

Ping An (2318 HK)

Key takeaways from Investor Day

- ❖ We attended Ping An 2018 Investor Day on core finance recently, during which the Group clarified a new framework to interpret its value and introduced strategies and achievements of its core finance business.
- ❖ **Understand value of the Group via operating profit.** Ping An began to announce operating profit in 2017, which is calculated as accounting net profit excluding short-term investment variances between actual and assumption, impact of discount rate changes and one-off material gains or losses. While the previous two are meaningful adjustments to the Group's life and health insurance business, one-off gains or losses were mostly related to its technology business. Operating profit is acknowledged as a better gauge to evaluate Ping An's life insurance business and the Group in general. Steady growth in operating profit lends support for dividend growth.
- ❖ **Remarkable ROEV growth of life insurance business.** In the past five years, Ping An achieved an average ROEV growth of 24.7%, primarily driven by i) rapid increase and generation of new business value, ii) prudent assumptions and management of insurance risks, which lead to positive operating variances. We believe the above two drivers will continue to boost value of Ping An Life. Technological application in PAL has gradually upgraded to 3.0 version. In previous 1.0 and 2.0 versions, PAL reduced service manpower by 70%, and improved productivity by 32%. In the more ambitious 3.0 version, PAL aims to save Rmb630mn training costs, expand high-performing agent team by 20%, and promote sales by Rmb2.8bn.
- ❖ **"NII+" investment strategy and PAB transformation.** (1) To deal with escalating marketing uncertainties, Ping An is dedicated to beefing up net investment income, which creates a cushion for insurance fund investment. NII increased at CAGR of 20.6% from 2008-2017. In 2017, NIY was 6.5% and NII covered 160% of life insurance claims. (2) Leveraging the Group's resources, PAB's retail transformation achieved further success - over 50% revenue are now derived from retail banking. Since 2018, revenue growth and net interest income growth has been picking up and NIM reversed declining in 2Q18.
- ❖ **Valuation.** The stock is now trading at 1.25x 1H18 Group embedded value. Core units of Ping An's technology business are worth HK\$9.9 per share, or equivalent to 13.6% of the Group's market value. Excluding the above technology business units, Ping An's P/EV valuation multiple would be 1.17x on 1H18 basis, above peers' average.

Earnings summary

(YE 31 Dec)	FY15A	FY16A	FY17A
Gross written premium (Rmb mn)	386,012	469,555	605,035
Interest income from banking (Rmb mn)	134,635	131,075	147,386
Investment income (Rmb mn)	134,922	115,053	152,101
Total income (Rmb mn)	693,220	774,488	974,570
Net profit (Rmb mn)	54,203	62,394	89,088
EPS (Rmb)	2.98	3.50	4.99
EPS CHG (%)	20.6%	17.4%	42.6%
PER (x)	21.76	18.53	13.00
PBR (x)	3.53	3.02	2.44
PEV (x)	2.14	1.81	1.40
Yield (%)	0.8%	1.2%	2.3%
ROE (%)	17.4%	17.4%	20.8%

Source: Company, Bloomberg

Not Rated

Current Price HK\$73.7

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China Insurance Sector

Mkt. Cap. (HK\$m)	1,332,014
Avg. 3mths t/o (HK\$m)	3,259
52W High/Low (HK\$)	98.5/63.5
Total Issued Shares (mn)	18,280

Source: Bloomberg

Shareholding Structure

Charoen Pokphand Group	8.02%
Shenzhen Investment Holdings	5.27%

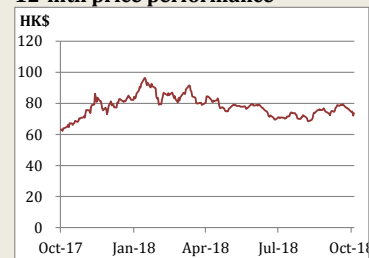
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	2.0%	4.2%
3-mth	3.9%	14.9%
6-mth	-12.2%	4.8%

Source: Bloomberg

12-mth price performance

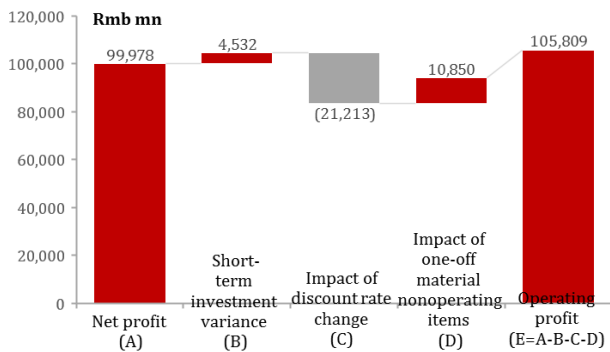


Source: Bloomberg

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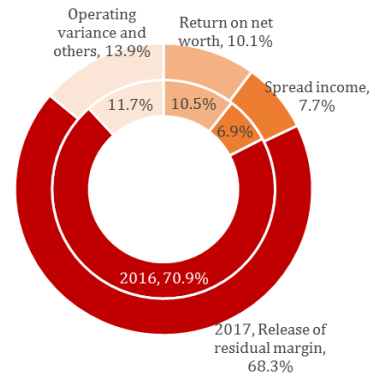
Website: www.pingan.cn

Figure 1: Movement of operating profit, 2017



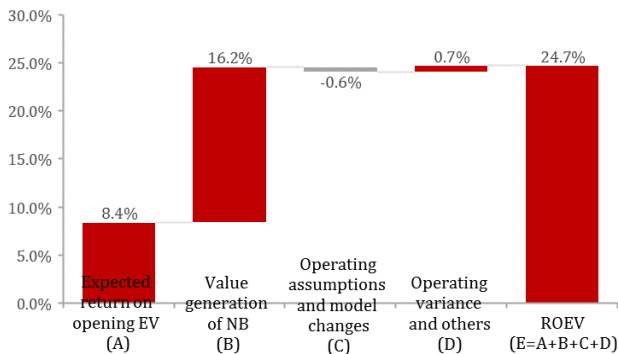
Source: Company, CMBIS.

Figure 2: In 2017, 68.3% of OP from L&H insurance business came from release of residual margin



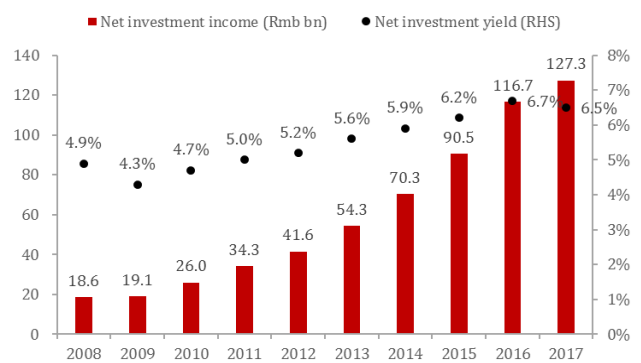
Source: Company, CMBIS.

Figure 3: Movement of ROEV, 2013-2017 average



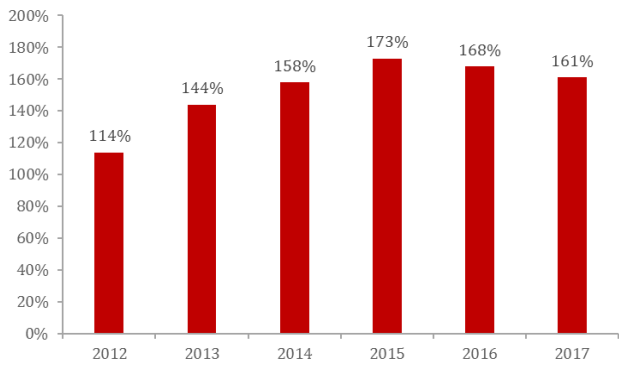
Source: Company, CMBIS.

Figure 4: NII and NIY



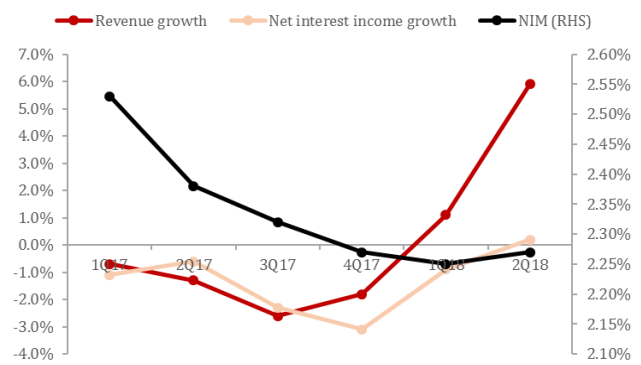
Source: Company, CMBIS.

Figure 5: NII/PAL claims



Source: Company, CMBIS.

Figure 6: PAB's transformation achieved success



Source: Company, CMBIS.

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