

**Analyst: Paul Sham**
**PING AN INSURANCE (GROUP) COMPANY OF CHINA, LTD. (中國平安)**

Sector	: Insurance	Chairman & CEO	: Mr. Ma Mingzhe
HKSE Code	: 2318	President & CFO	: Mr. Cheung Chi Yan Louis
Market Price	: HK\$49.90 (20/03/2008)		
Shares Issued	: 2,558.6m (H shares)		
Mkt. Cap.	: HK\$127,676m (H shares)		
52 weeks Hi/ Lo	: HK\$124.00 / HK\$34.70		
HSI / HSCEI	: 21,108.22 / 10,836.20 (20/03/2008)		
Main Business	: Life and non-life insurance businesses		

**SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2007**
**Final Results Highlights**

	<b>FY2007</b>	<b>FY2006</b>	<b>Change</b>
	<b>RMB million</b>	<b>RMB million</b>	
Gross written premiums and policy fees	80,406	69,696	+15.4%
Net earned premiums	73,606	63,126	+16.6%
Reinsurance commission income	1,167	1,549	-24.7%
<b>Income from banking operations</b>	<b>5,314</b>	<b>192</b>	<b>+2667.7%</b>
Other fees and commission income	2,616	657	+298.2%
Net investment income (recurring)	15,257	12,198	+25.1%
<b>Net realized/unrealized gain/(loss) from investments</b>	<b>36,487</b>	<b>9,773</b>	<b>+273.3%</b>
Other income	2,604	703	+270.4%
Total income	137,051	88,198	+55.4%
Total policy benefits & expenses	(115,047)	(79,650)	+44.4%
Profit before taxation	22,004	8,548	+157.4%
Taxation	(2,785)	(548)	+408.2%
<b>Profit attributable to equity holders</b>	<b>18,688</b>	<b>7,838</b>	<b>+138.4%</b>
Basic EPS (RMB)	2.61	1.27	+105.5%
Final DPS (RMB)	0.50	0.22	+127.3%
Total DPS (RMB)	0.70	0.34	+105.9%

- Ping An reported net profit of RMB18,688 million, 138.4% above last year, within the range of market estimates. The jump was mainly driven by 273% y-o-y growth of investment income and 2,667.7% income growth from banking operations, partially offset by higher tax expenses as there was no tax credit received in 2007. The effective tax rate jumped from 6.4% in FY2006 to 12.7% in FY2007.
- Total policy benefits & expenses jumped 44.4% y-o-y, driven by a 39.6% rise in claims & policyholders' benefits, as well as 82.4% rise in G&A expenses as Ping An expanded the sales force by almost 50% to over 300,000 people.
- Basic EPS was RMB2.61. A final DPS of RMB0.50 was proposed. Along with an interim DPS of RMB0.20, the payout ratio for FY2007 was maintained at 26.8%, the same as last year.
- Embedded value of Ping An rose 129% to RMB150,311m, or RMB21.01 per share as of 31/12/2007. The increase in EV was due principally to higher NAV as a result of the substantial gain in equity investments.

*This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.*

**Business Review**

- Breakdown of net profit before minority interests by business segments:

(RMB million)	FY2007		FY2006		Change
Life insurance	10,883	56.6%	5,704	71.3%	+90.8%
P&C insurance	2,073	10.8%	1,048	13.1%	+97.8%
Banking	1,537	8.0%	71	0.9%	+2064.8%
Other businesses	4,726	24.6%	1,177	14.7%	+301.5%
<b>Total net profit before minority interests</b>	<b>19,219</b>	<b>100.0%</b>	<b>8,000</b>	<b>100.0%</b>	<b>+140.2%</b>

- Breakdown of gross written premiums & policy fees and premium deposits by business segments:

(RMB million)	FY2007		FY2006		Change
Individual life	64,291		55,166		+16.5%
Bancassurance	7,234		6,212		+16.5%
Group life	7,658		7,402		+3.5%
<b>Subtotal (life insurance)</b>	<b>79,183</b>	79.4%	<b>68,780</b>	81.1%	+15.1%
Automobile	14,319		11,057		+29.5%
Non-automobile	5,087		4,207		+20.9%
Accident and health	1,087		810		+34.2%
<b>Subtotal (P&amp;C insurance)</b>	<b>20,493</b>	20.6%	<b>16,074</b>	18.9%	+27.5%
<b>Total</b>	<b>99,676</b>	<b>100.0%</b>	<b>84,854</b>	<b>100.0%</b>	<b>+17.5%</b>

- Gross written premiums, policy fees, and deposits from **life insurance business** rose 15.1% y-o-y to RMB79,183m. Stripping out premium deposits, gross premiums and policy fees jumped 11.7%. The continuing premium growth was driven by the individual life insurance business, which recorded 16.5% growth. As a result, individual life accounted for 81% of the total life business in 2007, versus 80% in FY2006.
- Overall, the Group's share in the Mainland's life insurance market (in terms of gross written premiums) dropped to 16.0% in FY2007 from 17.0% in FY2006. The 13-month persistency ratios for the Group's life insurance product improved to 90.4% as of 31/12/2007, up from 89.0% as of 31/12/2006, while the 25-month persistency ratio also rose to 81.2% as of 31/12/2007 from 80.3% as of 31/12/2006. With strong investment income, the life insurance segment contributed a net profit of RMB10,883m in FY2007, up 90.8% y-o-y and accounted for 56.6% of the Group's total (FY2006: 71.3%).
- Gross written premiums from **P&C business** grew 27.5% y-o-y to RMB20,493m in 2007. Premiums from automobile insurance surged 29.5% y-o-y to Rmb14,319m, thanks to the implementation of mandatory third-party liability insurance in mid-2006 and the full effect of this policy was observed in 2007. Premiums from the accident and health business, one of its high-profitability businesses, also recorded a satisfactory growth of 34.2% y-o-y. The loss ratio declined to 66.0% in 2007 (vs. 69.6% in 2006), while expense ratio increased to 32.6% (vs. 25.8% in 2006). As a result, the combined ratio increased to 98.6% in 2007 (vs. 95.4% in 2006).
- The Group's **banking** operations recorded a net profit of RMB1,537m in FY2007 (FY2006: RMB71m), mainly attributable to the acquisition of a Shenzhen-based bank at the end of 2006, which is now renamed as Shenzhen Ping An Bank.
- The Group's **other businesses** (securities and trust) registered a 301.5% jump in net profit in FY2007, driven by Ping An Securities which recorded a net profit of RMB1,492m for the year on strong commission income amid the hectic A-share market.

Group investment portfolio (RMB million)	31/12/2007		31/12/2006		Change
	Carrying value		Carrying value		
Term deposits	33,188	7.0%	59,107	17.8%	-43.9%
Bond investments	191,023	40.2%	187,334	56.4%	+2.0%
Other fixed maturity investments	2,411	0.5%	1,381	0.4%	+74.6%
Equity investments	117,279	24.7%	44,771	13.5%	+162.0%
Investment properties	3,812	0.8%	1,421	0.4%	+168.3%
Cash, cash equivalents and others	127,174	26.8%	38,150	11.5%	+233.4%
<b>Total investments</b>	<b>474,887</b>	<b>100.0%</b>	<b>332,164</b>	<b>100.0%</b>	<b>+43.0%</b>

- Net-investment income rose by 25.1% y-o-y to RMB15,257m, while total investment income (which includes capital gains) surged by 135.5% y-o-y to RMB51,744m, primarily due to the huge realized and unrealized gains from equity investments. The net-investment yield was 4.5% for FY2007 (compared with 4.3% for FY2006), while total investment yield was 14.1% (compared with 7.7% for FY2006).

### Outlook & Prospects

- **Over-shadowed by fund raising plan** Since the announcement of Ping An's further A-share fund raising plan, the stock has declined by more than 30%. Though the timing (during a tumbling A-share market) and size of the plan (up to 1.2b A-shares in 2008 and RMB41.2b worth of A-share bonds with warrants) is debatable, we view this move as a positive, as Ping An should be aiming to further acquire businesses to consolidate its three-pillar strategy (insurance, banking and asset management).
- **Key move to expand overseas** Ping An announced it has entered into a memorandum of understanding with Fortis to acquire a 50% stake in Fortis Investments for €2.15bn (HK\$26.3b). We believe the acquisition makes sense and fits in with Ping An's strategy of increasing its exposure to asset management. This transaction will allow Ping An to utilise Fortis Investments' expertise in global investments to diversify its investment mix away from the mainland market. The acquisition should generate sizable fee income to compensate fall in A-share investment income in 2008.
- **Non-insurance businesses picking up** Ping An has transformed itself successfully into one of China's leading diversified financial groups after it has fully incorporated the Shenzhen Ping An Bank. This image would be further consolidated after it acquired 50% stake of Fortis investments. We expect the non-insurance businesses would contribute up to 40% of total net profit over the next 2 to 3 years.
- **Fully valued** In our view, Ping An represents a good long-term investment due to its strong strategic position and solid operational growth. Core insurance growth is expected to accelerate in 2008 with strengthening of bancassurance and agency force expansion. However, trading at 2.38x FY2007 P/EV and 17.8x FY2007 new-business multiple, valuations of shares should have already reflected these positive factors. We therefore maintain our "Hold" rating for the counter.

**Recommendation: Hold**

**Important Disclosure / Analyst Certification / Disclaimer**

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA).

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Information and opinions expressed herein reflect a judgment as of the date of this document and are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction, publication, availability or use would be contrary to law and regulation.