

Company Report

Ping An insurance group (2318 HK)

Improved NBV YoY-growth; Maintain BUY

- 1H18 NBV YoY-growth turned positive; Life agent headcount up 1% HoH
- 1H18 net profit up 33.8% and total comprehensive income up 8.9% YoY
- Maintain BUY

Overall 1H18 results positive

1) 1H18 shareholders' net profit totalled RMB58.1bn (EPS RMB3.26), up 33.8% YoY. ROE (not annualized) came in at 11.7%; 2) 1H18 life and health NBV came in at RMB38.8bn, up 0.2% YoY compared with down 7.5% YoY in 1Q18. Life agent headcount up 1% HoH. NBM on FYP growth from 34.5% in 1H17 to 38.5% in 1H18; 3) P&C insurance posted a stable combined ratio of 95.8%, compared with 95.9% in 1Q18. Overall, we like Ping An's 1H18 results for its improved performance and high ROE. In particular, its NBV growth turned positive as we expected, and it managed to maintain a stable life insurance agent force in 1H18. Ping An's agency-channel FYP in July increased 15% YoY. We expect Ping An's NBV growth to further improve at 2018-end.

Management guidance

1) Previously the management indicated that NBV growth would improve QoQ in 2018, and targeted a positive NBV growth for 2018. This is evidenced by its 1H18 results; 2) despite stable P&C combined ratio, previously the mgmt. indicated they were closely watching the development of P&C market as competition may further intensify due to marketization of automobile insurance; and 3) Fintech and healthtech business are making larger contribution to the group's operating profit.

Valuation and risk

Stock is trading at ~2.0x 2018E P/B. We maintain our Buy rating with TP HK\$109.0 representing ~1.7x 2018E P/EV for the company, given that: 1) we like Ping An's 1H18 results as it delivered enhanced life product structure, improved NBV growth and high ROE; 2) with its extensive agent network, Ping An has the competitive advantage in selling protection-type life insurance. We expect Ping An's NBV growth to further improve at 2018-end; and 3) valuation is not demanding, as it is trading at low end of its historical valuation range. Key catalyst: improved NBV growth at 2018-end. Key downside risks: adverse capital market, higher-than-expected life insurance competition.

Financials

Year ended 31 Dec (RMBmn)	2016	2017	2018E	2019E	2020E
Total revenues	774,488	974,570	1,158,387	1,325,302	1,526,271
Shareholders' net profit	62,394	89,088	96,689	114,450	133,650
EPS (Rmb)	3.49	4.99	5.29	6.26	7.31
BVPS (Rmb)	20.98	25.89	28.61	34.88	42.19
P/E (x)	16.29	11.40	10.75	9.08	7.78
P/B (x)	2.71	2.20	1.99	1.63	1.35
P/EV (x)	1.63	1.26	1.09	0.93	0.79
ROE (%)	17.4	20.8	19.4	19.7	19.0

Sources: Company data, CMS (HK) estimates

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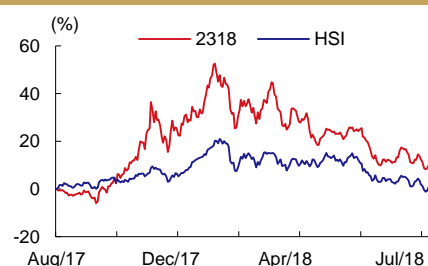
WHAT'S NEW

n.a.

BUY

Previous	BUY
Price	HK\$70.35
12-month Target Price (Potential up/downside)	HK\$109.00 (+55%)
Previous	HK\$109.0

Price Performance



Source: Bigdata

%	1m	6m	12m
2318 HK	(1.5)	(18.6)	20.2
HSI	(2.2)	(10.6)	2.0

Sector: Insurance

Hang Seng Index	27753
HSCEI	10632

Key Data

52-week range (HK\$)	58.85-98.85
Market cap (HK\$ mn)	1286015
Avg. daily volume (mn)	51.93

Shareholding Structure

CHAROEN POKPHAND GROUP	29.8%
JPMORGAN CHASE&CO	6.5%
No. of shares outstanding (mn)	18280
Free float	69.0%

Sources: Bloomberg

Focus charts

Figure 1: 1Q18 life insurance performance

(RMBmn)	Ping An (2318 HK)	China Life (2628 HK)	CPIC (2601 HK)	NCI (1336 HK)
Shareholders' net profit YoY-growth (1Q18 vs 1Q17)	12%	121%	87%	38%
ROE (not annualized ,1Q18)	5.3%	4.2%	2.7%	4.0%
Shareholders' comprehensive income YoY-growth (1Q18 vs 1Q17)	-15%	161%	316%	-28%
Agency channel performance				
Life agent headcount growth (1Q18 vs 2017)	-2%	n.a.	n.a.	n.a.
Agency Channel regular FYP YoY-growth (1Q18 vs 1Q17)	n.a.	n.a.	-30%	-50%
Life per-agent NBV productivity per year* (2017, RMB)	53,950	39,126	35,689	35,012
Life NBV YoY-growth(1Q18 vs 1Q17)	-7.5%	n.a.	n.a.	n.a.
1Q18 net investment yield (annualized)	3.70%	n.a.	n.a.	n.a.
1Q18 total investment yield (annualized)	3.70%	3.94%	n.a.	4.30%

Sources: Company data, CMS (HK) *: measured by individual channel NBV/average individual channel agent headcount

Figure 2: 1H18 life insurance performance

(RMBmn)	Ping An (2318 HK)
Shareholders' net profit YoY-growth (1H18 vs 1H17)	34%
ROE (not annualized ,1H18)	11.7%
Shareholders' comprehensive income YoY-growth (1H18 vs 1H17)	9%
Agency channel performance	
Life agent headcount growth (1H18 vs 2017)	1%
Agency Channel regular FYP YoY-growth (1H18 vs 1H17)	-11%
Life per-agent NBV productivity per year* (1H18, RMB)	27,833
Life NBV YoY-growth(1H18 vs 1H17)	0.2%
1H18 net investment yield (annualized)	4.20%
1H18 total investment yield (annualized)	4.00%

Sources: Company data, CMS (HK) *: measured by individual channel NBV/average individual channel agent headcount

Figure 3: 750D-MA for 10Y government bond yield



Sources: Wind, CMS (HK); Note: Assuming yield=3.6326% for the rest of year 2018

Valuation

Figure 4: Peer valuation comparison

Company	Ticker	Rating	Price TP (HK\$)		Mkt Cap (USD m)	P/EV (Group)		P/E		P/B		ROE	
			Local ccy			2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
HK Peers													
China Life	2628 HK	Buy	18.56	32.9	84,655	0.5	0.4	10.1	8.3	1.2	1.0	12.5%	13.2%
Ping An	2318 HK	Buy	69.35	109.0	158,191	1.1	0.9	10.8	9.1	2.0	1.6	19.4%	19.7%
China Pacific	2601 HK	Buy	29.90	54.6	41,402	0.7	0.6	11.3	9.5	1.4	1.2	13.4%	13.8%
New China Life	1336 HK	Buy	33.40	51.2	18,095	0.5	0.4	11.2	9.2	1.2	1.1	11.3%	12.3%
China Taiping *	966 HK	NR	24.80	n.a.	11,561	n.a.	n.a.	10.7	9.3	1.2	1.1	12.4%	12.6%
PICC Group *	1339 HK	NR	3.43	n.a.	18,646	n.a.	n.a.	7.2	6.6	0.8	0.7	11.5%	12.4%
PICC P&C *	2328 HK	NR	9.56	n.a.	27,004	n.a.	n.a.	8.4	7.6	1.2	1.1	15.4%	15.0%
China Re *	1508 HK	NR	1.62	n.a.	8,698	n.a.	n.a.	9.7	8.2	0.7	0.7	8.2%	9.2%
AIA *	1299 HK	NR	67.15	n.a.	105,459	n.a.	n.a.	18.9	16.3	2.3	2.1	12.9%	13.6%
Average						0.7	0.6	10.9	9.3	1.3	1.2	13.0%	13.5%
Global Peers *													
CHINA LIFE	2823 TT	NR	29.90	NR	3,908	n.a.	n.a.	10.7	10.6	1.2	1.2	11.6%	11.2%
GREAT-WEST LIFE	GWOC CN	NR	32.66	NR	24,793	n.a.	n.a.	10.7	10.0	1.5	1.4	14.6%	14.4%
MUENCHENER RUE-R	MUV2 GR	NR	184.90	NR	31,847	n.a.	n.a.	10.8	10.1	1.0	1.0	9.0%	9.6%
HANNOVER RUECK S	HNR1 GR	NR	114.50	NR	15,904	n.a.	n.a.	13.3	11.6	1.6	1.5	11.9%	12.9%
CNP ASSURANCES	CNP FP	NR	19.91	NR	15,746	n.a.	n.a.	10.1	9.7	0.8	0.7	7.7%	8.0%
METLIFE INC	MET US	NR	46.12	NR	45,882	n.a.	n.a.	8.9	8.4	1.0	0.9	11.5%	11.8%
PRUDENTIAL PLC	PRU LN	NR	1731.00	NR	57,531	n.a.	n.a.	11.4	10.5	2.5	2.7	23.0%	23.5%
AFLAC INC	AFL US	NR	46.78	NR	35,918	n.a.	n.a.	11.5	11.2	1.5	1.4	13.0%	13.0%
MANULIFE FIN	MFC CN	NR	24.19	NR	36,841	n.a.	n.a.	9.1	8.4	1.1	1.0	12.4%	12.5%
ALLIANZ SE-VINK	ALV GR	NR	185.22	NR	91,708	n.a.	n.a.	10.5	9.9	1.2	1.1	11.7%	12.0%
SAMSUNG LIFE INS	032830 KS	NR	91100.00	NR	16,291	n.a.	n.a.	8.0	10.9	0.5	0.5	6.8%	4.7%
AEGON NV	AGN NA	NR	5.22	NR	12,683	n.a.	n.a.	7.8	7.3	0.5	0.5	6.0%	7.2%
Average						n.a.	n.a.	10.2	9.9	1.2	1.2	11.6%	11.7%

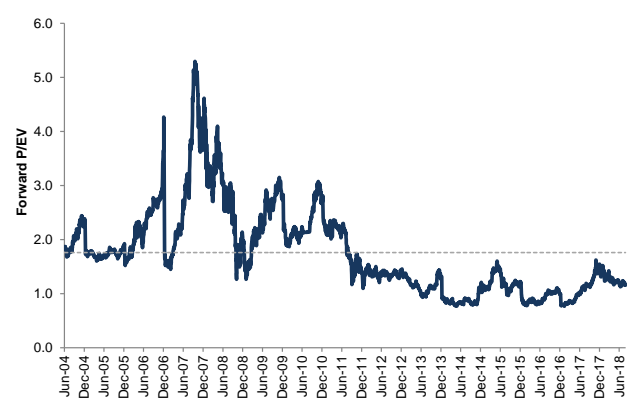
Note: Based on 20 Aug 2018 closing price. *: estimates based on Bloomberg consensus
Sources: Bloomberg, Company data, CMS (HK) estimates

Figure 5: Forward P/B of Ping An insurance



Sources: Company data, CMS (HK)

Figure 6: Forward P/EV of Ping An insurance



Sources: Company data, CMS (HK)

Financial Summary: Ping An (2318 HK)

Balance Sheet

Year ended 31 Dec (RMBmn)	2016	2017	2018E	2019E	2020E
Property, plant and equipment	40,143	47,067	47,067	47,067	47,067
Investment properties	36,568	40,108	46,124	53,043	60,999
Intangible assets	63,017	60,981	60,981	60,981	60,981
Investments in associates and jointly controlled entities	48,955	86,207	67,422	78,251	90,956
Debt financial assets	1,342,866	1,628,508	1,760,866	2,029,255	2,334,709
Equity financial assets	426,908	630,676	706,802	822,665	958,229
Term deposits	191,660	161,850	165,669	188,620	214,458
Statutory deposits	318,860	318,236	327,462	365,984	406,847
Asset management schemes	329,256	239,351	258,804	298,251	343,145
Debt schemes and trust schemes	319,037	465,191	503,000	579,666	666,921
Wealth management products	34,841	43,588	47,131	54,314	62,490
Policy loans	64,634	83,203	89,965	103,678	119,284
Derivative financial assets	8,836	16,192	16,192	16,192	16,192
Loans and advances to customers	1,458,291	1,660,864	1,703,214	1,901,216	2,110,123
Policy account assets	43,790	42,884	42,884	42,884	42,884
Financial assets purchased under reverse repurchase agreements	65,657	99,296	107,366	123,731	142,356
Premium receivables	35,325	45,694	45,694	45,694	45,694
Accounts receivables	22,353	71,923	64,498	73,874	83,772
Financial lease receivable	78,056	112,028	73,098	96,475	120,941
Deferred tax assets	28,292	40,141	40,141	40,141	40,141
Reinsurers' share of insurance liabilities	15,269	15,633	16,415	17,235	18,097
Other assets	234,806	261,413	238,198	314,664	399,464
Cash and amounts due from banks and other financial institutions	369,483	322,041	329,640	375,307	426,717
Total assets	5,576,903	6,493,075	6,758,632	7,729,187	8,812,466
Insurance contract liabilities	1,625,473	1,932,969	2,214,009	2,543,994	2,930,628
Investment contract liabilities for policyholders	44,930	50,309	58,079	67,169	77,811
Due to banks and other financial institutions	584,794	780,530	727,367	833,317	945,043
Other financial liabilities held for trading	25,883	14,060	14,060	14,060	14,060
Customer deposits and payables to brokerage customers	1,894,377	1,952,695	2,019,306	2,245,483	2,482,868
Financial assets sold under agreements to repurchase	89,166	133,981	144,793	165,276	188,802
Policyholder dividends payable	39,216	45,622	52,672	60,919	70,573
Accounts payable	8,565	5,468	4,079	4,839	5,700
Insurance payables	113,387	114,108	130,095	148,106	169,264
Bonds payable	349,825	451,283	438,235	497,653	560,776
Derivative financial liabilities	8,715	17,950	17,950	17,950	17,950
Other liabilities	272,834	351,517	227,984	289,399	355,505
Current income tax liabilities	22,003	28,775	28,775	28,775	28,775
Deferred tax liabilities	11,274	25,891	25,891	25,891	25,891
Total liabilities	5,090,442	5,905,158	6,103,296	6,942,829	7,873,646
Share capital	18,280	18,280	18,280	18,280	18,280
Reserves and retained earnings	365,169	455,071	504,791	619,241	752,891
Shareholders' equity	383,449	473,351	523,071	637,521	771,171
Total equity	486,461	587,917	655,336	786,358	938,820

Cashflow Statement

Year ended 31 Mar (RMBmn)	2016	2017	2018E	2019E	2020E
Net cash from operating activities	227,821	121,283	230,713	455,679	520,703
Net cash from investing activities	(330,616)	(354,767)	(310,730)	(519,837)	(580,204)
Net cash from financing activities	133,004	178,588	100,993	109,825	110,911
Net increase in cash and cash equivalents	30,209	(54,896)	20,976	45,667	51,410
Cash and cash equivalents at end of year	367,552	308,664	329,640	375,307	426,717

Profit & Loss Statement

Year ended 31 Dec (RMBmn)	2016	2017	2018E	2019E	2020E
Net premiums earned and policy fees	441,620	572,990	748,670	880,678	1,029,368
Reinsurance commission income	6,353	6,728	6,691	6,349	6,433
Interest income from banking operations	131,075	147,386	162,345	166,263	185,624
Fees and commission income from non-insurance	39,859	44,407	48,848	53,732	59,106
Investment income	115,053	152,101	161,873	184,953	212,085
Share of profits and losses of associates and jointly controlled entities	(1,370)	7,145	4,948	5,816	5,996
Other income	41,898	43,813	25,013	27,511	27,659
Total revenues	774,488	974,570	1,158,387	1,325,302	1,526,271
Insurance benefits and claims (net of reinsurers' share)	(324,814)	(427,243)	(563,454)	(661,727)	(773,441)
Commission expenses on insurance operations	(78,754)	(114,587)	(122,416)	(140,111)	(161,386)
Commission expenses on non-insurance operations	(4,392)	(6,599)	(7,298)	(7,689)	(8,532)
Interest expenses on banking operations	(52,937)	(72,501)	(79,723)	(89,071)	(98,867)
Loan loss provisions, net of reversals	(45,491)	(40,814)	(44,618)	(39,561)	(43,715)
General and administrative expenses	(141,007)	(145,126)	(165,233)	(184,542)	(208,909)
Foreign exchange gains	1,401	(128)	(616)	(678)	(745)
Other expenses	(21,939)	(21,665)	(15,119)	(15,843)	(15,449)
Total benefits, claims and expenses	(667,933)	(828,663)	(998,479)	(1,139,220)	(1,311,044)
Finance costs	(12,144)	(11,167)	(12,148)	(13,144)	(13,943)
Profit before income tax	94,411	134,740	150,546	176,003	204,655
Income tax expense	(22,043)	(34,762)	(38,568)	(44,980)	(52,193)
Net profit for the year	72,368	99,978	111,978	131,023	152,462
Attributable to:					
- Owners of the parent	62,394	89,088	96,689	114,450	133,650

Financial Ratios

	2016	2017	2018E	2019E	2020E
EPS for ordinary shares(Rmb)	3.49	4.99	5.29	6.26	7.31
BVPS for ordinary shares (Rmb)	20.98	25.89	28.61	34.88	42.19
Life NBV per share (Rmb)	2.78	3.68	4.11	4.59	5.31
Life EV per share (Rmb)	19.71	27.15	33.23	40.24	48.48
ROE (%)	17.4	20.8	19.4	19.7	19.0
GWP and policy fees growth YoY	21.6%	28.9%	31.1%	17.5%	16.8%
New business value growth YoY	32.2%	32.6%	11.5%	11.7%	15.7%
NBV margin on FYP	37.4%	39.3%	43.9%	43.3%	43.6%

Sources: Company data, CMS (HK) estimates

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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