

Analyst: Vincent Leung

Main Board Listing – Research

The Ming An (Holdings) Company Limited [Stock Code: 1389] 民安(控股)有限公司

**Sole Global Coordinator, Sole Bookrunner,
Sole Sponsor and Sole Lead Manager** : Credit Suisse

Hong Kong Underwriters : Credit Suisse UOB
ICEA Capital China Insurance Group Securities

Sector : Insurance

Business : Provision of general insurance services in Hong Kong and the PRC

<p>Total share offer: <u>700,334,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 70,034,000 shares (10%)</p> <p>Placing: *630,300,000 shares (90%)</p> <p>Greenshoe: 105,050,000 shares</p> <p><i>*Comprising 531,300,000 New Shares and 99,000,000 Sale Shares</i></p>	<p><u>Business of Ming An (Holdings) (Ming An)</u></p> <p>With its wholly-owned subsidiary Ming An Hong Kong established since 1949, Ming An is a leading general insurance company in Hong Kong providing a variety of general insurance products to a broad range of customers in Hong Kong and the PRC. In terms of gross written premiums, Ming An Hong Kong was ranked the fourth in Hong Kong in 2005 with a market share of approximately 3.5% and has been ranked top five since 1997 among Hong Kong's general insurance companies.</p> <p>Ming An, through Ming An Hong Kong, was the first general insurance company incorporated outside the PRC to establish a physical presence in the PRC with its Shenzhen branch opened in 1982. In May 2004, Ming An Hong Kong was approved by the CIRC to transform its Shenzhen branch into a wholly-owned subsidiary, Ming An China. In May 2006, Ming An Hong Kong became the first and only general insurance company incorporated outside the PRC with a PRC subsidiary to receive the CIRC's approval to be regulated as a PRC insurance company. Ming An China is now allowed to engage in the general insurance business in the PRC without geographical or operational restrictions imposed on companies lacking such approval. Currently, Ming An has 3 branches in Shenzhen, Haikou and Guangdong. For 2005 and the six months ended 30th June 2006, Ming An's PRC operations accounted for 24.1% and 20.3% of total direct written premiums respectively.</p>
<p>Price: HK\$1.28 – HK\$1.88 per share</p> <p>Market Cap: HK\$3,586 million – HK\$5,267 million</p> <p>Pro-forma FY2006E P/E: 14.2x – 20.9x</p> <p>Pro-forma FY2006E P/B: 1.4x – 1.8x</p> <p>Adjusted NTA per share: HK\$0.91 – HK\$1.03</p> <p>Staffing: 514 (as of 30th June 2006)</p>	
<p>Bookbuilding Period: 6th December 2006 – 14th December 2006</p> <p>HK Public Offer period: 11th December 2006 – 14th December 2006 noon</p> <p>Receiving banks: ICBC (Asia), Bank of China (Hong Kong)</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 22nd December 2006</p>	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

China Insurance (Holdings)	49.6%
Cheung Kong (Holdings) (stock code: 0001)*	21.7%
China Insurance International (stock code: 0966) (50.90% held by China Insurance (Holdings))	3.7%
	<u>75.0%</u>

Remark (*): Shares held by Cheung Kong are subject to a lock-up period of 6 months from the listing date.

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$901 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.58 each, being the midpoint of the indicative price range)

	HK\$ million
For the Company's PRC expansion, including capital requirements and setting up new branches in cities and provinces such as Beijing, Shanghai, Jiangsu, Zhejiang Shandong and Hebei	766
For the improvement of the Company's IT system infrastructure	45
For general corporate purposes in respect of Ming An Hong Kong operations	90

Financial Highlights

	Year ended 31 st December			Six months ended 30 th June
	2003	2004	2005	2006
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Gross written premiums	1,173	1,133	1,100	569
Net earned premiums	739	676	706	318
Underwriting profit	19	44	249 [#]	88
Operating profit	76	166	531	195
Attributable profit	73	185	570	191

Remark ([#]): Net claims incurred decreased by 58.4% to HK\$153 million in 2005 primarily due to an increase in outstanding employees' compensation claims reserves relating to the termination of treaty with China Re in 2004.

Gross Written Premiums Breakdown by Product Lines (% of Total Gross Written Premiums)

	Year ended 31 st December			Six months ended 30 th June
	2003	2004	2005	2006
	%	%	%	%
Motor	30.8%	32.8%	28.6%	22.5%
Property	24.1%	23.5%	27.9%	31.3%
Liability	24.0%	21.5%	20.7%	18.6%
Marine	16.1%	17.1%	17.7%	20.9%
Accident and Health	5.0%	5.1%	5.1%	6.7%
Total	100.0%	100.0%	100.0%	100.0%

Gross Written Premiums Breakdown by Regions (% of Total Gross Written Premiums)

	Year ended 31 st December			Six months ended 30 th June
	2003	2004	2005	2006
	%	%	%	%
Hong Kong	84.7%	82.1%	75.9%	79.7%
PRC	15.3%	17.9%	24.1%	20.3%
Total	100.0%	100.0%	100.0%	100.0%

Selected Financial Ratios

	Year ended 31 st December			Six months ended 30 th June
	2003	2004	2005	2006
	%	%	%	%
Loss ratio (i)	59.9%	52.2%	23.4%	14.8%
Expense ratio (ii)	37.5%	41.3%	41.4%	57.5%
Combined ratio (i) + (ii)	97.4%	93.5%	64.8%	72.3%
ROAE	-	18.4%	42.2%	21.8%
ROAA	-	3.3%	10.8%	7.1%
Investment yield	-	2.4%	4.4%	3.5%



Strengths/Opportunities

- ✓ The general insurance markets of Hong Kong and the PRC remain significantly under-penetrated relative to more developed markets globally. In 2005, total general insurance premiums represented only 1.29% and 0.92% of Hong Kong and the PRC's GDP respectively, compared to 4.92% in North America, 3.1% in Europe and 1.67% in Asia. As such, there should be ample growth opportunities in this segment, especially in the PRC.
- ✓ The Company's established Hong Kong presence has historically provided stable earnings, which can be used to supplement its PRC expansion.
- ✓ The strategic cooperation with Cheung Kong (Holdings) is expected to bring in potential premium income of HK\$303 million from the developer's Hong Kong businesses in 2007-2008.
- ✓ To be priced at 1.4x-1.8x 2006E book value, Ming An's valuation is not demanding when compared with PICC Property & Casualty (stock code: 2328), the only pure general insurer listed in Hong Kong. As the top general insurer in the PRC in terms of total gross written premiums, PICC Property & Casualty is trading at 1.9x 2006E book value.

Weaknesses/Threats

- × The Company has a market share of 0.2% in the mainland's general insurance market, which is dominated by domestic players. Given the intensifying competitions and the small size of its PRC operation, the Company's expansion into the mainland market may not be fruitful.
- × Loss ratio of the Company's PRC operation, which rose from 29.9% in 2003 to 40.7% in the six months ended 30th June 2006, is on an upward trend, reflecting the deteriorating claims experience in the mainland.
- × Keen competitions are witnessed in the general insurance market in both Hong Kong and the PRC. A team of qualified and experienced salespeople is a major key to the top-line growth and loss of them is detrimental to the insurer's business. Higher costs may be incurred to attract and retain these personnel.

Recommendation: Trading Buy



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