

PING AN INSURANCE (GROUP) COMPANY OF CHINA (中國平安)

Sector	: Insurance
HKSE Code	: 2318
Market Price	: HK\$13.65 (22/08/2005)
HSI	: 15,218.63 (22/08/2005)
Shares Issued	: 6,195.053 million
Market Cap.	: HK\$84,562.47 million
52-week Hi / Lo	: HK\$14.00 / HK\$9.95

Chairman & CEO : MA Mingzhe

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2005
Interim Results Highlights

	1H2005	1H2004 (restated)	
	RMB million	RMB million	Change
• Gross written premiums and policy fees	30,549	32,281	-5.4%
• Reinsurance commission income	772	670	+15.2%
• Investment income and other income	4,885	2,932	+66.6%
• Total revenue	32,603	32,825	-0.7%
• Operating profit	2,673	1,842	+45.1%
• Profit attributable to shareholders	2,250	1,527	+47.3%
• EPS	RMB0.36	RMB0.30	+20.0%
• DPS – Interim	-	-	N/A

- Ping An Insurance (“the Group”) reported a 47.3% y-o-y rise in net profit to RMB2.250 billion for the six months ended 30th June 2005 from RMB1.527 billion a year earlier, beating consensus forecast of RMB1.95 billion. The bottom line growth was mainly driven by a surge in investment income against loss from its investment portfolio a year ago.
- Total revenue was nearly flat at RMB32.603 billion in 1H2005 when compared with RMB32.825 billion a year earlier, as an increased return from the Group’s investment portfolio offset a decline in net premiums earned. For the first half of 2005, the Group’s net premiums earned amounted to RMB26.946 billion, down 7.8% y-o-y from RMB29.223 billion in 1H2004. Meanwhile, the Group’s investment income and other income totalled RMB4.885 billion in 1H2005, up a sharp 66.6% y-o-y, and helped offset the decline in premiums earned.
- Total expenses dropped 3.4% y-o-y to RMB29.930 billion in 1H2005, amid a 21.9% y-o-y fall in policyholders’ reserves addition but a 47% y-o-y rise in claims and policyholders’ benefits. Overall, the Group’s operating profit jumped 45.1% y-o-y to RMB2.673 billion in the first half, representing an operating margin of 8.20%, which was substantially improved from 5.61% a year earlier.
- Basic EPS was RMB0.36, up 20.0% y-o-y, while no interim dividend was declared.

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 highlights

Breakdown of gross written premiums and policy fees by products

	Six months ended 30 th June				
	2005 (RMB million)	%	2004 (RMB million)	%	Change
Life insurance					
Individual life	19,621	64.2	18,595	57.6	+5.5%
Bancassurance	721	2.4	3,055	9.5	-76.4%
Group insurance	3,917	12.8	5,495	17.0	-28.7%
Subtotal	24,259	79.4	27,145	84.1	-10.6%
Property and casualty insurance					
Automobile insurance	3,720	12.2	3,007	9.3	+23.7%
Non-automobile insurance	2,321	7.6	1,958	6.1	+18.5%
Accident and health insurance	249	0.8	171	0.5	+45.6%
Subtotal	6,290	20.6	5,136	15.9	+22.5%
Total	30,549	100.0	32,281	100.0	-5.4%

- The Group's gross written premiums and policy fees of **life insurance** products fell 10.6% y-o-y to RMB24.259 billion in 1H2005 on a sharp 76.4% y-o-y plunge in premiums and fees from bancassurance and a 28.7% drop seen in its group insurance business. When premium deposits were taken into account, the Group's individual life segment grew a solid 16.3% y-o-y in 1H2005, but its share in the PRC's life insurance market still weakened to 14.8% in 1H2005 from 17.2% in FY2004. The 13-month persistency ratios for the Group's life insurance product dropped to 85.5% in 1H2005 from 87.5% a year earlier, while the 25-month persistency ratio improved to 82.5% from 80.3% a year earlier. The expense ratio (*see note below) of the segment further improved to 6.4% in 1H2005, from 6.7% in 2004 and 6.8% in 2003. Along with respective investment income, the segment generated a net profit of RMB1.868 billion in 1H2005, up 35.2% y-o-y and accounted for 83.0% of its total (FY2004: 86.8%).
- The **property & casualty (P&C)** segment reported a 22.5% y-o-y jump in gross written premiums to RMB6.290 billion in 1H2005, but the Group's share in the Mainland's P&C insurance market slipped slightly to 9.4% in the first half from 9.5% in 2004. The expense ratio[^] (see note below) of the segment was 20.0% in 1H2005, narrowed from 20.2% in a year earlier, while the combined ratio (loss ratio + expense ratio) was 96.1% in 1H2005, down from 97.2% a year earlier. Thanks to improved cost control, higher net earned premiums and investment income, the bottom line contribution of the segment jumped 215.6% y-o-y to RMB142 million in 1H2005, representing 6.3% of the Group's total (1H2004: 2.9%).
- For the six months ended 30/06/2005, the Group investment income totalled RMB4.500 billion, up 69.0% y-o-y, while total investment yield was widened by 50bps to 4.1% in 1H2005 from 3.6% in 1H2004. Realized and unrealized gains amounted to RMB19 million in 1H2005, against a loss of RMB769 million a year earlier, which was mainly driven by a higher valuation of the Group's bond portfolio and lower losses from equity investments.

Remarks: (*) Calculated by dividing general & administrative expenses by gross written premiums, policy fees and premium deposits.

([^]) Calculated by dividing net expenses by net earned premium, where net expenses is the sum of general administrative expenses, commission expenses, provision for insurance guarantee fund, change in deferred policy acquisition costs less reinsurance commission income.

Outlook & Prospect

- **Further overweighs bonds in investment portfolio** In 1H2005, the Group increased the weighting of bond holdings in its investment portfolio from 56.0% as of 31/12/2004 to 62.3% as of 30/06/2005, while the weighting of term deposits was reduced to 32.9% to 39.9%, so as to boost the overall investment yield of the portfolio. For the second half, the Group said it would look for bond investment with higher yields at acceptable risk levels, in order to further enhance its investment return. Meanwhile, Ping An revealed that it plans to diversify foreign exchange risk by holding other major currencies apart from US\$ after the PRC government employed the new exchange rate regime in July 2005, given the fact that all its foreign assets are now in US\$.
- **Looking for tie-up with banks for bancassurance business** Gross written and policy fees from the Group's bancassurance products tumbled 76.4% y-o-y to RMB721 million in 1H2005, amid Ping An's effort in adjusting its product mix to improve overall profit margin. Nonetheless, the Group's management revealed that it is still looking for exclusive tie-up with banks to expand its bancassurance business. The Group plans to form exclusive tie-up with banks, so that it could sell specialized products with higher margins via these banking partners.
- **Diversify and expand other financial services** The Group has established Ping An Health Insurance Company of China Ltd. and Ping An Asset Management Co., Ltd. during the first half. Leveraging on the newly formed business platforms, the Group could now diversify its business portfolio and cross-sell related financial products to its well-established client base.
- **Unappealing valuations** With 21x FY2005E P/E, shares of Ping An are trading at a premium to China Life (HKEx: 2628) and other global peers. As mentioned, the Group's bottom line in 1H2005 was largely driven by investment income, rather than underlying growth of its insurance business. Moreover, the Group lost market share to its competitors in the first half, amid efforts in optimizing its product mix. Accordingly, we recommend a Sell on the counter.

Recommendation: Prefer "China Life Insurance"