

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

Sector	: Insurance	Chairman & CEO	: Mr. Ma Mingzhe
HKSE Code	: 02318	Vice Chairman & Executive	: Mr. Sun Jianyi
Market Price	: HK\$59.70 (17/03/2014)	Deputy General Manager	
Shares Issued	: 3,129.7m (H shares)		
Mkt. Cap.	: HK\$186,843m (H shares)		
52 weeks Hi/ Lo	: HK\$76.50 / HK\$47.60		
HSI / HSCEI	: 21,473.95 / 9,333.03 (17/03/2014)		
Main Business	: Life and non-life insurance businesses		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2013
Final Results Highlights

	FY2013	FY2012	
	<u>RMB million</u>	<u>RMB million</u>	<u>Change</u>
Gross written premiums and policy fees	269,051	233,940	+15.0%
Net earned premiums	240,199	213,144	+12.7%
Reinsurance commission income	6,584	4,529	+45.4%
Income from banking operations	93,291	74,852	+24.6%
Fees and commission from non-insurance operations	15,815	10,891	+45.2%
Investment income	55,583	27,378	+103.0%
Share of profits of associates & other income	9,749	8,399	+16.1%
Total income	421,221	339,193	+24.2%
Total expenses	(374,997)	(306,855)	+22.2%
Profit before taxation	46,224	32,338	+42.9%
Net profit	36,014	26,750	+34.6%
Profit attributable to equity holders	28,154	20,050	+40.4%
Basic EPS (RMB)	3.56	2.53	+40.7%
Final DPS (RMB)	0.45	0.30	+50.0%
Total DPS (RMB)	0.65	0.45	+44.4%

- Ping An Insurance (Ping An) reported FY13 net profit of RMB28,154m, up 40.4% y-o-y, in-line with market estimates of RMB28,855m. Ping An's bottom line was supported by resilient investment income, strong growth in value of new business and steady development in banking operations.
- Ping An's group-level solvency ratio dropped 11.2ppts y-o-y to 174.4% in 2013 despite a RMB26bn bond sale during the year. The ratios at both the life and property insurance units recorded a decline of 18.7ppts and 11.3ppts respectively in 2013.
- Ping An raised its total dividend by 44.4% y-o-y to RMB0.65 per share, representing a slightly higher dividend payout ratio of 12.6% (vs 11.9% in 2012).

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Business Review

Breakdown of net profit before minority interests by business segments:

(RMB million)	FY2013		FY2012		Change
Life insurance	12,219	33.9%	6,457	24.1%	+89.2%
P&C insurance	5,856	16.3%	4,648	17.4%	+26.0%
Banking	14,904	41.4%	13,232	49.5%	+12.6%
Securities	510	1.4%	845	3.2%	-39.6%
Trust	1,962	5.4%	1,484	5.5%	+32.2%
Other businesses and offsetted items	563	1.6%	84	0.3%	+570.2%
Total net profit before minority interests	36,014	100.0%	26,750	100.0%	+34.6%

Breakdown of first-year premiums and value of new business by products in life insurance segment:

(RMB million)	First-year premium			Value of one year's new business		
	FY2013	FY2012	Change	FY2013	FY2012	Change
Individual	38,680	34,770	+11.2%	16,860	14,685	+14.8%
Group	13,707	11,995	+14.3%	837	725	+15.4%
Bancassurance	6,647	10,285	-35.4%	466	505	-7.7%
Total	59,034	57,050	+3.5%	18,163	15,915	+14.1%
New business margin:				30.8%	27.9%	

- Ping An's **life insurance segment** recorded a 3.5% y-o-y increase in first-year premiums in FY13 and its value of new business (VNB) was up 14.1% y-o-y, reflecting higher new-business margin (30.8% in 2013 vs 27.9% in 2012) for Ping An's life insurance products. Its embedded value also grew along with its VNB, up 15.3% y-o-y, to reach RMB329,653m. There was an 11.2% increase in first-year premiums for individual life insurance to RMB38,680m in 2013 from RMB34,770m in 2012, mainly due to the increase in the number of individual life insurance sales agents and the rise in productivity per capita. On the other hand, first-year premium for bancassurance business continued to fall in FY13, down by 35.4% y-o-y to RMB6,647m as a result of tightened regulatory policies on bancassurance products as well as hefty competition from wealth management products. Ping An's market share in life premium saw a slight rebound to 13.6% at end-2013, from 12.9% a year earlier.

Breakdown of gross written premiums by products within the P&C insurance segment:

(RMB million)	FY2013	FY2012	Change
Automobile	90,091	76,334	+18.0%
Non-automobile	22,850	20,354	+12.3%
Accident and health	2,733	2,401	+13.8%
Subtotal (P&C insurance)	115,674	99,089	+16.7%

- P&C insurance segment** recorded a premium income of RMB115,674m in FY13, representing a y-o-y increase of 16.7%. Premium income from automobile insurance was RMB90,091m in 2013, representing an increase of 18.0% from RMB76,334m in 2012, on the back of rapid growth in premium income from the cross-selling and telemarketing channels. Nevertheless, the combined ratio for P&C insurance deteriorated to 97.3% for FY13 versus 95.3% for FY12 amid increasing competition and rising claims costs. Ping An's P&C market share was 17.8% (vs 17.9% in 2012), maintaining its second-largest position in the PRC.

Operating results of Ping An's banking operations:

(RMB million)	FY2013	FY2012	Change
Net interest income	40,894	33,243	+23.0%
Non-interest income	11,610	6,912	+68.0%
Total operating income	52,504	40,155	+30.8%
Operating expenses	(26,186)	(19,910)	+31.5%
Loan impairment charges	(6,675)	(3,038)	+119.7%
Income tax	(4,739)	(3,975)	+19.2%

Net profit from banking operations	14,904	13,232	+12.6%
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- The **banking business** recorded a modest growth of 12.6% in net profit during FY13, mainly due to the 68.0% y-o-y jump in net fee income as well as 23.0% y-o-y growth in net interest income. NPL ratio improved to 0.89% at end-2013, compared with 0.95% at end-2012, but special mention loans jumped by 1.5x y-o-y due to the macro slowdown, especially the SMEs in Yangtze River. Capital position remained relatively weak among its banking peers in the PRC, with core Tier 1 CAR at 8.56% and total CAR at 9.9% at end-2013.

Breakdown of investment income:

(RMB million)	FY2013	FY2012	Change
Net investment income	54,310	41,598	+30.6%
Net realized and unrealized gains (losses)	2,892	(7,635)	NA
Impairment losses	(1,619)	(6,585)	-75.4%
Total investment income	55,583	27,378	+103.0%

- Total Investment income** of Ping An was RMB55,583m in FY13, 103% higher than that of FY12. Net investment income increased to RMB54,310m, up 30.6% y-o-y, as a result of the growth in scale of investment assets and the higher interest rates of newly-added fixed maturity investments. Separately, net realized and unrealized gains went from a loss of RMB7,635m in 2012 to a gain of RMB2,892m in 2013. Impairment losses of available-for-sale financial assets were significantly reduced from RMB6,585m in 2012 to RMB1,619m in 2013.

Outlook & Prospects

- Strong agency business** Ping An's VNB rose 14.1% y-o-y in FY13, likely the fastest pace among peers in 2013. The rise of Ping An's VNB was attributable to its 15% y-o-y growth in agency VNB, on the back of steady growth of agency headcount as well as improvement in productivity. Ping An should be better positioned to withstand the tough life environment (where insurance products are less competitive than wealth management products which offer higher yields) as its smaller bancassurance portfolio prevents Ping An from being dragged by the shrinking bancassurance market.
- Deteriorating asset quality in banking segment** Ping An Bank (PAB) has become a key earnings source, accounting for 41% of Ping An's total net profit. However, PAB's outlook is a bit worrisome due to the deteriorating asset quality. Special mentioned loan increased to 2.13% of its total loan, up from 1% in 2012, while overdue loan also jumped to 2% from 1.3% during the same period, with the steel trade industry in Shanghai and Yangtze River Delta region being the main drag. The low NPL coverage ratio of 201% is another concern as all H-share listed banks reported coverage ratios of 217% to 487%.
- Marginal solvency ratio** Even though Ping An issued RMB26bn convertible bonds during 2013, its solvency ratio fell to 174% at end-2013, from 186% a year earlier, attributable to business growth, capital market volatility and redemption of RMB8bn sub-debt from PAB. Management guided that the drop in the solvency ratio was due to one-off events at banking units and suggests that the group has no financing needs at the current stage. We also believe capital should not be a concern for Ping An in the near term as Ping An Life and Ping An Bank had issued sub-debt of RMB8bn and RMB9bn, respectively in 1Q14. In addition, Ping An also has additional sub-debt capacity at the group level, which can boost its solvency ratio in due course.
- Valuation** Overall speaking, Ping An's FY13 results are encouraging on the back of its solid NBV growth. Issues on asset quality and inadequate solvency ratios would remain the medium-term drag on the share prices. Nevertheless, Ping An is believed to be a good long-term investment due to its diversified business model and solid life franchise. Trading at 1.1x FY13 P/EV, the current valuation of Ping An looks inexpensive and we recommend "Buy" rating on the counter.

Recommendation: Buy

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