

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 | | |
| Market Price | : HK\$53.25 (14/04/2009) | Executive Directive & | |
| Shares Issued | : 2,558.6m (H shares) | General Manager | : Mr. Cheung Chi Yan Louis |
| Mkt. Cap. | : HK\$136,247m (H shares) | | |
| 52 weeks Hi/ Lo | : HK\$77.25 / HK\$22.70 | | |
| HSI / HSCEI | : 15,580.16 / 9,214.91 (14/04/2009) | | |
| Main Business | : Life and non-life insurance businesses | | |

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2008
Final Results Highlights

| | FY2008 | FY2007 | |
|--|--------------------|--------------------|---------------|
| | RMB million | RMB million | Change |
| ◆ Gross written premiums and policy fees | 98,010 | 81,675 | +20.0% |
| ◆ Net earned premiums | 90,218 | 74,875 | +20.5% |
| ◆ Income from banking operations | 7,020 | 5,314 | +32.1% |
| ◆ Fee income of non-insurance operations | 1,980 | 2,814 | -29.6% |
| ◆ Net investment income (recurring) | 18,629 | 16,453 | +13.2% |
| ◆ Net realized/unrealized gain/(loss) from investments | (26,045) | 36,389 | -171.6% |
| ◆ Other income | 3,390 | 2,368 | +43.2% |
| ◆ Total income | 95,192 | 138,213 | -31.1% |
| ◆ Total policy benefits & expenses | (98,171) | (116,209) | -15.5% |
| ◆ Profit before taxation | (2,979) | 22,004 | -113.5% |
| ◆ Taxation | 3,456 | (2,785) | -224.1% |
| ◆ Profit attributable to equity holders | 268 | 18,688 | -98.6% |
| ◆ Basic EPS (RMB) | 0.04 | 2.61 | -98.5% |
| ◆ Final DPS (RMB) | 0.00 | 0.50 | -100.0% |
| ◆ Total DPS (RMB) | 0.20 | 0.70 | -71.4% |

- Ping An Insurance (Ping An) reported FY08 profit of RMB268m, compared with profit of RMB18,688m in FY07. The results were far behind the consensus estimates of RMB5,565m. The worse-than-expected results were mainly driven by the impairment loss of RMB22,790m in Fortis as well as equity losses of RMB907m amid China's weak A-share market which plunged 65% in FY08.
- Total policy benefits & expenses declined 15.5% y-o-y, driven by a 24% drop in claims & policyholders' benefits, more than offsetting a 35.1% increase in insurance commission expenses and the 71.1% rise in interest expenses under its banking operations
- Basic EPS was RMB0.04. Ping An did not propose any final DPS in 2008 due to the substantial loss in 2H08. With only interim DPS of RMB0.20, the payout ratio for FY08 was 500%, compared with 26.8% last year.
- Ping An's FY08 Embedded Value (EV) decreased by 18.3% to RMB122,859m, mainly attributable to RMB36bn investment-related losses. Assumption and modelling changes also negatively impacted the EV by RMB6.5bn. The main change was a reduction in investment return assumption from 5% (increasing to 5.5% over six years) to 4.25% in Year 1 (increasing to 5.5% over six years). The new investment return assumption is same as China Life's.

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Business Review

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

| (RMB million) | FY2008 | | FY2007 | | Change |
|---|------------|---------------|---------------|---------------|---------------|
| Life insurance | -2,956 | -619.7% | 10,883 | 56.6% | -127.2% |
| P&C insurance | 834 | 174.8% | 2,073 | 10.8% | -59.8% |
| Banking | 1,444 | 302.7% | 1,537 | 8.0% | -6.1% |
| Other businesses | 1,155 | 242.1% | 4,726 | 24.6% | -75.6% |
| Total net profit before minority interests | 477 | 100.0% | 19,219 | 100.0% | -97.5% |

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

| (RMB million) | FY2008 | | FY2007 | | Change |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Individual life | 60,414 | | 51,596 | | +17.1% |
| Bancassurance | 2,144 | | 707 | | +203.3% |
| Group life | 8,438 | | 7,706 | | +9.5% |
| Subtotal (life insurance) | 70,996 | 72.4% | 60,009 | 73.5% | +18.3% |
| Automobile | 19,377 | | 15,241 | | +27.1% |
| Non-automobile | 6,185 | | 5,277 | | +17.2% |
| Accident and health | 1,452 | | 1,148 | | +26.5% |
| Subtotal (P&C insurance) | 27,014 | 27.6% | 21,666 | 26.5% | +24.7% |
| Total | 98,010 | 100.0% | 81,675 | 100.0% | +20.0% |

- Gross written premiums and policy fees (GWP) from **life insurance business** rose 18.3% y-o-y to RMB70,996m. In terms of product mix, universal life (33.1% of life GWP) and participating life insurance (36.6% of life GWP) continued to dominate the life business.
- The Group's share in the Mainland's life insurance market further dropped to 14% in FY08, from FY07's 16% and FY06's 17%. The 13-month persistency ratios for the Group's life insurance product improved to 91.6% as of 31/12/2008, up from 90.4% as of 31/12/2007, while the 25-month persistency ratio also rose to 86.2% as of 31/12/2008 from 81.2% as of 31/12/2007. Number of individual life sales agents expanded 17.9% y-o-y to 355,852 headcounts. Although the aforesaid organic growth was seen in 2008, Ping An's life insurance segment still recorded a loss of RMB2,956m which was primarily due to the provision of impairment loss in Fortis shares.
- GWP from **property and casualty (P&C) insurance business** grew 24.7% y-o-y to RMB27,014m in 2008 and the market share also increased substantially from 0.5% to 10.9%. However, net profit from P&C business still decreased to RMB834m in 2008 from RMB2,073m in 2007, largely due to the result of increased claim payments from natural disasters such as the heavy snowstorm and earthquakes in 2008. As a result, the loss ratio increased to 66.5% in 2008 (vs. 61.1% in 2007). Excluding the impact from catastrophe losses, the loss ratio was steady at 62.6%.
- The Group's **banking operations** recorded a net profit of RMB1,444m in FY08 (FY07: RMB1,537m), mainly attributable to the fact that net profit of 2007 was affected more by the one-off benefits from the packaged disposal of non-performing assets and the reversals of litigation provisions. Banking segment showed steady development, with net interest income up 10% y-o-y. NPL ratio fell 0.29% y-o-y to 0.54% while NPL coverage ratio reached 153.7% at end-2008. CAR was 10.7% at-end 2008.
- The Group's **other businesses** (securities and trust) registered a 75.6% plunge in net profit in FY08, as a result of the negative impact of stock market fluctuations on net fees and commission income as well as total investment income.

Investment portfolio of insurance funds

- Total investment income of insurance funds recorded a loss of RMB7,935m in 2008 compared to a gain of RMB50,781m in 2007. The impairment of RMB22,790m on Fortis and net realised/ unrealised losses of RMB907m (vs gains of RMB34,513m in FY07) on investments were the major drag on investment income. As a result, total investment yield was down from 14.1% in 2007 to -1.7% in 2008. Investment income yields also fell from 4.5% to 4.1% due to the reduced dividend income from the equity investment funds.

| Group investment portfolio (RMB million) | 31/12/2008 | | 31/12/2007 | | Change |
|---|----------------|---------------|----------------|---------------|--------------|
| | Carrying value | | Carrying value | | |
| Term deposits | 84,412 | 18.2% | 33,189 | 7.5% | +154.3% |
| Bond investments | 286,791 | 61.7% | 188,888 | 42.8% | +51.8% |
| Other fixed maturity investments | 3,725 | 0.8% | 2,411 | 0.5% | +54.5% |
| Equity investments | 36,372 | 7.8% | 107,334 | 24.3% | -66.1% |
| Infrastructure investments | 5,509 | 1.2% | 1,389 | 0.3% | +296.6% |
| Cash, cash equivalents and others | 47,856 | 10.3% | 108,097 | 24.5% | -55.7% |
| Total investments | 464,665 | 100.0% | 441,308 | 100.0% | +5.3% |

- In response to stock market turbulence, Ping An has proactively changed the asset allocations of investment portfolio where over 80% of its investment assets now carry a fixed return. Its equity investments declined accordingly from 24.3% to 7.8%.

Outlook & Prospects

- Strong financial positions** Ping An's balance sheet remains in a very strong position, with groupwide solvency of 308%. At life company level, its solvency was 184% and the P&C business has solvency of 154%. The CAR ratio for Ping An Bank is 10.7%.
- Fortis no longer a threat on Ping An's earnings** Based on Fortis share price of EUR0.93 as at 31/12/2008, Ping An has written down 96% or RMB22,790m of its investment on Fortis shares. With investment in Fortis of only RMB1,085m on Ping An's balance sheet, the likelihood of a further impairment loss made on Fortis should be minimal and mark-to-market gain may even be possible for 1H09.
- Diversified platform is growing** Cross-selling has achieved remarkable result where 50.5% of newly issued bank credit cards, 14.3% of the premium income for the P&C insurance business and 14.9% of new assets entrusted under pension annuity investment management business came directly from Ping An's strong life franchise, highlighting initial success from its integrated financial strategy (insurance, banking and investment).
- Fair valuation** In our view, Ping An represents a good long-term investment due to its strong financial positions and solid life franchise. Positive synergy was also seen from its diversified business model, with the P&C insurance & banking showing positive results from the successful cross-selling strategy. Trading at 2.83x FY08 P/EV (vs China Life's 3.1x), the current valuation of Ping An looks fair when compared with China Life. We recommend accumulating the counter on dip.

Recommendation: Accumulate on dip

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