

EARNINGS REVIEW

**China Taiping Insurance Holdings (0966.HK)**

Neutral

Equity Research

**In line with expectations, still balancing between scale and margin**

**What surprised us**

Taiping reported largely in-line 2014 Embedded Value (EV) and New Business Value (NBV), while NPAT was 5% higher partly due to restating for the on-going group restructuring. Group EV to owners was HK\$62.4bn (+66% yoy, including HK\$6.4bn rights issues and HK\$4.7bn subordinated capital), Life NBV was HK\$4.3bn (+37%). **NBV growth** was led by the agency channel, now accounting for 98.5% of total NBV. We note a slight margin slip in agency (34pp to 33pp), which may have been driven by the rapid expansion of volume and agency force. Agency force grew 19% to 134K people, with a 2015 target of 170K people (+27% yoy). Taiping **targets** to achieve above-peer growth in both volume and NBV. We think that is possible at least in 2015, as new hires are typically the most productive in the first 7-9 months before they start to churn. We note that for mid-sized insurers, scale expansion is sometimes necessary but the challenge is with quality control, sustainability, and capital consumption for expansion (the last is less of an issue as long as debt/equity holders are willing to fund such growth). We asked Taiping about the **reallocation of life EV**: Adjusted Net Worth (ANW) in 2013 was restated to Rmb15bn from Rmb7bn (with total EV unchanged), subsequently lifting 2014 ANW. This is important because ANW is the closest indicator of a life insurance company's tangible capital and restating it is rare. Taiping explained that its previous method reflect 100% fair value movement for HTM assets in ANW, which is far from reality as for participating products a large portion of the movement goes to policyholders not shareholders. We recognize the logic behind the change.

**What to do with the stock**

We maintain our Neutral rating and 12m SOTP target price of HK\$24.5. Upside risk: significant margin improvement; Downside risk: sharp decline in investment return; capital strain.

**CTIH 2014 results snapshot**

NBV yoy growth	37%	EV yoy growth	66%	NPAT yoy growth	164%
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Source: Company data

**INVESTMENT LIST MEMBERSHIP**

Neutral

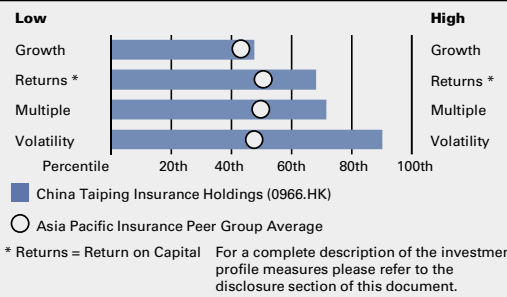
**Coverage View: Neutral**

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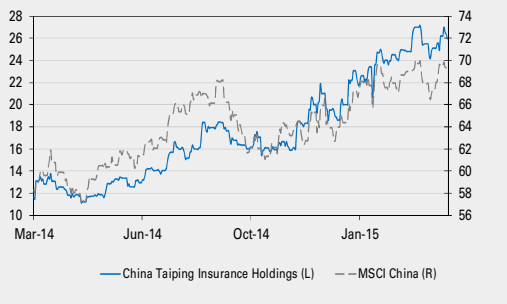
**Investment Profile**



Key data	Current
Price (HK\$)	25.95
12 month price target (HK\$)	24.50
Market cap (HK\$ mn / US\$ mn)	80,653.1 / 10,399.6
Foreign ownership (%)	--

	12/13	12/14E	12/15E	12/16E
EPS (HK\$)	0.78	1.39	1.53	1.64
EPS growth (%)	0.4	78.7	10.5	6.9
P/B (X)	1.3	2.1	1.8	1.6
P/E (X)	16.3	18.7	16.9	15.9
P/EVPS (X)	0.8	1.3	1.2	1.0
Dividend yield (%)	0.0	0.0	0.0	0.0
EVPS growth (%)	5.8	26.1	14.6	14.2
ROEV (%)	4.9	8.4	7.7	6.9
ROA (%)	0.5	1.0	1.1	1.0
ROE (%)	8.5	14.7	13.6	12.6

**Price performance chart**



Share price performance (%)	3 month	6 month	12 month
Absolute	29.8	58.8	123.6
Rel. to MSCI China	20.5	46.2	85.9

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/26/2015 close.

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# China Taiping Insurance Holdings: Summary Financials

Profit model (HK\$ mn)	12/13	12/14E	12/15E	12/16E	Balance sheet (HK\$ mn)	12/13	12/14E	12/15E	12/16E
<b>Net premiums earned (NEP)</b>	<b>79,738.1</b>	<b>61,140.4</b>	<b>110,663.9</b>	<b>131,979.7</b>	<b>Total investment assets</b>	<b>208,908.1</b>	<b>275,589.0</b>	<b>314,974.2</b>	<b>347,259.0</b>
Risk: Benefits and claims	(66,953.6)	(46,773.8)	(90,883.2)	(108,036.3)	Premiums receivable	0.0	0.0	0.0	0.0
Increase in life reserves	--	--	--	--	Deferred policy acquisition costs	0.0	0.0	0.0	0.0
Net commissions expensed	(1,919.6)	(2,760.8)	(3,311.3)	(3,853.8)	Fixed assets	5,856.1	6,787.8	8,213.3	9,938.1
SGA	13,733.7	15,860.7	18,515.1	21,881.5	Separate account	2,778.0	2,734.8	3,309.1	4,004.0
<b>Underwriting profit</b>	<b>(7,755.6)</b>	<b>(10,847.1)</b>	<b>(16,013.8)</b>	<b>(18,596.6)</b>	Others	97,473.9	136,921.7	155,850.6	179,237.8
Investment income	9,941.3	15,685.1	15,462.3	17,259.8	<b>Total assets</b>	<b>315,016.2</b>	<b>422,033.2</b>	<b>482,347.1</b>	<b>540,438.9</b>
Other income	371.1	1,131.6	8,231.4	9,477.4	Unearned premium reserves	8,011.4	10,279.7	11,510.3	13,226.3
<b>Pretax profit</b>	<b>2,556.8</b>	<b>5,969.6</b>	<b>7,679.8</b>	<b>8,140.6</b>	Policyholders' reserves	188,531.6	227,277.5	279,376.8	341,164.8
Tax and minority interest	1,026.7	2,133.0	2,921.3	3,053.6	Separate account	2,778.0	2,734.8	3,309.1	4,004.0
<b>Net profit</b>	<b>1,530.1</b>	<b>3,836.6</b>	<b>4,758.6</b>	<b>5,087.0</b>	Other liabilities	91,844.2	143,195.3	143,249.3	130,389.6
<b>Factors driving earnings growth (%)</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>Total liabilities</b>	<b>291,165.3</b>	<b>383,487.3</b>	<b>437,445.4</b>	<b>488,784.7</b>
Net premiums earned growth	42.1	(23.3)	81.0	19.3	<b>Total equity</b>	<b>23,850.8</b>	<b>38,545.9</b>	<b>44,901.7</b>	<b>51,654.2</b>
Investment income growth	69.6	57.8	(1.4)	11.6	<b>DuPont analysis (% of avg assets)</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>
Investment asset growth	23.5	31.9	14.3	10.3	ROAE	8.5	14.7	13.6	12.6
Pretax growth	46.1	133.5	28.6	6.0	x Leverage (X)	6.4	7.1	7.7	7.9
Net profit growth	16.3	150.7	24.0	6.9	ROAA	0.5	1.0	1.1	1.0
<b>Operating ratio for group (%)</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	Net earned premiums	28.1	16.6	24.5	25.8
Risk + inv benefits/NEP	(84.0)	(76.5)	(82.1)	(81.9)	Policyholder risk + inv benefit	(23.6)	(12.7)	(20.1)	(21.1)
SG&A + net commission exp./NEP	(2.4)	(4.5)	(3.0)	(2.9)	Increase in life reserves	(15.6)	(10.5)	(11.5)	(12.1)
Underwriting profit/NEP	(9.7)	(17.7)	(14.5)	(14.1)	Amortization of DAC	NM	NM	NM	NM
Investment yield (ex cash yield)	5.3	6.5	5.2	5.2	SGA	4.8	4.3	4.1	4.3
Pretax margin	3.2	9.8	6.9	6.2	Underwriting profit	(2.7)	(2.9)	(3.5)	(3.6)
Tax rate	(13.5)	(24.3)	(23.8)	(23.9)	Investment income	3.5	4.3	3.4	3.4
<b>Operating ratios p&amp;c (%)</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	Other income	0.1	0.3	1.8	1.9
Net reserves/claims paid	--	--	--	--	Pretax profit	0.9	1.6	1.7	1.6
Net reserves/earned premiums	--	--	--	--	Tax	0.4	0.6	0.6	0.6
Expense ratio	31.6	28.5	29.2	29.7	Net profit	0.5	1.0	1.1	1.0
Loss ratio	55.6	57.5	57.4	57.0	<b>Valuation</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>
Combined ratio	99.9	100.5	101.3	101.5	P/E basic (X)	16.3	18.7	16.9	15.9
<b>Operating ratios life (%)</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	P/B (X)	1.3	2.1	1.8	1.6
Expense ratio	97.9	91.2	93.6	94.1	P/EV (X)	0.8	1.3	1.2	1.0
Pretax margins	3.2	9.8	6.9	6.2	EPS, basic (HK\$)	0.78	1.39	1.53	1.64
Fixed assets/total assets	1.9	1.6	1.7	1.8	BVPS (HK\$)	8.17	10.41	12.07	13.84
					EVPS (HK\$)	15.40	19.42	22.26	25.43
					DPS (HK\$)	0.00	0.00	0.00	0.00
					Dividend yield (%)	0.0	0.0	0.0	0.0
					Dividend payout (%)	0.0	0.0	0.0	0.0

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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**Exhibit 1: Taiping reported largely in-line 2014 EV and NBV, while NPAT was 5% higher; Group EV to owners was HK\$62.4bn (+66%); Life NBV was HK\$4.3bn (+37%).**  
 CTIH 2014 annual results review

HKD mn	Half year								Full year					
	1H13	2H13	1H14	Actual 2H14	GS Est. 2H14E	Actual vs. GSE	Growth		2013	Restated 2013	Actual 2014	GS Est. 2014E	Actual vs. GSE	Growth YoY
							HoH	Actual YoY						
<b>PROFIT MODEL</b>														
Gross premiums written and policy fees	50,557	34,999	65,366	46,236	39,267	18%	-29%	32%	85,556	86,373	111,603	104,634	7%	30.4%
Net earned premiums and policy fees	47,710	33,220	43,255	23,459	20,355	15%	-46%	-29%	80,931	81,493	66,714	63,610	5%	-17.6%
Total investment income	4,707	6,419	7,788	9,866	9,051	9%	27%	54%	11,126	11,492	17,654	16,838	5%	58.7%
Profit/(loss) after taxation	739	1,472	2,371	2,503	2,151	16%	6%	70%	2,211	2,340	4,874	4,522	8%	120.4%
Owners of the Company	518	1,012	1,933	2,109	1,904	11%	9%	108%	1,530	1,653	4,042	3,837	5%	164.2%
EPS (HK\$)	0.346	0.429	0.759	0.683	0.63	9%	-10%	59%	0.775	0.748	1,442	1,386	4%	86%
DPS (Rmb)	-	-	-	-	-	0	NM	NM	-	-	-	-	0	NM
Total assets	274,997	315,016	377,903	443,549	422,033	5%	17%	41%	315,016	318,542	443,549	422,033	5%	41%
Total shareholder's equity	14,175	19,847	23,672	32,370	32,370	0%	37%	63%	19,847	21,421	35,993	32,370	11%	81%
Total equity	23,397	23,851	29,473	51,339	38,546	33%	74%	115%	23,851	25,458	51,339	38,546	33%	115%
Total equity (excl. perpetual subordinated capital securities, apples-to-apples)	23,397	23,851	29,473	46,631	38,546	21%	58%	96%	23,851	25,458	46,631	38,546	21%	96%
<b>Group key ratios</b>														
Operating expenses / total premiums	-8.3%	-11.0%	-9.5%	-10.2%	-10.3%	0.2%	-0.7%	0.9%	-9.4%	-9.4%	-9.8%	-9.8%	0.0%	-0.4%
Total benefit payouts / total premiums	-19.3%	-32.7%	-23.7%	-40.1%	-21.3%	-18.7%	-16.4%	-7.3%	-24.8%	-24.9%	-30.5%	-22.8%	-7.7%	-5.7%
Change in insurance contract liabilities / total premiums	-61.8%	-43.5%	-28.3%	9.0%	-15.4%	24.4%	37.4%	52.5%	-54.3%	-53.8%	-12.9%	-23.5%	10.6%	41.4%
Underwriting profit / total premiums	-7.4%	-13.7%	-7.3%	-13.5%	119.5%	-133.0%	-6.2%	0.2%	-9.9%	-9.8%	-9.8%	132.0%	-141.9%	0.1%
Effective tax rate	-17.3%	-11.5%	-25.5%	-27.1%	-22.9%	-4.2%	-1.6%	-15.6%	-13.5%	-13.8%	-26.3%	-24.3%	-2.0%	-12.8%
ROA	0.6%	1.0%	1.4%	1.2%	1.1%	0.1%	-0.1%	0.2%	0.8%	0.8%	1.3%	1.2%	0.1%	0.5%
ROE	6.3%	12.5%	17.8%	12.4%	12.6%	-0.3%	-5.4%	-0.1%	9.4%	9.6%	13.0%	14.5%	-1.5%	3.6%
<b>Net investment income</b>	<b>4,667</b>	<b>5,455</b>	<b>6,271</b>	<b>7,823</b>	<b>6,542</b>	<b>20%</b>	<b>25%</b>	<b>NM</b>	<b>10,122</b>	<b>10,612</b>	<b>14,095</b>	<b>12,814</b>	<b>10%</b>	<b>39.2%</b>
<b>Total investment income</b>	<b>4,707</b>	<b>6,419</b>	<b>7,788</b>	<b>9,866</b>	<b>9,051</b>	<b>9%</b>	<b>27%</b>	<b>54%</b>	<b>11,126</b>	<b>11,634</b>	<b>17,654</b>	<b>16,838</b>	<b>5%</b>	<b>58.7%</b>
<b>Investment yield</b>														
Net investment yield	4.6%	4.8%	4.9%	5.3%	4.5%	0.8%	0.5%	0.6%	4.7%	4.9%	5.1%	4.7%	0.4%	0.4%
Overall investment yield	4.6%	5.6%	6.0%	6.7%	6.3%	0.5%	0.7%	1.1%	5.2%	5.4%	6.4%	6.2%	0.2%	1.3%
<b>Investment assets</b>														
Total investment assets	216,341	239,864	275,314	309,915	302,845	2%	13%	29%	239,864	242,289	309,915	302,845	2%	29.2%
<b>Investment breakdown</b>														
Cash and bank deposit	26%	30%	29%	28%	26%	2%	-1%	-2%	30%	30%	28%	26%	2%	-2%
Debt securities	64%	61%	54%	48%	55%	-7.1%	-5.3%	-12.7%	61%	59%	48%	55%	-7.1%	-13%
Equity investments	9%	8%	9%	11%	10%	1%	3%	3%	8%	8%	11%	10%	1%	3%
Investment properties	2%	5%	5%	5%	6%	0%	0%	0%	5%	6%	5%	6%	0%	0%
Debt schemes	12%	13%	19%	20%	20%	0%	1%	7%	13%	14%	20%	20%	0%	7%
Others	-13%	-17%	-15%	-12%	-17%	5%	2%	5%	-17%	-17%	-12%	-17%	5%	5%
<b>FYP (including deposits)</b>														
<b>Individual life</b>	<b>5,024</b>	<b>5,947</b>	<b>7,023</b>	<b>7,643</b>	<b>5,751</b>	<b>33%</b>	<b>9%</b>	<b>29%</b>	<b>10,971</b>	<b>10,971</b>	<b>14,665</b>	<b>12,774</b>	<b>15%</b>	<b>34%</b>
Regular	4,570	3,372	6,089	6,656	4,721	41%	9%	97%	7,942	7,942	12,745	10,810	18%	60%
Single	454	2,575	933	987	1,030	-4%	6%	-62%	3,030	3,030	1,920	1,964	-2%	-37%
<b>Bancassurance</b>	<b>18,085</b>	<b>2,825</b>	<b>21,393</b>	<b>4,573</b>	<b>1,908</b>	<b>140%</b>	<b>-79%</b>	<b>62%</b>	<b>20,910</b>	<b>20,910</b>	<b>25,966</b>	<b>23,301</b>	<b>11%</b>	<b>24%</b>
Regular	1,061	977	1,611	1,392	928	50%	-14%	43%	2,038	2,038	3,003	2,539	18%	47%
Single	17,024	1,848	19,782	3,181	979	225%	-84%	72%	18,872	18,872	22,963	20,762	11%	22%
<b>Group and Others</b>	<b>267</b>	<b>315</b>	<b>295</b>	<b>400</b>	<b>317</b>	<b>26%</b>	<b>36%</b>	<b>27%</b>	<b>582</b>	<b>582</b>	<b>694</b>	<b>612</b>	<b>13%</b>	<b>19%</b>
Regular	247	281	281	288	304	-5%	2%	2%	528	528	569	585	-3%	8%
Single	20	33	13	112	13	741%	757%	238%	54	54	125	26	374%	134%
FYP	23,376	9,087	28,711	12,615	7,976	58%	-56%	39%	32,463	32,463	41,326	36,686	13%	27%
APE	7,627	5,076	10,055	8,764	6,155	42%	-13%	73%	12,704	12,704	18,818	16,210	16%	48%
<b>EV and NBV (Restated in 2013)</b>														
<b>Life Embedded value</b>	<b>41,938</b>	<b>45,390</b>	<b>51,844</b>	<b>65,553</b>	<b>59,270</b>	<b>11%</b>	<b>26%</b>	<b>44%</b>	<b>45,390</b>	<b>45,390</b>	<b>65,553</b>	<b>59,270</b>	<b>11%</b>	<b>44%</b>
Group Embedded value	49,191	47,667	82,017	82,017	70,326	16.6%	0.0%	72.1%	47,667	47,667	82,017	70,326	16.6%	72%
Group Embedded value per share	19.5	19.5	26.4	26.4	22.6	16.6%	0.0%	35.0%	19.5	19.5	26.4	22.6	16.6%	35%
Life Embedded value to owners of the company	20,990	34,088	49,230	49,230	44,512	11%	0%	44%	34,088	34,088	49,230	44,512	11%	44%
<b>Life EVPS to owners of the company</b>	<b>18.4</b>	<b>14.03</b>	<b>16.20</b>	<b>15.8</b>	<b>14.3</b>	<b>11%</b>	<b>-1%</b>	<b>13%</b>	<b>14.0</b>	<b>14.0</b>	<b>15.8</b>	<b>14.3</b>	<b>11%</b>	<b>13%</b>
Group Embedded value to owners of the company	27,020	37,537	62,432	62,432	63,543	-2%	0%	66%	37,537	37,537	62,432	63,543	-2%	66%
Group Embedded value to owners of the company per share (adjusted for share count change)	17.9	15.4	17.7	20.1	20.4	-2%	13%	30%	15.4	15.4	20.1	20.4	-2%	31%
<b>New business value</b>	<b>1,650</b>	<b>1,498</b>	<b>2,376</b>	<b>1,950</b>	<b>1,873</b>	<b>4%</b>	<b>-18%</b>	<b>30%</b>	<b>3,148</b>	<b>3,148</b>	<b>4,326</b>	<b>4,249</b>	<b>2%</b>	<b>37%</b>
<b>New business margin - FYP</b>	<b>7.1%</b>	<b>16.5%</b>	<b>8.3%</b>	<b>15.5%</b>	<b>23.5%</b>	<b>-8.0%</b>	<b>7.2%</b>	<b>-1.0%</b>	<b>9.7%</b>	<b>9.7%</b>	<b>10.5%</b>	<b>11.6%</b>	<b>-1.1%</b>	<b>0.8%</b>
<b>New business margin - APE</b>	<b>21.6%</b>	<b>29.5%</b>	<b>23.6%</b>	<b>22.3%</b>	<b>30.4%</b>	<b>-8.2%</b>	<b>-1.4%</b>	<b>-7.3%</b>	<b>24.8%</b>	<b>24.8%</b>	<b>23.0%</b>	<b>26.2%</b>	<b>-3.2%</b>	<b>-1.8%</b>
<b>Life insurance</b>														
Gross written premiums	40,255	24,653	50,718	31,491	26,634	18%	-38%	28%	64,908	64,908	82,209	78,274	5%	27%
Net earned premiums	40,175	24,480	31,517	10,421	16,558	-37%	-67%	-57%	64,655	64,655	41,937	41,968	0%	-35%
Total investment income	4,034	4,763	6,315	7,726	7,579	2%	22%	62%	8,798	8,798	14,041	13,894	1%	60%
Net policyholders' benefits	-5,905	-6,452	-10,247	-12,461	-3,560	250%	22%	93%	-12,357	-12,357	-22,708	-13,644	66%	84%
Net commission expenses	-3,280	-3,007	-4,846	-3,248	-3,498	-7%	-33%	8%	-6,287	-6,287	-8,094	-7,629	6%	29%
G&A expenses	-3,589	-3,999	-4,337	-6,225	-4,305	45%	44%	56%	-7,587	-7,587	-10,562	-8,511	24%	39%
Change in life insurance contract liabilities, net of reinsurance	-31,085	-15,123	-16,614	5,988	-11,425	-152%	-136%	-140%	-46,208	-46,208	-10,626	-22,101	-52%	-77%
Underwriting profit	-3,685	-4,101	-4,528	-5,524	-6,230	-11%	22%	35%	-7,785	-7,785	-10,053	-9,917	1%	29%
<b>Pretax profit</b>	<b>400</b>	<b>986</b>	<b>2,350</b>	<b>2,181</b>	<b>1,737</b>	<b>26%</b>	<b>-7%</b>	<b>121%</b>	<b>1,386</b>	<b>1,402</b>	<b>4,531</b>	<b>4,928</b>	<b>-8%</b>	<b>227%</b>
<b>P&amp;C insurance</b>														
Loss ratio	51%	55%	54%	54%	54%	0%	0%	-1%	54%	53%	54%	54%	0%	1%
Expense ratio	49%	46%	46%	46%	47%	-1%	1%	0%	47%	47%	46%	47%	-1%	-1%
Combined ratio	100%	101%	100%	100%	102%	-1%	1%	-1%	101%	100%	100%	101%	-1%	-1%

Source: Company data, Goldman Sachs Global Investment Research

# Disclosure Appendix

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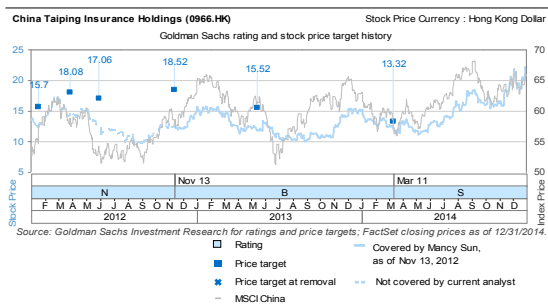
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