

Analyst: Vincent Leung

Main Board H-share Listing – Research

中國平安保險(集團)股份有限公司

Ping An Insurance (Group) Company of China, Limited [Stock Code: 2318]

Joint Global Coordinators and Joint Bookrunners	: BOCI	HSBC
	: Goldman Sachs	Morgan Stanley
Sponsor and Joint Lead Manager	: BOCI	
Co-Sponsors and Joint Lead Managers	: Goldman Sachs	HSBC Morgan Stanley
Sector	: Insurance	
Business	: Provision of life and non-life insurance products in the PRC	

Total share offer: 1,387,892,000 shares
(22.40% of the enlarged share capital)

HK Public Offering: 69,395,000 shares (5%)
Int'l Offering: 1,318,497,000 shares (95%)
 - 1,192,325,000 new shares
 - 126,172,000 sale shares

Greenshoe: 208,183,000 shares

Note: 1 ADS = 20 H shares

Price: HK\$9.59 – HK\$11.88 per share

H-share Market Cap. :
HK\$24,537 million – HK\$30,397 million

Price-to-embedded value: 1.98x-2.23x

***FY2003 P/B:** 2.65x

Forecast FY2004 P/E: 22.9x-28.4x
(pro forma fully diluted)

***Adjusted NTA per share:** HK\$1.38

Staffing: 36,030

Book opens: 7th June 2004

Book closes: 17th June 2004

IPO commences: 14th June 2004

IPO ends: 17th June 2004

Receiving bank: HSBC
Bank of China (Hong Kong)
The Bank of East Asia

Share registrar: Computershare Hong Kong
Investor Services Limited

Listing date: 24th June 2004

Business of Ping An Insurance

Ping An was founded in 1988 in Shenzhen as a property and casualty (P&C) company. It began underwriting life business in 1994. Today, Ping An is a financial services group, with both banking and securities operations. It now grew into the 2nd largest insurance company. In 2003, it accounted for 19.6% of gross premium written in the life market and 9.7% of the P&C market. Ping An generates 90% of its business from life and 10% from P&C.

Management was extremely shrewd, drawing in Morgan Stanley and Goldman Sachs in 1994. Both banks were heavily involved in providing assistance to Ping An and introducing best practice partners over the years. Ping An also developed deep relationship with reinsurers like MunichRe and SwissRe, drawing on the expertise of these companies. It has the distinction of being a company audited by international accounting firm since 1988.

The company today has 27m life insurance customers (26.88m individual and 0.188m corporate) and over 4m P&C customer. The company currently has about 180,000 sales agents. Average monthly first year premium per agent is Rmb3,036 and 2.6 policies.

**-assuming an issue price of HK\$10.735 per share and the over-allotment option is not exercised*

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

^# HSBC Insurance	9.99%
Shenzhen Investment Holding Corporation	8.77%
Yuan Trust Investment Company Ltd	6.13%
*The Goldman Sachs Group, Inc.	5.47%
Capital China Group Limited	5.37%
Shenzhen Shum Yip Investment Company Ltd	4.87%
*MSCP/PA Holding Limited (indirectly controlled by Morgan Stanley)	4.67%
Employee Investment Pool of the Group	11.52%
Others (including ^Dai-ichi Mutual Life Insurance which will hold a 0.80% interest)	20.81%
	<u>77.60%</u>

*- Lock-up period: 1 year

^- Lock-up period: 3 years

#- HSBC Insurance has announced its intention to exercise its anti-dilution rights for the offering, i.e. it would maintain 9.99% of the enlarged issued shares of Ping An through subscription of an additional 125.553 million H shares to be issued.

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$12,867 million.

(Assuming the over-allotment option is not exercised and an issue price of HK\$10.735, being the midpoint of the proposed range of issue prices of HK\$9.59 and HK\$11.88 per offer share)

	% of net proceeds
To strengthen the Group's capital base, meet future solvency requirements, fund business expansion and potential strategic transactions, as well as other general corporate expenses	70%
To expand the Group's service network, increase staff training and strengthening distribution capability	15%
To upgrade the Group's information-technology system	15%

Financial Highlights
Consolidated financial figures

	Years ended 31 st December		
	2003 RMB million	2002 RMB million	2001 RMB million
Gross written premiums and policy fees net of business tax	63,134	58,420	40,955
<i>Less: Premium ceded to reinsurers</i>	<i>(3,800)</i>	<i>(3,720)</i>	<i>(2,700)</i>
Net written premiums and policy fees	59,334	54,699	38,255
Net change in unearned premium reserves	(485)	(1,402)	(1,264)
Net premiums earned and policy fees	58,849	53,297	36,992
Reinsurance commission income	1,248	1,195	928
Investment and other income	6,527	4,256	3,914
^Total revenues	66,623	58,748	41,834
Total benefits, claims and expenses	(63,807)	(55,995)	(37,915)
Operating profit	2,816	2,753	3,919
*Net profit	2,320	2,017	2,952
Dividend	493	266	266
EPS – basic	RMB0.47	RMB0.45	RMB0.66
Total assets	203,479	162,596	108,714
<i>Including: Investment assets</i>	<i>155,920</i>	<i>126,530</i>	<i>80,382</i>

^ Breakdown of total revenue by business segment:

	Years ended 31 st December					
	2003		2002		2001	
	RMB million	%	RMB million	%	RMB million	%
Life business	59,958	90.0	53,563	91.2	37,756	90.3
Property & casualty business	6,225	9.3	5,130	8.7	3,951	9.4
Others	440	0.7	55	0.1	127	0.3
Total	66,623	100.0	58,748	100.0	41,834	100.0

* Breakdown of total net profit by business segment:

	Years ended 31 st December					
	2003		2002		2001	
	RMB million	%	RMB million	%	RMB million	%
Life business	1,950	84.1	2,003	99.3	3,144	106.5
Property & casualty business	96	4.1	107	5.3	(381)	(12.9)
Other	274	11.8	(93)	(4.6)	189	6.4
Total	2,320	100.0	2,017	100.0	2,952	100.0

Select ratios

	Years ended 31 st December		
	2003	2002	2001
	RMB million	RMB million	RMB million
Life Business			
Operating expense ratio (/Net earned premium)	7.4%	7.9%	9.4%
Commission ratio (/Net earned premium)	8.7%	11.2%	14.4%
Benefit ratio (/Net earned premium)	95.2%	93.2%	87.9%
Investment yield	4.4%	4.1%	5.8%
Life actual solvency margin	8,320	-	-
Life required solvency margin	7,608	-	-
Life solvency ratio margin	109.4%	-	-
Property & Casualty Business			
Loss ratio (/Net earned premium)	68.2%	57.1%	66.9%
Expense ratio (/Net earned premium)	31.2%	41.3%	50.1%
Combined ratio (/Net earned premium)	99.5%	98.3%	117.0%
Investment yield	5.1%	3.8%	5.5%
P&C actual solvency margin	1,481	-	-
P&C required solvency margin	833	-	-
P&C solvency ratio margin	177.8%	-	-
Group			
Group actual (Life + P&C)	9,801	-	-
Actual at group level	4,839	-	-
Group solvency	14,640	-	-
Group required (Life + P&C)	8,441	-	-
Group solvency margin	173.4%	-	-
Group investment yield	4.5%	4.0%	5.6%
Return on average equity	18.8%	23.8%	75.1%
Return on average assets	1.3%	1.5%	3.2%

Strengths / Opportunities

- ✓ Largest non-state controlled insurance company in China with one of the most recognised brandnames
- ✓ Large distribution network with over 3,600 offices and 180,000 agents. Over 21,000 bank branches distributing bancassurance products
- ✓ Still low insurance penetration in China
- ✓ Proven management with ability to handle crisis (negative spread policies) and to focus on margin (reducing sales agent from 266,000 to 180,000) and launch high margin products e.g. regular life versus single premium
- ✓ Highly selective in targetting high growth, high margin markets like Shanghai and Beijing
- ✓ No legacy problems associated with old SOEs
- ✓ Highly regarded management who has adopted international best practices
- ✓ Strong qualified actuarial team, consisting of 5 internationally qualified actuaries, 15 others in the advanced stages of international qualification as well as 2 PRC-qualified and additional 40 staff
- ✓ Accounts audited by international accounting firm since 1988
- ✓ Employees incentivized by ESOP scheme (11.5% of company)
- ✓ Out compete foreign competitors like AIG in key markets
- ✓ Structural reform in social security system and outsourcing of pension management to insurance companies

Weaknesses / Threats

- × WTO mandated market opening in 2005 allows more foreign players
- × Preferential corporate tax rate (15%) could be removed by Central Government. Standard tax rate is 33%
- × Negative spread policies account for 45% of reserves. On 10% discount rate, the negative spread policies are valued at some RMB25 billion
- × High exposure of asset to domestic banks
- × Limited investment opportunities - use of funds is restricted to a limited range of PRC financial instruments only
- × Potential for management changes
- × Exit by key shareholders, GS and MS creating overhang of shares. Domestic strategic holders may also exit.
- × Managing fast growth will continue to be a challenge
- × Ping An Insurance's valuation at a price-to-embedded value range of 1.98x-2.23x looks demanding when compared with its mainland peer China Life Insurance (*Stock code: 2628*), which is trading at a price-to-embedded value of some 1.57x.

Recommendation: Trading Buy