

Ping An Insurance

Profits beat expectations; NBV growth slowed down

Results Review

3Q17 results beat expectations

Third quarter net profit was Rmb22.9bn, up 46% YoY. Book value rose 5% QoQ or 17% YTD. Third quarter NBV was up by 14% YoY.

Trends to watch

Strong growth in profits benefits from better investment returns and less impact from reserve strengthening. 3Q17 net profits rose 46% YoY (+Rmb7.2bn), mainly thanks to: 1) significant YoY improvement in gross investment returns (+50bp YoY in 9M17); 2) reduced losses (Rmb5.2bn) due to less impact from reserve strengthening compared with 3Q16; and 3) increased residual margin release driven by existing business growth.

NBV growth slowed, mainly due to S-T impact from regulation. Third quarter NBV was up by 14% YoY, slower than 1H, mainly as: 1) sales of products banned by Rule 134 in June were stopped, and no new products were launched; 2) actively controlled agent volume improved agent quality. As the company has launched new products in October and will push the sale of long-term protection products in 4Q, we expect a rise in 4Q NBV growth.

Auto insurance market share expanded rapidly, COR maintained lead. 9M17 P&C COR was 96.1%, better than the market. 3Q17 P&C premiums increased by 24%, significantly higher than the market.

Earnings forecast

We raise our 2017 EPS forecast by 14% from Rmb3.63 to Rmb4.12, and 2018 by 8% from Rmb4.33 to Rmb4.66.

Valuation and recommendation

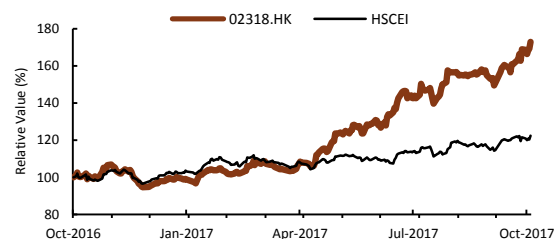
We maintain our BUY/BUY rating for Ping An-H/A, but raise our target price by 6.33% to HK\$84.00 for H-share, implying 22.18% upside room from the current price. And we raise our target price by 5.48% to Rmb77.00 for A-share.

Risks

Downtrend in government bond yields. Implementation of 2018 "jumpstart" campaigns.

Maintain BUY

| Ticker | 601318.SH | 02318.HK |
|-------------------------|----------------|-----------------|
| CICC investment rating | BUY | BUY |
| Last close | Rmb63.93 | HK\$68.75 |
| CICC target | Rmb77.00 | HK\$84.00 |
| 52wk price range | Rmb63.98–33.53 | HK\$68.75–37.21 |
| Market cap (bn) | Rmb1,129 | HK\$1,325 |
| Daily value (mn) | Rmb4,090.13 | HK\$2,982.33 |
| Shares outstanding (mn) | 18,280 | 18,280 |
| Free float (%) | 59 | 41 |
| Daily volume (mn sh) | 70.19 | 45.68 |
| Business sector | | Insurance |



| (Rmb mn) | 2015A | 2016A | 2017E | 2018E |
|----------------|---------|---------|---------|---------|
| Revenue | 386,012 | 469,555 | 581,197 | 695,726 |
| (+/-) | 18.3% | 21.6% | 23.8% | 19.7% |
| Net profit | 54,203 | 62,337 | 75,348 | 85,134 |
| (+/-) | 38.0% | 15.0% | 20.9% | 13.0% |
| EPS | 2.97 | 3.41 | 4.12 | 4.66 |
| BPS | 18.28 | 20.98 | 24.42 | 28.28 |
| DPS | 0.43 | 0.55 | 1.10 | 0.82 |
| EVPS | 30.24 | 34.88 | 42.91 | 50.35 |
| P/E | 19.4 | 18.1 | 14.5 | 12.8 |
| P/B | 3.2 | 2.9 | 2.4 | 2.1 |
| P/EV | 1.90 | 1.76 | 1.39 | 1.19 |
| Dividend yield | 0.7% | 0.9% | 1.8% | 1.4% |
| ROAA | 1.2% | 1.2% | 1.3% | 1.2% |
| ROAE | 17.4% | 17.4% | 18.2% | 17.7% |

Source: Wind Info, Bloomberg, company data, CICC Research

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Financial summary

| (Rmb mn) | 2015A | 2016A | 2017E | 2018E | Financial ratios | 2015A | 2016A | 2017E | 2018E |
|---|-----------|-----------|-----------|-----------|----------------------------|---------|---------|---------|---------|
| Income Statement | | | | | Embedded value | | | | |
| Gross written premiums and policy fees | 386,012 | 469,555 | 581,197 | 695,726 | NBV | 30,838 | 50,805 | 67,174 | 90,916 |
| Net premiums earned | 349,846 | 441,620 | 544,937 | 654,114 | Value in force | 224,926 | 230,363 | 287,238 | 344,777 |
| Investment income | 134,922 | 115,053 | 132,845 | 151,330 | Life EV | 333,142 | 360,312 | 494,948 | 629,188 |
| Other income | 208,733 | 219,185 | 233,860 | 258,301 | Group EV | 552,852 | 637,703 | 784,388 | 920,338 |
| Operating income | 693,501 | 775,858 | 911,642 | 1,063,746 | Growth ability | | | | |
| Net benefits and claims | -76,368 | -119,356 | -132,192 | -179,078 | GPW | 18.3% | 21.6% | 23.8% | 19.7% |
| Change in reserve | -213,142 | -205,515 | -278,039 | -309,891 | NPE | 21.1% | 26.2% | 23.4% | 20.0% |
| Other expense | -310,297 | -355,263 | -389,407 | -450,150 | Net profit to shareholders | 38.0% | 15.0% | 20.9% | 13.0% |
| Operating expense | -599,807 | -680,134 | -799,639 | -939,119 | NBV | 40.4% | 64.7% | 32.2% | 35.3% |
| Operating profit | 93,694 | 95,724 | 112,003 | 124,627 | Key ratios | | | | |
| Share of profits/(losses) of associates | -281 | -1,370 | 273 | 273 | NBV/APE margin | 38.2% | 47.1% | 45.6% | 47.4% |
| Profit before tax | 93,413 | 94,354 | 112,276 | 124,900 | P&C combined ratio | 95.9% | 96.0% | 96.6% | 96.4% |
| Income tax | -28,235 | -22,043 | -27,730 | -28,838 | Net investment yield | 5.3% | 5.7% | 5.8% | 5.5% |
| Net profit | 65,178 | 72,311 | 84,546 | 96,062 | Gross investment yield | 7.2% | 5.0% | 5.7% | 5.4% |
| Minority interest | 10,975 | 9,974 | 9,198 | 10,927 | Life Solvency ratio | 203.2% | 151.8% | 186.9% | 207.7% |
| Net profit to shareholders | 54,203 | 62,337 | 75,348 | 85,134 | P&C Solvency ratio | 182.2% | 157.9% | 159.6% | 166.6% |
| Balance sheet | | | | | Group Solvency ratio | 195.4% | 194.8% | 188.9% | 185.8% |
| Cash and Deposits | 273,351 | 330,212 | 273,697 | 315,287 | Return | | | | |
| Debt securities | 829,245 | 910,968 | 1,132,840 | 1,304,984 | ROA | 1.2% | 1.2% | 1.3% | 1.2% |
| Equity securities | 236,328 | 253,711 | 361,723 | 416,690 | ROE | 17.4% | 17.4% | 18.2% | 17.7% |
| Other investment assets | 392,695 | 476,907 | 586,662 | 675,810 | Life ROEV | 26.1% | 8.2% | 37.4% | 27.1% |
| Total investment assets | 1,731,619 | 1,971,798 | 2,354,923 | 2,712,772 | Group ROEV | 18.5% | 15.4% | 23.0% | 17.3% |
| Other assets | 3,033,540 | 3,605,105 | 4,076,014 | 4,903,963 | Per-share data | | | | |
| Total assets | 4,765,159 | 5,576,903 | 6,430,936 | 7,616,735 | EPS (Rmb) | 2.97 | 3.41 | 4.12 | 4.66 |
| Insurance contract liabilities | 1,419,958 | 1,625,473 | 1,903,512 | 2,213,403 | BVPS (Rmb) | 18.28 | 20.98 | 24.42 | 28.28 |
| Investment contract liabilities | 42,690 | 44,930 | 47,288 | 49,769 | EVPS (Rmb) | 30.24 | 34.88 | 42.91 | 50.35 |
| Subordinated debts | 34,609 | 34,609 | 34,609 | 34,609 | DPS (Rmb) | 0.43 | 0.55 | 1.10 | 0.82 |
| Other liabilities | 2,854,331 | 3,385,430 | 3,886,932 | 4,672,256 | Trading multiples | | | | |
| Total liabilities | 4,351,588 | 5,090,442 | 5,872,341 | 6,970,037 | P/EV | 1.9 | 1.8 | 1.4 | 1.2 |
| Total equities | 413,571 | 486,461 | 558,595 | 646,698 | P/BV | 3.2 | 2.9 | 2.4 | 2.1 |
| Minority interests | 79,323 | 103,012 | 112,116 | 129,799 | P/NAV | 2.5 | 2.3 | 2.0 | 1.7 |
| Shareholders' funds | 334,248 | 383,449 | 446,479 | 516,899 | P/E | 19.4 | 18.1 | 14.5 | 12.8 |
| Total equities and liabilities | 4,765,159 | 5,576,903 | 6,430,936 | 7,616,735 | Dividend yield | 0.7% | 0.9% | 1.8% | 1.4% |

Source: Company data, CICC Research

Company description

Ping An Insurance (Group) Company of China, Ltd. is the first joint-stock insurance company in China, and has become a comprehensive provider of various financial services, including insurance, banking, and investment. Working together with its multiple subsidiaries and multi-channel distribution network, the company provides its over 60mn clients with a full range of customized financial products and services.



Figure 1: 3Q17 results summary

| RMBm unless otherwise P&L | 9M15 | 9M16 | 9M17 | % Change YoY | As % of CICC 2017e | As % of Consensus 2017e |
|--|-----------|-----------|-----------|-----------------|-----------------------|----------------------------|
| Life business | | | | | | |
| GPW | 234,145 | 295,552 | 381,994 | 29% | | |
| FYP | n.a. | 99,803 | 134,123 | 34% | | |
| - Agent FYP | n.a. | 82,830 | 114,678 | 38% | | |
| - Bancassurance FYP | n.a. | 10,578 | 7,512 | -29% | | |
| - Telemarketing, Internet and others FYP | n.a. | 6,395 | 11,933 | 87% | | |
| NBV | n.a. | 39,668 | 53,738 | 35% | 80% | |
| P&C business | | | | | | |
| GPW | 121,638 | 127,427 | 157,507 | 24% | | |
| - Auto GPW | 94,199 | 105,409 | 122,418 | 16% | | |
| - Non-auto GPW | 27,439 | 22,018 | 35,089 | 59% | | |
| Combined ratio % | 94.4% | 94.9% | 96.1% | 1.2ppt | | |
| Banking | | | | | | |
| NIM | 2.73% | 2.77% | 2.41% | -0.4ppt | | |
| Investment | | | | | | |
| Net investment yield | n.a. | 6.0% | 5.5% | -0.5ppt | | |
| Total investment yield | n.a. | 4.9% | 5.4% | 0.5ppt | | |
| Profits | | | | | | |
| Net profits | 48,276 | 56,508 | 66,318 | 17% | 88% | 92% |
| - Life | n.a. | 23,518 | 36,926 | 57% | | |
| - P&C | n.a. | 10,456 | 10,359 | -1% | | |
| - Banking | n.a. | 10,857 | 11,109 | 2% | | |
| - Asset management | n.a. | 7,385 | 10,105 | 37% | | |
| - Fintech | n.a. | 7,569 | 675 | -91% | | |
| - Others | n.a. | -3,277 | -2,856 | -13% | | |
| EPS(RMB) | 2.64 | 3.17 | 3.72 | 17% | 90% | 95% |
| RMBm unless otherwise P&L | 3Q15 | 3Q16 | 3Q17 | % Change YoY | | |
| Life business | | | | | | |
| GPW | 61,400 | 77,360 | 94,878 | 23% | | |
| FYP | n.a. | 23,592 | 28,520 | 21% | | |
| - Agent FYP | n.a. | 20,271 | 22,528 | 11% | | |
| - Bancassurance FYP | n.a. | 1,012 | 1,521 | 50% | | |
| - Telemarketing, Internet and others FYP | n.a. | 2,309 | 4,471 | 94% | | |
| NBV | n.a. | 13,298 | 15,187 | 14% | | |
| P&C business | | | | | | |
| GPW | 40,195 | 43,642 | 54,064 | 24% | | |
| - Auto GPW | 32,255 | 34,781 | 42,158 | 21% | | |
| - Non-auto GPW | 7,940 | 8,861 | 11,906 | 34% | | |
| Profits | | | | | | |
| Net profits | 13,627 | 15,732 | 22,891 | 46% | | |
| - Life | n.a. | 6,275 | 13,350 | 113% | | |
| - P&C | n.a. | 3,622 | 3,498 | -3% | | |
| - Banking | n.a. | 3,727 | 3,828 | 3% | | |
| - Asset management | n.a. | 3,457 | 3,146 | -9% | | |
| - Fintech | n.a. | -336 | 255 | -176% | | |
| - Others | n.a. | -1,013 | -1,186 | 17% | | |
| EPS(RMB) | 0.75 | 0.88 | 1.29 | 47% | | |
| RMBm unless otherwise | 1Q17 | 2Q17 | 3Q17 | % Change | | |
| Balance sheet | | | | | | |
| Group shareholders equity | 411,477 | 425,780 | 448,280 | 5% | | |
| AFS gains/(losses) | 6,435 | 13,444 | 13,040 | -3% | | |
| Agent number | 1,196,000 | 1,325,477 | 1,434,000 | 8% | | |
| NIM | 2.53% | 2.38% | 2.32% | -0.06ppt | | |
| NPL ratio | 1.74% | 1.76% | 1.75% | -0.01ppt | | |
| Deposit | 1,912,082 | 1,912,333 | 1,911,741 | 0.0% | | |
| Loans | 1,548,162 | 1,594,281 | 1,646,824 | 3.3% | | |
| RWA | 2,101,897 | 2,172,742 | 2,197,329 | 1.1% | | |
| Core tier-1 ratio | 8.28% | 8.13% | 9.23% | 1.1ppt | | |
| Group solvency: Core | n.a | 205% | n.a | n.a | | |
| Group solvency: Comprehensive | n.a | 211% | n.a | n.a | | |
| P&C solvency: Core | 219% | 219% | 217% | -2ppt | | |
| P&C solvency: Comprehensive | 246% | 245% | 241% | -4ppt | | |
| Life solvency: Core | 216% | 224% | 230% | 6ppt | | |
| Life solvency: Comprehensive | 226% | 233% | 239% | 6ppt | | |

Source: Company data, CICC Research



Figure 2: 3Q17 P&L and B/S summary

| P&L | 9M16 | 9M17 | % YoY | 3Q16 | 3Q17 | % YoY |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------|
| Gross premium written | 359,346 | 471,772 | 31% | 102,473 | 130,382 | 27% |
| Net premium earned | 340,651 | 444,436 | 30% | 97,028 | 123,265 | 27% |
| Investment income | 87,522 | 98,452 | 12% | 31,952 | 34,713 | 9% |
| Bank interest income | 98,037 | 108,444 | 11% | 32,866 | 36,970 | 12% |
| Other income | 66,314 | 72,650 | 10% | 22,850 | 25,891 | 13% |
| Total income | 592,524 | 723,982 | 22% | 184,696 | 220,839 | 20% |
| Claims and benefits | -246,807 | -327,320 | 33% | -69,535 | -85,817 | 23% |
| Insurance omission | -58,792 | -84,567 | 44% | -20,047 | -26,765 | 34% |
| Bank interest expenses | -40,002 | -52,263 | 31% | -13,277 | -18,806 | 42% |
| Non-insurance commission | -3,296 | -4,468 | 36% | -1,218 | -1,733 | 42% |
| General and admin expenses | -102,048 | -100,293 | -2% | -31,893 | -35,353 | 11% |
| Other expenses | -59,001 | -54,513 | -8% | -22,210 | -17,355 | -22% |
| Total expense | -509,946 | -623,424 | 22% | -158,180 | -185,829 | 17% |
| Profit before tax | 82,578 | 100,558 | 22% | 26,516 | 35,010 | 32% |
| Income tax | -17,765 | -25,339 | 43% | -8,011 | -8,884 | 11% |
| Profit after tax | 64,813 | 75,219 | 16% | 18,505 | 26,126 | 41% |
| Net profit to shareholders | 56,508 | 66,318 | 17% | 15,732 | 22,891 | 46% |
| BS | 3Q16 | 4Q16 | 1Q17 | 2Q17 | 3Q17 | % QoQ |
| Cash | 449,274 | 561,143 | 519,040 | 495,916 | 509,306 | 3% |
| Fixed maturity investments | 2,082,571 | 2,156,291 | 2,303,977 | 2,402,817 | 2,470,166 | 3% |
| Equity investments | 409,829 | 426,908 | 460,175 | 515,746 | 564,633 | 9% |
| Loans and advances to customers | 1,427,043 | 1,458,291 | 1,520,215 | 1,553,818 | 1,598,770 | 3% |
| Other asset | 927,847 | 974,270 | 969,911 | 1,010,391 | 1,025,641 | 2% |
| Total asset | 5,296,564 | 5,576,903 | 5,773,318 | 5,978,688 | 6,168,516 | 3% |
| Insurance contract's liabilities | 1,581,331 | 1,625,473 | 1,750,640 | 1,815,005 | 1,874,860 | 3% |
| Investment contract's liabilities | 43,036 | 44,930 | 46,449 | 47,803 | 49,751 | 4% |
| Other liabilities | 3,191,583 | 3,420,039 | 3,457,704 | 3,583,182 | 3,684,965 | 3% |
| Total liabilities | 4,815,950 | 5,090,442 | 5,254,793 | 5,445,990 | 5,609,576 | 3% |
| Total equity | 480,614 | 486,461 | 518,525 | 532,698 | 558,940 | 5% |
| Minority interests | 101,236 | 103,012 | 107,048 | 106,918 | 110,660 | 3% |
| Shareholders' funds | 379,378 | 383,449 | 411,477 | 425,780 | 448,280 | 5% |

Source: Company data, CICC Research

Figure 3: Changes to key estimates

| HKD unless otherwise | Old | New | % change |
|----------------------|-------|-------|----------|
| 2017e EPS | 4.2 | 4.7 | 13.5% |
| 2018e EPS | 5.0 | 5.4 | 7.6% |
| 2019e EPS | 6.1 | 6.3 | 3.3% |
| 2017e BVPS | 27.2 | 28.1 | 3.3% |
| 2018e BVPS | 31.5 | 32.5 | 3.2% |
| 2019e BVPS | 36.8 | 37.7 | 2.6% |
| 2017e EV | 47 | 49 | 5.2% |
| 2018e EV | 56 | 58 | 3.7% |
| 2019e EV | 67 | 69 | 2.2% |
| 2017e NBV | 4.4 | 4.2 | -4.0% |
| 2018e NBV | 5.7 | 5.7 | 0.8% |
| 2019e NBV | 7.0 | 7.1 | 0.9% |
| 2017e Combined ratio | 96.5% | 96.6% | 0.1% |
| 2018e Combined ratio | 96.3% | 96.4% | 0.1% |
| 2019e Combined ratio | 96.1% | 96.2% | 0.1% |
| Target price (RMB) | 73.0 | 73.0 | 0.0% |
| Target price (HKD) | 79.0 | 80.0 | 1.3% |

Source: Company data, CICC Research



Figure 4: Valuation summary

| Company | Currency | Rating | Mkt cap USD mn | Price on 29 Oct 17 | Target Price | Potential Return | P/EV 2017e | P/EV 2018e | 3-yr Avg ROEV | P/BV 2017e | P/BV 2018e | 3-yr Avg ROE | P/E 2017e | Div yield 2017e |
|-------------------|----------|--------|-------------------|-----------------------|-----------------|---------------------|---------------|---------------|------------------|---------------|---------------|-----------------|--------------|--------------------|
| AIA | HKD | BUY | 92,879 | 60.0 | 75.0 | 25% | 1.9x | 1.7x | 17.5% | 2.4x | 2.1x | 14.4% | 17.8x | 1.6% |
| China Life - H | HKD | BUY | 24,470 | 25.7 | 34.0 | 33% | 0.9x | 0.7x | 15.3% | 2.0x | 1.8x | 11.8% | 19.5x | 1.8% |
| China Pacific - H | HKD | BUY | 13,681 | 38.5 | 47.0 | 22% | 1.1x | 0.9x | 17.9% | 2.3x | 2.1x | 12.7% | 20.9x | 2.5% |
| China Re | HKD | Hold | 1,490 | 1.7 | 2.1 | 21% | 0.8x | 0.8x | 7.8% | 0.9x | 0.8x | 9.1% | 11.6x | 3.4% |
| China Taiping | HKD | BUY | 11,911 | 25.9 | 32.0 | 24% | 0.7x | 0.7x | 16.9% | 1.5x | 1.4x | 6.6% | 22.7x | 0.0% |
| New China - H | HKD | BUY | 6,682 | 50.4 | 66.0 | 31% | 0.9x | 0.7x | 20.3% | 2.2x | 2.0x | 10.3% | 26.1x | 1.2% |
| PICC P&C | HKD | BUY | 9,022 | 15.3 | 19.0 | 24% | n.a. | n.a. | n.a. | 1.4x | 1.3x | 16.4% | 9.1x | 3.3% |
| Ping An - H | HKD | BUY | 65,644 | 68.8 | 84.0 | 22% | 1.4x | 1.2x | 19.7% | 2.4x | 2.1x | 16.6% | 14.5x | 1.8% |
| China Life - A | RMB | BUY | 92,260 | 29.5 | 37.0 | 26% | 1.1x | 1.0x | 15.3% | 2.5x | 2.3x | 11.8% | 25.1x | 0.8% |
| China Pacific - A | RMB | BUY | 39,243 | 41.5 | 51.0 | 23% | 1.3x | 1.1x | 17.9% | 2.7x | 2.5x | 12.7% | 24.8x | 2.1% |
| New China - A | RMB | BUY | 19,072 | 60.8 | 75.0 | 23% | 1.2x | 1.0x | 20.3% | 3.0x | 2.7x | 10.3% | 35.4x | 0.9% |
| Ping An - A | RMB | BUY | 104,117 | 63.9 | 77.0 | 20% | 1.5x | 1.3x | 19.7% | 2.6x | 2.3x | 16.6% | 15.5x | 1.7% |
| China Sector-H | USD | | 137,039 | | | 26% | 1.0x | 0.9x | 16.3% | 2.1x | 1.9x | 12.2% | 16.7x | 1.8% |
| China Sector-A | USD | | 254,692 | | | 23% | 1.3x | 1.1x | 18.3% | 2.6x | 2.3x | 12.9% | 21.9x | 1.4% |
| China Sector | USD | | 391,731 | | | 25% | 1.2x | 1.0x | 17.1% | 2.4x | 2.2x | 12.4% | 20.1x | 1.7% |
| HK & China | USD | | 484,610 | | | 25% | 1.3x | 1.2x | 17.1% | 2.4x | 2.2x | 12.6% | 19.7x | 1.7% |

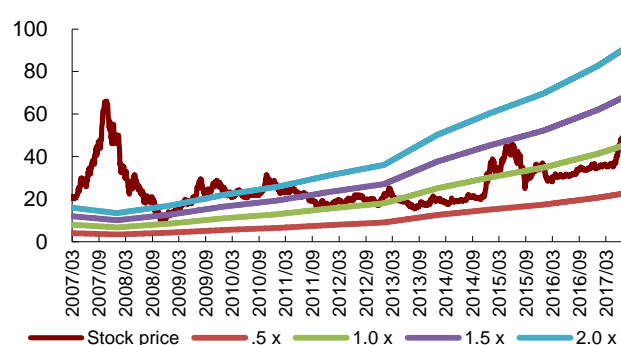
Source: Company data, Wind Info, CICC Research

Figure 5: Ping An-A is trading at 1.3x 2018e PEV



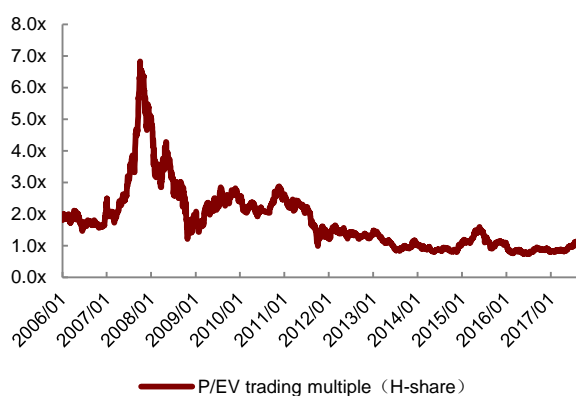
Source: Company data, Wind Info, CICC Research

Figure 6: Ping An-A's average PEV since 2010 is 1.0x



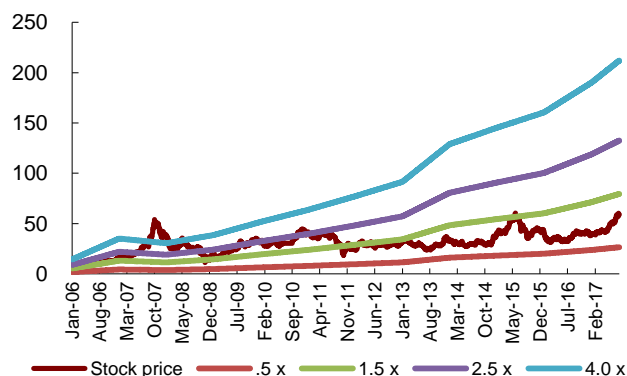
Source: Company data, Wind Info, CICC Research

Figure 7: Ping An-H is trading at 1.2x 2018e PEV



Source: Company data, Wind Info, CICC Research

Figure 8: Ping An-H's average PEV since 2010 is 1.3x



Source: Company data, Wind Info, CICC Research



Important legal disclosures

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