

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\$61.55 (18/08/2009)	Executive Director & President	: Mr. Cheung Chi Yan Louis
Shares Issued	: 2,558.6m (H shares)		
Mkt. Cap.	: HK\$157,481.8m (H shares)		
52 weeks Hi/ Lo	: HK\$70.70 / HK\$22.70		
HSI / HSCEI	: 20,306.27 / 11,448.66 (18/08/2009)		
Main Business	: Life and non-life insurance businesses		

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2009
Interim Results Highlights

	1H2009	1H2008	Change
	RMB million	RMB million	
• Gross written premiums and policy fees	64,774	54,192	+19.5%
• Net earned premiums	56,790	48,114	+18.0%
• Reinsurance commission income	904	760	+18.9%
• Income from banking operations	3,065	3,369	-9.0%
• Other fees and commission income	1,029	1,282	-19.7%
• Net investment income (recurring)	8,836	10,259	-13.9%
• Net realized/unrealized gain/(loss) from investments	6,141	601	+921.8%
• Impairment losses	(295)	(1,585)	-81.4%
• Share of profits of associates & other income	2,969	833	+256.4%
• Total income	79,439	63,633	+24.8%
• Total policy benefits & expenses	(70,952)	(53,289)	+33.1%
• Profit before taxation	8,487	10,344	-18.0%
• Taxation	(3,046)	(625)	+387.4%
• Net profit before minority interests	5,441	9,719	-44.0%
• Basic EPS (RMB)	0.71	1.29	-45.0%
• Interim DPS (RMB)	0.15	0.20	-25.0%

- Ping An Insurance ("Ping An") reported 1H09 profit at RMB5,441m, down 44.0% y-o-y, owing to higher policy benefits & expenses as well as an one-off tax charge that arose following a tax audit on FY04 to FY06.
- Total policy benefits & expenses rose 33.1% y-o-y to RMB70,952m, driven by a 55.6% jump in general and administrative expense. The jump was due to the growth of businesses, increased marketing costs and the inclusion of administrative expense of the newly acquired XJ Group, amounting to RMB1,841m.
- Tax was a surprise on the negative side as an additional tax charge amounted to RMB1,018m was required for the years 2004, 2005 and 2006 after regular inspection by The State Administration of Taxation. RMB147m was expensed in 2H08 with the remaining RMB871m taken through the 1H09 results.
- Basic EPS was RMB0.71, up 45.0% y-o-y. An interim DPS of RMB0.20 was declared, down 25.0% compared with DPS of RMB0.20 a year ago. Dividend payout ratio rose to 21.1% in 1H09, from 15.5% in 1H08.

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**Business Review**

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

(RMB million)	1H2009		1H2008		Change
Life insurance	4,642	85.3%	8,325	85.7%	-44.2%
P&C insurance	4	0.1%	339	3.5%	-98.8%
Banking	577	10.6%	795	8.2%	-27.4%
Securities	367	6.7%	401	4.1%	-8.5%
Other businesses	(149)	-2.7%	(141)	-1.5%	+5.7%
Total net profit before minority interests	5,441	100.0%	9,719	100.0%	-44.0%

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

(RMB million)	1H2009		1H2008		Change
Individual life	40,253		32,991		+22.0%
Bancassurance	2,125		1,112		+91.1%
Group life	3,632		5,418		-33.0%
Subtotal (life insurance)	46,010	71.0%	39,521	72.9%	+16.4%
Automobile	13,378		10,225		+30.8%
Non-automobile	4,418		3,650		+21.0%
Accident and health	968		796		+21.6%
Subtotal (P&C insurance)	18,764	29.0%	14,671	27.1%	+27.9%
Total	64,774	100.0%	54,192	100.0%	+19.5%

- The Group's **life insurance segment** recorded a 16.4% y-o-y increase in gross written premiums (excluding premium deposits) in 1H09, partly driven by a 91.1% y-o-y surge in bancassurance premium and 39.1% increase in individual life products. However, net profit from life insurance plunged by 44.2% to RMB4,642m in 1H09, from RMB8,325m in the same period in 2008, hit by higher claims and benefit ratio. Its claims and benefit ratio increased substantially from 80% for FY08 to 101.6% for 1H09, partly due to higher claims and general & administrative expenses.
- Overall, the Group's share in the Mainland's life insurance market (in terms of gross written premiums) rebounded to 16.8% in 1H09 from 14.0% in 2H08. The 13-month persistency ratios for the Group's life insurance product declined slightly to 90.9% as of 30 June 2009 from 91.6% as of 31 Dec 2008, while the 25-month persistency ratio improved to 88.8% from 86.2% in the same period. The number of life insurance sales agents increased 10.6% as compared to the end of 2008, approaching 394,000.
- Total gross written premium from **P&C insurance business** grew strongly by 27.9% y-o-y for 1H09. All three principal segments (automobile, non-automobile and accident & health) recorded steady growth of 20%-30%. Although the total combined ratio (the loss ratio and expense ratio in total) improved from 102.0% for 2008 to 100.0% for 1H09 (the expense ratio increased from 35.5% for 2008 to 38.3% for 1H09), net profit generated from P&C business still dropped drastically from RMB339m for 1H08 to RMB4m for 1H09. This was mainly due to the repayment of the corporate tax of RMB682m understated in the previous financial years. Market share in P&C insurance rose to 11.8% in 1H09, from 10.9% in 2H08.
- Following consecutive interest rate cuts in late 2008, the **banking business** of Ping An was hit by contraction in net interest income. Net profit from the banking business fell 27.4% y-o-y to RMB577m in 1H09, from RMB795m in the same period in 2008. Its net interest spread narrowed sharply from 3.0% for 1H08 to 1.70% for 1H09, which more than offset the 35.3% h-o-h rise in total loans for 1H09. Despite this, credit quality continued to improve. The NPL ratio declined to 0.46% as of 30th Jun 2009 from 0.54% as the end of 2008. Capital adequacy ratio also remains healthy, standing firm at 11.2%.

- The Group's **securities business**, Ping An Securities, recorded an 8.5% y-o-y decline in net profit to RMB367m in 1H09 as the trading activities have not fully recovered at the beginning of 2009 following the collapse of A-share market in the second half of 2008. Separately, Ping An Securities underwrote 6 corporate bonds in the first half of the year, the best performance in Ping An Securities' history.

Group investment portfolio (RMB million)	30/6/2009		31/12/2008		Change
	Carrying value		Carrying value		
Term deposits	91,186	17.8%	84,412	18.2%	+8.0%
Bond investments	287,938	56.1%	286,791	61.7%	+0.4%
Other fixed maturity investments	4,485	0.9%	3,725	0.8%	+20.4%
Equity investments	49,345	9.6%	36,372	7.8%	+35.7%
Investment properties	7,341	1.4%	5,509	1.2%	+33.3%
Cash, cash equivalents & others	73,282	14.3%	47,856	10.3%	+53.1%
Total investments	513,577	100.0%	464,665	100.0%	+10.5%

- Net investment income was RM14,682m in 1H09, much higher than 1H08's RMB9,275m. Total investment yield rose to 4.8% from 3.6% in 1H08 due to some realized gains and mark-to-market gains on equity investment. However, net investment yield of Ping An dropped from 3.8% for 1H08 to 3.7% for 1H09 due to a sharp reduction in dividend income from equity investment. The Group investment portfolio recorded healthy growth of 10.5% to RMB513,577m, partly attributable to the rapid growth of Ping An Trust, whose assets under management reached RMB81,267m, up 67.5% from the level of the end of 2008.

Outlook & Prospects

- New business margin hit by the expansion of bancassurance** Bancassurance business of Ping An surged by 137.8% y-o-y for 1H09 which accounted for 22.0% of total premium income and deposits of Ping An for 1H09, much higher than 12.6% for 1H08. However, the majority of insurance sold through bancassurance are low-margin single-premium products. As a result, the new business margin of Ping An Life has reduced from 19.6% for 2008 to 18.3% for 1H09.
- Banking business expected to bottom out** Ping An Bank saw a 27.4% y-o-y decline in net profit in 1H09. The decline was primarily due to weak net interest income, as net interest spread collapsed from 3.0% to 1.7%. With interest rates bottoming, we believe the interest spread can recover slightly in coming results.
- Cross-selling activities demonstrated revenue synergies** Ping An continued to explore revenue synergies within the group through various cross-selling activities. For instance, 14.2% of its P&C insurance premium and 8.4% of its annuity trust funds was contributed by cross-selling activities within the group during 1H09. Moreover, 12.0% of the corporate deposits and 67% of new credit card issued by Ping An Bank was generated from cross-selling activities to non-bank customers of Ping An for 1H09. In addition, following the investment in Shenzhen Development Bank (SDB), Ping An will take advantage of the strong distribution channel of SDB to cross-sell its life, P&C and annuity products. Being a financial conglomerate, Ping An should be able to leverage its competitive advantage on cross-selling activities to boost its revenue in the future.
- Less reliance on investment return** As of 30th Jun 2009, the equity investments accounted for 9.6% of total investment portfolio, compared with 24.3% at the end of 2007. Management expressed that Ping An will keep its equity portfolio at 10% to avoid increasing volatility in the A share market, despite having a positive long-term outlook. Such decision could shift investors' attention from its uncertain investment return to the underlying growth of Ping An's different operations.
- Fully valued** Trading at 30.6x FY09E P/E (vs China Life's 26.7x), the current valuation of Ping An should be fully valued. Nevertheless, 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. We recommend accumulating the counter on dip.

Recommendation: Accumulate on dip

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