

March 26, 2015

China Taiping Insurance

Strong Headlines, but Costs Rising

Industry View

Attractive

Stock Rating

Underweight

Quick Comment: CTIH's VNB growth remained strong over 2H at 30%. However, costs also rose more than revenue and, therefore we remain skeptical on the product margins. Whilst we applaud CTIH's significant growth profile under its 'Three-year Rebuilding Plan', we continue to find its success somewhat questionable.

Successfully completed the "Three-year Rebuilding Plan". CTIH just reported a set of strong FY14 results. Earnings grew 140% y-y to Rmb4bn (EPS HK\$1.44, up 93%), in line with previous guidance. The company benefited from both financial reinsurance (estimated contribution of 20ppts) and a strong A-share performance over 2H; Taiping Life's solvency ratio increased by 84ppts to 275%. Group EVPS also increased to HK\$20.1, up 15% h-h. The end of 2014 marked the completion of CTIH's three-year rebuilding plan. Over the period, gross premium, total assets and net profit all more than doubled (up 1.2x, 1.3x and 4x) from 2011 levels, meeting the company's objectives.

Costs continued to grow ahead of premium growth. Value of new business grew 37% over FY14 above our forecast of 27%. This implies a 2H growth rate of +30% vs 44% in 1H. The solid growth was driven mostly by strong volume growth in agency channel (regular pay +61% y-y), whilst margins were largely flat at 33%. Agency headcount reached 133K at FY14, up 19% h-h, but slightly behind the company's original plan. We note that its liability costs rose significantly – surrender payments almost doubled from last year to Rmb12bn, and interest costs on investment contracts were up 2.3x. The expense ratio also ramped up to 12.8% versus 11.7% in FY13, despite its enlarged scale.

2015 a year of transition? Looking ahead, management indicated that they will adopt a less aggressive strategy by focusing more on profitability and value creation, with the aim of building Taiping into a "boutique" insurer with quality products and services. Year to Feb, we note Taiping's total premium growth was still up strongly at 30%, above industry growth. We will seek more clarity on Taiping's growth focus during its briefing at 4:30pm HKT today.

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China Taiping Insurance (0966.HK , 966 HK)

Hong Kong/China Insurance / China

Stock Rating**Underweight****Industry View****Attractive**

Shr price, close (Mar 25, 2015)

HK\$26.35

52-Week Range

HK\$27.50-11.06

Sh out, dil, curr (mn)

2,573

Mkt cap, curr (mn)

US\$8,742

Avg daily trading value (mn)

US\$10

Fiscal Year Ending	12/13	12/14e	12/15e	12/16e
ModelWare EPS (HK\$)	0.77	1.06	1.26	1.53
Consensus EPS (HK\$)§	0.71	1.34	1.41	1.65
ModelWare net inc (HK\$ mn)	1,530	3,293	3,936	4,760
P/E	19.5	21.0	20.9	17.2
P/BV	1.3	2.0	2.1	1.9
ROE (%)	9.4	16.6	11.2	12.4
Life Emb Val (HK\$ mn)	30,432	39,587	46,518	54,613
New business profit net of cost of capital (HK\$ mn)	1,499	1,909	2,271	2,587

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
 § = Consensus data is provided by Thomson Reuters Estimates
 e = Morgan Stanley Research estimates

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(as of February 28, 2015)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)		
	COUNT	% OF TOTAL	COUNT	% OF TOTAL	% OF RATING IBC CATEGORY
Overweight/Buy	1161	35%	321	41%	28%
Equal-weight/Hold	1459	44%	370	47%	25%
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Underweight/Sell	609	18%	88	11%	14%
TOTAL	3,330		789		

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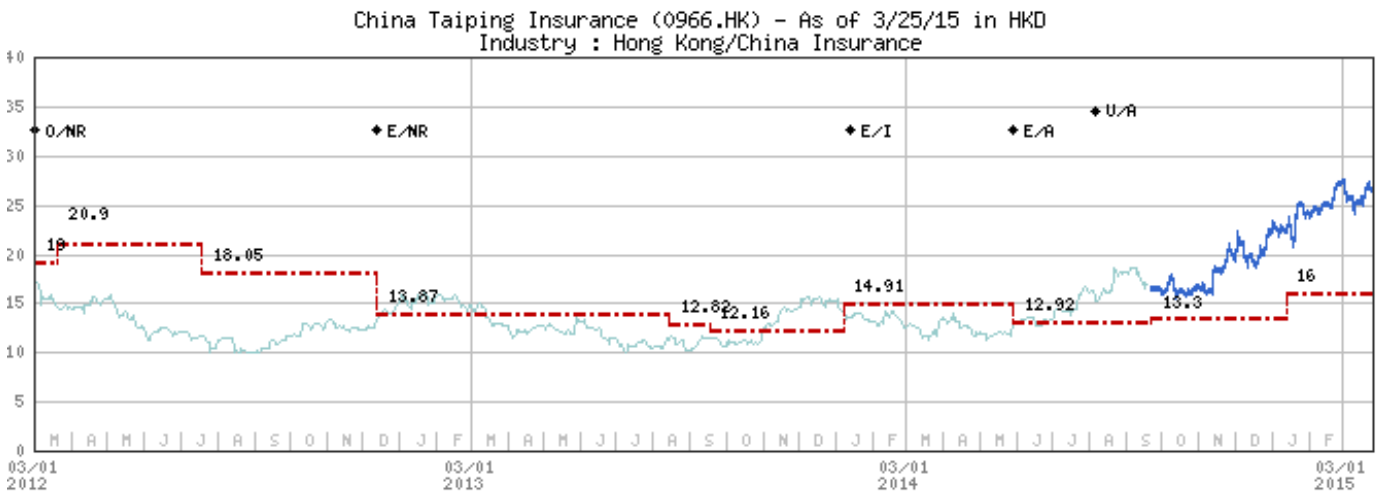
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ---
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/25/2015)
Jiang CFA, Jenny		
China Taiping Insurance (0966.HK)	U (08/07/2014)	HK\$26.35
CNInsure Inc (CISG.O)	O (07/01/2010)	US\$8.67
New China Life Insurance Company Ltd (601336.SS)	U (12/13/2014)	Rmb54.07
New China Life Insurance Company Ltd (1336.HK)	E (08/07/2014)	HK\$42.50
PICC Group (1339.HK)	U (05/29/2014)	HK\$3.98
Lin, Ben		
AIA Group (1299.HK)	O (10/12/2012)	HK\$48.90
China Life Insurance (2628.HK)	O (05/29/2014)	HK\$32.65
China Life Insurance (601628.SS)	U (01/13/2015)	Rmb36.26
China Pacific Insurance (Group) Co., Ltd (601601.SS)	O (09/22/2014)	Rmb32.25
China Pacific Insurance (Group) Co., Ltd (2601.HK)	O (12/10/2012)	HK\$36.30
PICC P&C Company Ltd (2328.HK)	E (08/07/2014)	HK\$15.92
Ping An Insurance Company (601318.SS)	O (09/22/2014)	Rmb75.07
Ping An Insurance Company (2318.HK)	O (10/27/2011)	HK\$91.05

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