China Insurance Sector

PICC Group's Vice Chairman Under Investigation

PICC Group and PICC P&C are our least preferred

The investigation may increase the near-term share price volatility of PICC Group, PICC P&C and other Chinese insurers. However, this would not change our positive view on the sector. PICC Group and PICC P&C are our least preferred Chinese insurance names given their highest exposure to the property and casualty (P&C) market. Prefer Ping An and CPIC.

Still awaiting for official announcement

Caixin yesterday <u>reported</u> that Wang Yincheng - PICC Group's vice chairman and PICC P&C's non-executive director - was taken away by unidentified authorities on 9 Jan for investigation. We called PICC Group's IR team and they said they have not confirmed the validity of the news. We are still awaiting for an official announcement.

Near-term share price volatility likely

The news may increase the near-term share price volatility of PICC Group, PICC P&C and other Chinese insurers. However, this would not change our long-term view on the sector. PICC Group and PICC P&C are our least preferred Chinese insurers given their highest P&C exposure. We see pressure on P&C on P&C insurers' top and bottom lines driven by new-car sales slowdown, VAT reform and auto pricing deregulation.

Reiterate POSITIVE view; prefer lifers

We reiterate our POSITIVE view on China insurance sector. We expect Chinese lifers to re-rate in 2017 on: 1) improving growth prospects, 2) liability-cost stabilisation, and 3) interest-rate recovery. In the long term, we expect Chinese lifers to gradually narrow their valuations (0.5-0.9x FY17E P/EV) with AIA (1.5x) amid a shift towards protection business with improving earnings quality. Top picks are Ping An and CPIC given their strongest VNB growth and quality. POSITIVE

[Unchanged]

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Summary of insurance valuation

				Last			PB (x)			P/EV (x)			EV growth			VNB (x)			VNB growth		
Name	Ticker	Rating	TP	price*	Upside	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E F	Y17E	
China Life	2628 HK	HOLD	22.00	21.55	2%	1.9	2.0	1.9	1.1	1.0	0.9	23%	11%	14%	1.5	(0.3)	(2.0)	36%	40%	17%	
Ping An	2318 HK	BUY	52.00	40.20	29%	1.8	1.7	1.5	1.1	1.0	0.9	20%	19%	1 9 %	2.0	0.0	(2.0)	40%	41%	23%	
CPIC	2601 HK	BUY	35.20	27.70	27%	1.6	1.7	1.6	1.0	1.0	0.9	20%	12%	14%	0.4	(0.3)	(1.6)	38%	45%	21%	
PICC Group	1339 HK	HOLD	3.20	3.09	4%	0.9	0.9	0.8	0.8	0.8	0.7	24%	13%	10%	(5.4)	(5.4)	(6.7)	11%	46%	17%	
PICC P&C	2328 HK	SELL	10.50	12.22	-14%	1.7	1.5	1.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
NCI	1336 HK	HOLD	38.00	37.45	1%	1.7	1.7	1.6	0.9	0.9	0.8	21%	15%	16%	(0.8)	(1.8)	(3.3)	35%	23%	15%	
СТІН	966 HK	BUY	22.00	16.60	33%	1.1	1.2	1.1	0.6	0.6	0.5	50%	6%	12%	(5.7)	(4.7)	(5.0)	39 %	43%	21%	
AIA Group	1299 HK	HOLD	48.00	46.45	3%	2.3	1.9	1.8	1.9	1.7	1.5	3%	12%	10%	15.5	10.6	9.1	1 9 %	27%	0%	

Source: Company data, Bloomberg, Maybank Kim Eng *As of 11 Jan 2017

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