

FIG
 Insurances
 Equity – China

Overweight(V)

Target price HKD	34
Share price HKD	25.95
Potential return (%)	31

Note: Potential return equals the percentage difference between the current share price and the target price

Performance	1M	3M	12M
Absolute (%)	-3.9	29.8	123.6
Relative ^A (%)	-2.3	23.7	99.8

Index^A HANG SENG INDEX

RIC	0966.HK
Bloomberg	0966 HK

Market cap (USDm)	10,401
Market cap (HKDm)	80,653
Free float (%)	31

Note: (V) = volatile (please see disclosure appendix)

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China Taiping (966 HK)

OW(V): Raise TP by 10% after better-than-expected FY14

- ▶ **CTIH's highest-of-peers 37% NBV growth beat lofty consensus expectations by 11%**
- ▶ **Group refrained from providing any new three year plan targets after successfully hitting all 2011-14 plan targets**
- ▶ **Reiterate OW(V) rating on CTIH shares, which offer 31% potential return to revised TP of HKD34 (was HKD31 TP)**

What we liked: (i) Life NBV was 11% above consensus and 6% above our estimate.

The highest-of-peers 37% increase in NBV (1H:+44%, 2H +30%) was driven by a 48% rise in APE and 1.8ppt fall in margins. Three out of four Chinese insurers have reported margin declines; (ii) group EV was 9% above consensus, having risen 66% YoY. Life EV, which contributed 79% of group EV, rose 44% of which 38%pts pertained to positive investment variances. China Taiping made no changes to its EV assumption set although its 5.3% investment return looks higher vs China Life (5.2%), Ping An (4.75%), and New China Life (5.0%); (iii) net income was 6% above company guidance given on 21 January and 7% above consensus; (iv) Book Value was 3% above consensus having risen 52% HoH; (v) life solvency ratio was 275%, comfortably above 100-150% CIRC prescribed minimum; and (vii) average APE per agent rose 9% Y-o-Y.

What we disliked: (i) sadly, management refrained from communicating any new three year targets following successful execution of 2011-14 plan. The group did allude to expanding market share in addition to improving cost efficiency, agent quality and business quality relative to industry. Taiping does have work to do on improving business quality with its 23% NBV margin far below peers; (ii) missed target of 140k Agents (FY14: 133,734). While Taiping claims that the Agent target slippage was attributable to high assessment standards, we suspect some of the miss was due to the roll-off of 18mth fixed salary contracts and aggressive peer recruitment in 2H; (iii) persistency ratios on 13mth basis deteriorated; (iv) financial disclosure needs improvement. We need NBV by channel (Q&A revealed 98.5% was Agent), group solvency ratio and free surplus movement; (v) P&C solvency ratio can best be described as adequate at 174%; and (vii) higher risk Non-Standard Assets (NSA) increased from 12% to 17% of investment.

Reiterate OW(V) and increase TP by 10% to HKD34, which offers 31% potential return. The increase in TP is driven by the better-than-expected FY14 EV & NBV coupled with positive financial mark-to-market impact.

Financials & valuation

China Taiping

P&L summary (HKDm)				
Year to	12/2014a	12/2015e	12/2016e	12/2017e
Life	4,531	5,362	6,369	7,799
Reinsurance	481	520	612	722
Non-life	1,220	1,093	1,195	1,431
Other businesses	266	241	354	504
Profit before tax	6,614	7,346	8,683	10,643
Income tax	(1,740)	(1,836)	(2,171)	(2,661)
Net profit	4,874	5,509	6,513	7,982
Minority interests	(832)	(1,001)	(1,189)	(1,456)
Equity holders of the parent	4,042	4,508	5,323	6,526

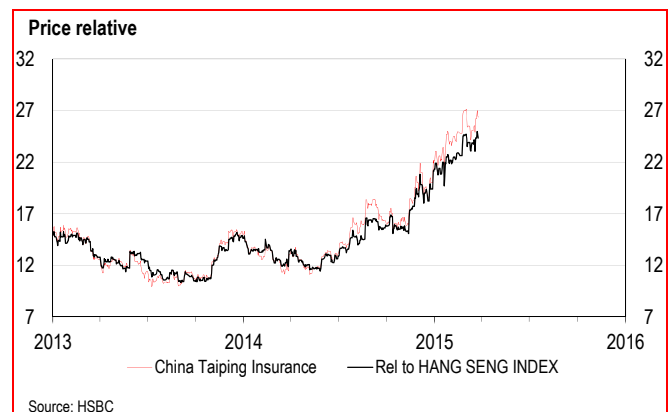
Operational metrics				
Year to	12/2014a	12/2015e	12/2016e	12/2017e
Reported NBV	4,326	5,104	6,024	7,108
Reported Life NBV growth	37.4%	18.0%	18.0%	18.0%
Reported Life NBV margin	23.0%	22.8%	22.7%	22.5%
Rebased NBV	4,326	5,104	6,024	7,108
Rebased Life NBV margin	23.0%	22.8%	22.7%	22.5%
Life RoEV	12.1%	17.2%	16.4%	16.5%
Rebased Life NBV as % Life EV B/F	9.5%	7.8%	7.8%	8.0%
Reinsurance NPE growth	70%	14%	20%	20%
Reinsurance ROE	17%	14%	11%	12%
Reins reported COR	61.6%	77.5%	101.0%	101.0%
P&C NPE growth	30%	15%	15%	15%
P&C ROE	-13.7%	-10.1%	-6.8%	-6.4%
P&C reported COR	99.8%	99.8%	100.3%	100.3%
Net investment yield	5.0%	5.2%	5.2%	5.2%

Embedded value (HKDm)				
Year to	12/2014a	12/2015e	12/2016e	12/2017e
Adjusted net worth	24,819	27,378	29,851	32,619
Gross VIF	46,329	59,567	71,739	86,220
Cost of capital	(6,135)	(10,126)	(12,196)	(14,657)
Expense overrun	0	0	0	0
Life EV - Reported	65,553	76,819	89,394	104,182
Discount rate rebasing	0	0	0	0
Life EV (100%)	65,553	76,819	89,394	104,182
Minorities (49.05%)	(16,323)	(19,128)	(22,259)	(25,941)
Life EV (50.05%)	49,230	57,691	67,135	78,241
Other ANW	13,202	16,724	20,917	26,212
Group EV	62,432	74,415	88,052	104,452

Group valuation metrics				
Year to	12/2014a	12/2015e	12/2016e	12/2017e
P/EV Group	1.3x	1.1x	0.9x	0.8x
- Group RoEV	37%	19%	18%	19%
P/ Tangible NAV	2.0x	1.8x	1.5x	1.3x
- RoTNAV	13%	10%	11%	11%
P/ book value	2.0x	1.8x	1.5x	1.3x
- RoE	13%	10%	11%	11%
P/E	18x	18x	15x	13x
Dividend yield	0%	0%	0%	0%

Per share data (HKD)				
Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV group	19.77	23.57	27.88	33.08
- growth	29%	19%	18%	19%
TNAV	12.89	14.81	16.93	19.48
- growth	47%	15%	14%	15%
Book value	12.89	14.81	16.93	19.48
- growth	47%	15%	14%	15%
EPS	1.47	1.43	1.69	2.07
- growth	75%	-3%	18%	23%
DPS	0.00	0.00	0.00	0.00
- payout ratio	0%	0%	0%	0%

Issuer information			
Market Cap (HKDm)			80,653
Market Cap (USDm)			10,401
Free Float			31%
Valuation changes			
	New	Old	Change
Avg ROEV 2015 -17e	18.7%	19.0%	-0.3%
Sustainable growth	5%	5%	0%
Cost of equity	12.9%	12.9%	0%
Implied multiple (x)	1.73x	1.76x	-0.04x
EV p/s	23.6	21.3	11%
Fair value end 2015e	40.7	37.6	8.3%
12M Fair Value	41.9	38.5	9%
Asset risk	(4.4)	(4.4)	-2%
Dividend	0	0	0%
Valuation discount	10%	10%	0%
H target price - HKD	34.0	31.0	10%



Note: price at close of 26 Mar 2015

Exhibit 1: Key summaries

HKDm unless otherwise	FY12	FY13	FY14	Change FY14/13	vs. HSBC Beat/ Miss, %	vs. Consensus Beat/ Miss, %	Change % 1H14	YoY 2H14
Net profit share/rs	1,316	1,653	4,042	145%	6%	7%	179%	119%
EPS (HKD)	0.70	0.75	1.44	93%	5%	7%	117%	72%
Dividend per share (HKD)	0.00	0.00	0.00	Unchanged	0%	0%	0%	0%
FYP	18,426	32,463	41,326	27%			23%	39%
Protection as % Individual FY Regular	34%	37%	30%	-7%			3%	-25%
New RP as % FYP	39%	32%	39%	7%			3%	15%
APE	8,383	12,704	18,818	48%	21%		32%	73%
- Individual	4,424	8,245	12,937	57%			34%	86%
- Bancassurance	3,499	3,925	5,300	35%			30%	47%
- Other	459	533	582	9%			14%	5%
Reported NBV	2,304	3,148	4,326	37%	6%	11%	44%	30%
NBV/ APE reported margin	27.5%	24.8%	23.0%	-1.8%	-3.4%		2.0%	-7.3%
Avg. # agents	51,962	85,328	123,265	44%			35%	11%
FYP per mth per avg. # agent (RMB)	7,156	10,715	9,915	-7%			4%	16%
APE per mth per avg. # agent (RMB)	7,095	8,052	8,746	9%			-1%	68%
P&C combined ratio	99.8%	99.8%	99.8%	0.0%	1.2%	0.5%	0.1%	-2.8%
Reins. Combined ratio	106.9%	96.5%	89.3%	-7.2%	-8.2%			
Equities as % Total Investment	7.7%	6.5%	10.1%	3.5%	3.7%		0.5%	3.5%
Net investment yield	3.3%	3.6%	4.6%	1.0%	0.0%		-1.2%	
Total investment yield	3.6%	5.1%	5.8%	0.7%	0.6%		0.4%	
Life	547	1,402	4,531	223%	3%		487%	118%
P&C	891	704	1,220	73%	27%		37%	143%
Reinsurance	131	434	481	11%	-11%		35%	-14%
Other	182	17	382	2208%	-281%		-287%	-1334%
Pre-tax	1,751	2,557	6,614	159%	16%		179%	142%
Persistency ratio - 13mths								
- Individual	92.3%	92.9%	92.6%	-0.3%				
- Bancassurance	92.9%	92.3%	91.1%	-1.2%				
Persistency ratio - 25mths								
- Individual	88.5%	88.4%	88.7%	-0.3%				
- Bancassurance	90.2%	89.6%	88.5%	1.1%				
HKDm unless otherwise	FY12	FY13	FY14	Change FY14/13	vs. HSBC Beat/ Miss, %	vs. Consensus Beat/ Miss, %	Change % 1H14	HoH 2H14
Total shareholders funds	16,308	21,421	35,993	68%	-3%	3%	11%	52%
Group embedded value (Owners')	22,172	37,537	62,432	66%	12%	9%	19%	40%
Life embedded value	29,286	45,390	65,553	44%	1%	8%	14%	26%
Risk discount rate assumption	11.0%	11.0%	11.0%	Unchanged				
Investment return assumption	4.75%	5.30%	5.30%	Unchanged				
Life solvency ratio	164%	166%	275%	109%	4%		25%	84%
P&C solvency ratio	163%	166%	174%	-8%	-8%		30%	-22%
No. life agents	57,860	112,796	133,734	19%	-4%		0%	19%

Source: Company data, Bloomberg, HSBC

Valuation and risks

We derive our share target price of HKD34 by using a P/EV valuation methodology net of a 10% disclosure discount and 10% asset risk discount. We calculate a fair P/EV multiple of 1.7x using a Gordon Growth Model formula, where we input a sustainable ROEV of 18.7% (determined by the average of our FY15-17 forecast for ROEV), a terminal growth rate of 5%, and a risk discount rate of 12.9%. Under our research model, for stocks with a volatility indicator, the Neutral band is 10 percentage points above and below the hurdle rate for China stocks of 9%. Our target price of HKD34 implies a potential return of 31%, which is above the Neutral band of our model; therefore, we are reiterating our Overweight (V) rating on China Taiping. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated. Key downside risks to our Overweight (V) rating include management team's remaining prioritisation of volume over value creation, increased market awareness of group's use of double leverage and high losses from subscale reinsurance business.

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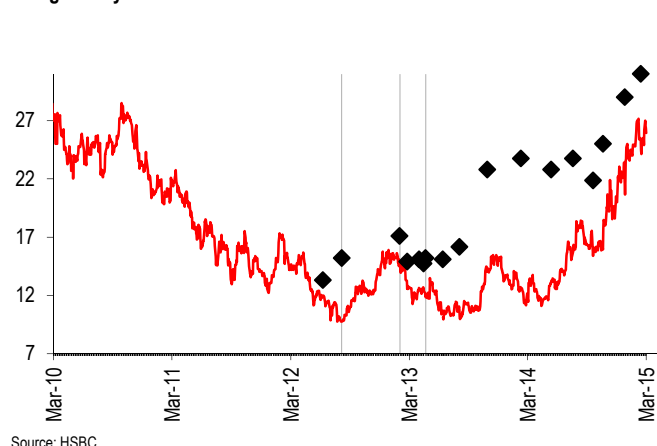
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Share price and rating changes for long-term investment opportunities

China Taiping Insurance (0966.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Neutral (V)	Overweight (V)	30 August 2012
Overweight (V)	Neutral (V)	24 February 2013
Neutral (V)	Overweight (V)	15 May 2013
Target Price	Value	Date
Price 1	13.30	03 July 2012
Price 2	15.20	30 August 2012
Price 3	17.10	24 February 2013
Price 4	14.91	19 March 2013
Price 5	15.10	25 April 2013
Price 6	14.72	09 May 2013
Price 7	15.20	15 May 2013
Price 8	15.10	07 July 2013
Price 9	16.15	27 August 2013
Price 10	22.80	21 November 2013
Price 11	23.75	05 March 2014
Price 12	22.80	06 June 2014
Price 13	23.75	12 August 2014
Price 14	21.85	13 October 2014
Price 15	25.00	13 November 2014
Price 16	29.00	19 January 2015
Price 17	31.00	09 March 2015

Source: HSBC

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Company	Ticker	Recent price	Price Date	Disclosure
CHINA TAIPING INSURANCE	0966.HK	25.95	26-Mar-2015	1, 5, 6, 7

Source: HSBC

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