



Rating
Buy

Asia
Hong Kong

Banking / Finance
Life Insurance

Company
AIA

Reuters	Bloomberg	Exchange	Ticker
1299.HK	1299 HK	HSI	1299

Date
13 September 2018

Company Update

Price at 12 Sep 2018 (HKD)	62.80
Price target-12mth (HKD)	76.20
52-week range (HKD)	74.35 - 57.60
HANG SENG INDEX	26,423

Defensive quality to shine through, reiterate Buy

Robust growth outlook intact despite macro uncertainties

AIA shares have been affected by Asian currency weakness and concerns about the impact of the Common Reporting System (CRS) on its HK business. We see these as overdone and we recommend that investors buy on weakness. Although there are macro uncertainties, we believe AIA should remain relatively defensive given its strong balance sheet and robust growth outlook. We expect AIA's VNB momentum to improve to 25% yoy in 2H18E, vs. 22% (AER) in 1H18 (or 17% on CER), driven by a growth pick-up in HK (22%, vs. 10% in 1H18) and continuous strong momentum in China. AIA shares are trading at 1.6x 2019E P/EV (vs. a three-year avg of 1.6x), which we see as attractive. With its unique competitive position in HK/China and its strong brand equity across Asia, we see AIA as a long-term outperformer in Asia's life insurance markets. We reiterate Buy with a target price of HK\$76.2/share (21% potential upside).

HK growth to pick up

We believe concerns about CRS, which requires HK insurers to report insurance account information to the tax authorities in China starting Sept-2018, are overdone. Our channel checks indicate continued strong sales in HK, driven by demand for protection and long-term savings policies, which should not be affected by CRS. We note that offshore ANP turned a corner in 2Q18 with growth of 4% yoy, after declining for three consecutive quarters since 3Q17 (down 25-56% yoy). We expect VNB momentum to pick up in 2H18E (+22% yoy, vs. +10% in 1H18), helped by (i) a relatively low base last year, (ii) continued strengthening of the USD, which should boost mainland Chinese visitors' (MCV) demand, and (iii) risk aversion amidst the current weak investment market sentiment, which should increase the appeal of insurance policies given their stable return and protection element. This, along with continued strong growth in China (DBe: +42% yoy), should support robust growth in 2H18E (DBe: +25% yoy).

Macro headwinds to weigh on shares but impact manageable

Currencies and equity markets in AIA's key markets have continued to weaken in 2H18, which will inevitably put pressure on AIA's EV and VNB. We have lowered our 2018E/2019E/2020E EV by 2.7%/2.6%/2.5% to factor in investment losses of ~US\$1bn in 2H18E (vs. US\$1.4bn in 1H18) and currency losses of US \$746mn (US\$754mn). We note that the impact on VNB (based on yoy changes in currencies) should be relatively muted in 2H18E (~1%), hence we have left our VNB forecasts unchanged. Based on company disclosure, for every 10% change

Valuation & Risks

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Key changes

TP	74.10 to 76.20	↑	2.8%
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Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-9.3	-12.5	5.3
HANG SENG INDEX	-6.9	-15.0	-5.5

Source: Deutsche Bank

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in equity prices, AIA's EV would change by 1.5%. For every 10% change in local currencies (against USD), its EV would change by 6.4% and VNB by 6.2%.

Reiterating Buy; raising target price to HK\$76.2/shr

Besides lowering our EV forecasts, we have also lowered our target NB multiple to 12.2x (from 15.1x previously) to account for macro uncertainties. However, we have raised our target price by 3% to HK\$76.2/share, mainly driven by a roll forward to 2019E (+16%), which more than offsets the lower EV (-3%) and target NB multiple (-10%). We continue to see AIA as a long-term core holding given its strong brand equity in Asia and management track record. Investment risks include significant weakness in Asian investment markets, unfavorable regulatory developments, and weaker-than-expected growth.

Forecasts and ratios

Year End Nov 30	2016A	2017A	2018E	2019E	2020E
Net profit (USDm)	4,164.0	6,496.0	4,038.5	6,124.3	6,841.7
Group EV (USDm)	42,114.0	50,779.0	53,480.4	60,516.4	68,698.6
VNB (USDm)	2,750.0	3,206.0	3,955.5	4,710.2	5,552.3
PEV (x)	1.71	1.66	1.81	1.60	1.41

Source: Deutsche Bank estimates, company data



Robust growth to continue

HK – CRS not a concern; momentum to pick up

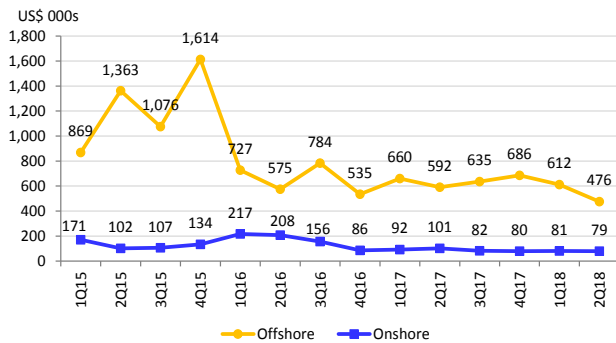
Muted impact from Common Reporting System (CRS)

Local news in China on CRS has raised concerns about AIA’s HK business. On Sept 4, Xinhua News highlighted that in order to comply with CRS, HK insurers will start to report insurance account information, such as cash value of insurance policies and policyholder information, to the State Administration of Taxation in China from Sept onwards. We note that the CRS agreement was rolled out in Jan-2017, so this is not fresh news. However, the renewed attention on the issue has raised concerns that this may affect mainland Chinese visitors’ (MCVs) appetite for HK insurance companies.

In our view, the impact of CRS should be fairly limited as it is meant to improve supervision/disclosure rather than restrict activities, and should not affect real demand for long-term protection and savings policies. While this may affect large ticket size policies, which could be used to move money out of China, these policies are no longer common since the strict implementation of the Union Pay ban and other capital control measures in early 2017. Furthermore, HK insurers such as AIA have adopted strict KYC policies, hence we see limited impact from CRS implementation.

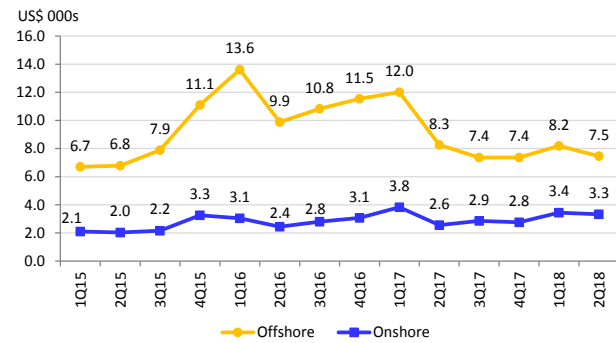
As shown in the following charts, the size of both the single premium and regular premium policies of offshore buyers (mainly MCVs) has decreased over the years.

Figure 1: AIA HK – Single FYP per policy



Source: Hong Kong Insurance Authority, Deutsche Bank

Figure 2: AIA HK – Regular FYP per policy



Source: Hong Kong Insurance Authority, Deutsche Bank

Expect improved momentum in HK business in 2H18E

We note that AIA HK’s offshore ANP started to recover in 2Q18 with growth of 4% yoy, after declining since 3Q17. We expect the momentum to pick up in 2H18E, helped by (i) a relatively low base last year, (ii) continued strength of USD, which should boost MCV demand, and (iii) risk aversion amidst the current weak investment market sentiment, which increases the appeal of insurance policies given their stable return and protection element.

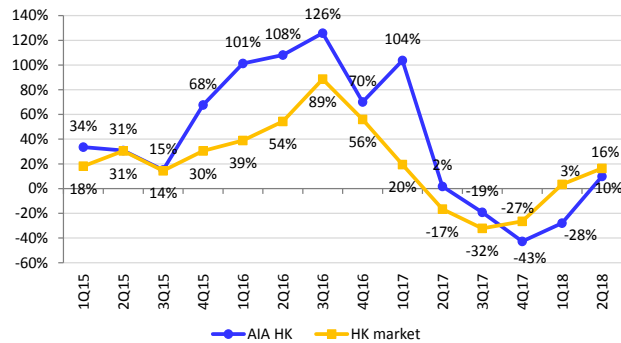
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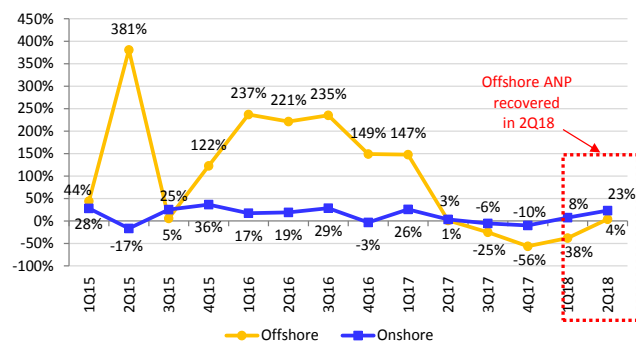


Figure 3: ANP growth recovery – AIA vs. Industry



Source: Hong Kong Insurance Authority, Deutsche Bank

Figure 4: AIA HK – Offshore ANP growth recovered



Source: Hong Kong Insurance Authority, Deutsche Bank

Expect VNB growth to accelerate in 2H18E

Given the growth recovery in the HK market and continued strong momentum in China, we expect to see VNB growth accelerate in 2H18E to 25.0% (vs. 21.7% in 1H18, or 17.0% on CER). We forecast a growth pick-up in HK from 10.1% in 1H18 to 22.0% in 2H18E. We forecast 2018E VNB growth at 23.4% (21.0% on CER) and 2019-20E growth at 19.1%/17.9%.

Figure 5: AIA - VNB forecast

US\$ mn	2016*	2017*	2018E	2019E	2020E	1H17*	2H17*	1H18	2H18E
Hong Kong	1,161	1,384	1,603	1,843	2,083	723	661	796	807
Thailand	384	381	430	464	502	179	202	204	226
Singapore	316	297	374	434	486	138	159	178	196
Malaysia	198	215	262	304	350	106	109	124	138
China	536	725	1,051	1,397	1,816	377	348	556	495
Other markets	321	395	442	508	585	185	210	201	241
VNB - Gross	2,916	3,397	4,162	4,952	5,822	1,708	1,689	2,059	2,103
VNB - Net	2,750	3,206	3,955	4,710	5,552	1,605	1,601	1,954	2,001
YoY growth									
Hong Kong	41.6%	34.3%	15.8%	15.0%	13.0%	54.2%	17.1%	10.1%	22.0%
Thailand	-2.8%	-0.8%	12.9%	8.0%	8.0%	-1.1%	-0.5%	14.0%	11.9%
Singapore	-7.3%	-1.6%	26.0%	16.0%	12.0%	-11.2%	7.3%	29.0%	23.5%
Malaysia	15.1%	11.1%	22.0%	16.0%	15.0%	15.6%	7.4%	17.0%	27.0%
China	46.4%	54.5%	44.9%	33.0%	30.0%	56.1%	52.7%	47.5%	42.1%
Other markets	8.4%	27.1%	11.9%	15.0%	15.0%	35.3%	21.1%	8.6%	14.8%
VNB - Gross	22.0%	27.1%	22.5%	19.0%	17.6%	35.8%	19.4%	20.6%	24.5%
VNB - Net	25.1%	27.7%	23.4%	19.1%	17.9%	39.1%	18.1%	21.7%	25.0%
VNB - Net- CER	28.0%	28.0%	21.0%	19.1%	17.9%	42.0%	17.7%	17.0%	25.0%

Note: *2016-17, 1H17-2H17 growth are based on Nov-end data

Source: Company data, Deutsche Bank estimates

Manageable impact from macro headwinds

Rising concerns about USD appreciation and Asian equity markets

The USD has strengthened against Asian currencies, especially since 2H18. The current yoy appreciation is still mild at ~0.4%, but if the FX rate is sustained at current levels, Asian currencies could see more depreciation in the coming quarters. USD strengthening has raised investors' concerns about ASEAN markets, together with weak equity markets. Asian equity markets were down 7.0% in 1H18, led by China (-13%) and Thailand (-9%).

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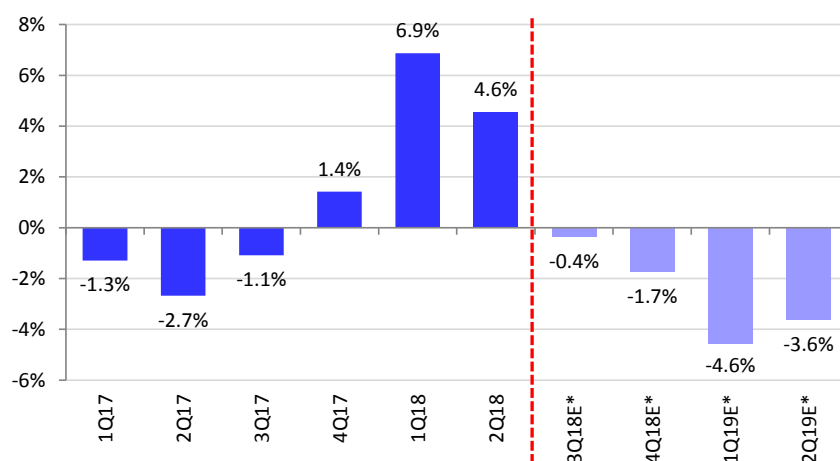


Figure 6: Macro factor - 2018E performance by market

	Equity markets			Bond yields (bps)			Currencies (HoH)			Currencies (Avg YoY)		
	1H18	2H18E	2018E	1H18	2H18E	2018E	1H18	2H18E	2018E	1H18	2H18E	2018E
Hong Kong*	-3.2%	-5.5%	-8.5%	45.5	3.5	49.0	-0.4%	0.0%	-0.4%	-0.8%	-0.5%	-0.6%
Thailand	-9.0%	6.6%	-3.0%	25.7	16.3	42.0	-1.6%	0.9%	-0.7%	9.4%	0.1%	5.7%
Singapore	-3.9%	-2.9%	-6.7%	53.0	-13.2	39.9	-1.9%	-1.2%	-3.1%	5.8%	-0.7%	3.2%
Malaysia	-5.9%	6.8%	0.6%	28.6	-11.3	17.3	0.2%	-2.5%	-2.3%	11.5%	3.3%	8.2%
China	-12.9%	-5.7%	-17.9%	-42.3	13.9	-28.4	-1.7%	-3.2%	-4.9%	8.0%	-2.2%	4.3%
Other Markets	-7.1%	1.2%	-6.1%	57.3	10.0	67.3	-5.2%	-2.0%	-7.1%	0.3%	-4.5%	-1.1%
Korea	-5.7%	-1.4%	-7.1%	8.8	-24.6	-15.8	-3.9%	-0.6%	-4.5%	6.2%	-0.2%	4.0%
Aus	2.1%	0.6%	2.7%	0.1	-8.0	-7.9	-5.1%	-3.1%	-8.1%	2.2%	-5.7%	-0.7%
Indo	-8.8%	-1.6%	-10.2%	147.8	72.3	220.1	-5.3%	-4.0%	-9.1%	-3.2%	-7.5%	-4.1%
Phil	-15.9%	7.4%	-9.8%	72.3	0.3	72.6	-6.4%	-0.4%	-6.8%	-3.9%	-4.7%	-3.7%
Average	-7.0%	0.1%	-6.9%	28.0	3.2	31.2	-1.8%	-1.3%	-3.1%	5.7%	-0.8%	3.3%

Source: Bloomberg Finance LP, Deutsche Bank estimates

Figure 7: AIA - Currency impact on VNB (average YoY)



Note: 3Q18-2Q19E assumes FX stays at current level (vs. historical average)

Source: Bloomberg Finance LP, Deutsche Bank estimates

Manageable impact

We believe the USD strengthening should not affect the fundamentals of AIA's business, given stable local demand. Based on 1H18 sensitivities, for every 5% US\$ appreciation, EV would decline 3.2% and VNB 3.1%, which is manageable.

Figure 8: Sensitivities to investment market movements

1H18 (US\$ mn)	Impact on EV	As % of EV	Impact on VNB	As % of VNB
+50bp shift in interest rates	342	0.7%	91	4.7%
-50bp shift in interest rates	-296	-0.6%	-111	-5.7%
+10% change in equity prices	783	1.5%	na	na
-10% change in equity prices	-780	-1.5%	na	na
+5% in local currencies against US\$	1,669	3.2%	61	3.1%
-5% in local currencies against US\$	-1,669	-3.2%	-61	-3.1%

Source: Company data, Deutsche Bank

Factoring macro headwinds in EV growth

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We expect AIA's EV growth to remain slow given the sustained macro headwinds. We forecast 2.8% hoh growth in 2H18E EV, on the back of inv return variance of US\$-1,054mn and an FX impact of US\$-746mn. We factor in investment return variance of US\$-2.5bn for 2018E and an FX impact of US\$-1.5bn. As a result, we forecast EV growth of 5.3% in 2018E and 13.2%/13.5% in 2019-20E.

Figure 9: AIA - EV growth forecast

US\$ mn	2016*	2017	2018E	2019E	2020E	1H17	2H17	1H18	2H18E
Embedded Value	42,114	50,779	53,480	60,516	68,699	47,035	50,779	52,012	53,480
- Growth (YoY/HoH)	10.3%	18.5%	5.3%	13.2%	13.5%	9.8%	8.0%	2.4%	2.8%
EV growth drivers									
Expected return	7.5%	7.7%	7.5%	7.6%	7.7%	3.9%	3.5%	3.8%	3.6%
VNB	7.2%	7.5%	7.8%	8.8%	9.2%	3.7%	3.4%	3.8%	3.8%
Operating experience variance	1.0%	0.8%	0.7%	0.4%	0.3%	0.5%	0.3%	0.7%	0.0%
Operating assumption changes	0.1%	-0.2%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%
Interest costs	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.1%	-0.2%	-0.1%	-0.2%
EV operating profit growth	15.4%	15.5%	15.7%	16.4%	16.9%	7.9%	7.0%	8.2%	7.3%
Investment return variances	-0.1%	3.1%	-4.9%	0.0%	0.0%	2.4%	0.6%	-2.8%	-2.0%
Changes in economic assumptions	-0.6%	-0.4%	0.0%	0.0%	0.0%	0.0%	-0.4%	0.0%	0.0%
Other non-operating variances	-0.1%	-0.8%	0.7%	0.0%	0.0%	-0.5%	-0.3%	0.7%	0.0%
EV profit growth	14.6%	17.4%	11.5%	16.4%	16.9%	9.8%	6.9%	6.1%	5.3%
Capital injection/dividends	-2.9%	-3.2%	-3.4%	-3.5%	-3.5%	-2.3%	-0.8%	-2.2%	-1.1%
Acquisitions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Effect of changes in exchange rates	-1.4%	4.0%	-3.0%	0.0%	0.0%	2.1%	1.8%	-1.5%	-1.4%
Others	0.0%	0.3%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%
EV growth - total	10.3%	18.5%	5.3%	13.2%	13.5%	9.8%	8.0%	2.4%	2.8%

Note: *2016 number and growth are based on Nov-end data

Source: Company data, Deutsche Bank estimates

Valuation

Maintaining Buy with a target price of HK\$76.2/shr

We have lowered our 2018-20E EV by 2.7%/2.6%/2.5% to factor in investment losses of ~US\$1bn in 2H18E (vs. US\$1.4bn in 1H18) and currency losses of US\$746mn (US\$754mn). We have also lowered our target NB multiple to 12.2x (from 15.1x previously) to account for macro uncertainties. However, we have raised our target price by 4% to HK\$76.2/share, mainly driven by a roll forward to 2019E (+16%), which more than offsets the lower EV (-3%) and target NB multiple (-10%). We use appraisal value to value AIA, which is the sum of our 2019E embedded value of US\$60,516mn (HK\$39.1/share) and the value of future new business of US\$57,320mn (HK\$37.0/share), which is based on a target NB multiple of 12.2x (assuming 10.0% VNB growth for 10 years and 0% thereafter, and a risk discount rate of 15%).

Figure 10: AIA – Target price

2019E	US\$ mn	HK\$ (Per shr)	Note
Embedded value (i)	60,516	39.1	
VNB	4,710	3.0	
NB multiple	12.2	12.2	10% VNB growth for 10 yrs, 0% thereafter
Value of future NB (ii)	57,320	37.0	
Appraisal value: (i) + (ii)	117,837	76.2	Implied 2019E P/EV of 1.9x

Source: Deutsche Bank estimates

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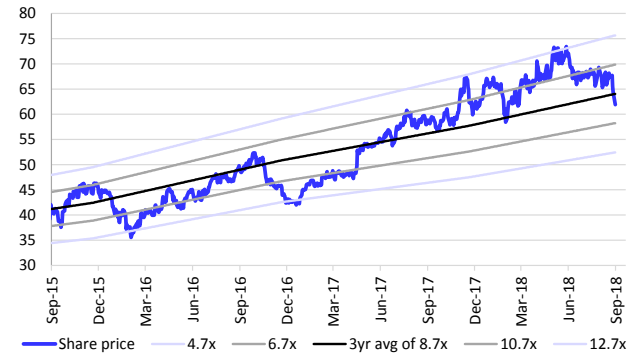


Figure 11: AIA - Historical P/EV range



Source: Bloomberg Finance LP, Company data, Deutsche Bank

Figure 12: AIA - Historical implied NB multiples range



Source: Bloomberg Finance LP, Company data, Deutsche Bank

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Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
AIA	1299.HK	62.80 (HKD) 12 Sep 2018	7, 13, 14

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

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The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Esther Chwei

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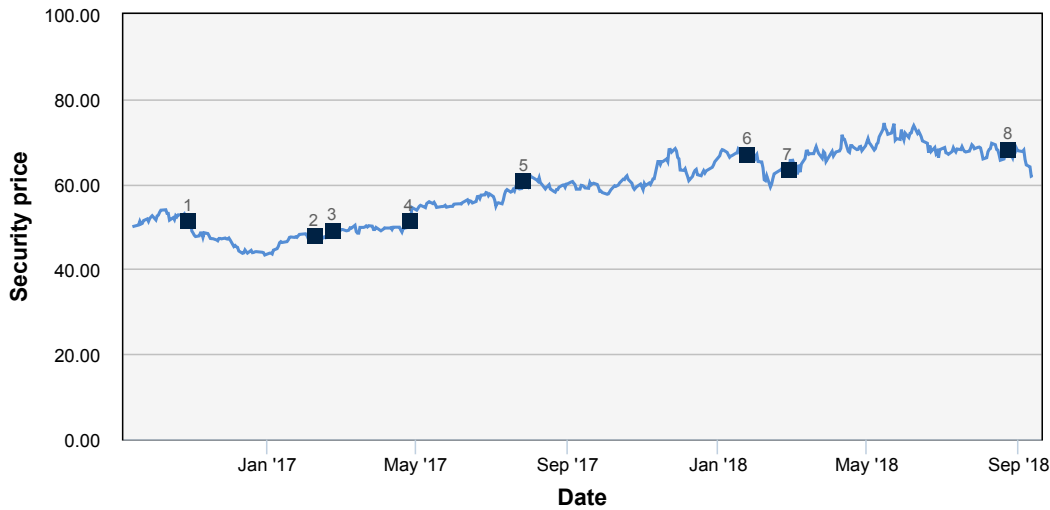
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Historical recommendations and target price. AIA (1299.HK)

(as of 09/12/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	10/30/2016	Buy, Target Price Change HKD 59.80	Esther Chwei
2.	02/09/2017	Buy, Target Price Change HKD 59.50	Esther Chwei
3.	02/24/2017	Buy, Target Price Change HKD 61.50	Esther Chwei
4.	04/27/2017	Buy, Target Price Change HKD 62.90	Esther Chwei
5.	07/28/2017	Buy, Target Price Change HKD 75.80	Esther Chwei
6.	01/25/2018	Buy, Target Price Change HKD 76.50	Esther Chwei
7.	02/27/2018	Buy, Target Price Change HKD 77.00	Esther Chwei
8.	08/24/2018	Buy, Target Price Change HKD 74.10	Esther Chwei

Equity Rating Key

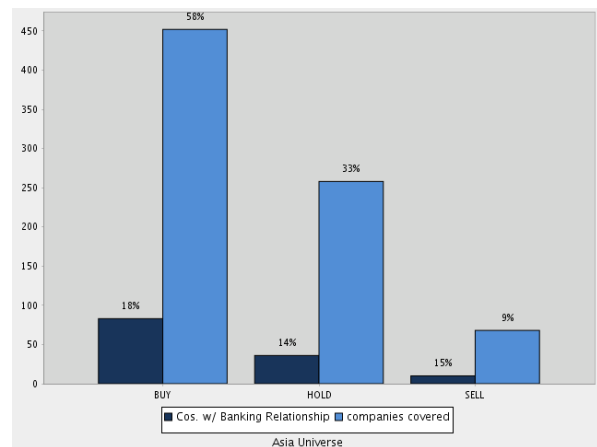
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



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Additional Information

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