

## Company Report

### Ping An Insurance Group (2318 HK)

#### 1Q18 NBV dropped 7.5% YoY; Maintain BUY

- 1Q18 NBV dropped 7.5% YoY whereas NBM up 3.0pps YoY
- Agent headcount down 2% QoQ; mgmt. reiterated target of double-digit growth in 2018
- Maintain BUY

#### 1Q18 results posted lower NBV and higher NBM

1) 1Q18 shareholders' net profit totalled RMB25.7bn, up 11.5% YoY. ROE (not annualized) came in at 5.3%; 2) Life and health NBV came in at RMB19.9bn, down 7.5% YoY. However, NBM rose from 27.2% in 1Q17 to 30.2% in 1Q18; 3) P&C insurance posted a stable combined ratio of 95.9%, same as 1Q17. Net profit of P&C segment dropped because of lower investment incomes. In our view, 1Q18 NBV growth is slightly lower than expected. However, we think it is mainly due to the decrease in low-margin business as overall NBM increased 3.0pps YoY. We believe Ping An will maintain its competitive strength in life and health market, and expect its NBV growth to improve at 2018-end.

#### Management guidance

1) The mgmt. indicated life product structure improved in 1Q18 as NBM increased; 2) the mgmt. is still confident that NBV growth will improve towards 2018-end, and still targets a positive NBV growth for 2018; 3) the mgmt. still targets a double-digit growth in life agent headcount in 2018; 4) despite stable combined ratio, the mgmt. is closely watching the development of P&C market as competition may further increase due to marketization of automobile insurance; and 5) Lufax, Autohome, and OneConnect are contributing positive profit for the group.

#### Valuation and risk

The company is trading at ~2.3x 2018E P/B. TP (currently HK\$113.4) and financial forecasts are under review. We maintain our Buy rating on the company, given that 1) there is enhanced life product structure despite negative NBV growth; also the mgmt. is still targeting positive growth in NBV and life agent headcount in 2018; 2) life insurance segment may benefit from the turnaround of 750D-MA for the 10Y government bond (negatively impacted life operating profit by ~29% in 2017); and 3) with its extensive agent network, Ping An has the competitive advantage in selling protection-type life insurance. Key catalyst: improved NBV growth at 2018-end. Key downside risks: adverse capital market, lower-than-expected NBV growth.

#### Financials

Year ended 31 Dec (RMBmn)	2015	2016	2017	2018E	2019E
GWP and policy fees	386,012	469,555	605,035	697,117	816,092
Total revenues	693,220	774,488	974,570	1,028,807	1,179,708
Shareholders' net profit	54,203	62,394	89,088	87,431	102,084
EPS (Rmb)	2.98	3.49	4.99	4.78	5.58
P/E (x)	22.25	19.00	13.29	12.44	10.97
P/B (x)	3.63	3.16	2.56	2.31	1.91
ROE (%)	17.4	17.4	20.7	17.3	17.1

Source: Company data, CMS (HK) estimates

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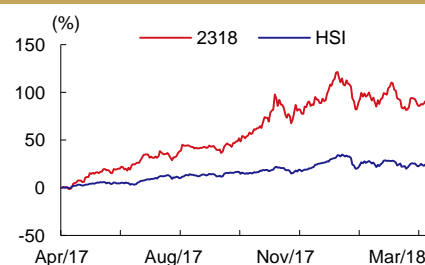
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#### WHAT'S NEW

### BUY

Previous	BUY
Price	HK\$81.85
12-month Target Price (Potential up/downside)	HK\$113.4 (+39%)
Previous	HK\$113.4

#### Price Performance



Source: Bigdata

%	1m	6m	12m
2318 HK	(5.1)	24.2	98.2
HSI	1.1	8.8	26.9

#### Sector: Insurance

Hang Seng Index	30351
HSCEI	12245

#### Key Data

52-week range (HK\$)	42.65-98.85
Market cap (HK\$ mn)	609584
Avg. daily volume (mn)	51.93
BVPS (HK\$)	25.89

#### Shareholding Structure

CHAROEN POKPHAND GROUP	31.0%
JPMORGAN CHASE&CO	9.6%
No. of shares outstanding (mn)	7448
Free float	69.0%

Source: Bloomberg

### 750D-MA for 10Y government bond yield;



Source: WIND, CMS (HK); Note: Assuming yield=3.6000% for the rest of year 2018

### Life insurance performance

(RMBmn)	China Life (2628 HK)	Ping An (2318 HK)	NCI (1336 HK)
Shareholders' net profit YoY-growth (1Q18 vs 1Q17)	121%	12%	42%
ROE (1Q18)	4.2%	5.3%	4.0%
Shareholders' comprehensive income YoY-growth (1Q18 vs 1Q17)	161%	-15%	-28%
Agency channel performance			
Life agent headcount growth (1Q18 vs 2017)	n.a.	-2%	n.a.
Agency Channel regular FYP YoY-growth (1Q18 vs 1Q17)	n.a.	n.a.	-50%
Life per-agent NBV productivity per year* (2017, RMB)	33,695	43,857	32,874
Life NBV YoY-growth (1Q18 vs 1Q17)	n.a.	-8%	n.a.
1Q18 net investment yield (annualized)	n.a.	3.70%	n.a.
1Q18 total investment yield (annualized)	3.94%	3.70%	4.30%

Source: Company data, CMS (HK);

\*: measured by individual channel NBV/individual channel agent headcount

## Valuation

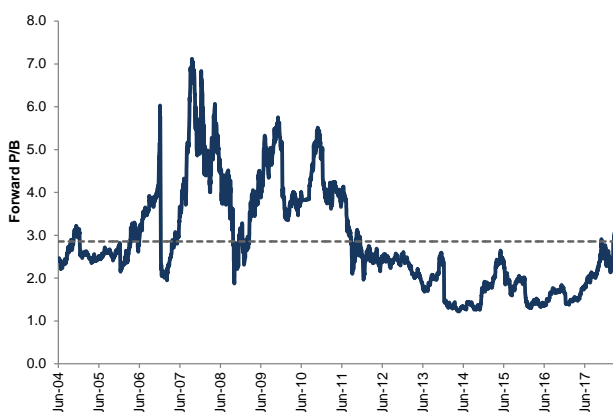
### Peers comparison

Company	Ticker	Price Local ccy	Rating	TP (HK\$)	P/E		P/B		ROE		P/EV (Group)	
					2018E	2019E	2018E	2019E	2018E	2019E	2017	2018E
<b>HK Peers</b>												
China Life	2628 HK	21.80	Buy	36.4	15.9	13.3	1.5	1.4	10%	11%	0.7	0.6
Ping An	2318 HK	81.65	Buy	113.4	16.1	14.0	2.7	2.2	18%	17%	1.5	1.3
China Pacific	2601 HK	34.60	Buy	60.9	17.0	12.5	1.8	1.7	11%	14%	0.9	0.7
New China Life	1336 HK	35.80	Buy	62.7	18.6	10.7	1.4	1.2	10%	12%	0.6	0.5
China Taiping *	966 HK	25.65	NR	n.a.	12.0	10.1	1.2	1.1	11%	12%	n.a.	n.a.
PICC Group *	1339 HK	3.55	NR	n.a.	6.6	6.2	0.8	0.7	11%	12%	n.a.	n.a.
PICC P&C *	2328 HK	13.32	NR	n.a.	7.0	6.4	1.0	0.9	16%	15%	n.a.	n.a.
China Re *	1508 HK	1.67	NR	n.a.	9.0	7.9	0.7	0.7	8%	9%	n.a.	n.a.
AIA *	1299 HK	68.85	NR	n.a.	18.7	16.6	2.3	2.1	13%	13%	n.a.	n.a.
<b>Average</b>					<b>13.7</b>	<b>11.1</b>	<b>1.6</b>	<b>1.4</b>	<b>12%</b>	<b>13%</b>	<b>1.0</b>	<b>0.8</b>
<b>Global Peers *</b>												
CHINA LIFE	2823 TT	32.00	NR	NR	11.6	11.1	1.2	1.2	11%	10%	n.a.	n.a.
GREAT-WEST LIFEC	GWO CN	33.82	NR	NR	11.3	10.3	1.6	1.5	15%	15%	n.a.	n.a.
MUENCHENER RUE-R	MUV2 GR	196.50	NR	NR	11.9	10.7	1.0	1.0	9%	10%	n.a.	n.a.
HANNOVER RUECK S	HNR1 GR	115.40	NR	NR	13.2	11.7	1.5	1.5	12%	13%	n.a.	n.a.
CNP ASSURANCES	CNP FP	21.24	NR	NR	10.9	10.3	0.8	0.8	8%	8%	n.a.	n.a.
METLIFE INC	MET US	47.61	NR	NR	9.7	8.7	0.9	0.8	10%	10%	n.a.	n.a.
PRUDENTIAL PLC	PRU LN	1862.50	NR	NR	12.7	11.4	2.7	2.5	20%	21%	n.a.	n.a.
AFLAC INC	AFL US	45.17	NR	NR	11.5	11.0	1.4	1.3	12%	12%	n.a.	n.a.
MANULIFE FIN	MFC CN	24.40	NR	NR	9.5	8.7	1.2	1.1	12%	13%	n.a.	n.a.
ALLIANZ SE-VINK	ALV GR	192.60	NR	NR	11.1	10.6	1.2	1.2	11%	11%	n.a.	n.a.
SAMSUNG LIFE INS	032830 KS	117000.00	NR	NR	13.5	12.6	0.7	0.7	5%	5%	n.a.	n.a.
AEGON NV	AGN NA	6.11	NR	NR	9.3	8.8	0.6	0.6	7%	7%	n.a.	n.a.
<b>Average</b>					<b>11.4</b>	<b>10.5</b>	<b>1.2</b>	<b>1.2</b>	<b>11%</b>	<b>11%</b>	<b>n.a.</b>	<b>n.a.</b>

Source: Company data, CMS (HK) estimates; Price as of April 25, 2018

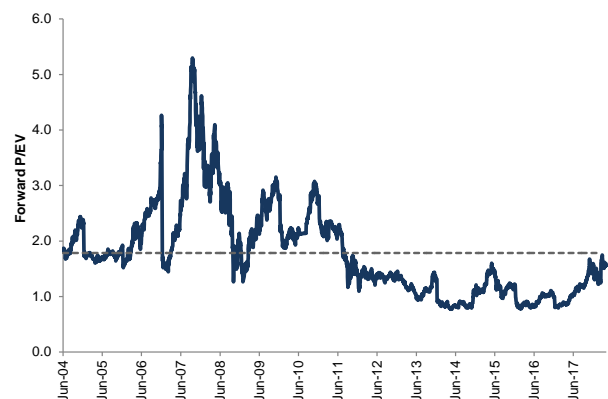
### Historical Forward P/B and P/EV charts

Figure 1: Historical forward P/B of Ping An insurance



Source: Company data, CMS (HK)

Figure 2: Historical forward P/EV of Ping An insurance



Source: Bloomberg, CMS (HK)

## Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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