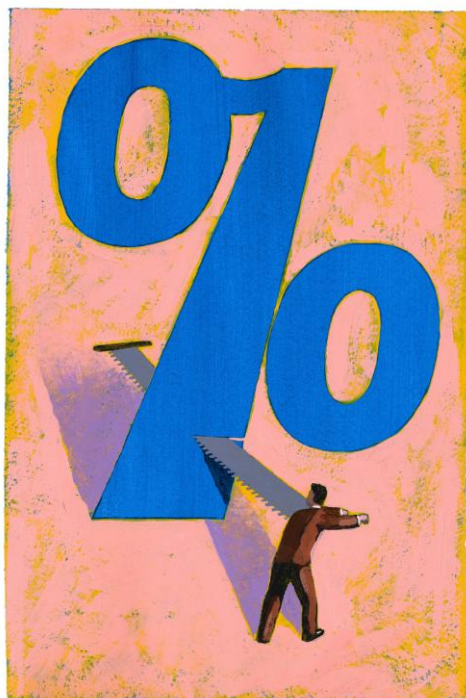




Industry
**China Insurance
Sector**

Date
7 November 2014

Asia
Hong Kong
Banking / Finance
Insurance



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F.I.T.T. for investors

Key beneficiaries of monetary easing and potential interest rate cut

A-shares initiation – CPIC, China Life and Ping An at Buys, NCI at Hold

Contrary to popular belief, we believe Chinese life insurers should benefit from monetary easing at this point of the cycle. We note that our China economist now expects two interest rate cuts of 25bps each in 2015. With current new money yield of 6+% vs. achieved yields of 4.8-5.1% in 1H14, we believe Chinese life insurers' investment yields should remain resilient, even if China were to cut interest rates. Also, we believe a lower rate environment could ease competitive pressure and allow scope to pass on the pressure of lower yields through lower policyholders' dividends and crediting rates. We expect the sector to deliver robust EV and VNB growth in 2014-16E and see current sector valuation as attractive, especially major insurers' A-shares that are trading at 0.9-1.1x 2014E P/EV. We initiate coverage of Chinese insurance A-shares, with Buy ratings on CPIC, China Life and Ping An, and Hold rating on NCI.



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FITT Research

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Key beneficiaries of monetary easing and potential interest rate cut

A-shares initiation – CPIC, China Life and Ping An at Buys, NCI at Hold

Contrary to popular belief, we believe Chinese life insurers should benefit from monetary easing at this point in the cycle. We note that our China economist now expects two interest rate cuts in 2015. We believe a lower rate environment could ease competitive pressure and allow room to lower liability costs, which should more than offset reinvestment pressure. We expect the sector to deliver robust EV and VNB growth in 2014-16, and see the current sector valuation as attractive, especially the major insurers' A-shares, trading at 0.9-1.1x 2014E P/EV. We initiate coverage of the Chinese insurance A-shares, with Buy ratings on China Life, Ping An and CPIC, and a Hold on NCI.

Why are interest rate cuts positive?

There are three reasons why we believe potential interest rate cuts are positive for Chinese life insurers. Firstly, we believe insurers' investment yields could be resilient, despite lower interest rates, thanks to the availability of higher-yielding assets. We note that the listed insurers' net investment yields of 4.8-5.1% in 1H14 are relatively low compared with the 6+% yields offered by new investments, such as preferred shares and other non-standard investments. Secondly, while asset duration is shorter than liability duration, we believe the sector's liabilities could be re-priced faster than assets, due to the dominance of participating and universal life policies (~77-92% of reserves), which allow insurers flexibility in adjusting liability costs. Furthermore, we believe a lower interest rate environment could ease competitive pressure for the sector, and is positive for growth. Last but not least, an easing monetary situation should ease asset quality deterioration, which has been a key concern for investors.

Expect robust EV and VNB growth in 2014-16

We forecast robust EV and VNB growth for Chinese life insurers, with average EV growth of 23.7% and VNB growth of 18.3% in 2014, helped by strong investment markets. We forecast EV growth to be sustained at around 14.3%/13.9% in 2015/16, and VNB growth at 15.6%/14.6%, supported by stable market conditions and an increased focus on protection policies. As such, we see current sector valuations – at 0.9-1.1x 2014E P/EV for insurance A-shares, 0.9-1.3x for H-shares – as unjustified and yet to price in any recovery.

Initiating on China Life, Ping An and CPIC A-shares with Buy, NCI with Hold

We initiate coverage of China Life, Ping An and CPIC A-shares with Buy ratings, and of NCI A-shares with a Hold rating. Our order of preference is CPIC, China Life, Ping An and NCI. We like CPIC for its strong capital position and consistent VNB delivery. Also, its implied life insurance valuation of 1.0x 2014E P/EV is lower than China Life's (1.1x) and similar to Ping An's (1.0x). We note that, since the announcement of mutual market access in April 2014, the correlations of insurance A- and H-shares have improved to 86-90% (from 65-78%). As such, we see better value in major insurers' A-shares, as they are trading at 0.9-1.1x 2014E P/EV, representing a 13% discount to their respective H-shares. We maintain our Buy rating on insurance H-shares. Investment risks include a sustainable weakness in investment markets, a significant deterioration in China's economic outlook and asset quality, and weaker-than-expected growth.

Top picks

CPIC (2601.HK),HKD28.65	Buy
CPIC (601601.SS),CNY19.64	Buy
CTIH (0966.HK),HKD16.12	Buy
PICC P & C (2328.HK),HKD13.62	Buy

Source: Deutsche Bank

Companies Featured

China Life (2628.HK),HKD22.95	Buy
China Life (601628.SS),CNY15.76	Buy
Ping An (2318.HK),HKD61.50	Buy
Ping An (601318.SS),CNY42.13	Buy
CPIC (2601.HK),HKD28.65	Buy
CPIC (601601.SS),CNY19.64	Buy
NCI (1336.HK),HKD28.40	Buy
NCI (601336.SS),CNY28.36	Hold
CTIH (0966.HK),HKD16.12	Buy
PICC Group (1339.HK),HKD3.31	Hold
PICC P & C (2328.HK),HKD13.62	Buy

Source: Deutsche Bank



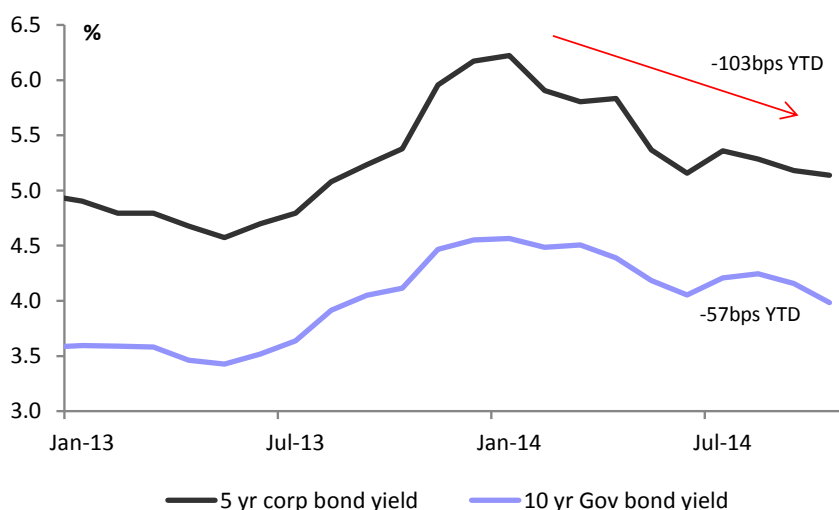
Executive summary

Assessing impacts of interest rate cut

Deutsche Bank expects monetary easing

Our China economist expects two interest rate cuts in 2015, of 25bps each in Q2 and Q3, driven by a slower economic growth outlook. Our fixed income strategist also expects 10-year Chinese government bond yields to fall to 3.5% over the next six months (from 3.8% currently) and to move back towards 3.8-4.0% in 2H15. Note that 10-year government bond yields have dropped 103bps year-to-date. Given the recent significant decline in China bond yields, there have been concerns on the impact on Chinese life insurers, given their asset-liability mismatch and investment yield outlook.

Figure 1: Declining yields in China



Source: Bloomberg Finance LP, Deutsche Bank

Chinese life insurers could benefit from monetary easing

Intuitively, an interest rate cut is viewed as negative for insurers, as it lowers future reinvestment yields and returns on new money. However, our analysis shows that this may not apply to Chinese life insurers at the current point in time. The reasons are as follows:

- **Reinvestment pressure should be minimal**, given new access to higher-yielding investment assets, such as preferred shares, private debt, wealth management and trust investments that offer yields of more than 6% (vs. 1H14 investment yields of ~5%). As long as insurers have access to investments that offer them better yields than they generate from current investments, an interest rate cut is less relevant.
- Despite a longer liability duration, we believe **Chinese insurers' liabilities are likely to be re-priced faster than assets**, given the product structure. An interest rate cut gives room for insurers to lower policyholders' dividends and crediting rates, and hence could lower overall liability costs.



- **Easing of concerns on asset quality.** An easing of monetary conditions with potential interest rate cuts should provide some relief on asset quality concerns, especially with regard to the sector's non-standard investments (NSI).

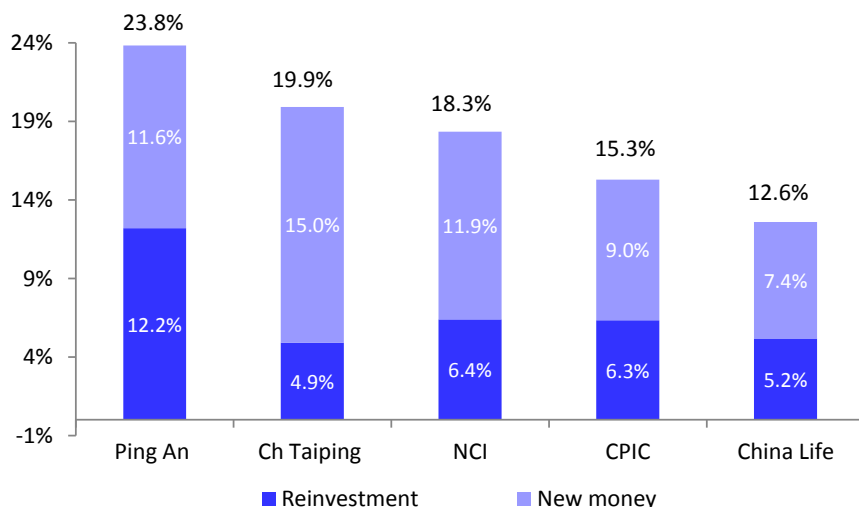
Manageable investment pressure at around 13-24bps, for every 100bps decline in achieved yields

Based on our analysis, we estimate that 13-24% of Chinese life insurers' investment assets are invested in a given year. These assets consist of:

- Assets that have matured and need to be reinvested, and floating rate assets, which we estimate to be around 5-12% of investment assets;
- New money from premiums collected, which we estimate to be around 7-15% of investment assets.

Assuming these assets are invested (or reinvested) at an average yield that is 100bps lower than previously achieved yields, the potential drag on overall investment yields is estimated at around 13-24bps, which is manageable, in our view, and could be passed on to policyholders in the form of lower policyholders' dividends (par policies) or lower crediting rates (Universal Life policies).

Figure 2: Chinese Life insurers – proportion of assets to be invested in a given year (including floating rate assets)



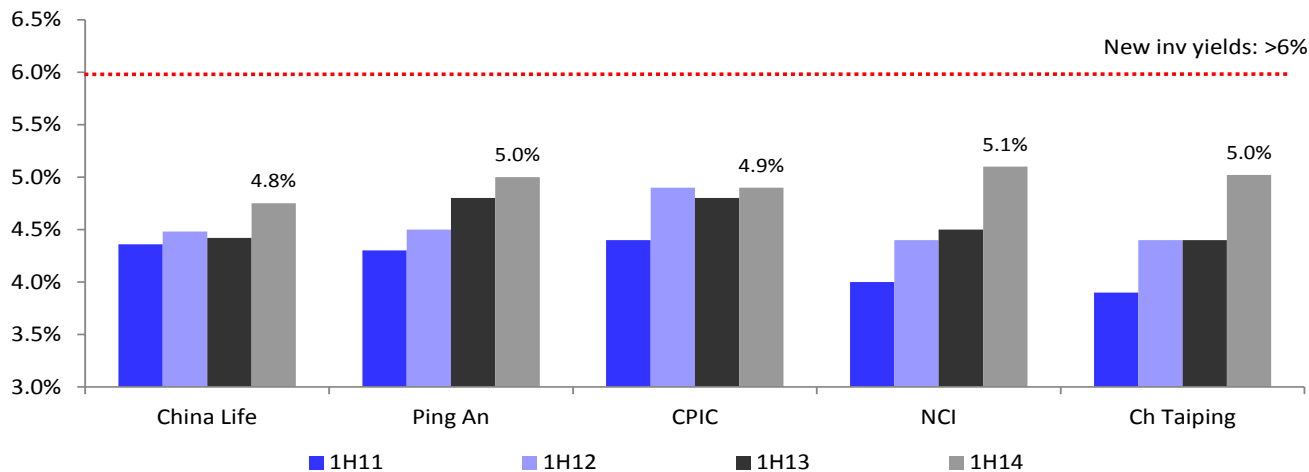
Source: Company data, Deutsche Bank

Access to higher-yielding assets should support overall investment yields

Thanks to investment channel liberalisation, Chinese insurers have been able to access higher-yielding investments, such as private debt, trust and wealth management products, since the end of 2012. These investments typically offer yields of more than 6%, which should help enhance sector yields. Furthermore, preferred shares issued by local banks offering yields of 6-7% should provide additional investment opportunities for Chinese insurers. Given 1H14 sector net investment yields (excluding investment gains/losses) of 4.8-5.1%, we believe there is still plenty of room for sector yields to improve.



Figure 3: Chinese Life insurers – net investment yields

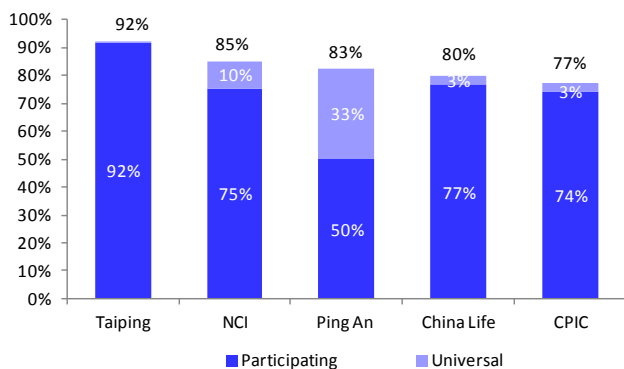


Source: Company data, Deutsche Bank

Liability costs could be lowered at a faster pace than assets

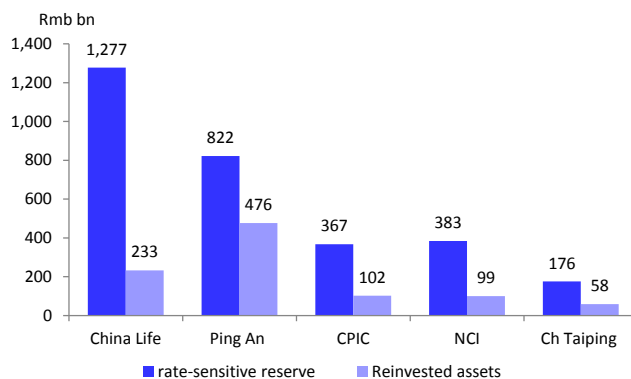
As participating (par) policies and universal life (UL) account for the majority of listed life insurers’ gross written premiums (GWP), at around 77-92%, we believe there is room for insurers to pass on lower investment returns to policyholders through lower policyholders’ dividends (par) or crediting rates (UL).

Figure 4: Proportion of GWP from par and UL (2013)



Source: Company data, Deutsche Bank estimates

Figure 5: Comparison of rate-sensitive reserve and assets that need to be invested (including floating rate assets)



Source: Company data, Deutsche Bank estimates

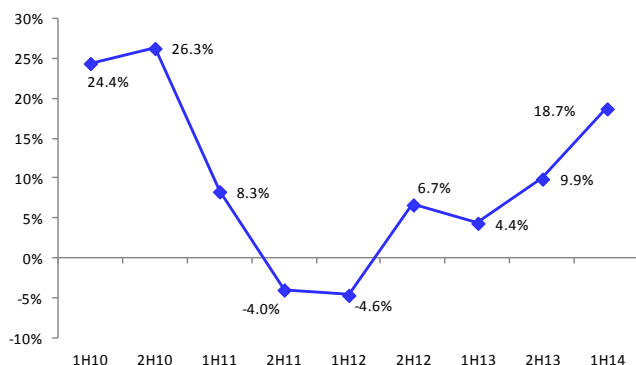
Positive sector outlook

Robust EV and VNB growth

Life insurers saw the trough in VNB growth in 2H11/1H12, at -4~5%, and have gradually recovered since then. In terms of EV growth, life insurers bottomed out from the low hoh growth of c.5% in 1H11/2H11 and have recorded healthy growth since. We believe the robust growth in both VNB and EV has indicated sector growth recovery, and we expect the steady delivery of strong growth going forward.

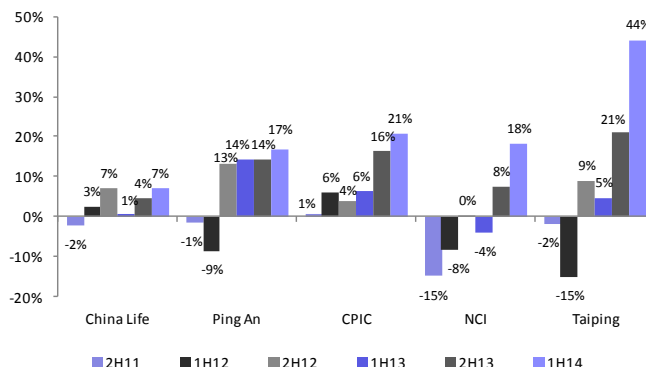


Figure 6: Chinese life insurers – historical yoy VNB growth (half year)



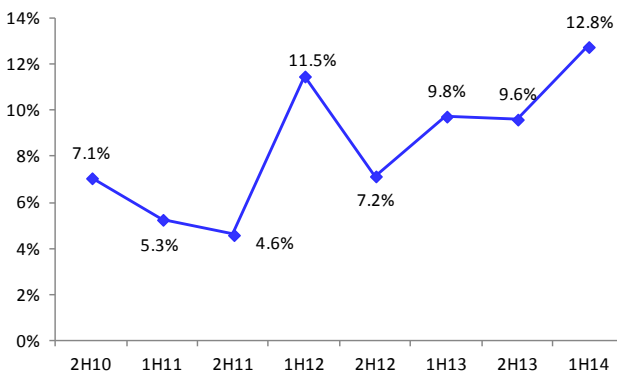
Source: Company data, Deutsche Bank

Figure 7: Chinese life insurers – historical yoy VNB underlying growth by insurers



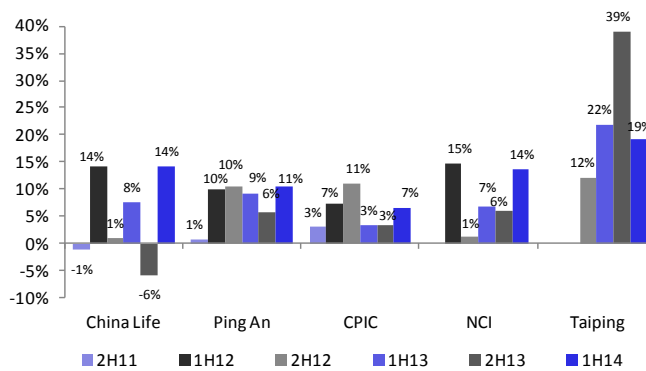
Source: Company data, Deutsche Bank

Figure 8: Chinese life insurers – historical hoh Group EV growth (half year)



Source: Company data, Deutsche Bank

Figure 9: Chinese life insurers – historical hoh Group EV growth by insurers



Source: Company data, Deutsche Bank

Expect average EV growth of 14.1%, VNB growth of 15.1% in 2015-16E

Given relatively positive VNB growth in 1H14, we believe the sector will continue to see strong VNB recovery going forward. We forecast the sector to deliver double-digit VNB growth of 18.3% and 15.6% in 2014 and 2015. In terms of EV, we expect sector Group EV growth to remain strong in 2014, at 23.7%, given strong VNB growth recovery and robust equity markets.

Figure 10: Chinese life insurance sector – VNB forecasts

Rmb mn	VNB					Underlying growth				
	2012	2013	2014E	2015E	2016E	2012	2013	2014E	2015E	2016E
China Life	20,834	21,300	23,145	26,193	29,512	4.3%	1.7%	8.7%	13.2%	12.7%
Ping An	15,915	18,163	21,067	24,424	28,213	0.2%	14.1%	16.0%	15.9%	15.5%
CPIC	7,060	7,499	8,852	10,137	11,607	5.2%	10.6%	18.0%	14.5%	14.5%
NCI	4,172	4,235	4,877	5,600	6,422	-4.3%	1.5%	15.2%	14.8%	14.7%
Taiping (HK\$ mn)	2,304	3,148	4,208	5,025	5,812	-4.4%	11.8%	33.7%	19.4%	15.7%
Average						0.2%	8.0%	18.3%	15.6%	14.6%

Source: Company data, Deutsche Bank estimates



Figure 11: Chinese life insurance sector – Group EV forecasts

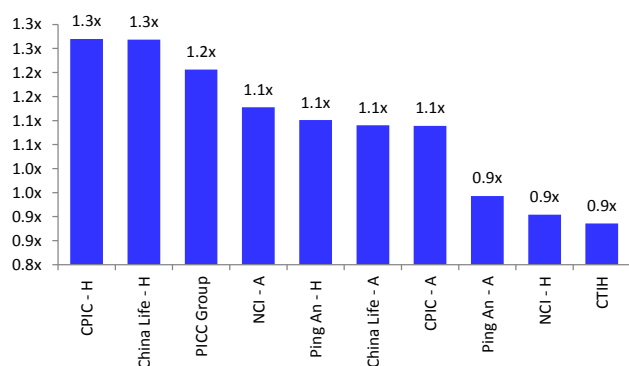
Rmb mn	Group EV					Group EV growth				
	2012	2013	2014E	2015E	2016E	2012	2013	2014E	2015E	2016E
China Life	337,595	342,224	409,120	463,513	523,442	15.3%	1.4%	19.5%	13.3%	12.9%
Ping An	285,874	329,653	384,194	451,200	529,100	21.3%	15.3%	16.5%	17.4%	17.3%
CPIC	135,280	144,378	163,557	183,348	202,508	19.1%	6.7%	13.3%	12.1%	10.5%
NCI	56,870	64,407	78,382	89,998	103,233	16.1%	13.3%	21.7%	14.8%	14.7%
Taiping (HK\$ mn)	22,172	37,537	55,322	62,879	71,929	28.7%	69.3%	47.4%	13.7%	14.4%
Average						20.1%	21.2%	23.7%	14.3%	13.9%

Source: Company data, Deutsche Bank estimates

Attractive valuations, yet to price in future growth

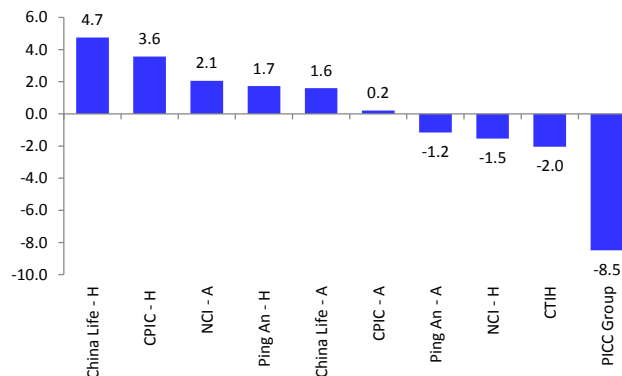
Currently, both A-share and H-share insurers are trading at a 2014E P/EV of 1.1x and, except for NCI, all dual-listed Chinese insurers' A-shares are trading at a discount to H-shares. With an A-share target 2014E P/EV of 1.5x and an H-share target of 1.4x, we believe the stocks are attractive at current valuations.

Figure 12: 2014E trading P/EV (Group) ranking



Source: Bloomberg Finance LP, Deutsche Bank estimates

Figure 13: 2014E trading NB multiples ranking



Source: Bloomberg Finance LP, Deutsche Bank estimates

A-shares initiation

Buy China Life, Ping An and CPIC A-shares, Hold NCI A-shares

We initiate coverage of China Life, Ping An and CPIC A-shares with Buy ratings. While we maintain our Buy ratings on their respective H-shares, we see better value in their A-shares, which are 13% cheaper. We initiate on NCI A-share with a Hold rating, given its c.27% premium to H-shares. We maintain our Buy ratings on Ch Taiping and PICC P&C and Hold rating on PICC Group.

Figure 14: Ratings and target prices

Rmb per share	Rating	Target price	Current price	Potential upside
China Life - A	Buy	21.8	15.8	38.4%
Ping An - A	Buy	67.3	42.1	59.7%
CPIC - A	Buy	28.2	19.7	43.5%
NCI - A	Hold	31.1	28.3	9.8%
HK\$ per share				
China Life - H	Buy	27.3	23.0	19.0%
Ping An - H	Buy	84.1	61.5	36.8%
CPIC - H	Buy	35.2	28.7	23.0%
NCI - H	Buy	38.9	28.4	37.0%
CTIH	Buy	23.3	16.1	44.5%
PICC P&C	Buy	15.7	13.6	15.3%
PICC Group	Hold	3.8	3.3	15.5%

Source: Bloomberg Finance LP, Deutsche Bank estimates; based on prices as at 6 November 2014



Figure 15: Target valuation

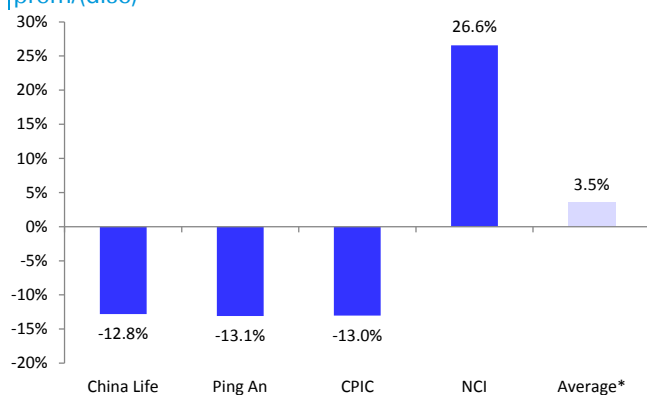
	Target price LC	Target P/EV (Group) (x)			Target P/EV (Life*) (x)			Target NB multiple* (x)			VNB* growth		
		2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E
China Life – A	21.8	1.8	1.5	1.3	1.8	1.5	1.3	12.9	9.0	5.9	2.2%	8.7%	13.2%
Ping An – A	67.3	1.6	1.5	1.3	1.8	1.8	1.5	9.1	9.1	5.6	14.1%	16.0%	15.9%
CPIC – A	28.2	1.8	1.6	1.4	2.0	1.7	1.4	13.1	9.0	5.8	6.2%	18.0%	14.5%
NCI – A	31.1	1.5	1.2	1.1	1.5	1.2	1.1	7.7	3.8	1.3	1.5%	15.2%	14.8%
A-listed China average		1.7	1.5	1.3	1.8	1.6	1.3	10.7	7.7	4.6	6.0%	14.5%	14.6%
China Life – H	27.3	1.8	1.5	1.3	1.8	1.5	1.3	12.9	9.0	5.9	2.2%	8.7%	13.2%
Ping An – H	84.1	1.6	1.5	1.3	1.8	1.8	1.5	9.1	9.1	5.6	14.1%	16.0%	15.9%
CPIC – H	35.2	1.8	1.6	1.4	2.0	1.7	1.4	13.1	9.0	5.8	6.2%	18.0%	14.5%
NCI – H	38.9	1.5	1.2	1.1	1.5	1.2	1.1	7.7	3.8	1.3	1.5%	15.2%	14.8%
CTIH	23.3	1.1	1.3	1.1	1.1	1.4	1.1	2.1	5.0	1.9	11.8%	33.7%	19.4%
PICC Group	3.8	1.6	1.4	1.2	0.8	0.7	0.6	11.0	-4.6	-14.4	-4.6%	4.8%	7.7%
H-listed China average		1.6	1.4	1.2	1.5	1.4	1.2	9.3	5.2	1.0	5.2%	16.1%	14.3%

* PICC Group, Ping An and China Taiping valuations are adjusted for 10% valuation discount
Source: Company data, Bloomberg Finance LP, Deutsche Bank estimates; based on prices as at 6 November 2014

Better value of major insurers' A-shares

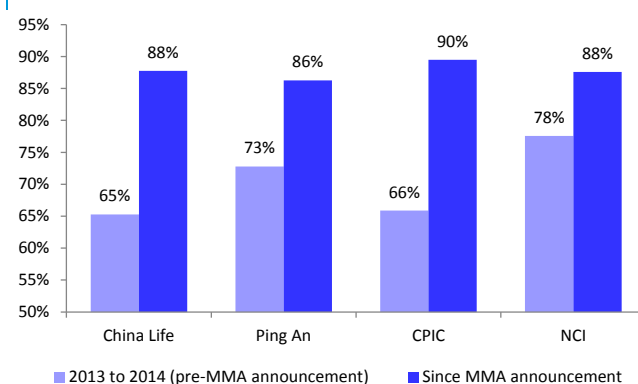
Major insurers' A-shares are trading at a 13% discount to their respective H-shares. Furthermore, we note that, since the announcement of mutual market access (MMA), the correlations between A and H shares have improved significantly, from 65-78% to 86-90%, making A-shares more viable substitutes for H-shares, in our view.

Figure 16: Chinese Insurers – A-share vs. H-share trading prem/(disc)



Note: *Weighted average of all 86 dual listed stocks
Source: Bloomberg Finance LP, Deutsche Bank

Figure 17: Chinese Insurers – A- and H-share correlation



Source: Bloomberg Finance LP, Deutsche Bank

Valuation comparison of major insurers' A-shares

According to our comparison of major insurers' A-shares, China Life is trading at 2014E P/EV (Life) of 1.1x, higher than the 1.0x of CPIC and Ping An. We prefer CPIC to Ping An and China Life, given its relatively cheap valuation (compared with 1.1x for China Life) and robust fundamentals.



Figure 18: Valuation comparison of major insurers (A-share)

Rmb	CPIC	P/B	Ping An	P/B	China Life	Note
Current price	19.65		42.14		15.78	
Less: Valuation - A of other businesses	6.94		15.96			
- P&C	2.84	1.0	7.07	1.7		1.7x for Ping An (~18% ROAE); 1.0x for CPIC (~10% ROAE)
- Bank			6.15	0.7		20% discount to current price of PAB
- Securities			1.10	1.0		1.0x 2014E P/B
- Trust			0.00	0.0		
- Reinsurance						
- Others (1.0x PB)	4.10	1.0	1.64	1.0		1.0x 2014E P/B
Implied Valuation for life business	12.71		26.18		15.78	
-PEV (life)	1.02		0.96		1.09	
-Implied NB multiple	0.21		-0.48		1.59	
EV & VNB/share (Rmb) - 2014E						
Life EV	12.50		27.36		14.47	
VNB	0.98		2.45		0.82	
Book value/share (Rmb)						
Life						
P&C	2.84		4.16			
Bank			8.82			
Securities			1.10			
Trust			2.37			
Reinsurance						
Corp & others	4.10		1.64			

Source: Bloomberg Finance LP, Deutsche Bank estimates

Figure 19: Current valuation (6 November 2014)

	Mkt Price	P/EV (Group) (x)			P/EV (Life*) (x)			NB multiple* (x)			VNB* growth		
		LC	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E
China Life – A	15.8	1.3	1.1	1.0	1.3	1.1	1.0	4.9	1.6	-0.7	2.2%	8.7%	13.2%
Ping An – A	42.1	1.0	0.9	0.8	0.8	0.9	0.7	-1.9	-1.2	-3.3	14.1%	16.0%	15.9%
CPIC – A	19.7	1.2	1.1	1.0	1.2	1.0	0.9	2.8	0.2	-1.8	6.2%	18.0%	14.5%
NCI – A	28.3	1.4	1.1	1.0	1.4	1.1	1.0	5.7	2.1	-0.3	1.5%	15.2%	14.8%
A-listed China average		1.2	1.1	0.9	1.2	1.0	0.9	2.8	0.7	-1.5	6.0%	14.5%	14.6%
China Life – H	23.0	1.5	1.3	1.1	1.5	1.3	1.1	8.3	4.7	2.1	2.2%	8.7%	13.2%
Ping An – H	61.5	1.2	1.1	0.9	1.1	1.2	0.9	1.2	1.7	-0.8	14.1%	16.0%	15.9%
CPIC – H	28.7	1.4	1.3	1.1	1.5	1.3	1.1	6.7	3.6	1.1	6.2%	18.0%	14.5%
NCI – H	28.4	1.1	0.9	0.8	1.1	0.9	0.8	1.5	-1.5	-3.4	1.5%	15.2%	14.8%
CTIH	16.1	0.8	0.9	0.8	0.7	0.8	0.7	-3.9	-2.0	-4.1	11.8%	33.7%	19.4%
PICC Group	3.3	1.4	1.2	1.0	0.6	0.5	0.4	-5.7	-7.8	-9.7	-4.6%	4.8%	7.7%
H-listed China average		1.2	1.1	1.0	1.1	1.0	0.8	1.4	-0.2	-2.5	5.2%	16.1%	14.3%

*: PICC Group, Ping An and China Taiping valuations are adjusted for 10% valuation discount
Source: Company data, Bloomberg Finance LP, Deutsche Bank estimates



The impact of interest rates

Why do interest rates matter?

Time value of money

Life insurance companies sell long-term contracts that guarantee a specific level of payment to their customers in the event of certain situations, such as death, critical illness or survival to a specific age (maturity of savings policies). In exchange, insurance companies are entitled to receive a pre-determined amount of premiums from the customer (traditional policies). For participating policies, policyholders are able to share insurers' experience gains, which could increase the ultimate payment amount.

Typically, the total amount of premiums paid by policyholders will be lower than the benefits that he/she will ultimately receive from the insurance company. The following table summarises the terms of some critical illness policies offered by listed insurers.

Figure 20: Chinese life insurance – critical illness policies (age 30, male)

Company	Product	Participating	Insured amount	Total premium*	Benefits at age 60	Benefit coverage	
						Critical illness	Special illness
China Life	Kangning	No	300,000	189,000	300,000	40	10
Ping An	Ping An Fu	No	300,000	152,400	300,000	30	8
CPIC	Jinyou Rensheng	Yes	300,000	242,400	501,062	60	12
Ch Taiping	Health welfare C	Yes	300,000	205,800	558,603	50	1
NCI	Jiankang Fuxing	Yes	300,000	296,400	570,000	45	0

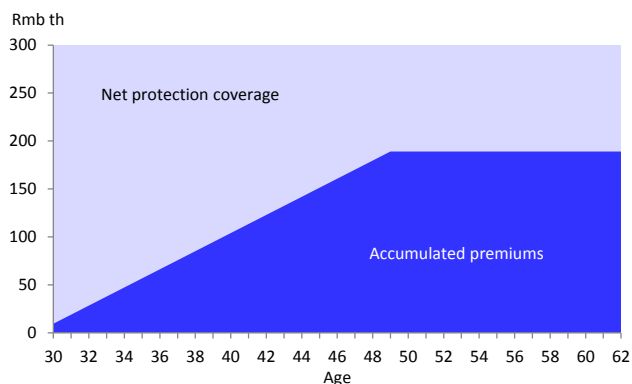
Note: *Designed at age 30 and the premium will be paid over a period of 20 years

Source: Deutsche Bank

Using China Life's critical illness policy (Kangning) as an example, the following chart illustrates the accumulated premiums paid by a policyholder, male, age 30, and the critical illness protection coverage he is getting. In order for insurance companies to make profits, they need to generate investment returns on the premiums that they receive from policyholders, so as to cover the benefit amount when they are required to make the benefit payment (plus expenses) at a later point in time.

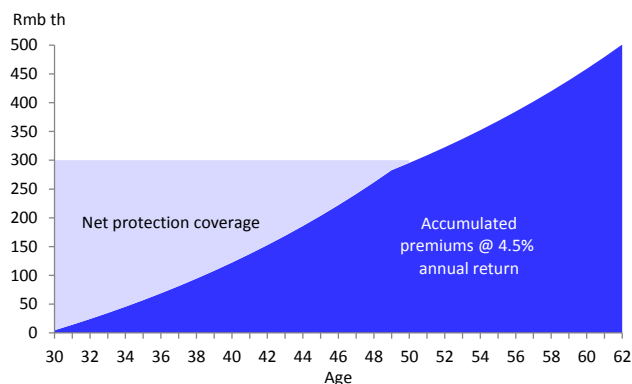


Figure 21: Policy benefit vs. accumulated premium



Source: Deutsche Bank

Figure 22: Policy benefit vs. accumulated premium at 4.5% annual return

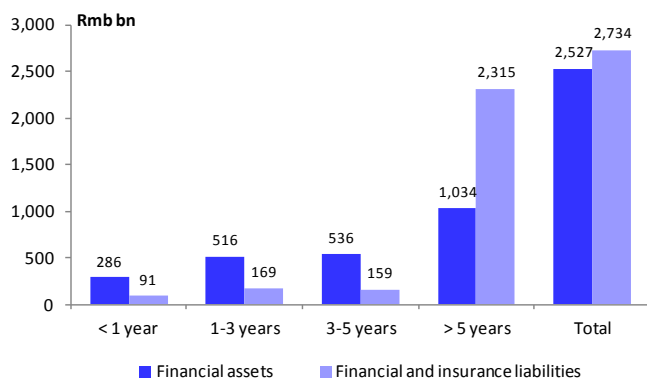


Source: Deutsche Bank

Asset liability duration mismatch

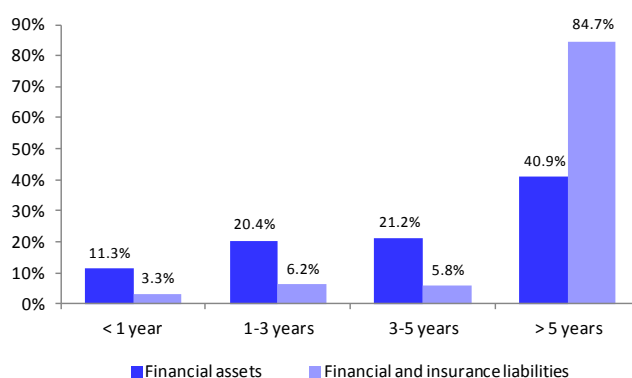
Due to a lack of long-term investment assets, Chinese life insurers generally run a mismatch in asset and liability duration, whereby their asset duration is much shorter than liabilities, as shown in the following charts, based on 2013 data released by China Life.

Figure 23: China Life – asset liability durations



Source: Company data, Deutsche Bank

Figure 24: China Life – asset liability durations (%)



Source: Company data, Deutsche Bank

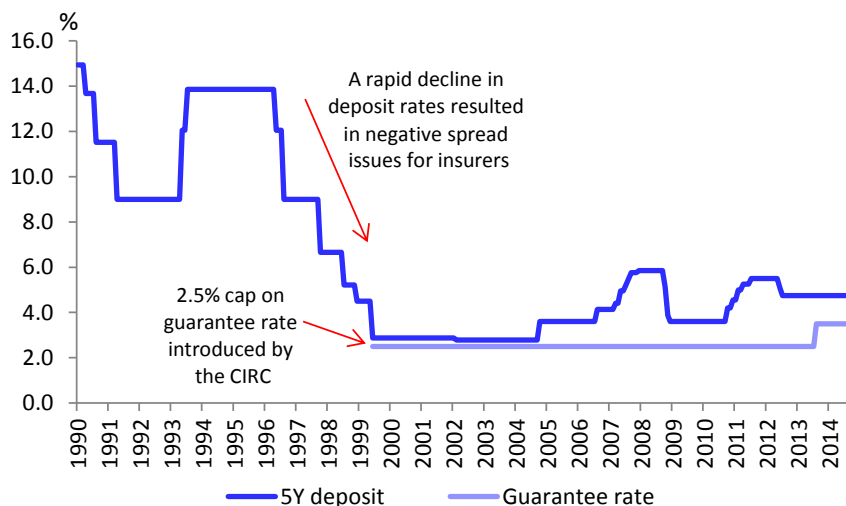
Concerns on declining interest rates – will negative spread issue resurface?

Negative spread policies – the origin

Despite a likely lower interest rate environment in China, we believe it is unlikely that this should create negative spread issues. In our view, the prevalence of negative spread policies in the late 1990s was a result of a sharp and rapid decline in interest rates. Typically, pricing/guarantee rates of life insurance policies are influenced by the prevailing interest rate environment. In the early 1990s, when interest rates were high (five-year deposit rates reached 11.55% in 1993-96), it was common for insurers to price their policies using a pricing rate of 7-8%. However, this became an issue, as interest rates started to decline rapidly, from 11.55% in mid-1996 to 2.88% in 1999; insurers could no longer generate 7-8%, and the sector suffered a significant negative spread. As a result, the CIRC stepped in and introduced a cap of 2.5% on the pricing rate (guarantee rate) in June 1999, as shown in the following chart.



Figure 25: China – historical deposit rates and guarantee rate cap



Source: Bloomberg Finance LP, CIRC, Deutsche Bank

Given the recent experience and a relatively low interest rate environment since 2000, we believe insurers are keenly aware of negative spread risks. Furthermore, insurers' guarantee rates have remained relatively contained, at 2.5-3.5%, for the most part. Unless we believe China is heading into a deflationary environment for a sustained period of time, we believe the risk of a negative spread is relatively low.

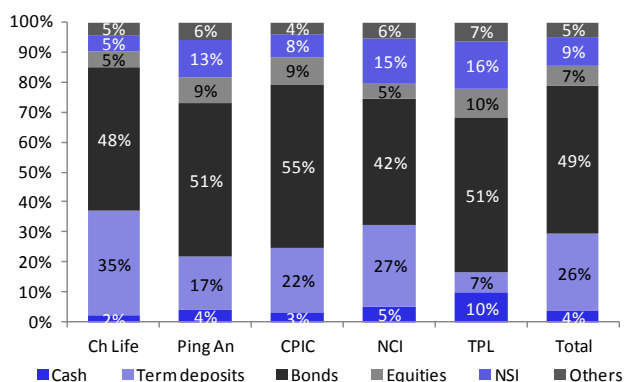
From the asset perspective – assessing reinvestment pressure

Investment asset mix and rate-sensitive investments

Given the long-term nature of the life insurance business, a significant proportion of sector assets are invested in fixed income investments. As shown below, about 49% of listed life insurers' 1H14 investments were in bonds, 26% in term deposits and 9% in non-standard investments (i.e. private debt, wealth management and trust products), which we consider interest-sensitive investments. Together, they accounted for around 84% of sector investments, and could be affected by interest rate changes.

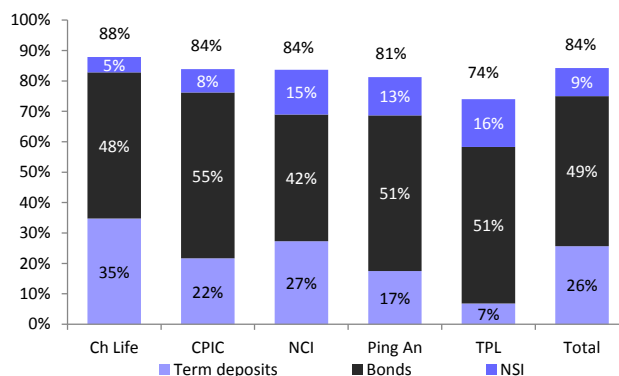


Figure 26: Investment asset mix (1H14)



Source: Company data, Deutsche Bank

Figure 27: Interest-sensitive investment assets (1H14)

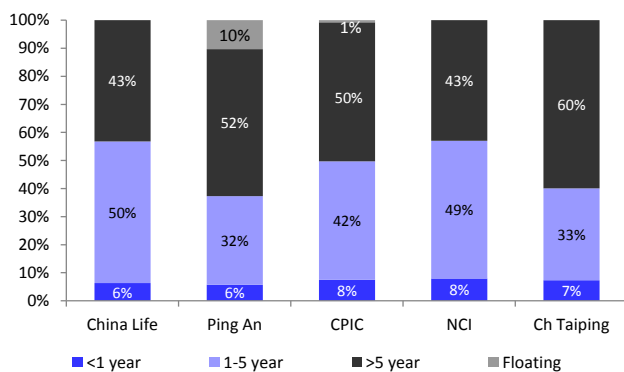


Source: Company data, Deutsche Bank

Maturity profile of term deposits and bonds

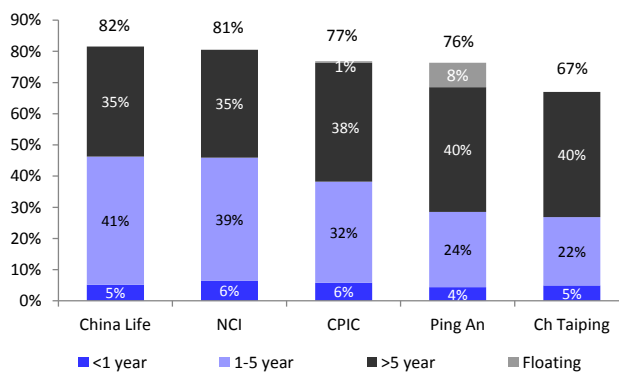
Based on 2013 disclosure, we estimate that around 6-8% of insurers' term deposits and bonds will mature within a year, which accounts for around 4-6% of total investments and could be subject to reinvestment pressure.

Figure 28: Composition of term deposits and bonds in terms of maturity (2013)



Source: Company data, Deutsche Bank

Figure 29: Maturity profile of term deposits and bonds, as % of total investments (2013)



Note: For Ping An, it is as % of Insurance fund
 Source: Company data, Deutsche Bank

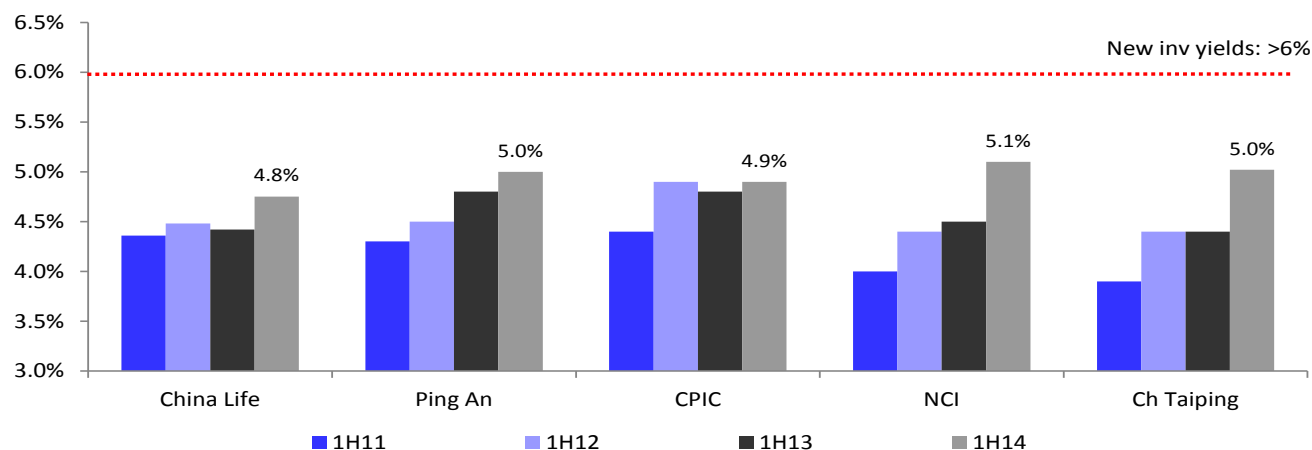
Access to higher-yielding investment should support reinvestment yields

All insurers recorded rising investment yields, driven by an increase in higher-yielding non-standard investments (NSI). We believe the trend should continue, even if we were to see an interest rate cut, for the following reasons:

- Access to new investments, such as non-standard investments (NSI) and preferred shares, which offer >6% returns, and which should be supportive of overall investment yields.
- Ample room to improve recurring yields. 1H14 net investment yields of 4.8-5.1% are below the potential yields of >6% that insurers could achieve.



Figure 30: Chinese insurers – net investment yields



Source: Company data, Deutsche Bank

Earnings and book value sensitivities to rate cut

Based on 2013 data, we estimate that the pressure from an interest rate cut on earnings is minimal, as summarised in the following table.

Figure 31: Pre-tax profits and equity sensitivities to interest rates

Interest rate -50bps	China Life	Ping An	CPIC	NCI	Ch Taiping
Impacts on book value	3.6%	1.3%	0.7%	1.1%	3.0%
Impacts on pre-tax profit	-3.2%	1.9%	-0.5%	0.2%	Negligible
Impact on pre-tax equity	10,720	3,179	860	575	718
At FV or AFS securities		2,385	960		718
Floating int rate bonds		-464	-100		
Floating rate term deposits		-110			
Loans and advances		-2,569			
Deposits		3,937			
Impact on pre-tax profit	-934	894	-63	11	
At FV or AFS securities		100	37		
Floating int rate bonds		-464	-100		
Floating rate term deposits		-110			
Loans and advances		-2,569			
Deposits		3,937			

Source: Company data, Deutsche Bank

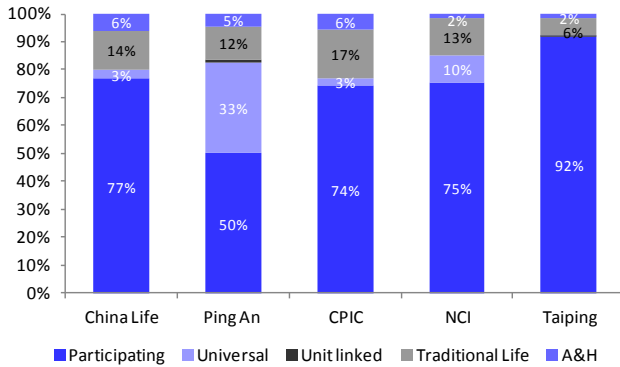
From the liability perspective – room to reduce costs

Premium mix and interest-sensitive products

We note that participating (par) policies make up a significant portion of Chinese insurers' book of business. As shown in the following charts, around 77-92% of listed insurers' 2013 premiums came from par and UL policies, which allows insurers some flexibility in liability costs, as they could lower policyholders' dividends or crediting rates paid to policyholders.

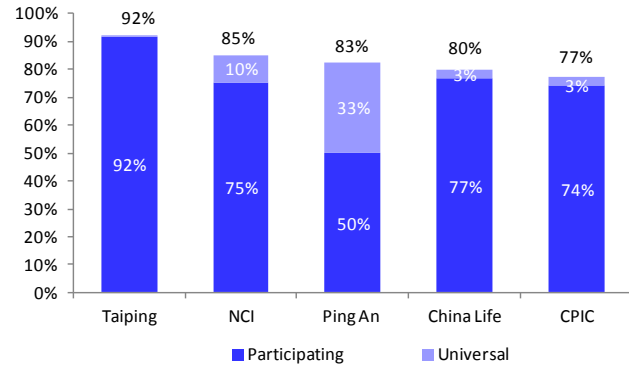


Figure 32: Written premium mix (2013)



Source: CIRC, Company data, Deutsche Bank

Figure 33: Interest-sensitive written premium (2013)

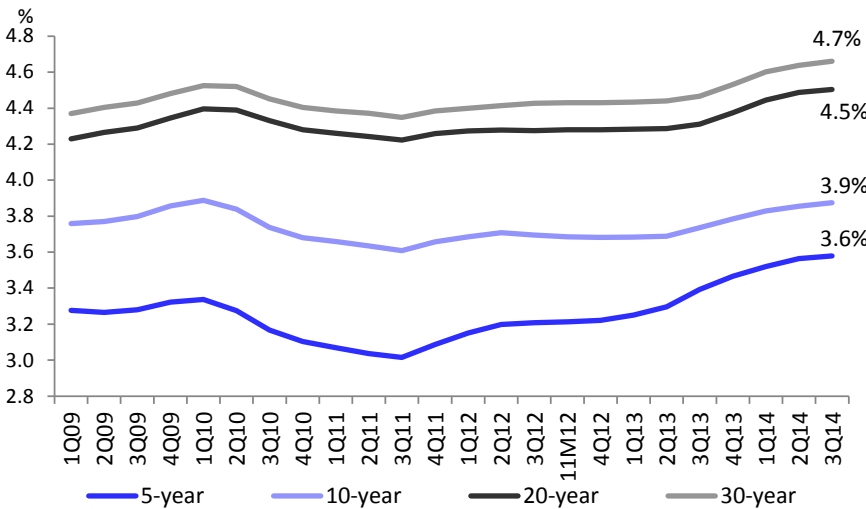


Source: CIRC, Company data, Deutsche Bank

Reserving rate – 750-day moving average (MA) bond yields

The reserve pricing rate (or sometimes referred to as the reserving rate) is the rate used to discount future liabilities on Chinese insurers' balance sheets. In China, the reserving rates for traditional policies are benchmarked to 750-day moving average bond yields, plus a risk margin of ~150bps. As seen in the following chart, 750-day MA bond yields have been trending upwards since 2Q13.

Figure 34: 750-day moving average bond yields



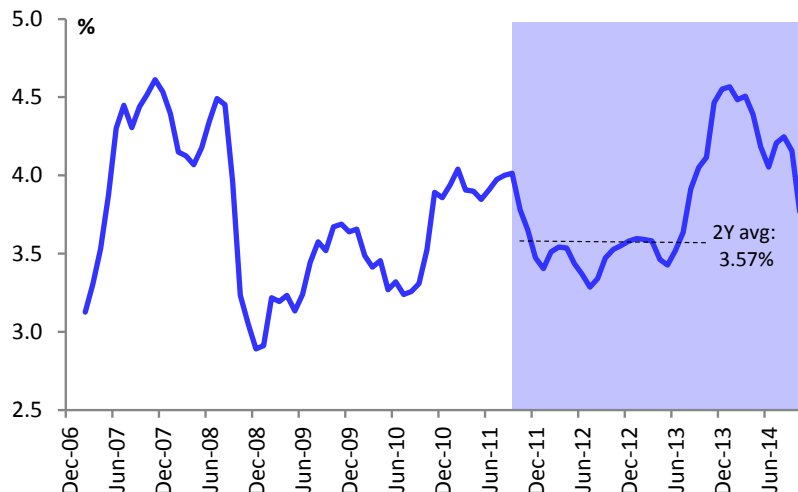
Source: China Bonds website, Deutsche Bank

Outlook of 750-day moving average bond yields

Despite the recent sharp decrease in China's bond yields, we note that 750-day moving average yields should remain stable, as current yields of 3.77% (10-year) are still above the 3.57% average in October 2011-13 (as shown below). As long as 10-year bond yields remain above 3.57%, on average, in the next two years, there should not be significant upward pressure on reserve pricing rates.



Figure 35: China's 10-year government bond yields



Source: Bloomberg Finance LP, Deutsche Bank

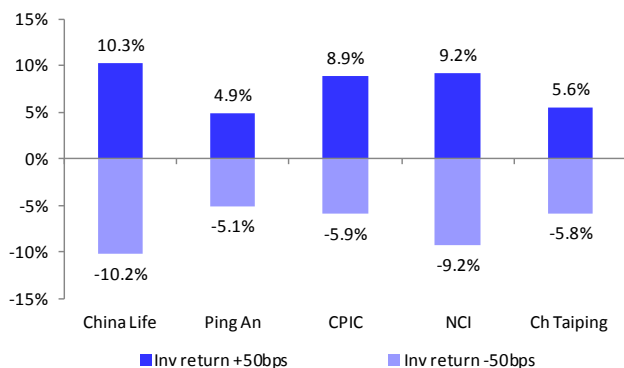
From EV and VNB perspectives

EV and VNB sensitivities to investment returns and RDR

As shown in the following charts, Chinese insurers' EV and VNB are highly sensitive to changes in investment returns. For every 50bps increase in an investment return, the EV change ranges from 4.9% to 10.3%, while the VNB change ranges from 7.7% to 21.5%. Pure life players, China Life and NCI, usually have a relatively high EV sensitivity (10.3% and 9.2%, respectively).

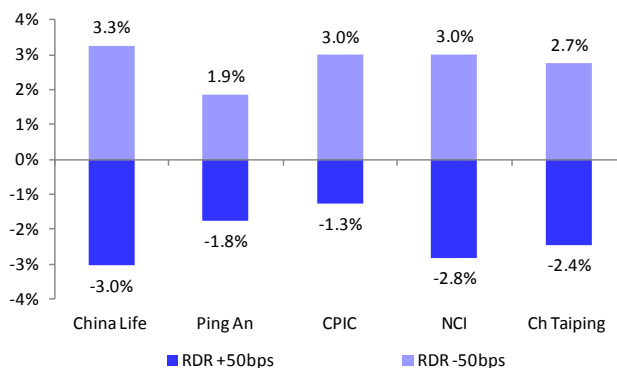
In contrast, sensitivity to the change in the risk discount rate is relatively low. For every 50bps increase in the risk discount rate, EV will decrease by 1.3% to 3.0% and VNB will decrease by 5.5% to 9.2%.

Figure 36: EV sensitivity to inv. return change (1H14*)



Note: * Ch Taiping is based on 2013 data
 Source: Company data, Deutsche Bank

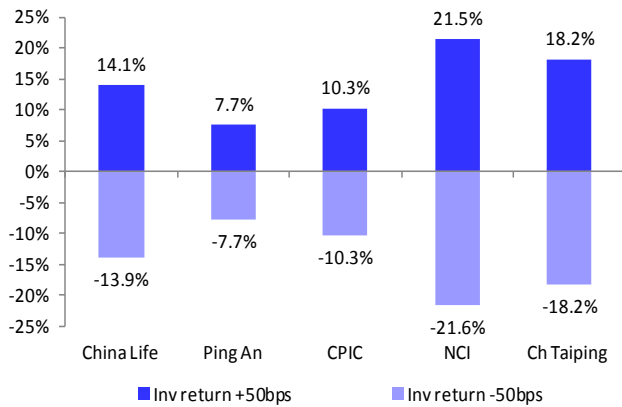
Figure 37: EV sensitivity to disc. rate change (1H14*)



Note: * Ch Taiping is based on 2013 data
 Source: Company data, Deutsche Bank

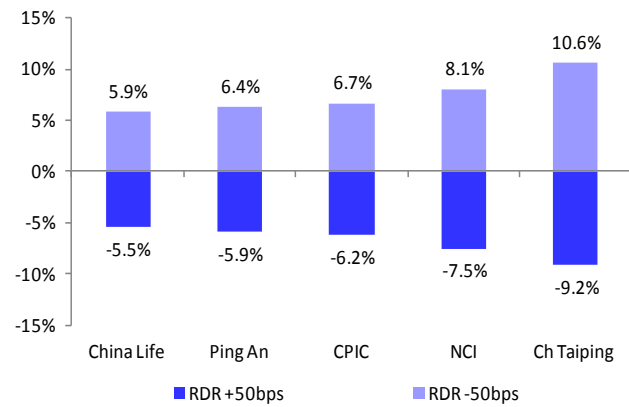


Figure 38: VNB sensitivity to inv. return change (1H14*)



Note: *Ch Taiping is based on 2013 data
 Source: Company data, Deutsche Bank

Figure 39: VNB sensitivity to disc. rate change (1H14*)

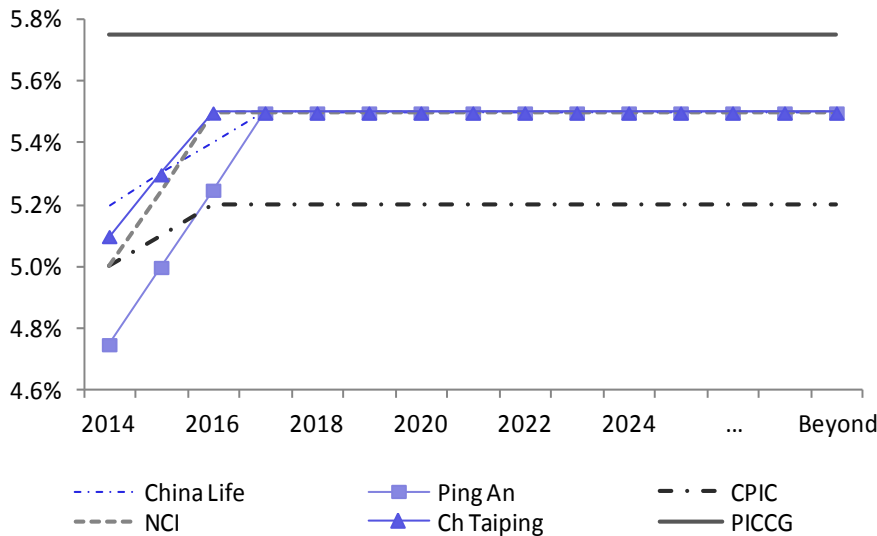


Note: *Ch Taiping is based on 2013 data
 Source: Company data, Deutsche Bank

Investment return assumptions

Chinese insurers have assumed terminal investment returns ranging from 5.2-5.75%. CPIC has the most conservative assumption of 5.2%. China Life, Ping An, NCI and Ch Taiping assume a terminal investment return of 5.5%, and PICCG assumes a constant investment return of 5.75%. (Note that in our PICCG valuation, we have adjusted our numbers to reflect a 5.5% long-term investment return.)

Figure 40: Inv. return assumptions for Chinese life insurers



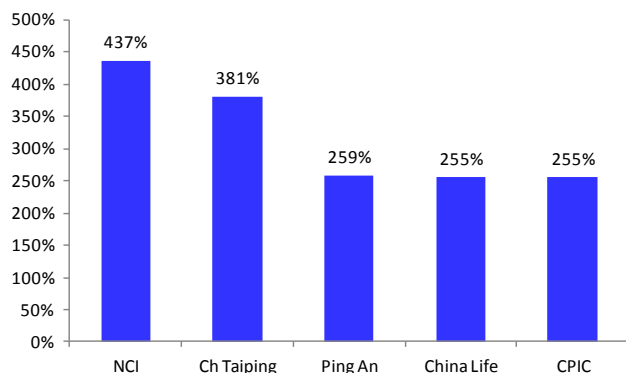
Source: Company data, Deutsche Bank



Sensitivities to investment markets

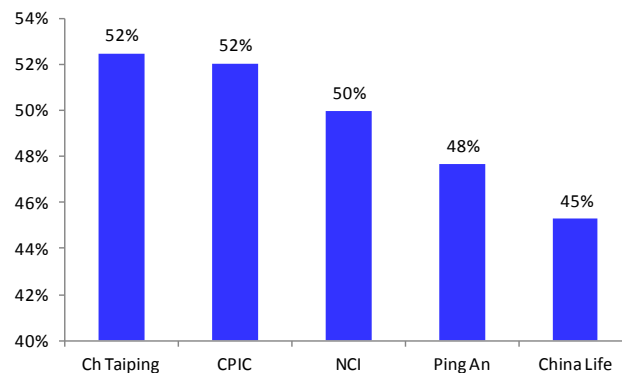
Insurance companies are subject to market risks, especially equity price risk and interest rate risk, which could affect the P&Ls through fair value changes and realised gains/losses, and book value through unrealised gains/losses.

Figure 41: Bond inv. as % of group EV (2013)



Source: Company data, Deutsche Bank

Figure 42: Equity inv. as % of group EV (2013)



Source: Company data, Deutsche Bank

According to company disclosures, a rate cut of 50bps will have a negative impact on China Life (-3.2%) and CPIC (-0.5%) in terms of pre-tax profit, while it will have a positive impact on Ping An (+1.9%) and NCI (+0.2%). It will not have a significant impact on Ch Taiping. In terms of the impact on book value, the rate cut has a positive impact across the board, due to the mark-to-market gains on AFS bond investments.

Figure 43: Sensitivity to interest rates (2013)

Interest rate -50bps	China Life	Ping An	CPIC	NCI	Ch Taiping
Impact on Pre-tax profit	-934	894	-62	11	nm
- As % of pre-tax	-3.2%	1.9%	-0.5%	0.2%	0.0%
Impact on pre-tax equity	10,720	3,179	860	575	718
- As % of book value	3.6%	1.3%	0.7%	1.1%	3.0%
- As % of Life EV	3.1%	1.6%	0.9%	0.9%	1.6%
- As % of Group EV	3.1%	1.0%	0.6%	0.9%	1.9%
Total bond investments (2013)	873,817	854,118	368,239	281,157	143,008
Fair value	30,756	15,523	3,207	1,700	535
AFS	339,986	94,525	102,090	96,449	38,494
HTM	503,075	744,070	262,942	183,008	103,978
Bond inv mix					
Fair value	4%	2%	1%	1%	0%
AFS	39%	11%	28%	34%	27%
HTM	58%	87%	71%	65%	73%

Source: Company data, Deutsche Bank



China Life and NCI's pre-tax profit is relatively resilient to the decline in equity prices, likely due to the small proportion of fair value equity investments (accounted for only 0.2% and 0.1% of 2013 total investment assets). Ping An and Ch Taiping, which have a higher stake in fair value equity investments (0.7% and 0.5%), are subject to a 3.2% and 2.5% decline in pre-tax profits when equity prices go down 10%. In terms of the impact on book value, the impact ranges from -2.3% to -5.8%, given the 6-11% proportion in AFS equity investments.

Figure 44: Sensitivity to equity price (2013)

Equity securities' prices -10%	China Life	Ping An	CPIC	NCI	Ch Taiping
Impact on Pre-tax profit	-164	-1,473	-172	-32	-65
- As % of pre-tax	-0.6%	-3.2%	-1.4%	-0.6%	-2.5%
Impact on pre-tax equity	-15,154	-14,234	-7,340	-1,199	-1,272
- As % of book value	-5.2%	-5.8%	-5.6%	-2.3%	-4.0%
- As % of Life EV	-4.4%	-7.0%	-7.5%	-1.9%	-2.8%
- As % of Group EV	-4.4%	-4.3%	-5.1%	-1.9%	-3.4%
Total equity investments (2013)	154,957	157,068	75,118	32,185	19,692
Fair value	3,416	14,730	1,719	739	1,441
AFS	151,541	142,338	73,399	31,446	18,251
Inv mix					
Fair value	2%	10%	1%	0%	1%
AFS	98%	92%	47%	20%	12%

Source: Company data, Deutsche Bank estimates



Initiating on Chinese insurance A-shares

Better risk-reward from major insurers' A-shares

Investment rating and target price

We initiate coverage on the four A-share insurers with a Buy rating on China Life – A, Ping An – A and CPIC – A, with potential upsides ranging from 38.4% to 59.7%. We initiate with a Hold rating on NCI – A, with potential upside of 9.8%.

Figure 45: Rating and target price of A-share insurers

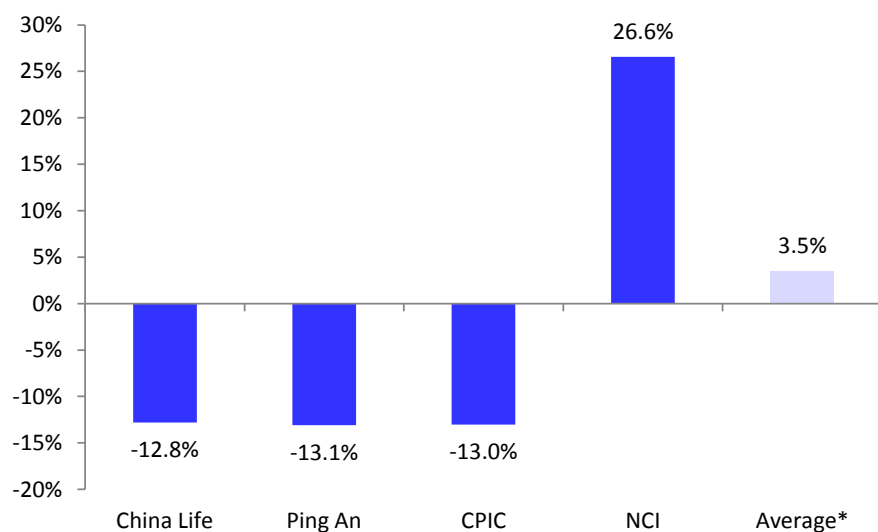
A-share insurers	Rating	Target price	Current price	Potential upsides
China Life - A	Buy	21.8	15.8	38.4%
Ping An - A	Buy	67.3	42.1	59.7%
CPIC - A	Buy	28.2	19.7	43.5%
NCI - A	Hold	31.1	28.3	9.8%

Source: Bloomberg Finance LP, Deutsche Bank estimates

Major insurers' A-shares at significant discount

Among the 86 A-H dual-listed companies, the A-shares are currently trading at an average premium of 3.5% on a weighted basis. However, Chinese dual-listed insurers, apart from NCI, are trading at a significant A-H discount, led by Ping An, at 13.1%, and followed by CPIC and China Life, at 13.0% and 12.8%, respectively. We believe the A-H discount will narrow over time, which is beneficial to A-share insurers at current valuations.

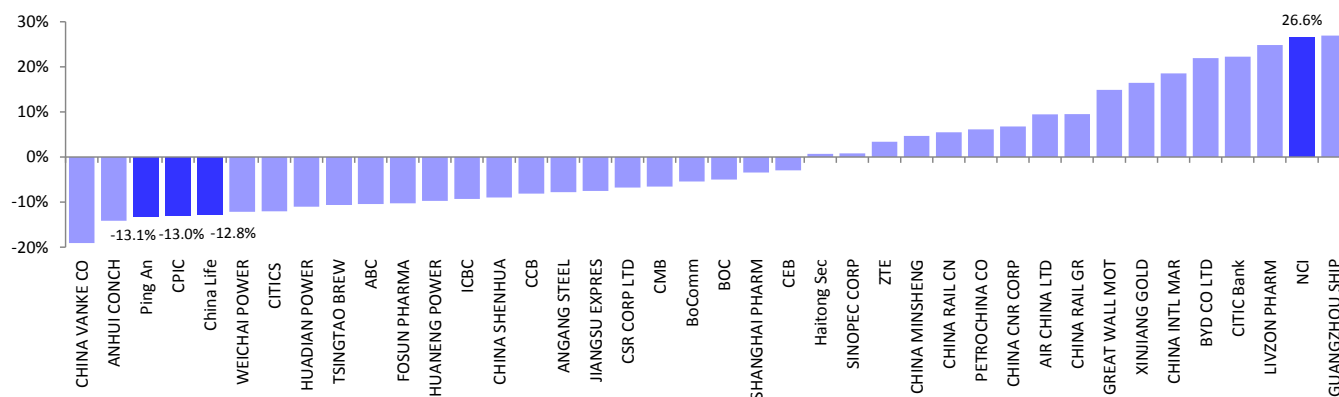
Figure 46: A to H discount – Chinese insurers vs. all dual-listed stocks



Note: * Weighted average of all dual listed stocks
 Source: Bloomberg Finance LP, Deutsche Bank



Figure 47: Dual listed stocks' A to H premium/(discount) – Top 40

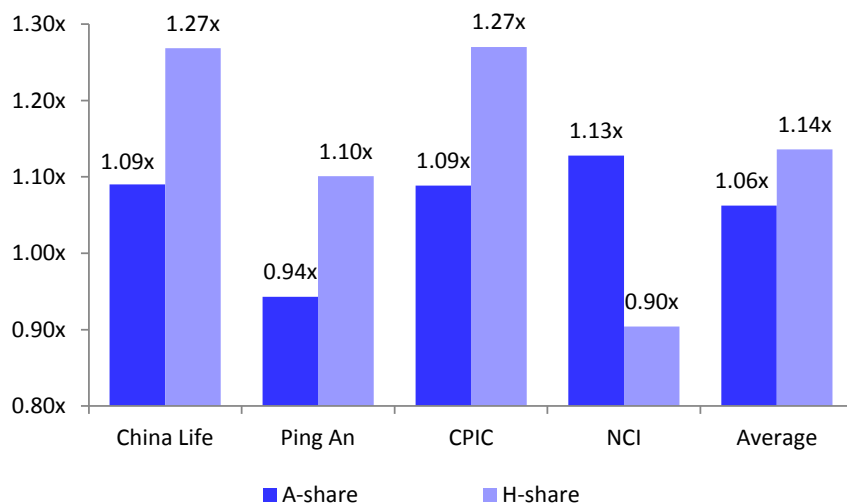


Source: Bloomberg Finance LP, Deutsche Bank

Valuation comparison

For the four dual-listed insurers, the A-share is trading at an average of 1.06x 2014E P/EV, a discount to the 1.14x 2014E P/EV of the H-shares, which makes the A-shares more attractive on valuation grounds in the near term (except NCI – A), in our view.

Figure 48: Dual-listed Chinese insurers' 2014E P/EV



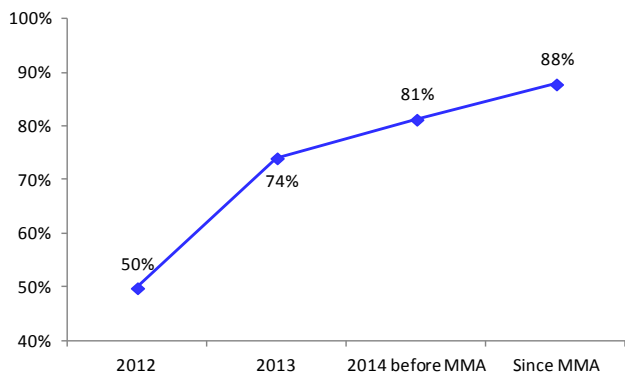
Source: Bloomberg Finance LP, Deutsche Bank

Increased A-H correlations on expectation of MMA

We have noted that the A-H share price correlations of dual-listed Chinese insurers have increased since MMA, compared with 2013-14 (pre-MMA announcement), with the improvement ranging from 10ppt to 24ppt. CPIC has the highest correlation, at 90%, since the announcement, followed by NCI and China Life's 88% and Ping An's 86%.

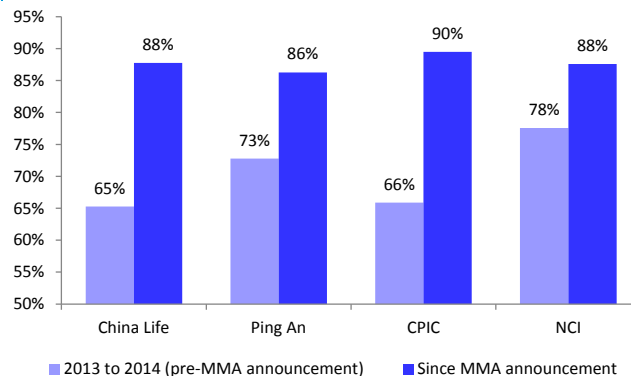


Figure 49: Average A- and H-share price correlation



Source: Bloomberg Finance LP, Deutsche Bank

Figure 50: Correlation before and after MMA announcement

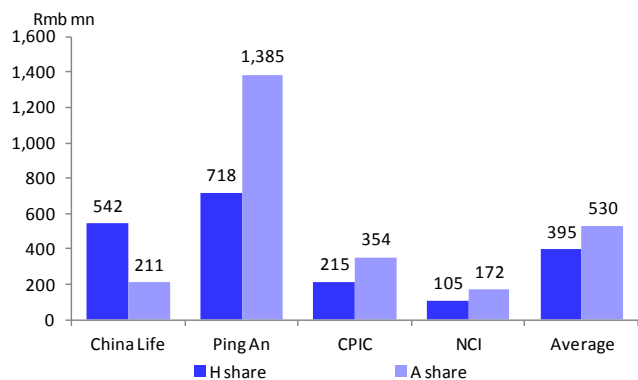


Source: Bloomberg Finance LP, Deutsche Bank

Comparison of average daily turnover (ADT)

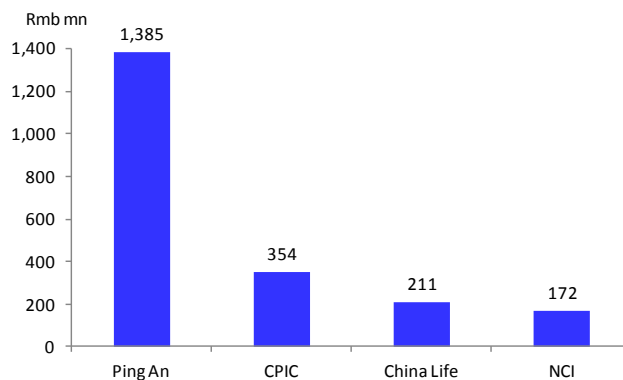
Except for China Life, Chinese insurers generally have a higher ADT for the A-share vs. the H-share. Among the four A-share insurers, Ping An – A has seen the highest ADT, at Rmb1.4bn, in the past 12-month period.

Figure 51: ADT of last 12 months – A vs. H



Source: Bloomberg Finance LP, Deutsche Bank

Figure 52: A-share insurers – last 12m ADT ranking



Source: Bloomberg Finance LP, Deutsche Bank



Valuation comps

Figure 53: Trading comps (6 November 2014)

	Mkt price	P/EV (Group) (x)			Implied P/EV (Life*) (x)			Implied NB multiple* (x)			VNB* growth		
	LC	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E
China Life - A	15.8	1.3	1.1	1.0	1.3	1.1	1.0	4.9	1.6	-0.7	2.2%	8.7%	13.2%
Ping An - A	42.1	1.0	0.9	0.8	0.8	0.9	0.7	-1.9	-1.2	-3.3	14.1%	16.0%	15.9%
CPIC - A	19.7	1.2	1.1	1.0	1.2	1.0	0.9	2.8	0.2	-1.8	6.2%	18.0%	14.5%
NCI - A	28.3	1.4	1.1	1.0	1.4	1.1	1.0	5.7	2.1	-0.3	1.5%	15.2%	14.8%
A-listed China average		1.2	1.1	0.9	1.2	1.0	0.9	2.8	0.7	-1.5	6.0%	14.5%	14.6%
China Life - H	23.0	1.5	1.3	1.1	1.5	1.3	1.1	8.3	4.7	2.1	2.2%	8.7%	13.2%
Ping An - H	61.5	1.2	1.1	0.9	1.1	1.2	0.9	1.2	1.7	-0.8	14.1%	16.0%	15.9%
CPIC - H	28.7	1.4	1.3	1.1	1.5	1.3	1.1	6.7	3.6	1.1	6.2%	18.0%	14.5%
NCI - H	28.4	1.1	0.9	0.8	1.1	0.9	0.8	1.5	-1.5	-3.4	1.5%	15.2%	14.8%
CTIH	16.1	0.8	0.9	0.8	0.7	0.8	0.7	-3.9	-2.0	-4.1	11.8%	33.7%	19.4%
PICC Group	3.3	1.4	1.2	1.0	0.6	0.5	0.4	-6.4	-8.5	-10.3	-4.6%	4.8%	7.7%
H-listed China average		1.2	1.1	1.0	1.1	1.0	0.8	1.2	-0.3	-2.6	5.2%	16.1%	14.3%
PICC P&C	13.8	2.6	2.2	1.9				13.9	13.4	11.5			

*: PICC Group, Ping An and China Taiping valuations are adjusted for 10% valuation discount
Source: Company data, Bloomberg Finance LP, Deutsche Bank estimates

Figure 54: Target valuation

	Target price Upsides		P/EV (Group) (x)			Implied P/EV (Life*) (x)			Implied NB multiple* (x)			VNB* growth		
	LC	%	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E
China Life - A	21.8	38%	1.8	1.5	1.3	1.8	1.5	1.3	12.9	9.0	5.9	2.2%	8.7%	13.2%
Ping An - A	67.3	60%	1.6	1.5	1.3	1.8	1.8	1.5	9.1	9.1	5.6	14.1%	16.0%	15.9%
CPIC - A	28.2	43%	1.8	1.6	1.4	2.0	1.7	1.4	13.1	9.0	5.8	6.2%	18.0%	14.5%
NCI - A	31.1	10%	1.5	1.2	1.1	1.5	1.2	1.1	7.7	3.8	1.3	1.5%	15.2%	14.8%
A-listed China average			1.7	1.5	1.3	1.8	1.6	1.3	10.7	7.7	4.6	6.0%	14.5%	14.6%
China Life - H	27.3	19%	1.8	1.5	1.3	1.8	1.5	1.3	12.9	9.0	5.9	2.2%	8.7%	13.2%
Ping An - H	84.1	37%	1.6	1.5	1.3	1.8	1.8	1.5	9.1	9.1	5.6	14.1%	16.0%	15.9%
CPIC - H	35.2	23%	1.8	1.6	1.4	2.0	1.7	1.4	13.1	9.0	5.8	6.2%	18.0%	14.5%
NCI - H	38.9	37%	1.5	1.2	1.1	1.5	1.2	1.1	7.7	3.8	1.3	1.5%	15.2%	14.8%
CTIH	23.3	45%	1.1	1.3	1.1	1.1	1.4	1.1	2.1	5.0	1.9	11.8%	33.7%	19.4%
PICC Group	3.8	16%	1.6	1.4	1.2	1.0	0.8	0.7	12.2	-3.4	-13.3	-4.6%	4.8%	7.7%
H-listed China average			1.6	1.4	1.2	1.5	1.4	1.2	9.5	5.4	1.2	5.2%	16.1%	14.3%
PICC P&C	15.7	14%	2.9	2.5	2.2				15.9	15.3	13.1			

* PICC Group, Ping An and China Taiping valuations are adjusted for 10% valuation discount
Source: Company data, Bloomberg Finance LP, Deutsche Bank estimates; based on prices as at 6 November 2014



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China Life – A: Initiating with Buy and target price of Rmb21.8/shr

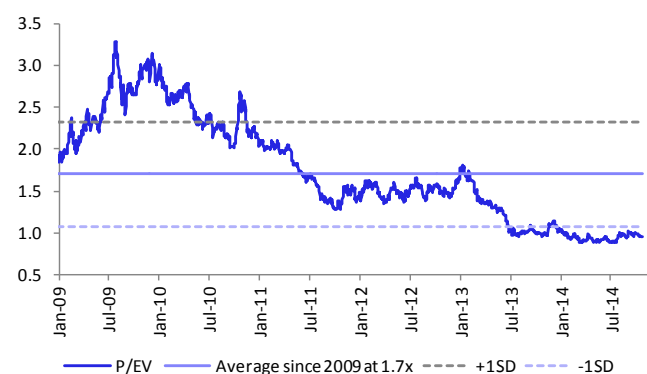
We initiate on China Life – A with a Buy rating, as we see it as a direct play on a life insurance recovery. Its relatively conservative investment portfolio, with relatively low exposure to non-standard investments, should appeal to some investors. China Life's A-share is trading at a 12.8% discount to its H-share.

Figure 55: EV, VNB and net profit forecasts

Rmb m	2011	2012	2013	2014E	2015E	2016E
EV	292,854	337,595	342,224	409,120	463,513	523,442
- Growth (yoy)	-1.8%	15.3%	1.4%	19.5%	13.3%	12.9%
VNB	20,199	20,834	21,300	23,145	26,193	29,512
- Growth (yoy)	2.2%	4.3%	1.7%	8.7%	13.2%	12.7%
Net profit	18,331	11,061	24,765	32,049	39,371	46,659
- Growth (yoy)	-45.5%	-39.7%	123.9%	29.4%	22.8%	18.5%

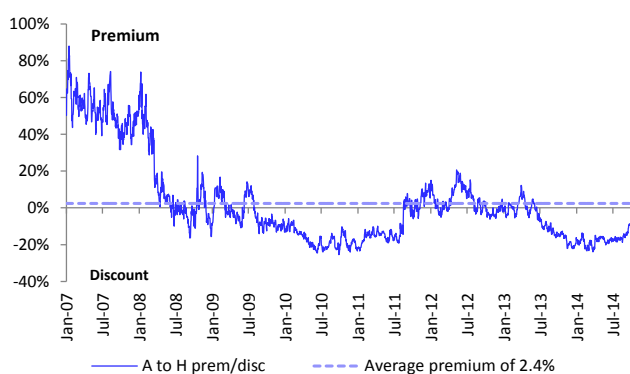
Source: Company data, Deutsche Bank estimates

Figure 56: China Life – A: Historical P/EV



Source: Bloomberg Finance LP, Deutsche Bank

Figure 57: China Life – A: Historical A to H discount



Source: Bloomberg Finance LP, Deutsche Bank

Figure 58: China Life – A: valuation summary

	Rmb bn	Rmb
	Total	Per share
2014E		
Adjusted net worth	134.9	4.8
Value of in-force	274.2	9.7
EV - (i)	409.1	14.5
VNB	23.1	0.8
NB multiple (x)	9.0	9.0
Value of future NB - (ii)	207.3	7.3
Appraisal Value: (i) + (ii)	616.4	21.8
- Implied P/EV (x)		1.5

Source: Company data, Deutsche Bank estimates



Model updated: 06 November 2014

Running the numbers

Asia
China
Insurance

Ping An

Reuters: 601318.SS Bloomberg: 601318.CH

Buy

Price (6 Nov 14) CNY 42.13
Target Price CNY 67.30
52 Week range CNY 35.39 - 44.84
Market Cap (m) CNYm 333,507
USDm 54,560

Company Profile

As one of the foremost providers of diversified financial services and products in China, Ping An serve the insurance, banking and investment needs of more than 60 million retail customers.

Fiscal year end 31-Dec

	2011	2012	2013	2014E	2015E	2016E
Data Per Share						
EPS (DB adjusted) (CNY)	2.46	2.53	3.53	3.98	4.66	5.25
EPS (stated) (CNY)	2.46	2.53	3.53	3.98	4.66	5.25
Growth rate - EPS (Stated) (%)	8.64	2.95	39.51	12.78	16.86	12.64
BVPS (DB adjusted)	na	na	na	na	na	na
BVPS (stated) (CNY)	16.53	20.16	23.08	27.48	31.84	36.78
DPS (CNY)	0.40	0.45	0.65	0.69	0.76	0.85
Embedded Value/Share (CNY)	29.77	36.11	41.37	44.69	52.48	61.54
Appraised Value/Share (CNY)	41.81	44.04	53.22	57.18	66.63	77.56
Issued shares (m)	7,916.14	7,916.14	7,916.14	7,916.14	7,916.14	7,916.14

Valuation Ratios & Key Profitability Measures

P/E (DB adjusted)	17.4	15.5	10.9	10.6	9.0	8.0
P/E (Stated)	17.4	15.5	10.9	10.6	9.0	8.0
P/B (Stated)	2.0	2.2	1.8	1.5	1.3	1.1
Dividend yield	0.9	1.1	1.7	1.6	1.8	2.0
Payout ratio	16.3	17.8	18.3	16.0	15.0	15.0
P/EV	1.4	1.1	0.9	0.9	0.8	0.7
P/AV	1.0	0.9	0.7	0.7	0.6	0.5
ROE (Stated) (%)	16.0	13.8	16.4	17.1	17.0	16.6

Income Statement (CNYm)

Gross written premiums	207,802	233,940	269,051	323,964	377,476	434,017
Net earned premiums	186,662	213,144	240,199	289,199	337,684	388,744
Total operating earnings	-12,713	-23,165	-41,806	-44,053	-61,124	-70,938
- on life assurance	-1,984	-1,638	-12,230	-8,840	-17,875	-21,368
- on general insurance	4,088	3,621	2,423	3,151	3,058	4,120
- from other business activities	-14,817	-25,148	-31,999	-38,364	-46,306	-53,690
Investment income	16,936	11,550	35,825	35,829	51,999	60,117
Fees and other income	25,169	43,744	52,850	63,085	73,299	82,996
Management expenses	0	0	0	0	0	0
Other expenses	0	0	0	0	0	0
Amortisation of goodwill	0	0	0	0	0	0
Exceptionals/extraordinaries	-434	255	-381	-20	-20	-20
Profit before tax	28,958	32,384	46,488	54,841	64,154	72,155
Income tax expense	7,444	5,588	10,210	12,699	15,054	16,583
Minorities/preference dividends	3,107	6,700	7,860	7,542	8,707	10,100
Net profit	19,475	20,050	28,154	34,258	40,034	45,094
DB adjustments	na	na	na	na	na	na

Balance Sheet (CNYm)

Investments and deposits	1,170,204	1,713,566	1,997,661	2,316,121	2,597,495	2,895,271
Fixed assets	16,027	17,539	18,873	19,817	20,807	21,848
Receivables	12,089	18,756	24,205	27,296	32,950	37,312
Goodwill	33,584	37,536	43,896	46,091	48,395	50,815
Other assets	1,053,520	1,056,869	1,275,677	1,422,626	1,619,186	1,766,971
Total assets	2,285,424	2,844,266	3,360,312	3,831,950	4,318,834	4,772,217
Policyholder liabilities	771,742	902,702	1,054,194	1,173,890	1,321,218	1,490,360
Subordinated debt	26,633	38,793	56,756	56,756	56,756	56,756
Other liabilities	1,315,707	1,693,122	2,009,657	2,319,235	2,615,531	2,853,358
Total liabilities	2,114,082	2,634,617	3,120,607	3,549,881	3,993,505	4,400,474
Shareholders' equity	130,867	159,617	182,709	217,531	252,083	291,172

Growth & Key ratios (%)

GWP growth	30.4	12.6	15.0	20.4	16.5	15.0
NEP growth	32.3	14.2	12.7	20.4	16.8	15.1
Growth in total operating earnings (%)	17.8	82.2	80.5	5.4	38.7	16.1
Average investment yield	2.9	1.9	3.0	2.7	3.1	3.2
Commission expense ratio	na	na	na	na	na	na
Management expense ratio	34.7	39.6	41.9	42.2	41.8	41.4
Persistency rate	na	na	na	na	na	na
Lapse rate	na	na	na	na	na	na

Investment asset mix

Cash & bank deposits	8.8	13.7	7.4	7.4	7.4	7.4
Fixed income	73.2	57.9	53.6	53.6	53.6	53.6
Equities	10.0	7.4	7.9	7.9	7.9	7.9
Property	0.8	0.9	0.9	0.9	0.9	0.9
Loans	3.9	9.0	15.1	15.1	15.1	15.1

Source: Company data, Deutsche Bank estimates



Ping An –A: Initiating with Buy rating and target price of Rmb67.3/shr

We initiate coverage on Ping An with a Buy rating, as we like its diversified model, which provides comprehensive financial services, and which we see as its competitive advantage in the long run. Ping An – A is trading at 0.9x 2014E P/EV and at a 13.1% discount to Ping An – H, the largest discount among the dual-listed players.

Figure 59: EV, VNB and net profit forecasts

Rmb m	2011	2012	2013	2014E	2015E	2016E
EV - Group	235,627	285,874	329,653	384,194	451,200	529,100
- Growth (yoy)	17.2%	21.3%	15.3%	16.5%	17.4%	17.3%
EV - Life	144,400	177,460	203,038	235,186	275,589	323,424
- Growth (yoy)	19.3%	22.9%	14.4%	15.8%	17.2%	17.4%
VNB	16,822	15,915	18,163	21,067	24,424	28,213
- Growth (yoy)	8.5%	-5.4%	14.1%	16.0%	15.9%	15.5%
Net profit	19,475	20,050	28,154	34,258	40,034	45,094
- Growth (yoy)	12.5%	3.0%	40.4%	21.7%	16.9%	12.6%

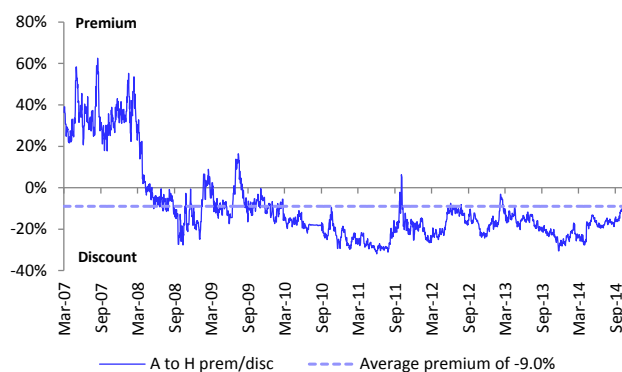
Source: Company data, Deutsche Bank estimates

Figure 60: Ping An – A: Historical P/EV



Source: Bloomberg Finance LP, Deutsche Bank

Figure 61: Ping An – A: Historical A to H discount



Source: Bloomberg Finance LP, Deutsche Bank

Figure 62: Valuation summary

	Rmb bn	Rmb	Note
2014E	Total	Per share	
Life	492	57.2	1.5x P/EV (Group); 1.8x P/EV (Life); 12.2x NBM
P&C	60	6.9	1.7x P/B
Banking	61	7.1	0.8x P/B
Securities	9	1.1	1.0x P/B
Corporate & others	22	2.5	1.0x P/B
Total	643	74.8	
Holding co. discount	10%	10%	
Valuation	579	67.3	

Source: Company data, Deutsche Bank estimates



Model updated: 05 November 2014

Fiscal year end 31-Dec

Running the numbers

Asia
China
Insurance

CPIC

Reuters: 601601.SS Bloomberg: 601601.CH

Buy

Price (6 Nov 14)	CNY 19.64
Target Price	CNY 28.20
52 Week range	CNY 14.74 - 20.55
Market Cap (m)	CNYm 45,433
	USDm 7,433

Company Profile

China Pacific Insurance was established in Shanghai on 13 May 1991. It has established a nationwide marketing network and a diversified service platform, with over 5,700 branches and sub-branches, more than 74,000 employees and 300,000 P&C and life insurance sales agents. It provides 56 million individual clients and 3.3 million corporate clients with a broad range of risk prevention solutions, wealth management and asset management.

Data Per Share

	2011	2012	2013	2014E	2015E	2016E
EPS (DB adjusted) (CNY)	0.97	0.59	1.02	1.17	1.60	1.69
EPS (stated) (CNY)	0.97	0.59	1.02	1.17	1.60	1.69
Growth rate - EPS (Stated) (%)	-2.85	-39.20	73.90	14.60	36.98	5.18
BVPS (DB adjusted)	na	na	na	na	na	na
BVPS (stated) (CNY)	8.93	11.13	10.92	12.15	13.34	14.47
DPS (CNY)	0.35	0.35	0.40	0.41	0.56	0.59
Embedded Value/Share (CNY)	13.21	14.93	15.93	18.05	20.23	22.35
Appraised Value/Share (CNY)	28.82	30.51	32.48	38.56	43.72	49.25
Issued shares (m)	8,600.00	9,062.00	9,062.00	9,062.00	9,062.00	9,062.00

Valuation Ratios & Key Profitability Measures

P/E (DB adjusted)	20.5	32.9	17.5	16.8	12.2	11.6
P/E (Stated)	20.5	32.9	17.5	16.8	12.2	11.6
P/B (Stated)	2.0	1.9	1.7	1.6	1.5	1.4
Dividend yield	1.8	1.8	2.2	2.1	2.9	3.0
Payout ratio	36.2	62.5	39.1	35.0	35.0	35.0
P/EV	1.5	1.3	1.1	1.1	1.0	0.9
P/AV	0.7	0.6	0.6	0.5	0.4	0.4
ROE (Stated) (%)	10.6	5.9	9.5	10.2	12.6	12.1

Income Statement (CNYm)

Gross written premiums	154,958	163,228	176,923	192,475	210,470	234,003
Net earned premiums	137,238	147,839	159,625	172,677	188,441	209,341
Total operating earnings	-1,463	-5,297	-11,873	-9,033	-10,384	-9,263
- on life assurance	-4,034	-6,784	-11,103	-8,436	-9,966	-9,263
- on general insurance	3,101	2,168	35	-597	-418	0
- from other business activities	-530	-681	-805	0	0	0
Investment income	9,480	10,152	22,167	21,381	27,687	27,498
Fees and other income	1,887	1,258	1,620	1,110	1,132	1,155
Management expenses	0	0	0	0	0	0
Other expenses	0	0	0	0	0	0
Amortisation of goodwill	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Profit before tax	10,399	6,113	11,914	13,458	18,435	19,390
Income tax expense	2,006	983	2,519	2,692	3,687	3,878
Minorities/preference dividends	80	53	134	154	210	221
Net profit	8,313	5,077	9,261	10,613	14,537	15,290

DB adjustments

Balance Sheet (CNYm)

Investments and deposits	522,530	627,328	666,788	735,549	808,116	883,747
Fixed assets	7,857	9,424	10,601	11,131	11,688	12,272
Receivables	6,252	8,177	7,763	8,974	9,479	10,705
Goodwill	1,495	1,700	1,869	1,962	2,061	2,164
Other assets	32,478	34,873	36,512	37,396	41,029	45,342
Total assets	570,612	681,502	723,533	795,013	872,372	954,230
Policyholder liabilities	431,325	492,431	550,931	611,106	675,850	748,595
Subordinated debt	8,000	15,500	15,500	15,500	15,500	15,500
Other liabilities	53,232	76,002	56,528	56,730	58,311	57,002
Total liabilities	492,557	583,933	622,959	683,336	749,661	821,096
Shareholders' equity	76,796	96,177	98,968	110,106	120,929	131,131

Growth & Key ratios (%)

GWP growth	11.0	5.3	8.4	8.8	9.3	11.2
NEP growth	14.6	7.7	8.0	8.2	9.1	11.1
Growth in total operating earnings (%)	-72.9	262.1	124.1	-23.9	15.0	-10.8
Average investment yield	3.4	3.1	4.8	4.6	5.1	5.1
Commission expense ratio	na	na	na	na	na	na
Management expense ratio	24.1	25.9	26.5	26.3	26.2	25.5
Persistency rate	na	na	na	na	na	na
Lapse rate	na	na	na	na	na	na

Investment asset mix

Cash & bank deposits	2.9	3.8	2.5	3.0	3.0	3.0
Fixed income	78.5	78.3	77.4	78.6	78.6	78.6
Equities	10.3	10.0	11.3	8.9	8.9	8.9
Property	1.3	1.0	1.0	0.9	0.9	0.9
Loans	7.1	6.7	7.5	8.6	8.6	8.6

Source: Company data, Deutsche Bank estimates



CPIC – A: Initiating with Buy rating and target price of Rmb28.2/shr

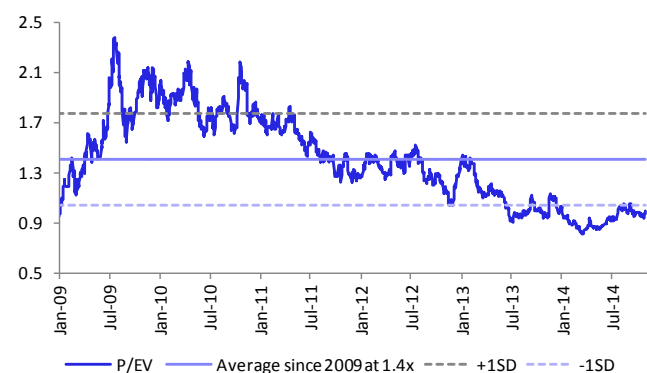
We initiate on CPIC – A with a Buy rating and the status of one of our top picks, given its consistent delivery of value generation and superior VNB growth of 20.6% yoy in 1H14 (second only to Ch Taiping). Similar to China Life – A and Ping An – A, CPIC – A is trading at a significant discount to CPIC – H, at 13.0%. We expect its share price to outperform CPIC – H in the near term.

Figure 63: EV, VNB and net profit forecasts

Rmb m	2011	2012	2013	2014E	2015E	2016E
EV-Group	113,564	135,280	144,378	163,557	183,348	202,508
- Growth(yoy)	3.2%	19.1%	6.7%	13.3%	12.1%	10.5%
EV-Life	72,992	85,266	97,298	113,292	132,404	151,083
- Growth (yoy)	3.4%	16.8%	14.1%	16.4%	16.9%	14.1%
VNB	6,714	7,060	7,499	8,852	10,137	11,607
- Growth (yoy)	10.1%	5.2%	6.2%	18.0%	14.5%	14.5%
Net profit	8,313	5,077	9,261	10,613	14,537	15,290
- Growth (yoy)	-2.9%	-38.9%	82.4%	14.6%	37.0%	5.2%

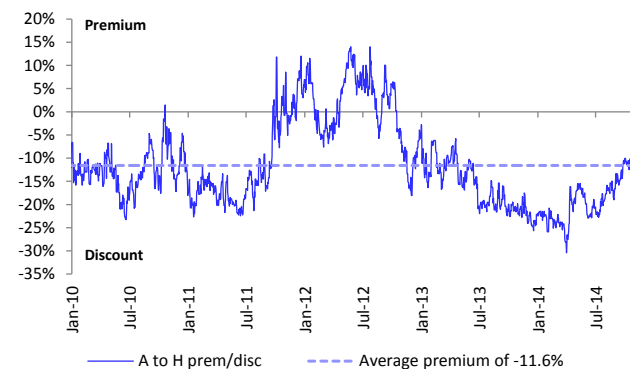
Source: Deutsche Bank estimates, Company data

Figure 64: CPIC – A: Historical P/EV



Source: Bloomberg Finance LP, Deutsche Bank

Figure 65: CPIC – A: Historical A to H discount



Source: Bloomberg Finance LP, Deutsche Bank

Figure 66: Valuation summary

	Rmb bn	Rmb	Note
2014E	Total	Per share	
Life	154.1	21.3	1.6x P/EV, 1.7x P/EV(life), 9.0x NBM
P&C	20.6	2.8	1.0x P/B
Group	29.7	4.1	1.0x P/B
Total	204.4	28.2	

Source: Deutsche Bank estimates



Model updated: 06 November 2014

Fiscal year end 31-Dec

2011 2012 2013 2014E 2015E 2016E

Running the numbers

Asia	
China	
Life Insurance	

NCI

Reuters: 601336.SS Bloomberg: 601336 CH

Hold

Price (6 Nov 14)	CNY 28.36
Target Price	CNY 31.10
52 Week range	CNY 19.17 - 29.45
Market Cap (m)	CNYm 29,327
	USDm 4,798

Company Profile

New China Life Insurance Company Ltd (NCI) is one of China's leading life insurance companies. Since it was established in 1996, NCI provided a broad range of life insurance products and services to individual and institutional customers through an extensive distribution network across China.

Data Per Share

EPS (DB adjusted) (CNY)	1.24	0.94	1.42	2.06	2.49	3.30
EPS (stated) (CNY)	1.24	0.94	1.42	2.06	2.49	3.30
Growth rate - EPS (Stated) (%)	-33.62	-24.42	50.77	45.10	20.98	32.59
BVPS (DB adjusted)	na	na	na	na	na	na
BVPS (stated) (CNY)	13.91	11.50	12.60	14.73	17.02	20.07
DPS (CNY)	0.09	0.32	0.15	0.21	0.25	0.33
Embedded Value/Share (CNY)	21.77	18.23	20.65	25.13	28.85	33.09
Appraised Value/Share (CNY)	41.15	32.67	35.31	42.01	48.24	55.33
Issued shares (m)	3,116.96	3,119.55	3,119.55	3,119.55	3,119.55	3,119.55

Valuation Ratios & Key Profitability Measures

P/E (DB adjusted)	21.0	29.8	16.9	13.8	11.4	8.6
P/E (Stated)	21.0	29.8	16.9	13.8	11.4	8.6
P/B (Stated)	2.0	2.5	1.8	1.9	1.7	1.4
Dividend yield	0.3	1.1	0.6	0.7	0.9	1.2
Payout ratio	0.1	0.3	0.1	0.1	0.1	0.1
P/EV	1.2	1.5	1.2	1.1	1.0	0.9
P/AV	0.6	0.9	0.7	0.7	0.6	0.5
ROE (Stated) (%)	14.8	8.7	11.8	15.0	15.7	17.8

Income Statement (CNYm)

Gross written premiums	95,151	98,081	104,073	116,805	122,608	132,506
Net earned premiums	95,664	97,951	103,615	116,291	122,069	131,923
Total operating earnings	-8,232	-9,055	-17,168	-17,560	-20,019	-21,240
- on life assurance	0	0	0	0	0	0
- on general insurance	0	0	0	0	0	0
- from other business activities	0	0	0	0	0	0
Investment income	11,313	11,153	21,535	24,560	28,614	32,838
Fees and other income	192	189	228	200	200	200
Management expenses	0	0	0	0	0	0
Other expenses	0	0	0	0	0	0
Amortisation of goodwill	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Profit before tax	3,273	2,287	4,595	7,200	8,794	11,799
Income tax expense	475	-646	535	1,152	1,407	1,888
Minorities/preference dividends	1	1	2	3	4	5
Net profit	2,799	2,933	4,422	6,416	7,763	10,292
DB adjustments	na	na	na	na	na	na

Balance Sheet (CNYm)

Investments and deposits	374,409	480,116	541,786	616,632	700,901	793,448
Fixed assets	4,284	4,126	4,471	4,560	4,652	4,745
Receivables	1,395	1,556	1,581	1,774	1,863	2,013
Goodwill	65	102	1,512	1,512	1,512	1,512
Other assets	6,618	7,793	16,499	17,038	17,952	18,615
Total assets	386,771	493,693	565,849	641,517	726,880	820,333
Policyholder liabilities	294,904	363,612	428,326	502,219	581,650	667,864
Subordinated debt	5,000	15,000	15,000	15,000	15,000	15,000
Other liabilities	55,554	79,203	83,205	78,334	77,144	74,866
Total liabilities	355,458	457,815	526,531	595,552	673,794	757,731
Shareholders' equity	31,306	35,870	39,312	45,958	53,079	62,595

Growth & Key ratios (%)

GWP growth	3.5	3.1	6.1	12.2	5.0	8.1
NEP growth	4.1	2.4	5.8	12.2	5.0	8.1
Growth in total operating earnings (%)	8.9	10.0	89.6	2.3	14.0	6.1
Average investment yield	3.8	3.2	4.8	4.8	4.9	5.0
Commission expense ratio	7.6	7.2	6.2	6.1	6.0	6.0
Management expense ratio	0.1	0.1	0.1	0.1	0.1	0.1
Persistency rate	na	na	na	na	na	na
Lapse rate	na	na	na	na	na	na

Investment asset mix

Cash & bank deposits	5.6	5.2	3.4	7.9	7.9	7.9
Fixed income	50.9	48.8	56.4	51.9	51.9	51.9
Equities	7.8	6.7	5.9	5.9	5.9	5.9
Property	0.1	0.3	0.3	0.3	0.3	0.3
Loans	0.5	0.8	1.6	1.6	1.6	1.6

Source: Company data, Deutsche Bank estimates



NCI – A: Initiating with Hold rating and target price of Rmb31.1/shr

We initiate on NCI – A with a Hold rating, given its significant trading premium to NCI – H (26.6%). NCI – A is trading at 1.1x 2014E P/EV, close to our target 2014E P/EV of 1.2x. Also, despite a strong VNB recovery in 1H14 (+18.2% yoy), we think the market is looking for further evidence of a recovery to buy into the stock.

Figure 67: EV, VNB and net profit forecasts

Rmb m	2011	2012	2013	2014E	2015E	2016E
EV	48,991	56,870	64,407	78,382	89,998	103,233
- Growth (yoy)	74.4%	16.1%	13.3%	21.7%	14.8%	14.7%
VNB	4,360	4,172	4,235	4,877	5,600	6,422
- Growth (yoy)	-8.0%	-4.3%	1.5%	15.2%	14.8%	14.7%
Net profit	2,799	2,933	4,422	6,416	7,763	10,292
- Growth (yoy)	24.5%	4.8%	50.8%	45.1%	21.0%	32.6%

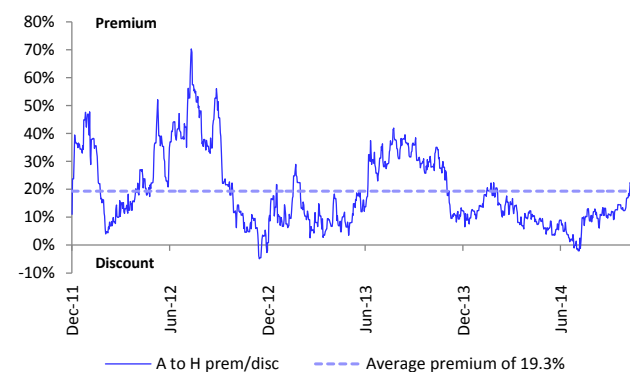
Source: Deutsche Bank estimates, Company data

Figure 68: NCI – A: Historical P/EV



Source: Bloomberg Finance LP, Deutsche Bank

Figure 69: NCI – A: Historical A to H discount



Source: Bloomberg Finance LP, Deutsche Bank

Figure 70: Valuation summary

	Rmb bn	Per Shr (Rmb)
2014E	Total	
Adjusted net worth	35.7	11.5
Value of in-force	42.7	13.7
EV - (i)	78.4	24.3
VNB	4.9	1.4
NB multiple (x)	5.0	5.0
Value of future NB - (ii)	24.4	6.9
Appraisal Value: (i) + (ii)	102.8	31.1
- Implied P/EV (x)		1.3

Source: Deutsche Bank estimates



Risks

Individual company risks

China Life

Downside risks include further weakness in A-share markets, a slower-than-expected product mix improvement, a slower-than-expected VNB growth recovery, and unfavourable regulatory changes.

Ping An

Apart from downside risks in the A-share markets, Ping An is also subject to regulations and asset quality risk in PAB, as well as default risk and market sentiment in its trust business.

CPIC

Downside risks include weakness in A-share markets, slower-than-expected VNB growth for the life business, a combined ratio deterioration for the P&C business, and regulation risks.

NCI

Downside risks include problems in the restructuring process, further A-share market weakness, a slower-than-expected VNB growth recovery, and unfavourable regulatory changes. Upside risks include better-than-expected VNB growth and strong equity markets.

CTIH

Besides risks in equities markets and regulatory changes, CTIH is also subject to potential risks arising from its rapid agency expansion, and thus slower-than-expected VNB growth.

PICC Group

Besides downside risks including weakness in A-share markets and unfavourable regulatory changes, risks lie also in PICC Life's high reliance on bancassurance and PICC P&C's deteriorating profitability. Upside risks include better-than-expected VNB growth and strong equity markets.

Upside risk include better-than-expected VNB growth and strong equity markets.

PICC P&C

Downside risks include a rising combined ratio, unfavourable regulatory developments in the auto insurance industry, and weakness in the A-share and bond markets.



Appendix 1

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Equity rating key

Buy: Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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1. Newly issued research recommendations and target prices always supersede previously published research.

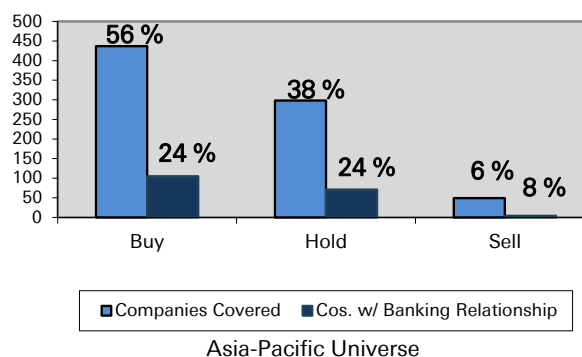
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