | |
|-----------------|--|---------------------------|------------------|
| Sector | : Insurance | Chairman & CEO | : Mr. Ma Mingzhe |
| HKSE Code | : 02318 | | |
| Market Price | : HK\$93.45 (23/03/2015) | Vice Chairman & Executive | : Mr. Sun Jian |
| Shares Issued | : 3,724m (H shares) | Deputy General Manager | |
| Mkt. Cap. | : HK\$348,008m (H shares) | | |
| 52 weeks Hi/ Lo | : HK\$93.40/ HK\$55.60 | | |
| HSI / HSCEI | : 24,494.51 / 12,177.82 (23/03/2015) | | |
| Main Business | : Life and non-life insurance businesses | | |

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2014
Final Results Highlights

| | FY2014 | FY2013 | Change |
|---|--------------------|--------------------|---------------|
| | RMB million | RMB million | |
| Gross written premiums and policy fees | 326,423 | 269,051 | +21.3% |
| Net earned premiums | 288,779 | 240,199 | +20.2% |
| Reinsurance commission income | 7,963 | 6,584 | +20.9% |
| Income from banking operations | 119,422 | 93,291 | +28.0% |
| Fees and commission from non-insurance operations | 25,643 | 15,815 | +62.1% |
| Investment income | 71,538 | 55,583 | +28.7% |
| Share of profits of associates & other income | 16,675 | 9,749 | +71.0% |
| Total income | 530,020 | 421,221 | +25.8% |
| Total expenses | (467,667) | (374,997) | +24.7% |
| Profit before taxation | 62,353 | 46,224 | +34.9% |
| Net profit | 47,930 | 36,014 | +33.1% |
| Profit attributable to equity holders | 39,279 | 28,154 | +39.5% |
| Basic EPS (RMB) | 4.93 | 3.56 | +38.5% |
| Final DPS (RMB) | 0.50 | 0.45 | +11.1% |
| Total DPS (RMB) | 0.75 | 0.65 | +15.4% |

- Ping An Insurance (Ping An) reported FY14 net profit of RMB39,279m, up 39.5% y-o-y, slightly lower than the market estimates of RMB40,782m. Earnings grew strongly across all operations (+28.4% in Life, +50.4% in P&C, +28.5% in Banking and 81.2% in Securities) on the back of improving operating trends and strong investment performance.
- Ping An's group-level solvency ratio increased notably by 30.7ppts y-o-y to 205.1% in 2014 due to the placement of H shares and strong stock market performance. The solvency ratio of Ping An Life also recorded an increase of 48ppts to 219.9%, which primarily attributable to the combined effect from the successful issuance of RMB8bn subordinated bonds and the recovery of capital markets. Nevertheless, the solvency ratio of Ping An P&C fell slight mainly due to dividend distribution to Ping An (Group) and business development.
- Ping An raised its total dividend by 15.4% y-o-y to RMB0.75 per share, representing a slightly lower dividend payout ratio of 15.2% (vs 18.3% in 2013). The Company also proposed issuance of 10-for-10 bonus shares, the first time in 10 years since its listing.

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**Business Review***Breakdown of net profit before minority interests by business segments:*

| (RMB million) | FY2014 | | FY2013 | | Change |
|---|---------------|---------------|---------------|---------------|---------------|
| Life insurance | 15,689 | 32.7% | 12,219 | 33.9% | +28.4% |
| P&C insurance | 8,807 | 18.4% | 5,856 | 16.3% | +50.4% |
| Banking | 19,147 | 39.9% | 14,904 | 41.4% | +28.5% |
| Securities | 924 | 1.9% | 510 | 1.4% | +81.2% |
| Trust | 2,199 | 4.6% | 1,962 | 5.4% | +12.1% |
| Other businesses and offsetted items | 1,164 | 2.4% | 563 | 1.6% | +106.7% |
| Total net profit before minority interests | 47,930 | 100.0% | 36,014 | 100.0% | +33.1% |

Breakdown of first-year premiums and value of new business by products in life insurance segment:

| (RMB million) | First-year premium | | | Value of one year's new business | | |
|----------------------|--------------------|---------------|---------------|----------------------------------|---------------|---------------|
| | FY2014 | FY2013 | Change | FY2014 | FY2013 | Change |
| Individual | 46,731 | 38,680 | +20.8% | 20,800 | 16,860 | +23.4% |
| Group | 17,090 | 13,707 | +24.7% | 863 | 837 | +3.1% |
| Bancassurance | 8,382 | 6,647 | +26.1% | 303 | 466 | -35.0% |
| Total | 72,203 | 59,034 | +22.3% | 21,966 | 18,163 | +20.9% |
| New business margin: | | | | 30.4% | 30.8% | |

- Ping An's **life insurance segment** recorded a 22.3% y-o-y increase in first-year premiums in FY14 and its value of new business (VNB) was up 20.9% y-o-y, reflecting stable business margin (30.4% in 2014 vs 30.8% in 2013) for Ping An's life insurance products. There was an 20.8% increase in first-year premiums for individual life insurance to RMB46,731m in 2014, mainly due to the increase in the number of individual life insurance sales agents (+14.1% y-o-y) and the rise in productivity per agent (+5.9% y-o-y). On the other hand, despite strong first-year premium growth in both group life and bancassurance business, their respective VNB recorded 3.1% y-o-y increase and 35.0% y-o-y decline during FY14 as most of the business increases were in the low-margin single-pay policies. In respect of market share, Ping An's life premium saw a slight improvement to 13.7% at end-2014, from 13.6% a year earlier.

Breakdown of gross written premiums by products within the P&C insurance segment:

| (RMB million) | FY2014 | % | FY2013 | % | Change |
|-------------------------------------|----------------|---------------|----------------|---------------|---------------|
| Automobile | 110,667 | 77.3% | 90,091 | 77.9% | +22.8% |
| Non-automobile | 29,257 | 20.4% | 22,850 | 19.8% | +28.0% |
| Accident and health | 3,226 | 2.3% | 2,733 | 2.3% | +18.0% |
| Subtotal (P&C insurance) | 143,150 | 100.0% | 115,674 | 100.0% | +23.8% |

- P&C insurance segment** recorded a premium income of RMB143,150m in FY14, representing a y-o-y increase of 23.8%. Premium income from automobile insurance was RMB110,667m in 2014, representing an increase of 22.8% from RMB90,091m in 2012, on the back of rapid growth in premium income from the cross-selling and telemarketing channels. Improved combined ratio was the highlight in the P&C segment, which improved to 95.3% for FY14 versus 97.3% for FY13, thanks to the 2.7ppts reduction in loss ratio amid lower claims costs. Ping An's P&C market share was 18.9% (vs 17.8% in 2013), maintaining its second-largest position in the PRC.

Operating results of Ping An's banking operations:

| (RMB million) | FY2014 | FY2013 | Change |
|---|---------------|---------------|---------------|
| Net interest income | 53,026 | 40,894 | +29.7% |
| Non-interest income | 20,080 | 11,610 | +73.0% |
| Total operating income | 73,106 | 52,504 | +39.2% |
| Operating expenses | (33,154) | (26,186) | +26.6% |
| Loan impairment charges | (14,614) | (6,675) | +118.9% |
| Income tax | (6,191) | (4,739) | +30.6% |
| Net profit from banking operations | 19,147 | 14,904 | +28.5% |

- The **banking business** delivered strong growth of 28.5% in net profit during FY14, mainly due to the 73.0% y-o-y jump in net fee income as well as 29.7% y-o-y growth in net interest income. NPL ratio rose slightly by 13bps to 1.02% at end-2014, compared with 0.89% at end-2013, but special mention loans surged by 1.0x y-o-y due to the macro slowdown. Capital position remained relatively weak among its banking peers in the PRC, with core Tier 1 CAR at 8.64% and total CAR at 10.86% at end-2014.

Breakdown of investment income:

| (RMB million) | FY2014 | FY2013 | Change |
|--|---------------|---------------|---------------|
| Net investment income | 70,337 | 54,310 | +29.5% |
| Net realized and unrealized gains (losses) | 10,486 | 2,892 | +262.6% |
| Impairment losses | (9,285) | (1,619) | +473.5% |
| Total investment income | 71,538 | 55,583 | +28.7% |

- Total Investment income** of Ping An was RMB71,538m in FY14, 28.7% higher than that of FY13. Net investment income increased to RMB70,337m, up 29.5% y-o-y, as a result of the growth in scale of its investment assets and higher interest rates of newly-added fixed maturity investments. Net realized and unrealized gains also jumped 263% y-o-y on the back of strong domestic stock market performance in 2014. Nevertheless, the 4.7x y-o-y increase in impairment losses, arising from the weakness of A-share markets in early 2014, dragged the overall investment performance.

Outlook & Prospects

- Life business supported by outstanding agency channel** Ping An's VNB rose 20.9% y-o-y in FY14, likely the fastest pace among peers in 2014. The quality of new business growth was high as overall VNB growth was driven by a skew towards high-margin protection products via the agent channel. We believe Ping An's life business will expand further in 2015 as Ping An Life made a strong start to FY15. It was reported that Ping An's agency premium in January 2015 was 28% higher than its agency premium a year ago. On the other hand, we believe Ping An should be better positioned among life peers as its smaller bancassurance portfolio prevents Ping An from being dragged by the shrinking bancassurance market.
- Deteriorating asset quality in banking segment** Ping An Bank continued to be a key earnings source in FY14, accounting for 40% of Ping An's total net profit. However, PAB's outlook is a bit worrisome due to the deteriorating asset quality. Its special mentioned loan increased to 3.6% of its total loan, up from 2.1% in 2013. The low NPL coverage ratio of 200.9% is another concern as all H-share listed banks reported average coverage ratios of 268%.
- Solvency ratio now solid** Ping An's solvency ratio improved notably to 205.1% at end-2014, from 174% at end-2013, on the back of the H-share placement during FY14 which raised HK\$36,831m. Although the ratio is still lower than CPIC's 275% and China Life's 241%, capital concern should be temporarily eased.
- Valuation** Despite the recent market rally and Ping An's leading insurance franchise among the large-cap life stocks, its 1.3x FY15 P/EV remains at a 20% discount to China Life and CPIC, which is unjustified. Although issues on asset quality and inadequate solvency ratios would remain the medium-term drag on the share prices, we believe its sector leading insurance fundamentals (both for life and P&C) outweigh asset quality concerns, taking in account of further monetary easing in China. We believe the current valuation of Ping An looks inexpensive and we recommend "Buy" rating on the counter.

Recommendation: Buy

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