



Rating
Buy

Asia
Hong Kong

Banking / Finance
Life Insurance

Company
NCI Alert

Reuters 1336.HK Bloomberg 1336 HK Exchange HSI Ticker 1336

Date
22 July 2016

Company Update

Price at 22 Jul 2016 (HKD)	27.85
Price target-12mth (HKD)	36.20
52-week range (HKD)	38.60 - 22.10
HANG SENG INDEX	22,000

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1H16 net profit down ~50% dragged by investments and reserve charges

News

NCI issued a negative profit alert today, indicating that its 1H16 net profit will decline by ~50% yoy mainly due to weak investment performance and the negative impact from the change in discount rate assumptions of reserves of traditional insurance contracts. The decline would imply a 2Q16 net profit of Rmb1,382mn (-55.8% yoy, vs. -45.0% in 1Q16) and 1H16 net profit of Rmb3,376mn, accounting for ~51% of our 2016 full-year estimates (or ~46% of Bloomberg consensus).

DB View

We believe the weak earnings should not come as surprise given 1) a high base in 1H15 (+80.1% yoy) given the strong equity markets (SHCOMP +32.2% in 1H15, vs. -17.2% in 1H16) and 2) higher reserve charges due to lower 750-day moving average bond yields. 30-year 750MA bond yield was down 13bps hoh in 1H16 (vs. 7bps in 2H15 and 1bps in 1H15). We noted the reserve charge is a distorted measure as it does not recognize the significant bond gains that the company recorded as a result. We also note 79% of NCI's 2015 net profit was achieved in 1H15, leaving a relatively weak 2H15: earnings pressure should thus ease in 2H16 (+75.3% yoy implied by the ~50% decline in 1H16).

We maintain our Buy rating on NCI – H with the stock currently trading at 0.9x 2016E P/EV. We see NCI – H as a pure life play with relatively high leverage to China's A-share markets.

Stock data

Market Cap (HKDm)	28,800
Market Cap (USDm)	3,714
Shares outstanding (m)	3,119.5
Major Shareholders	Central Huijin (31.26%)
Free float (%)	45
Avg daily value traded (USDm)	11.6

Source: Deutsche Bank

Key data

FYE 12/31	2015A	2016E	2017E
Group EV(CNYm)	103,280	111,088	128,144
VNB (CNYm)	6,621	8,088	9,576
Net Profit	8,601	6,618	8,391
P/EV (x)	1.0	0.7	0.6
Implied NB multiple (x)	10.6	9.2	7.8

Source: Deutsche Bank

Figure 1: NCI earnings forecasts

Half year (Rmb mn)	1H15	2H15	1H16	2H16E
Net profit	6,752	1,849	3,376	3,242
- YoY growth	80.1%	-30.4%	-50.0%	75.3%

Quarterly (Rmb mn)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16E
Net profit	3,624	3,128	1,892	-43	1,994	1,382
- YoY growth	132.3%	42.9%	-26.6%	-153.8%	-45.0%	-55.8%

Source: Company data, Deutsche Bank estimates