



Rating
Buy

Asia
Hong Kong

Banking / Finance
Life Insurance

Company
CPIC Alert

Reuters 2601.HK	Bloomberg 2601 HK	Exchange HSI	Ticker 2601
ADR Ticker CHPXY	ISIN US16951T1016		

Date
29 March 2015

Forecast Change

Price at 27 Mar 2015 (HKD)	35.55
Price target-12mth (HKD)	46.20
52-week range (HKD)	41.55 - 23.80
HANG SENG INDEX	24,486

FY14 results – Weaker-than-expected

Both EV and VNB came in below, lowered target price to HK\$46.2

CPIC reported its 2014 results, with Group EV of Rmb171,294mn (+18.6% yoy, +11.3% hoh), Life EV of Rmb125,737mn (+29.2% yoy, +19.6% hoh), VNB of Rmb8,725mn (+16.3% yoy, implying 2H14 underlying growth of ~10.7%, vs. 20.6% in 1H14), and net profits of Rmb11,049mn (+19.3% yoy). Group EV, Life EV and VNB were below our estimates by 4.7%, 3.9% and 2.7% while net profit was ahead by 19.0% mainly due to investment gains. We note that the weaker-than-expected VNB may be due to assumption changes, and we will seek more clarification at the results briefing tomorrow. P&C results were weak, with a 4.3ppt increase in combined ratio to 103.8% but this has been well-flagged hence should not come as a surprise. We have revised down our target price by 3.3% to HK\$46.2/share but reiterate our Buy rating on CPIC.

Life business, EV and VNB

VNB growth of 16.3% yoy to Rmb8,725mn was driven by both volume growth (FYP APE +10.2% yoy) and NB margin expansion (+2.4ppt to 45.9%). The company reclassified its VNB by distribution, based on new disclosure, Individual VNB was +22.6% and Group & partnership were down 28.6%. Individual channel accounted for 92.5% of 2014 VNB (vs. 87.7% in 2013). Monthly average agency number grew 14.3% yoy to 344k with monthly FYP per agent up 5.9% to Rmb4,097. The robust Life EV growth was mainly helped by expected return (contributing 10.7% growth), VNB (+9.0%), inv variance and market value adjustment (+8.9%) and Group's capital injection of Rmb4,576mn (+4.7%). Persistency ratio slightly deteriorated with 13M at 89.8% (vs. 90.2% in 2013) and 25M at 86.4% (vs. 87.0%).

Net profit, P&C business and Capital

Life business was the key profit contributor +46.1% to Rmb9,084mn, accounting for 81% of net profit. P&C profits were down 60.5% to Rmb1,037mn due to a 4.3ppt increase in combined ratio to 103.8%, driven by both auto (+2.2ppt to 102%) and non-auto (+14.2ppt to 112.6%). Total inv yield improved to 6.1% (vs. 5.0% in 2013), Comprehensive inv yields improved to 8.8% (vs. 4.3%). NSI increased 71% yoy (+11.5% hoh) to Rmb64,534mn, 8.5% of total inv assets (vs. 7.7% in 1H14). Group solvency improved 4.8ppt hoh to 280%. Life solvency was up 39ppt hoh to 218% thanks to the capital injection and P&C +1.5ppt hoh to 177%.

Lowered forecasts and target price

We have revised down our 2015 Group EV forecast by 7.2% and VNB by 3.1%, as such, our target price is revised down by 3.3% to HK\$46.2/share, based on 12.2x 2015E NB multiple, implying a target P/EV of 1.8x.

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Key changes

Price target	47.80 to 46.20	↓	-3.3%
Net earned prem (FYE)	189,621.4 to 184,557.1	↓	-2.7%
Op earnings (FYE)	-10,496.3 to -11,664.1	↓	11.1%
Net profit (FYE)	15,026.3 to 14,418.7	↓	-4.0%

Source: Deutsche Bank

Stock data

Market Cap (HKDm)	82,238
Market Cap (USDm)	10,606
Shares outstanding (m)	9,062.0
Major Shareholders	Fortune Inv (14.9%)
Free float (%)	74
Avg daily value traded (USDm)	60.1

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Group EV(CNYm)	171,294	188,198	209,101
VNB (CNYm)	8,725	10,059	11,598
Net profit (CNYm)	11,049	14,419	16,142
P/EV (x)	1.2	1.4	1.2
Implied NB multiple (x)	7.7	4.5	1.6

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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