

PICC P&C ----- Maintain OUTPERFORM

New report: 2015 tracking well so far...

EPS: ▲ TP: ▲

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- We have increased our PICC target price to HK\$21.50 (from HK\$21) following our increased confidence on 2015 outlook, with trends robust so far; with benign claims inflation and lower frequency offsetting weaker top-line growth. 2015 earnings increased 34% due to markets; outer years largely unchanged.
- 2015 outlook robust. Trends are tracking well in 2015, with benign claims inflation, falling claims frequency – with overall claims ratio running 100 bp below 2014 according to CIRC data. However, the slowing economy has caught up with new car sales and premium growth has slowed to low teens in 2015 so far (from 17% last year), which may cause competition to pick up.
- Catalysts. Monthly premium volumes, natural perils, national roll-out of price deregulation pilot, 1H15 results in late August 2015.
- Investment view. Despite strong performance in 2015, PICC P&C is still not overly expensive in a global context (see Fig 2) and is less correlated to recent China A-share rally; as such we see it as a more defensive exposure to the sector. [Full report](#).

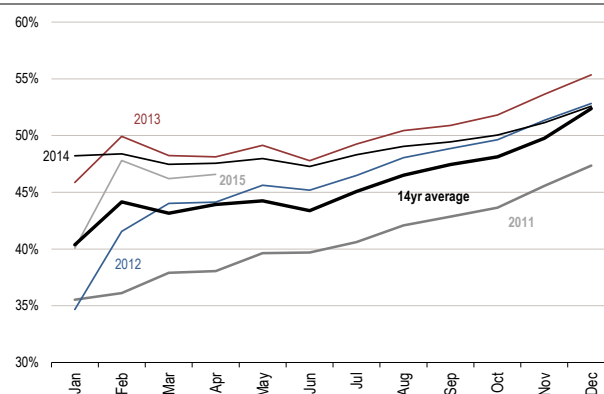
improvement it still has further room for improvement with respect to claims management, risk selection and reinsurance, in particular.

2015 tracking well so far...

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Figure 1: 2015 YTD claims running below 2014 ...

China P&C insurance – cumulative loss ratio (%)



Source: CIRC

Valuation attractive relative to global peers

Despite the recent rally, we continue to see value in the PICC P&C at current levels, with the stock trading at around 11x price to earnings (12mth forward) and 1.9x book value, with return of equity expected to be in the high teens for the next few years at least.

Figure 2: Global retail P&C valuation multiples

	PE (x)	Prem growth*	P/NTA	ROTE
IAG	13.1x	4.0%	3.7x	28.4%
Suncorp	12.7x	4.1%	2.1x	16.6%
PICC P&C	11.2x	15.1%	1.9x	17.5%
Direct Line	10.2x	-8.3%	2.4x	23.5%
Tryg	14.9x	-5.1%	3.6x	22.0%
Gjensidige	15.0x	1.1%	2.9x	19.5%
Progressive	14.9x	6.2%	2.0x	14.2%
Intact	13.5x	17.4%	2.0x	14.7%
Average	14.3x	6.2%	2.5x	17.6%

Source: Company data, *2001-14 GWP growth (% p.a.)

Our HK\$21.50 12-month forward valuation implies 13.5x 12mth forward earnings and 2.3x book value (in-line with global retail P&C companies with lower growth profiles), which leads to us maintaining our OUTPERFORM investment rating.

Click [here](#) for full 30 pp PICC P&C insurance in-depth report.

Bbg/RIC	2328 HK / 2328.HK	Price (11 Jun 15, HK\$)	18.22		
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)	21.50 (21.00)		
Shares outstanding (mn)	14,829	Est. pot. % chg. to TP			
Daily trad vol - 6m avg (mn)	22.8	52-wk range (HK\$)	19.8 - 11.0		
Daily trad val - 6m avg (US\$ mn)	48.3	Mkt cap (HK\$/US\$ bn)	270.2/ 34.9		
Free float (%)	100.0	Performance	1M	3M	12M
Major shareholders	PICC Group - 69%	Absolute (%)	5.0	17.7	59.9
	AIG - 9.9%	Relative (%)	9.1	3.0	34.5
Year	12/13A	12/14A	12/15E	12/16E	12/17E
Life GWP (Rmb bn)	—	—	—	—	—
P&C GWP (Rmb bn)	223.5	253.0	282.0	317.5	362.2
Net profit (Rmb bn)	10.6	15.1	20.8	17.8	20.4
EPS (Rmb)	0.76	1.06	1.40	1.20	1.38
- Change from prev. EPS (%)	n.a.	n.a.	34.2	0.5	0.3
- Consensus EPS (Rmb)	n.a.	n.a.	1.14	1.23	1.43
EPS growth (%)	(10.1)	39.0	31.9	(14.3)	14.8
P/E (x)	19.1	13.8	10.4	12.2	10.6
NTA per share (Rmb)	4.23	5.78	6.91	7.76	8.78
EV per share (Rmb)					
Dividend yield (%)	3.2	1.9	2.5	2.4	2.8
EV/EBITDA (x)	16.3	11.2	8.3	9.6	8.2
P/B (x)	3.5	2.5	2.1	1.9	1.7
ROE (%)	20.5	21.1	22.0	16.3	16.6
P&C combined ratio (%)	96.7	96.5	96.0	95.8	95.7

Note 1: ORD/ADR=25.00. Note 2: PICC Property and Casualty Co Ltd is a non-life insurance company in mainland China, providing a range of motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, accidental injury insurance.

P&C scale advantage, with room for improvement

PICC P&C is the largest P&C insurer in China with ~35% market share operating in all regions through multiple channels, and with ~75% of its portfolio in motor insurance. It has grown at a compound rate of 14.5% p.a. over the past decade relative to market growth of 19.5% p.a. We expect its growth rate to converge more with market growth in the medium term given its relative size, recent initiatives and changes in distribution.

It has a significant scale advantage over its peers, which translates into substantially lower cost ratios than peers, greater service offering and better data (for risk segmentation). Despite recent strong

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Companies Mentioned (Price as of 11-Jun-2015)

Direct Line Group (DLGD.L, 345.1p)
Gjensidige Forsikring ASA (GJFS.OL, Nkr121.0)
Insurance Australia Group (IAG.AX, A\$5.52)
Intact Fincl (IFC.TO, C\$88.68)
PICC Group (1339.HK, HK\$5.03)
PICC P&C (2328.HK, HK\$18.22, OUTPERFORM, TP HK\$21.5)
Progressive Corporation (PGR.N, \$27.57)
Suncorp Group Limited (SUN.AX, A\$13.35)
Tryg A/S (TRYG.CO, Dkr132.5)

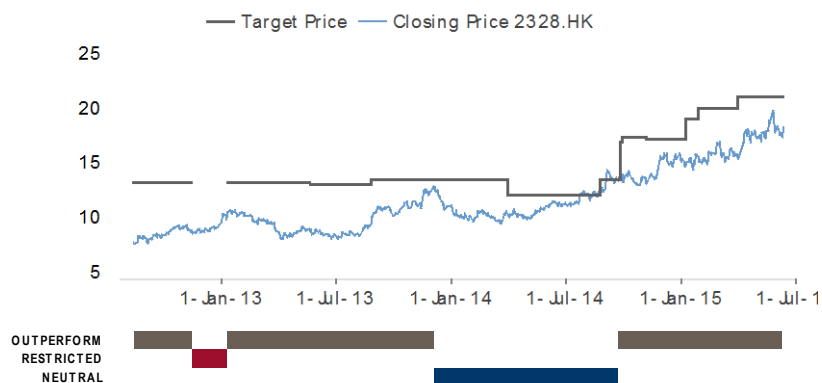
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3-Year Price and Rating History for PICC P&C (2328.HK)

2328.HK Date	Closing Price (HK\$)	Target Price (HK\$)	Rating
14-Aug-12	7.70	13.18	O
14-Nov-12	8.76		R
10-Jan-13	10.40	13.18	O
21-May-13	8.73	12.99	
26-Aug-13	9.42	13.47	
06-Dec-13	12.37	13.47	N
31-Mar-14	10.22	12.03	
25-Aug-14	12.45	13.47	
25-Sep-14	13.43	16.84	O
29-Sep-14	13.93	17.32	
05-Nov-14	13.30	17.15	
07-Jan-15	14.68	19.00	
27-Jan-15	15.58	20.00	
30-Mar-15	15.80	21.00	



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Underperform/Sell*	16%	(44% banking clients)
Restricted	3%	

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Price Target: (12 months) for PICC P&C (2328.HK)

Method: Our \$21.50 12-month forward target price for PICC P&C is set using a combination of price-to-earnings, price-to-book methodologies; based on sustainable return on equity generation and historical multiples.

Risk: Risks to our 12-month target price of HK\$21.50 for PICC P&C are its high level of sensitivity to claims ratio volatility, capital required to support projected growth and long-run investment return assumptions. Regulatory risk is also high, with significant changes relied on by the company to achieve their earnings targets.

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