

**Analyst: Vincent Leung**

## **Main Board H-share Listing - Research**

中國人民財產保險股份有限公司

**PICC Property and Casualty Company Limited [Stock Code: 2328]**

<b>Joint Global Coordinators and Joint Bookrunners</b>	:	China International Capital Corporation Ltd	Morgan Stanley Dean Witter Asia Ltd
<b>Joint Sponsors and Joint Lead Managers</b>	:	Morgan Stanley Dean Witter Asia Ltd	China International Capital Corporation (Hong Kong) Ltd

**Sector** : Insurance

**Business** : Provision of property and casualty insurance products in the PRC

<b>Total share offer:</b> <u>3,005,200,000</u> shares <b>(28% of the enlarged share capital)</b> <b>HK Public Offering:</b> 300,520,000 shares (10%) <b>Int'l Placing:</b> *2,704,680,000 shares (90%) - 2,431,480,000 new shares - 273,200,000 sale shares <b>Greenshoe:</b> 450,780,000 shares	<b><u>Business of PICC Property and Casualty</u></b> <p>Established in 1949 and headquartered in Beijing, PICC Property and Casualty (PICC P&amp;C) is a leading property and casualty (P&amp;C) insurance company in the PRC, accounting for 70.5% of direct premiums written in the P&amp;C insurance market in the country in 2002.</p> <p>As part of the reorganization which took effect on 30<sup>th</sup> September 2003, its parent PICC Holding Company injected all of its commercial insurance operations, together with all related asset and liabilities into the Company by way of capital contribution.</p> <p>The Company's major product lines are motor-vehicle insurance, commercial-property insurance and homeowners insurance. In a lesser extent, the Company also offers other insurance product lines, related to cargo, liability, aviation, construction, hull, agribusiness, credit and guarantee, aerospace, petroleum as well as nuclear-power station. In addition, it has begun to offer accidental injury insurance since March 2003.</p> <p>As of 31<sup>st</sup> December 2002, the Company had 4,351 operating branch offices, over 26,000 internal sales personnel, over 65,000 individual agents, 98 professional insurance agencies and over 30,000 authorized representatives throughout the PRC.</p>
<b>Price:</b> HK\$1.60 – HK\$1.80 per share <b>H-share Market Cap. :</b> HK\$4,808.3 million – HK\$5,409.4 million <b>Prospective price-to-book:</b> 1.25x – 1.35x <b>Prospective P/E:</b> 12.9x – 14.5x (pro forma fully diluted) <b>Adjusted NTA per share:</b> HK\$1.28 – HK\$1.33 (before over-allotment option is exercised) <b>Staffing:</b> 65,017	
<b>Book opens:</b> 13 <sup>th</sup> October, 2003 <b>Book closes:</b> 30 <sup>th</sup> October, 2003 <b>IPO commences:</b> 27 <sup>th</sup> October, 2003 <b>IPO closes:</b> 30 <sup>th</sup> October, 2003 <b>Receiving bank:</b> Standard Chartered Bank Hang Seng Bank <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited <b>Listing date:</b> 6 <sup>th</sup> November, 2003	

\*American International Group (AIG) has agreed pursuant to a strategic placing agreement to purchase 1,062,468,000 PICC's H shares (equivalent to 35.35% of the total shares being offered or 9.9% of the issued share capital, assuming the over-allotment option is not exercised) as part of the International Placing.

### Major Shareholders after Listing

*(Assuming the over-allotment option is not exercised)*

PICC Holding Company	72.0%
American International Group (Lock-up period: 5 years after the listing date)	9.9%
	<u>81.9%</u>

### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$4,325 million.

*(Assuming the over-allotment option is not exercised and an issue price of HK\$1.70, being the midpoint of the proposed range of issue prices of HK\$1.60 and HK\$1.80 per offer share)*

- All of the net proceeds from the offering will be applied to increase the Company's level of paid-in capital and improve its solvency margin. These proceeds will be held as investments in accordance with relevant PRC regulations, which will form part of the Company's liquid capital available to pay claims.

### Financial Highlights

	6 months ended 30 <sup>th</sup> June 2003 RMB million	Year ended 31 <sup>st</sup> December 2002 RMB million	2001 RMB million	2000 RMB million
Turnover				
Direct premiums written	32,392	54,081	51,794	47,626
Reinsurance premiums assumed	4	13	9	9
<b>Gross premiums written</b>	<b>32,396</b>	<b>54,094</b>	<b>51,803</b>	<b>47,635</b>
Less: Government levies and surcharges	(1,745)	(3,523)	(3,854)	(4,014)
	<u>30,651</u>	<u>50,571</u>	<u>47,949</u>	<u>43,621</u>
Net premiums earned				
Motor vehicle	13,028	23,928	22,316	20,259
Commercial property	3,441	6,346	6,602	6,512
Homeowners	604	1,105	817	750
Other (cargo, liability, accidental injury and others)	2,857	5,002	4,786	4,619
<b>Total net premiums earned</b>	<b>19,930</b>	<b>36,381</b>	<b>34,521</b>	<b>32,140</b>
Interest and dividend income	301	648	574	610
Net gain/(loss) on trading and non-trading securities	230	(645)	(10)	19
Net loss incurred	(14,253)	(26,634)	(23,632)	(22,158)
<b>Net profit</b>	<b><u>1,321</u></b>	<b><u>278</u></b>	<b><u>1,391</u></b>	<b><u>1,042</u></b>
Dividend (Note)	-	-	-	-
EPS – basic	<u>RMB0.165</u>	<u>RMB0.035</u>	<u>RMB0.174</u>	<u>RMB0.130</u>
Total assets	80,288	71,626	63,612	59,310
Premium-to-capital ratio	Not avail.	4.0:1	3.8:1	3.6:1
Ratio of reinsurance premiums ceded to gross written premiums	Not avail.	24.8%	23.8%	21.5%
Ratio of net premiums written to owner's equity	Not avail.	361%	433%	488%
Loss & LAE ratio	71.5%	73.2%	68.5%	68.9%
Combined ratio*	92.7%	97.1%	93.6%	96.4%

*Note: In accordance with the "Provisional Regulation relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment" issued by the PRC Ministry of Finance and the restructuring agreement, the Company is required to distribute to PICC Holding Company a special dividend representing its net profit for the period from 1<sup>st</sup> October 2002 to 6<sup>th</sup> July 2003. On 28<sup>th</sup> October 2003, it will distribute RMB5.4 million in cash, representing the profit for the 3 months ended 31<sup>st</sup> December 2002; and within 30 days following the date after the release of the Company's 2003 audited accounts, it will distribute an amount equal to 187/365 of its net profit for 2003 in cash to the parent company.*

\*Combined ratio is the sum of loss & LAE (loss adjustment expenses) ratio and the expense ratio. Generally, a combined ratio under 100% indicates an underwriting profit, while a ratio over 100% indicates an underwriting loss.

**Strengths**

- ✓ Increasing demand for motor vehicles and residential property is expected to lead to strong demand for vehicle and 3<sup>rd</sup>-party liability insurance, as well as home-content and home-building insurance. PICC P&C should be well positioned to be one of the prime beneficiaries.
- ✓ The Company is the largest non-life insurer in the PRC with a 69.6% market share of the nation's P&C insurance market in terms of total direct premiums written in 1H2003, followed by China Pacific Property Insurance (12.9%) and Ping An Property & Casualty (9.3%).
- ✓ Since its establishment in 1949, the Company has developed "PICC" into one of the best-known brand names in the insurance industry in the PRC with its long operating history and dominant market position.
- ✓ The Company has the most extensive sales network for P&C insurance projects in the PRC, with 4,351 operating branch offices, over 26,000 sales personnel, over 65,000 individual agents, 98 professional insurance agencies and over 30,000 authorized representatives throughout the PRC.
- ✓ The strategic co-operative relationship with AIG should enhance the Company's development in the PRC accident and health insurance market through the sharing of AIG's long experience and technical expertise in this business area.
- ✓ The Company will be the 1<sup>st</sup> pure China play on the Hong Kong bourse with exposure to the PRC insurance market.
- ✓ There is no direct comparable available in the market relating to China's P&C insurance sector. Given its dominance in the PRC P&C insurance market, PICC P&C's valuation at a prospective FY2003 P/E range of 12.9x-14.5x and a price-to-book range of 1.25x-1.35x looks reasonable when compared with its larger US peers, Chubb Corp (FY2003E P/E: 13.0x; price-to-book: 1.5x) and Progressive Corp (FY2003E P/E: 14.1x; price-to-book: 3.7x) as well as Korean peer Samsung Fire & Marine Insurance (FY2003E P/E: 11.4x; price-to-book: 1.5x).

**Weaknesses**

- × Prior to receiving the proceeds from this share offering, the Company does not meet the PRC solvency margin requirement (i.e. admitted assets less admitted liabilities) of at least RMB5,943 million as of 31<sup>st</sup> December 2002. As of that date, the Company's solvency margin was only RMB2,802 million, representing a deficit of RMB3,141 million. Pursuant to a waiver the Company obtained on 4<sup>th</sup> July 2003, the China Insurance Regulatory Commission granted the Company a grace period of 3 years after its listing in respect of the deficiency of its solvency margin. The Company expects it will meet the compliance upon the receipt of the net proceeds from this share offering as well as tapping the domestic capital market and controlling its capex on fixed assets. However, failure to comply with the requirement or obtain further waiver from the CIRC after the grace period could constrain the Company's future underwriting capacity. If the Company falls seriously short of the required margin, the CIRC could order it to go into receivership in accordance with the Insurance Law of the PRC.
- × Whilst the Company is still the largest general insurer in the PRC, its market share has been declining from 77.1% in FY2000 to 70.5% in FY2002 and further down to 69.6% in 1H2003. That trend is expected to continue amid intensifying competitions from domestic insurers and the further opening-up of the general-insurance market in the PRC to foreign insurers under the PRC's WTO Accession Protocol. Increasing pricing pressure should be inevitable.
- × The investment channels available to the PRC insurance companies are limited as their use of funds is restricted to a limited range of PRC financial instruments only. Thus, volatility in the PRC financial market may have significant impact on the Company's bottom line. In fact, this is evident in FY2002 when it recorded a net loss of RMB645 million on trading and non-trading securities.

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