China / Hong Kong

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity 25 Apr 2018

China Taiping Ins (966 HK) : BUY

Mkt. Cap: US$11,824m I **3m Avg. Daily Val:** US$41.9m

Last Traded Price (24 Apr 2018): HK$25.80

Price Target 12-mth: HK$42.00 (63% upside)

Company Guide

Summary of our point of view, and highlights the relevant data points, which are actively tracked

China Taiping - iBanking Login
China Taiping - Institution Login

Analyst

Ken SHIH +852 2820 4920; kenshih@dbs.com

NDR takeaway: Cautiously optimistic

- **Premium/VNB growth seasonality more similar to 2016 pattern**
- **Management is confident of delivering above-peer performance**
- **Seeing investment opportunities to capture the rising yield curve**
- **Maintain BUY with TP of HK$42**

Forecasts and Valuation

FY Dec (HK$ m)	2016A	2017A	2018F	2019F
Net earned premiums	143,439	172,366	188,723	223,994
Net investment income	17,656	17,746	22,356	26,345
Net Profit	4,774	5,666	7,668	9,429
EPS (HK$)	1.33	1.58	2.13	2.62
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EPS Gth (%)	(29.8)	18.7	35.3	23.0
PE (X)	19.4	16.4	12.1	9.8
DPS (HK$)	0.10	0.24	0.32	0.39
Net Div Yield (%)	0.4	0.9	1.2	1.5
BV Per Share (HK$)	15.63	17.98	20.11	22.74
P/Book Value (X)	1.7	1.4	1.3	1.1
P/EV (X)	0.9	0.8	0.6	0.5
ROAE (%)	8.2	9.4	11.2	12.2
Earnings Rev (%):			Nil	Nil
Consensus EPS (HK$)			2.13	2.54
Other Broker Recs:		B:16	S:1	H:6

Source of all data on this page: Company, DBSV, Thomson Reuters, HKEX

What's New

We hosted a non-deal roadshow (NDR) with China Taiping on 24 April 2018. Investors were mostly interested in the open-year sales performance, agency growth and investment allocation strategy. We extract the key Q&As as follows:

Comment on China Taiping's main product offerings in FY18F:

1. Long-term products (critical illness):
- These products are the key focus for China Taiping with FYP margin reaching 90%.

2. Long-term protection products:
- The above are usually sold by relatively new agencies with FYP margin of 70-80%. The product structure is comparatively less complicated than long-term critical illness products.

3. Long-term savings products
- They are usually sold by productive agents with high premium level and FYP margin of 10-20%. The payment tenures are usually 10 years or more.

4. Short-term savings products
- These products are usually sold during open-year sales with a typically single-digit FYP margin. The commission rate generated from these products are minimal for the agencies. Value of new business (VNB) contribution from these products are also insignificant.

In 2017, some insurers completed their open-year sales earlier due to their robust performance, and as a result started selling health insurance (higher VNB margin) earlier in March. This created a higher base for comparison to this year. Comparing the performance of open-year sales between 2016 and 2018 may offer a clearer picture with similar product structure. China Taiping also notes that the typical pattern for the life insurance industry is usually open-year sales in the first quarter, followed by focusing on selling protection products/agency expansion in the second and third quarters and planning for the next year in the fourth quarter. **The group is confident that it can outperform peers this year.**

State of competitive landscape upon foreign ownership relaxation:
The impact should be limited for sizeable foreign insurers like China Taiping. Well-established insurers have already built a solid foundation and strong sales network in China. Foreign insurers would take time to ramp up their networks (agency sales network) and to understand the dynamics/culture of China's insurance industry.

Comment on changes in insurance products from banca channel:
In the bancassurance channel, China Taiping **had significantly** scaled down its single-payment products in 2017 (single-payment proportion had fallen from 49.8% in FY16 to 39.9% in FY17). And the group will no longer sell any single-payment products starting from this year. It will focus on transforming its agency and products. The key focus for banca channel are long-term savings and health products.

Comment on agency growth target:
China Taiping believes agency growth is the key for business growth. For 2018, the company expects its agency expansion pace to be similar to 2017. The management will review its agency growth target in the middle of this year.

Rationale for investment allocation:
The company increased the allocation to wealth management products in 1Q18. While there could be some policies against allocation to WMPs from regulators, the pressure should be limited as the allocation to non-standard assets (NSA) investment from China Taiping is not aggressive (22.1% of total assets). The credit ratings held by the group were 97.5% rated AAA, and 2.5% rated AA+ or AA (under Fitch rating). The company will keep reviewing the credit rating of each NSA and will exit if it fails their internal credit review.

Comment on China Taiping's duration and guaranteed rate:
China Taiping's asset and liability durations reached 7-9 years and 30 years respectively. The long liability duration provides the group flexibility for taking investment opportunities.

Participating products from China Taiping accounted for 60%, with a guaranteed rate of 2.5%. This in turn lowers the interest rate sensitivity. Some traditional protection products and riders can offer 3.5%. These are considered low level compared with the industry peers.

Comment on liquidity premium:
China Taiping was required to increase its liquidity premium (from zero previously) by the regulator. While there is no disclosure on the level of liquidity premium, it is at a low level.

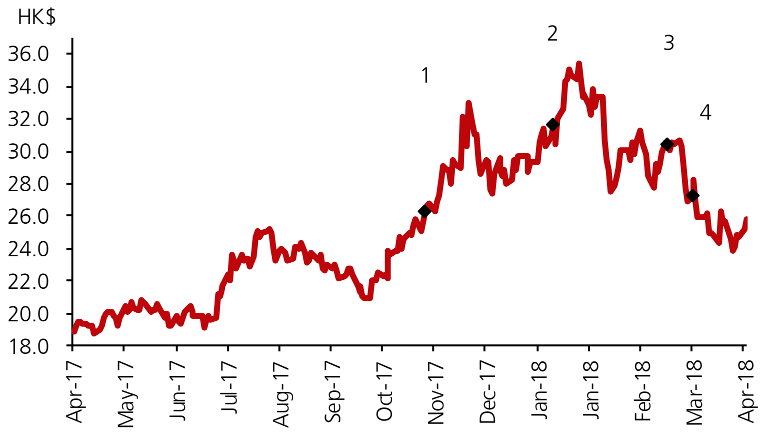
Comment on recent open-year sales headwind:
There is short-term impact on open-year sales amid the competition from banks' wealth management products. The long-term potential for protection products remains intact owing to low penetration in China. The company notes that the industry transformation may take some time to adjust the product focus and agency direction to protection products.

Comment on performance in the cities:
China Taiping performs especially well in Sichuan, Shandong and Jiangsu. For expansion, it will only pick city residents as its target customers. The company also notes that the flexible price range allows it to reach a broad range of customers.

An edge in asset management:
The third-party asset-management business under management amounted to HK$415bn at the end of 2017, increasing by 40.1% y-o-y. As a state-owned enterprise, China Taiping believes it has an edge in selecting projects among non-standard asset investments. In addition, the poor investment performance was attributed to A-share equity in 1H17.

Sustainable dividend payout:
China Taiping aims to maintain a sustainable dividend payout. In view of C-ROSS implementation, it may not aggressively increase its dividend payout in the short term. Note that the dividend payout was 7%/6% in FY16/17.

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Nov-17	HK$25.10	HK$38.00	Buy
2:	9-Jan-18	HK$31.70	HK$42.00	Buy
3:	13-Mar-18	HK$30.45	HK$42.00	Buy
4:	26-Mar-18	HK$26.90	HK$42.00	Buy

Source: DBSVHK
Analyst: Ken SHIH

DBSVHK recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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DBS Vickers (Hong Kong) Limited

18th Floor Man Yee building, 68 Des Voeux Road Central, Central, Hong Kong

Tel: (852) 2820-4888, Fax: (852) 2868-1523

Company Regn. No. 31758

DBS Regional Research Offices

HONG KONG
DBS Vickers (Hong Kong) Ltd
Contact: Carol Wu
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 852 2820 4888
Fax: 852 2863 1523
e-mail: dbsvhk@dbs.com
Participant of the Stock Exchange of Hong Kong Ltd

MALAYSIA
AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand