



投资决策

买入

新华保险 (1336.HK)

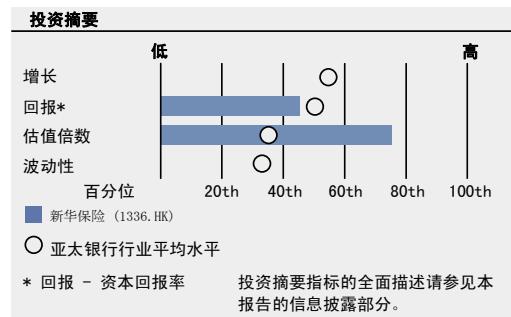
潜在回报: 64%

证券研究报告

新业务价值增长高于同业/风险回报有吸引力; 首次覆盖, 强力买入(摘要)

建议理由

我们首次将新华保险 H 股纳入研究范围, 并给予买入评级 (位于强力买入名单), 因为: (1) 虽然公司仍在进行结构调整, 但我们认为其 2012/2013 年预期新业务价值同比增幅有望达到高于同业水平的 19%, 这得益于公司加大高利润率的传统健康险产品的销售 (从而较同业更迅速地提升新业务利润率)、在偿付能力充足率改善后增加新分支机构和代理人、以及开发新业务 (2011 年有迹象表明公司产品结构改善且代理人温和增长); (2) 公司有望显著获益于 2012 年下半年流动性的温和改善; (3) 在我们看来, 1 倍左右的 2012 年预期内含价值增幅为零, 同时过度计入了执行风险。



推动因素

(1) 8 月份公布的 2012 年中期业绩显示公司新业务价值增长好于同业、新业务利润率 (尤其是代理人渠道) 改善, 从而表明公司逐步好转; (2) CPI 进一步下降、或二季度后存款准备金率进一步下调, 从而推动保费收入增长和 A 股市场表现。

估值

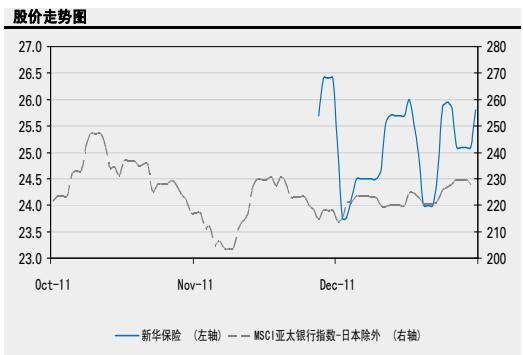
我们基于全面增长和零增长的评估价值中点计算得出 42.2 港元的 12 个月目标价格 (隐含 68% 的潜在上升空间), 对应 1.74 倍的 2012 年预期内含价值和 8.3 倍的 2012 年预期新业务价值。同时, 我们还基于估值考虑给予新华保险 A 股中性的首次评级, 因 A 股较 H 股存在 37% 的溢价。我们的 A 股目标价格为人民币 35.6 元, 隐含 26% 的潜在上升空间。

	当前			
	12/10	12/11E	12/12E	12/13E
股价 (HK\$)	25.80			
12 个月目标价格 (HK\$)	42.20			
601336.SS 股价 (Rmb)	30.87			
601336.SS 12 个月目标价格 (Rmb)	35.60			
市值 (HK\$ mn / US\$ mn)	80,484.3 / 10,360.2			
外资持股比例 (%)	--			
每股盈利 (Rmb)	1.87	0.89	1.32	1.82
每股盈利增长 (%)	(15.5)	(52.5)	48.5	37.4
601336.SS 每股盈利 (Rmb)	1.87	0.89	1.32	1.82
601336.SS 每股盈利增长 (%)	(15.5)	(52.5)	48.5	37.4
市盈率 (X)	11.2	23.5	15.9	11.5
601336.SS 市盈率 (X)	16.5	34.7	23.4	17.0
股息收益率 (%)	0.0	1.1	1.6	2.2
净资产回报率 (%)	41.6	15.8	13.6	16.5

主要风险

实现好于同业的新业务价值增长存在执行风险; 宏观政策过紧或阻碍首年保费收入/银保业务增长和 A 股回报。然而在我们的悲观情景假设下, 即 2012 年预期新业务价值增速仅为 8% (基本情景为 19%)、2012 年预期 A 股权益类投资回报率为-10% (基本情景为+10%), 新华保险 H 股估值对应 1.1 倍 2012 年预期内含价值、1 倍新业务价值、或仅较我们的绝对估值底部 (1 倍的 2012 年预期内含价值) 存在 10% 下行空间。

*全文翻译随后提供



所属投资名单

亚太买入名单
亚太强力买入名单

行业评级: 中性

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新华保险：财务数据概要

损益表 (Rmb mn)	12/10	12/11E	12/12E	12/13E	资产负债表 (Rmb mn)	12/10	12/11E	12/12E	12/13E
净保费收入	91,956.0	97,814.5	117,597.8	141,249.4	总投资资产	210,288.0	225,205.4	261,635.9	344,328.3
赔款及保户利益	(13,250.0)	(18,748.5)	(24,360.7)	(31,103.3)	应收保费	979.0	0.0	0.0	0.0
寿险责任准备金增加	(70,361.0)	(73,434.7)	(88,530.0)	(106,060.7)	递延承保费用	0.0	0.0	0.0	0.0
净佣金费用	(7,252.0)	(7,042.6)	(8,467.0)	(10,170.0)	固定资产	2,922.0	0.0	0.0	0.0
销售管理费用	--	--	--	--	投连险保户账户	0.0	0.0	0.0	0.0
保险利润	0.0	0.0	0.0	0.0	其它	90,377.0	145,033.2	206,346.0	241,704.0
投资收益	10,521.0	12,411.9	17,954.4	23,890.6	资产合计	304,566.0	370,238.7	467,981.9	586,032.3
其它收益	(8,266.0)	(8,940.9)	(12,801.7)	(16,810.0)	未到期责任准备金	0.0	0.0	0.0	0.0
税前利润	2,255.0	3,470.9	5,152.7	7,080.6	寿险责任准备金	234,625.0	288,220.5	376,943.4	488,235.7
税金及少数股东损益	6.0	695.4	1,031.5	1,417.1	投连险保户账户	--	--	--	--
净利润	2,249.0	2,775.5	4,121.1	5,663.5	其它负债	--	--	--	--
盈利增长因素 (%)	12/10	12/11E	12/12E	12/13E	负债合计	297,993.0	341,741.3	436,056.0	549,471.7
净保费收入增长率	40.6	6.4	20.2	20.1	股东权益合计	6,573.0	28,497.4	31,925.8	36,560.7
投资收益增长率	25.8	18.0	44.7	33.1					
投资资产增长率	27.0	7.1	16.2	31.6					
税前利润增长率	(14.9)	53.9	48.5	37.4					
净利润增长率	(15.5)	23.4	48.5	37.4					
集团营业比率 (%)	12/10	12/11E	12/12E	12/13E					
理赔 + 保户红利支出/净保费收入	(14.4)	(19.2)	(20.7)	(22.0)					
销售管理费用 + 净佣金费用/净保费收入	(7.9)	(7.2)	(7.2)	(7.2)					
保险利润/净保费收入	0.0	0.0	0.0	0.0					
投资收益(不含现金收益)	5.6	5.7	7.4	7.9					
税前利润	2.5	3.5	4.4	5.0					
税率	0.2	20.0	20.0	20.0					
财险营业比率 (%)	12/10	12/11E	12/12E	12/13E					
净准备金/赔款	--	--	--	--					
净准备金/保费收入	--	--	--	--					
费用比率	--	--	--	--					
赔付比率	--	--	--	--					
综合成本率	--	--	--	--					
寿险营业比率 (%)	12/10	12/11E	12/12E	12/13E					
费用比率	97.5	96.6	95.9	95.5					
税前利润率	2.5	3.5	4.4	5.0					
固定资产/总资产	1.0	0.0	0.0	0.0					
杜邦分析(占平均资产比例%)									
	12/10	12/11E	12/12E	12/13E					
平均净资产回报率	41.6	15.8	13.6	16.5					
x 杠杆比率(X)	2.1	5.2	7.2	6.5					
平均总资产回报率	0.9	0.8	1.0	1.1					
净保费收入	36.0	29.0	28.1	26.8					
理赔+保户红利支出	(5.2)	(5.6)	(5.8)	(5.9)					
寿险责任准备金增加	(27.7)	(15.9)	(21.2)	(21.1)					
递延承保费用摊销	NM	NM	NM	NM					
销售管理费用	NM	NM	NM	NM					
保险利润	0.0	0.0	0.0	0.0					
投资收益	4.1	3.7	4.3	4.5					
其它收益	(3.2)	(2.6)	(3.1)	(3.2)					
税前利润	0.9	1.0	1.2	1.3					
税金	0.0	0.2	0.2	0.3					
净利润	0.9	0.8	1.0	1.1					
估值									
	12/10	12/11E	12/12E	12/13E					
基本市盈率(X)	11.2	23.5	15.9	11.5					
市净率(X)	3.8	2.3	2.0	1.8					
股价/内含价值(X)	NM	1.2	1.0	0.9					
每股基本盈利(Rmb)	1.87	0.89	1.32	1.82					
每股净资产(Rmb)	5.47	9.13	10.23	11.72					
每股内含价值(Rmb)	23.40	17.78	20.49	23.65					
每股股息(Rmb)	0.00	0.22	0.33	0.45					
股息收益率(%)	0.0	1.1	1.6	2.2					
股息支付率(%)	0.0	25.0	25.0	25.0					

注：最后一个实际年度数据可能包括已公布和预测数据。

资料来源：公司数据、高盛研究预测

对此报告有贡献的人员

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马宁

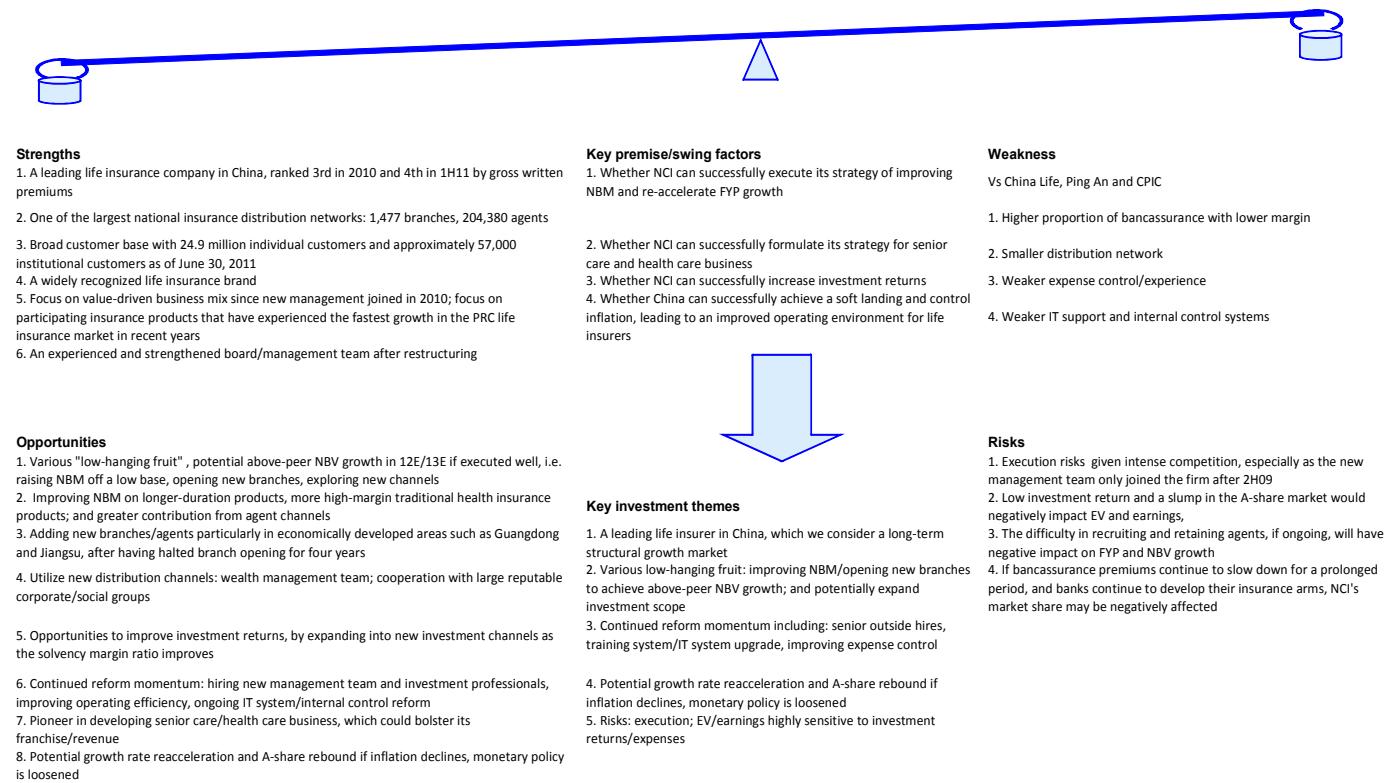
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Prices in this report are based on the market close of January 16, 2012

Exhibit 1: SWOT analysis



Source: Gao Hua Securities Research.

Exhibit 2: Financial summary

(Rmb mn)	2008	2009	2010	2011E	2012E	2013E	(Rmb mn)	2008	2009	2010	2011E	2012E	2013E											
Per share data (HK\$)																								
BVPS	1.32	4.05	6.37	10.82	12.12	13.88	Gross written premiums and policy fees	47,266	65,422	91,956	97,814	117,598	141,249											
EVPS	NA	19.41	27.24	21.07	24.28	28.03	Net earned premiums	47,259	65,380	91,860	97,913	117,726	141,414											
NBVPS	NA	NA	4.60	1.82	2.16	2.57	Claims and benefits	(38,310)	(57,724)	(84,383)	(92,866)	(113,711)	(138,025)											
EPS	0.62	2.54	2.18	1.05	1.57	2.15	Acquisition cost (commission expense)	(4,194)	(5,623)	(7,252)	(7,043)	(8,467)	(10,170)											
DPS	0.00	0.00	0.00	0.26	0.39	0.54	G&A expenses	(5,616)	(7,206)	(8,410)	(8,647)	(8,232)	(9,887)											
Per share data (Rmb)																								
BVPS	1.15	3.53	5.47	9.13	10.23	11.72	Underwriting profit	(861)	(5,173)	(8,185)	(8,843)	(12,684)	(16,668)											
EVPS	NA	16.94	23.40	17.78	20.49	23.65	Investment income	1,589	8,362	10,521	12,412	17,954	23,391											
NBVPS	NA	NA	3.95	1.54	1.82	2.17	Other income and expenses	(170)	(345)	(181)	(217)	(261)	313											
EPS	0.54	2.22	1.87	0.89	1.32	1.82	Pretax profit	182	2,651	2,255	3,471	5,153	7,081											
DPS	0.00	0.00	0.00	0.22	0.33	0.45	Tax	469	10	(5)	(694)	(1,031)	(1,416)											
EVPS growth	NA	NA	38.1%	-24.0%	15.2%	15.4%	Net profit	649	2,660	2,249	2,776	4,121	5,663											
NBVPS growth	NA	NA	NA	-61.1%	18.6%	19.0%	Dividends																	
EPS growth	NA	309.9%	-15.5%	-52.5%	48.5%	37.4%	0	0	0	694	1,030	1,416												
Factors driving earnings growth																								
Gross written premium growth	NA	38.4%	40.6%	6.4%	20.2%	20.1%	Balance sheet																	
Net earned premium growth	NA	38.3%	40.5%	6.6%	20.2%	20.1%	Investment assets	156,052	197,047	292,866	350,614	443,451	555,368											
Claims and benefits	NA	50.7%	46.2%	10.1%	22.4%	21.4%	Cash and deposits	6,521	12,608	27,368	24,543	31,042	38,876											
Acquisition cost (commission expense)	NA	34.1%	29.0%	-2.9%	20.2%	20.1%	Fixed maturity investments	142,249	157,060	219,936	282,483	359,195	438,741											
G&A expenses	NA	28.3%	16.7%	-18.6%	20.2%	20.1%	Equity investments	4,630	23,366	38,874	36,323	44,345	66,644											
Underwriting losses	NA	500.8%	58.2%	8.0%	43.4%	31.4%	Other investments	2,652	4,013	6,688	7,265	8,869	11,107											
Investment income	NA	426.2%	25.8%	18.0%	44.7%	33.1%	Total assets	164,959	206,619	304,566	370,239	467,982	586,032											
Other income and expenses	NA	102.9%	-152.5%	20.0%	20.0%	20.0%	Insurance and investment contract liabilities	138,783	184,358	254,537	308,132	397,851	510,189											
Pretax profit	NA	1356.6%	-14.9%	53.9%	48.5%	37.4%	Shareholders' equity	1,380	4,238	6,567	28,487	31,915	36,548											
Net profit	NA	309.9%	-15.5%	23.4%	48.5%	37.4%	FYP, APE, EV and NBV																	
Investment asset growth	NA	26.3%	48.6%	19.7%	26.5%	25.2%	FYP	35,642	44,839	56,038	43,772	49,898	57,964											
Total asset growth	NA	25.3%	47.4%	21.6%	26.4%	25.2%	APE	13,293	20,472	25,305	20,622	23,908	28,055											
Key operating ratios							New business value	NA	NA	4,741	4,796	5,688	6,771											
Operating expenses / NFP	-20.8%	-19.6%	-17.0%	-14.2%	-14.2%	Embedded value	NA	20,333	28,083	55,468	63,922	73,787												
Total benefit payouts / NEP	-81.1%	-88.3%	-91.9%	-94.8%	-96.6%	-97.6%	FYP growth																	
Underwriting profit / NEP	-1.8%	-7.9%	-8.9%	-9.0%	-10.8%	-11.8%	FYP growth	NA	25.8%	25.0%	-21.9%	14.0%	16.2%											
Investment yield	NA	4.74%	4.30%	3.86%	4.52%	4.78%	APE growth	NA	23.6%	-18.5%	15.9%	17.3%												
Effective tax rate	257.7%	0.4%	-0.2%	-20.0%	-20.0%	-20.0%	NB margin (on FYP) - unadjusted	NA	NA	8.5%	11.0%	11.4%	11.7%											
ROA	NA	14.3%	0.88%	0.82%	0.98%	1.07%	NB margin (on APE) - unadjusted	NA	NA	18.7%	23.3%	23.8%	24.1%											
ROE	NA	94.7%	41.6%	15.8%	13.6%	16.5%	New business value growth	NA	NA	1.2%	18.6%	19.0%												
Investment asset breakdown							Other value growth	NA	NA	38.1%	97.5%	15.2%	15.4%											
Cash and deposits	18%	16%	28%	36%	41%	20.0%	Premium breakdown																	
Fixed maturity investments	77%	70%	56%	52%	47%	48%	Gross written premiums	31%	31%	31%	37%	38%	38%											
Equity investments	3%	12%	13%	10%	10%	12%	Individual life insurance	31%	31%	31%	37%	38%	38%											
Other investments	2%	2%	2%	2%	2%	2%	Bancassurance	68%	68%	67%	62%	60%	59%											
ROE deputon analysis							Wealth management	0%	0%	0%	1%	1%	2%											
Gross written premiums and policy fees	NA	35.2%	36.0%	29.0%	28.1%	26.8%	Group	1%	1%	1%	1%	1%	1%											
Net earned premiums	NA	35.2%	35.9%	29.0%	28.1%	26.8%	FYP (including deposits)	14%	16%	19%	23%	24%	24%											
Claims and benefits	NA	31.1%	33.0%	27.5%	27.1%	26.2%	Individual life insurance	14%	16%	19%	23%	24%	24%											
Acquisition cost (commission expense)	NA	3.0%	2.8%	2.1%	2.0%	1.9%	Bancassurance	84%	82%	79%	74%	73%	72%											
G&A expenses	NA	3.9%	3.3%	2.0%	2.0%	1.9%	Wealth management	0%	0%	0%	1%	2%	2%											
Underwriting profit	NA	2.8%	3.2%	2.6%	3.0%	3.2%	Group	2%	2%	2%	2%	2%	2%											
Investment income	NA	4.5%	4.1%	3.7%	4.3%	4.5%	APE (including deposits)	36%	33%	38%	44%	45%	46%											
Other income and expenses	NA	-0.2%	0.1%	0.1%	0.1%	0.1%	Individual life insurance	64%	66%	61%	53%	51%	50%											
Pretax profit	NA	1.4%	0.9%	1.0%	1.2%	1.3%	Bancassurance	0%	0%	1%	2%	3%	4%											
Tax	NA	0.0%	0.0%	-0.2%	-0.2%	-0.3%	Wealth management	0%	0%	0%	0%	0%	0%											
ROAA	NA	1.4%	0.9%	0.8%	1.0%	1.1%	Group	608	830	1,080	972	1,069	1,176											
X leverage	NA	66.14	47.31	19.25	13.88	15.40	FYP (including deposits)	14,457	20,248	28,688	35,716	44,139	53,923											
ROAE	NA	94.7%	41.6%	15.8%	13.6%	16.5%	Individual life insurance	31,388	43,962	61,690	60,398	70,972	83,733											
							Bancassurance	29,896	36,710	44,318	32,308	36,184	41,612											
							Wealth management	0	0	222	594	891	1,337											
							Group	608	830	1,080	972	1,069	1,176											
							APE (including deposits)	13,293	20,472	25,305	20,622	23,908	28,055											
							Individual life insurance	4,749	6,779	9,615	9,135	10,868	12,821											
							Bancassurance	8,483	13,611	15,425	10,926	12,237	14,072											
							Wealth management	0	0	157	464	697	1,045											
							Group	61	83	108	97	107	118											

Source: Company data, Gao Hua Securities Research estimates.

Overview: Good risk/reward; initiate with Buy (Conviction List)

A change at the top; among China's leading life insurers

New China Life Insurance Co., Ltd. (NCI) ranked fourth by life insurance premiums written in China in 1H2011, with a 9% market share of total gross written premiums, Rmb347bn (US\$54bn) in total assets and Rmb20.5bn (US\$3.2bn) total equity.

NCI has undergone significant restructuring and shareholder changes since late 2006 and has introduced several senior outside hires to strengthen its management team, including the Chairman and President of the Group, the CFO, and the Vice Chairman and CEO of New China Asset Management Co., Ltd.

Above-peer NBV growth in 2012-2013 with reforms

We believe NCI has the potential to deliver above-peer NBV growth in 2012-2013 after a slowdown in growth of new business value (NBV) and first-year premium (FYP) in 1H2011. This rests on the assumption of NCI can successfully execute on its new strategy and harvest various "low hanging fruit" to improve new business margin (NBM) and investment returns.

NCI has a relatively good agent incentive system and has demonstrated faster-than-peer premium/FYP growth historically. During restructuring in 2008-2010, NCI had strong year-on-year (yoY) FYP growth in its agent channels (42% in 2009 and 43% 2010) and in its bancassurance channel (23% in 2009 and 21% in 2010). In our view, this demonstrated its ability to gain market share and its relatively good agent incentive system and productivity.

There has been continued reform momentum since the new management team joined in late 2009, with a new strategy focused on NBV growth rather than just FYP/volume growth, and some initial success in selling high-margin products in agent channels. Reforms include:

- **Improving the product mix and NBM** by selling more regular and high-margin products. We forecast its NBM to expand to 23.3%, 23.8%, and 24.1% in FY11E, FY12E and FY13E.

By comparing its FYP and NBM mix of agent and bancassurance channel, we believe the NBM of the agent channel is the key for the company's NBM improvement.

For instance, its critical illness health insurance products sold through agent channel have very high margins of c.150% APE and accounted for 8.7% new business in 1H11 (vs. c. 15% for Ping An). This percentage is up from 7.7% in FY10, and continued to rise in 2H11.

We estimate a 1pp improvement in NCI's APE would drive 70bp overall NBM improvement for NCI. We have factored in only a 1pp contribution increase per year into our estimates to 11.1% in 2013E from 8.7% in 1H11. Management aims to for traditional life business, including health business, to make up 15% of new business in the medium term, in line with CPIC and Ping An.

- **Adding new branches and agents** by 5%-10% per year as CIRC could approve NCI's branch opening application now that its solvency margin have improved above 150%+ after the IPO.
- **Pioneering senior care/health care business** as its next core competence.
- **Improving expense efficiency** and control at branches.
- **Improving investment capability, IT and internal control systems.**

We also believe a continued **fall in inflation** and our expectations for **RRR cuts** by the PBOC after 2Q12 will be incrementally positive for China life insurers' premium growth acceleration and would likely bolster the A-share market in 2H12, also driving valuations higher.

Current valuation is appealing

We believe NCI H-shares' **current valuation** at 1.04x 2012E EV, and 0.4x NBM is attractive, and **implies almost zero EV growth over the medium to long-term**, which we think is highly unlikely with our expectations for economic growth of 7%-8% over at least the next three to five years. In our view, current valuation has overly discounted risks including execution of growth plans, its higher EV and earnings sensitivity to A-shares, macro uncertainties and its solvency margin sensitivity to A-shares.

Exhibit 3: NCI-H-shares trade at close to 1x 2012E P/EV, implying no EV growth in the near-to-medium-term China insurers valuation comparison

Ticker	Ratings	1/16/12	Share price	Mkt cap	P/EV(X)		NBM (X)		P/B (X)		P/E (X)		EV growth			NBV growth			NBV/EV		
					2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
H-share insurers (HK\$)																					
China Life (H)	2628.HK	Neutral	20.05	72.7	1.65	1.47	9.7	7.3	2.61	2.12	21.8	11.6	-3%	12%	9%	-2%	8%	10%	7%	6%	7%
Ping An (H)	2318.HK	Buy*	52.65	53.4	1.57	1.39	7.5	5.1	2.71	2.29	18.8	14.3	8%	13%	9%	6%	13%	15%	8%	8%	8%
CPIC (H)	2601.HK	Neutral	22.70	25.0	1.49	1.33	8.1	5.4	2.06	1.79	18.8	12.9	0%	12%	12%	10%	13%	15%	6%	7%	8%
NCI (H)	1336.HK	Buy*	25.15	10.1	1.19	1.04	2.2	0.4	2.32	2.07	23.9	16.1	98%	15%	15%	1%	19%	19%	9%	9%	9%
PICC (H)	2328.HK	Neutral	9.66	13.8	N/A	N/A	N/A	N/A	2.70	2.06	12.6	10.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Taiping	0966.HK	Neutral	13.28	2.3	1.50	1.21	7.4	3.5	1.94	1.58	38.3	13.1	10%	23%	19%	12%	12%	14%	7%	8%	8%
Taiping-adjusted**			13.28	2.3	1.38	1.12	4.6	1.5	1.94	1.58	38.3	13.1	10%	24%	20%	12%	12%	14%	7%	8%	8%
Average (H)					1.48	1.29	7.0	4.3	2.31	1.97	24.3	13.6	23%	15%	13%	5%	13%	15%	7%	7%	8%
A-share insurers (Rmb)																					
China Life (A)	601628.SS	Neutral	17.89	79.0	1.74	1.56	11.1	8.6	2.65	2.24	22.7	12.3	-3%	12%	9%	-2%	8%	10%	7%	6%	7%
Ping An (A)	601318.SS	Buy*	36.03	44.6	1.27	1.12	3.6	1.6	2.20	1.86	15.1	11.6	8%	13%	9%	6%	13%	15%	8%	8%	8%
CPIC (A)	601601.SS	Neutral	19.95	26.8	1.55	1.39	9.1	6.3	2.14	1.87	19.4	13.4	0%	12%	12%	10%	13%	15%	6%	7%	8%
NCI (A)	601336.SS	Neutral	28.28	13.8	1.59	1.38	6.8	4.3	3.10	2.76	31.8	21.4	98%	15%	15%	1%	19%	19%	9%	9%	9%
Average (A)					1.54	1.36	7.6	5.2	2.52	2.18	22.2	14.7	26%	13%	11%	4%	11%	13%	7%	7%	7%

* On our regional conviction list.

** Adjusted EV and NBV by bringing its long-term investment return and solvency margin assumption in line with its peers.

Source: Bloomberg, Gao Hua Securities Research estimates.

Good risk/reward — target price and bear-case valuations

Our **12 month target prices** for H/A share are HK\$42.2 and Rmb35.6, on 1.74x 12E P/EV and 8.3x 12E NBM, implying 68%/26% potential upside.

For Chinese life insurance companies, we use the mid-point between full-growth loaded appraisal value and the ex-growth valuation that assumes no growth of new business value, as our primary valuation methodology. Key assumptions for NCI include:

- Discount rates of 14%**, the highest among list insurers to reflect NCI's relatively short track record, still ongoing restructuring, higher sensitivity to A-share market fluctuation;
- First stage NBV CAGR: 14.7% over three years** to 2014 directly derived from our model, modestly higher than the average 12% for other listed insurers;
- Second stage NBV CAGR: 7% over 10-years**, at the low end of the 7%-9% range for insurers under our coverage as we assume NCI will have harvested most of its "low hanging fruit" between 2011 and 2013, and so we do not assign value for continued catch-up/reform potential;
- Terminal NBV CAGR: 4%**, in-line with China's long-term nominal GDP growth rate, and the same as for other insurers.

Exhibit 4: Our target prices are based on the mid-point valuation for listed insurers

Detailed 3-stage growth model for listed insurers

Ticker	Stock rating	Share price 1/16/2012	Mid Point Valuation	Discount rates			3-stage growth model						Mid point valuation				
				Risk-free rate	Adj. prem.	Discount rate	1st stage	2nd stage	Terminal stage	implied 2012E P/EV (X)	implied 2012E NBM (X)	implied 2012E P/B (X)					
H-share insurers (HK\$)																	
China Life (H)	2628.HK	Neutral	20.05	22.7	13%	4.5%	7.5%	12.0%	8.4%	3	7.0%	10	4.0%	4.0%	1.67	10.3	2.41
Ping An (H)	2318.HK	Buy	52.65	68.9	31%	4.5%	8.5%	13.0%	12.1%	3	9.0%	10	4.0%	4.0%	1.81	10.8	3.00
CPIC (H)	2601.HK	Neutral	22.70	28.0	23%	4.5%	8.0%	12.5%	12.0%	3	8.5%	10	4.0%	4.0%	1.64	10.5	2.21
NCI (H)	1336.HK	Buy*	25.15	42.2	68%	4.5%	9.5%	14.0%	14.7%	3	7.0%	10	4.0%	4.0%	1.74	8.3	3.48
PICC	2328.HK	Neutral	9.66	11.8	22%	4.5%	6.2%	10.7%	20.5%	3	12.0%	10	4.0%	4.0%			2.50
A-share insurers (Rmb)																	
China Life (A)	601628.SS	Neutral	17.89	19.2	7%	4.5%	7.5%	12.0%	8.4%	3	7.0%	10	4.0%	4.0%	1.67	10.3	2.41
Ping An (A)	601318.SS	Buy*	36.03	58.2	61%	4.5%	8.5%	13.0%	12.1%	3	9.0%	10	4.0%	4.0%	1.81	10.8	3.00
CPIC (A)	601601.SS	Neutral	19.95	23.6	18%	4.5%	8.0%	12.5%	12.0%	3	8.5%	10	4.0%	4.0%	1.64	10.5	2.21
NCI (A)	60336.SS	Neutral	28.28	35.6	26%	4.5%	9.5%	14.0%	14.7%	3	7.0%	10	4.0%	4.0%	1.74	8.3	3.48

* On our regional conviction list.

Source: Gao Hua Securities Research.

We estimate there is only c. **10% valuation downside under our bear-case scenario** with the following assumptions for 2012E:

- A c.10pp reduction in 2012E NBV growth to 8%, from 19% in our base case.
- Minus 10% 2012E A-share equity return vs. our base case of +10%.

Under this scenario, NCI H-shares are valued at 1.1x 2012E P/EV, 1x NBM (compared with 1.04x and 0.4x under our base case) (Exhibit 5).

This represents only c. 10% absolute downside to what we consider an absolute floor valuation of 1x 2012E P/EV (ie, we believe 1x P/EV implies zero growth of EV in a hard landing scenario in 2012 and beyond).

We also note NCI's EV would still grow 8% yoy in 2012E under such a bear-case scenario.

Exhibit 5: Bear case scenario: NCI-H-shares valued at 1.1x 2012E P/EV and 1x NBM

China insurers valuation comparison under our bear case scenario

Ticker	Share price 1/16/12 (USD bn)	Mkt cap	P/EV(X)		NBM (X)		P/B (X)		P/E (X)		EVPS growth		NBVPS growth		Changes from base case								
			2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	2013E	2011E	2012E	2013E	2012E	2013E	2012E	2013E					
H-share insurers (HK\$)																							
China Life (H)	2628.HK	20.05	72.7	1.65	1.58	9.7	9.0	2.51	2.23	21.8	20.4	-3%	4%	12%	-2%	0%	19%	-5%	-3%	-15%	-14%	-9%	-9%
Ping An (H)	2318.HK	52.65	53.4	1.57	1.51	7.5	6.8	2.71	2.48	18.8	23.6	8%	4%	9%	6%	3%	15%	-5%	-5%	-16%	-14%	-9%	-9%
CPIC (H)	2601.HK	22.70	25.0	1.49	1.42	8.1	7.1	2.06	1.89	18.8	20.1	0%	5%	12%	10%	3%	15%	-4%	-4%	-13%	-12%	-9%	-9%
NCI (H)	1336.HK	25.15	10.1	1.19	1.10	2.2	1.2	2.32	2.54	23.9	394.6	-24%	8%	17%	-61%	8%	19%	-6%	-4%	-18%	-15%	-9%	-9%
Taiping	0966.HK	13.28	2.3	1.43	1.23	6.7	4.0	1.77	1.78	24.4	30.1	15%	16%	19%	12%	3%	14%	-1%	-1%	-11%	-9%	-9%	-9%
Taiping-adjusted**		13.28	2.3	1.32	1.12	4.0	1.8	1.77	1.78	24.4	30.1	16%	17%	19%	12%	3%	14%	-1%	-1%	-11%	-9%	-9%	-9%
Average (H)			1.53	1.44	8.0	6.7	2.26	2.09	21.0	23.6	5%	7%	13%	6%	2%	16%	-4%	-4%	-15%	-13%	-9%	-9%	
A-share Insurers (Rmb)																							
China Life (A)	601628.SS	17.89	79.0	1.74	1.68	11.1	10.4	2.65	2.36	22.7	21.6	-3%	4%	12%	-2%	0%	19%	5%	3%	-15%	-14%	9%	9%
Ping An (A)	601318.SS	36.03	44.6	1.27	1.22	3.6	3.0	2.20	2.01	15.1	19.2	8%	4%	9%	6%	3%	15%	5%	5%	-16%	-14%	9%	9%
CPIC (A)	601601.SS	19.95	26.8	1.55	1.48	9.1	8.1	2.14	1.96	19.4	21.0	0%	5%	12%	10%	3%	15%	4%	4%	-13%	-12%	9%	9%
NCI (A)	601336.SS	28.28	13.8	1.59	1.47	6.8	5.4	3.10	3.38	31.8	525.7	-24%	8%	17%	-61%	8%	19%	-6%	-4%	-18%	-15%	9%	9%
Average (A)			1.52	1.46	7.9	7.2	2.33	2.11	19.1	20.6	2%	4%	11%	5%	2%	16%	-5%	-4%	-15%	-13%	9%	9%	

Source: Bloomberg, Gao Hua Securities Research estimates.

Pathway to re-valuation

Continued valuation rerating will hinge on NCI's continued reform and restructuring.

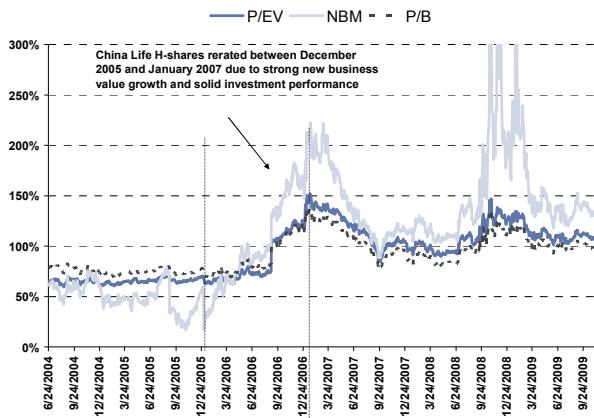
We believe NCI's valuation could further expand beyond our targeted 1.74x 2012E P/EV if it can deliver better and longer-than-expected NBM improvement, NBV growth, and entrench a stronger franchise and quality agent team.

For example, it is possible that NCI might be able to improve its NBM more than we currently build in to our valuation — if it can continue to execute on its restructuring strategy. We believe there is room for NCI to improve its product mix above our expectations to a level in line with CPIC, due to the quality of NCI's management, and as the quality of its agent training program and agent productivity are broadly similar to CPIC's. CPIC's 2011E APE NBM is 35.3%, a full

12pp higher than NCI's. We estimate NCI's 2013E APE NBM to rise to 24.1% from 23.3% in FY11E. (See the next section for more detail on the road-map to sustained new business margin improvement).

As an example of such a valuation rerating, we note that China Life's H-shares rerated vs. Ping An's between December 2005 and January 2007. During that period, China Life improved its business mix and closed the gap with Ping An in terms of NBM, and generated higher NBV growth and investment return than Ping An's (Exhibit 6 to 7).

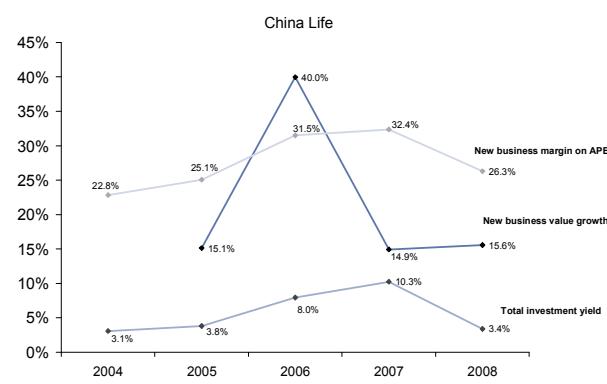
Exhibit 6: China Life H-share valuation rerated vs. Ping An H-share between December 2005 and January 2007
The relative valuation of 12-month forward P/EV, NBM, and P/B



Source: Datastream, Gaohua Research estimates.

Exhibit 7: China Life demonstrated improving NBM and achieved strong NBV growth and investment returns in 2006

China Life new business margin (NBV/APE), NBV growth, and total investment returns, 2004-2008 (Note: China Life changed its long-term discount rate actuarial assumption to 11.0% from 11.5% in 2008)



Source: Company data, Gaohua Research estimates.

Exhibit 8: NCI has better near-term NBV growth potential than peers with many low hanging fruit; lower negative spread book exposure than Ping An and CPIC, but higher execution risks

Comparison between NCI and its close competitors

	Similarity	Difference
Vs. China Life	- Pure life insurer	- NCI has a higher premium growth rate
	- Mainly focus on participating life products	- NCI has a higher proportion of regular premium in FYP
	- Strong distribution networks in bancassurance channel	- NCI has a higher earnings sensitivity to rising interest rates and equity returns
Vs. Ping An	- Professional management team	- Ping An is a financial conglomerate vs. NCI is a pure life insurer
		- NCI has less negative spread policies (2.1% of total liabilities for NCI vs. over 20% for Ping An Life)
		- NCI focus on participating life products vs. Ping An has a large part of universal life products
Vs. CPIC		- NCI's distribution channel relies more on bancassurance channel vs. Ping An relies more on individual agent channel
		- NCI's NBM is relatively lower than Ping An, due to higher bancassurance business, shorter premium payment period and lower investment return
	- Premium volume/market share/position in life insurance market	- CPIC has both life and P&C business vs. NCI is a pure life insurer
Vs. Taiping	- Distribution channel mix	- NCI has higher agent productivity than CPIC
	- Mainly focus on participating life products	- NCI has higher earnings sensitivity to rising interest rates and equity returns
	- Many low hanging fruit to improve from a low base	- NCI has more room to improve mid term growth rate and profitability post enhancing solvency margin
	- Above peer productivity	- NCI has better franchise and distribution network
	- High quality management team	- NCI has less execution risks given larger business scale and more extensive networks and customer base
	- Distribution channel mix (high proportion of bancassurance business)	
	- High earnings sensitivity to investment performance	

Source: Gao Hua Securities Research.

Above-peer NBV growth on various drivers, low-hanging fruit

The right strategy to drive above-peer NBV growth in 2012/2013

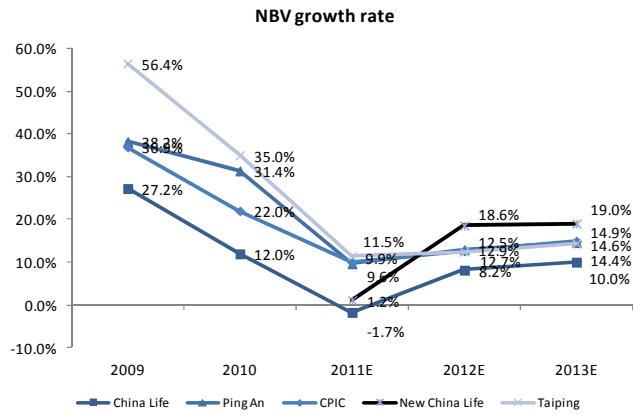
There has been continued reform momentum since the new management team joined in late 2009, with a number of initiatives being rolled out. **These are focused on NBV growth and not just on FYP and volume growth.**

With the new management team in place, and based on their experience, track record and focus on results, we think NCI has ample room to accelerate its new business growth by improving its new business margin (NBM) and enhancing FYP growth.

We forecast NCI will register new business value (NBV) growth of 19% in 2012E and 19% in 2013E (compared with 12%/12% for peers) driven by above-peer NBM improvement and sector average FYP growth of 13%-15% yoy. We believe NCI has various “low-hanging fruit” that it can harvest to drive its NBM growth above the sector average (see Exhibit 12, and the following section).

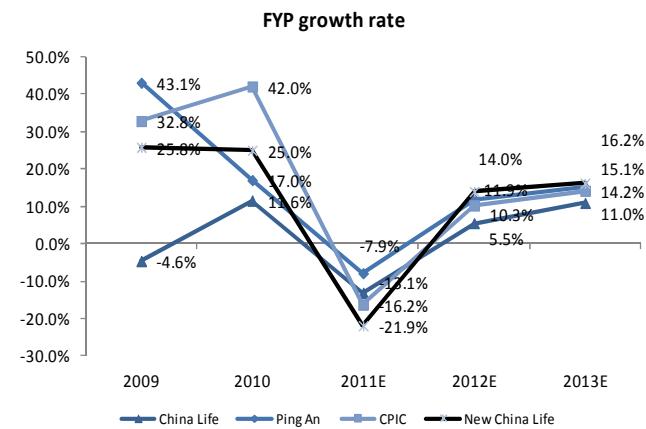
We expect NCI to gradually catch up with peers on NBM from a low base, by selling more long-term regular products and more high-margin health insurance products; and by generating greater revenue from agent channels. We expect NBM to increase from 18.7% in 2010 to 23.3% in 2011, 23.8% in 2012, and 24.1% in 2013. In the medium term, we think NCI could raise its NBM to 26% if it can derive 14% of its APE in the agent channel from high-margin products, in line with peers.

Exhibit 9: NBV growth forecasts: we expect NCI to have above-peer NBV growth in 2012E/2013E



Source: Gao Hua Securities Research estimates.

Exhibit 10: FYP growth forecast



Source: Gao Hua Securities Research estimates.

Gap analysis and road-map to improve NBM and agent productivity

Exhibit 11 shows our gap analysis between NCI, Ping An and CPI, which shows that NCI's weakness in NBM is due to:

- Simpler **product mix** of mainly participating products, and fewer high-margin traditional products (e.g. long-term term life, health insurance);
- Compared with CPIC, NCI's NBV has **greater reliance on bancassurance**: 43% vs. CPIC's c. 20% in 2010. However, its bancassurance FYP proportion at 79% is similar to CPIC and Taiping (76% and 79%). As such we believe the difference in its NBM and agent contribution to NBV compared with CPIC's is mainly due to the low NBM of its agent channel (although we note its agent productivity was higher than CPIC in 1H11).
- Higher than peer G&A **expense ratios** historically.

As such, we believe the **key to improving its overall NBM is to improve the NBM in the agent channel and improve agent productivity**, which could also increase the agent channel contribution to NBV, and reduce its reliance on bancassurance.

Exhibit 11: Compared with Ping An, NCI has ample “low-hanging fruit” to accelerate its new business growth by improving NBM and enhancing FYP growth

Key operating factors: NCI vs. Ping An

	NCI	Ping An	CPIC	NCI's initiatives
Market share (1H11)				
Gross premium	9.0%	12.9%	9.7%	
Standard premium (APE)	7.5%	18.7%	9.3%	
Distribution channel (1H11)				
No. of branches	34	35	NA	
No. of sub-branches	1443	>2000	NA	-Adding new agents/branches, particularly in economic developed areas such as Guangdong and Jiangsu, after having halted branch openings for about 4 years
Individual agents	204,380	474,586	282,000	
Direct sales (group sales) force	910	2,893	NA	-Employing new distribution channels and strengthening cooperation with large reputable enterprises and social groups; providing a comprehensive wealth management platform designed for high-end customers and establishing an online distribution channel
Bancassurance sales outlets	15,054	63,201	NA	
Agent productivity (1H11)				
FYP per agent per month	4155	10,477	3,773	-Increasing sales agent productivity by enhancing agent recruitment and training, and providing more supports/benefits for productive agents
New life insurance policies per agent per month	0.86	1.3	NA	
Business quality (1H11)				
Product mix				
– Traditional	1%	3%	14%	
– Participating	93%	52%	81%	
– Universal	0%	34%	0%	-Selling more high-margin traditional health insurance products
– Unit-linked	0%	2%	0%	
– A&H and others	6%	9%	5%	
Premium payment term mix-FYP				
Regular	41%	51%	33%	-Selling more long-term regular products
Single	59%	49%	67%	
New business margin (2010)				
NBM on FYP	8%	20%	11%	
NBM on APE	19%	35%	30%	
Investment return (1H2011)				
Net investment return	4.1%	4.3%	4.4%	-Improving asset management capabilities and increasing investment returns -Expanding into new investment channels including unsecured corporate bonds, Infrastructure debt investment plans, unlisted equity securities and real estate, along with improving the solvency margin
Total investment return	4.3%	4.3%	4.4%	

Note: Bancassurance sales outlets listed here are “effective outlets”.

Source: Company data.

Progress made in NCI's strategy to catch up with peers

NCI has a strategy in place to improve its NBM. We analyze its progress to date, and assess its longer-term targets (Exhibit 12). We assume NCI's NBM improvement in 2012/2013 will stem mainly from it increasing the share of its high-margin critical illness health insurance products in the agent channel from the low base of 8.7% of new business in 1H2011. We estimate this percentage to rise to 10.1% in 2012E and 11.1% in 2013E, driving new business margins to 24.1% in 2013E.

Over the longer term, we think it is reasonable for these high-margin products to contribute 14% of new business in the agent channel, marginally below c. 15% for Ping An and Taiping.

NCI's medium-term strategy to **boost NBM in the agent channel** includes:

- Selling more high-margin traditional long-term critical illness health insurance products as riders to participating products. The NBM on APE of long-term A&H is about 150% vs. 36% on average for the agent channel. We estimate a 1pp additional contribution to APE would boost agent channel NBM by 110bp, and overall NBM for NCI by c. 70bp;
This initiative has had some effect in 1H11: In 1H11, traditional health insurance products were 8.7% of FYP in the agent channel vs. 7.7% in FY10, and management indicated the mix continues to increase in 2H11/FY12 ytd.
- Selling more long-term regular products in the agent channel. Regular premium products of more than 10 years account for 68% of FYP in 1H11, up from 49% in FY10.

NCI's medium-term strategy to **boost FYP in the agent channel** includes:

- Adding new agents/branches after halting branch opening for about four years and recruiting more agents (assuming agent number increase 3% to 5% yoy);
- Increasing agent productivity 12% yoy, in line with peers and with the c. 10%-15% yoy income growth of consumers according to data compiled by the National Statistics Bureau;
- The new business of senior care insurance products to contribute premium income from 2012.

Exhibit 12: Roadmap to improve APE margin – increase sales of high margin critical illness health insurance products; increase agent channel contribution to APE

2010	2011E	2012E	2013E	Change	Comments on drivers for improvement in 2012/2013	Progress made in 1H11/2H12	Medium-term targets
I. NBM breakdown							
NBM on APE							
China life	30.1%	31.8%	32.4%	32.1%	0.4%		
Ping An	35.3%	39.6%	39.5%	39.5%	-0.1%		
CPIC	29.6%	35.3%	35.6%	35.7%	0.4%		
NCI	18.7%	23.3%	23.8%	24.1%	0.9%		
Taiping	19.7%	26.5%	26.3%	25.9%	-0.6%		
NBM on APE in agent channel							
Ping An	37.9%	43.9%	43.9%	43.7%	-0.2%		
CPIC	59.3%	59.0%	0.0%	0.0%	-59.0%		
NCI	28.2%	35.5%	36.0%	36.5%	1.0%		
Taiping	21.0%	29.0%	28.5%	28.5%	-0.5%		
NBM on APE in bancassurance channel							
Ping An	13.7%	13.5%	13.6%	13.6%	0.0%		
CPIC	8.8%	7.3%	0.0%	0.0%	-7.3%		
NCI	13.3%	13.5%	13.5%	13.5%	0.0%		
Taiping	17.4%	22.9%	23.1%	21.9%	-0.9%		
II. Premium channel mix improvement							
APE in agent channels as % of total APE					Change	Comments on drivers for improvement in 2012/2013	Progress made in 1H11/2H12
NCI	38.0%	44.3%	45.5%	45.7%	1.4%	We assume agent channel APE growth is similar to bancassurance channel in 2012/2013	
FYP in agent channels as % of total APE							
NCI	18.6%	22.6%	23.6%	23.9%	1.3%	We assume agent channel APE growth is similar to bancassurance channel in 2012/2013	
FYP growth in agent channel							
Ping An	38%	6%	13%	15%	8.4%	NCI medium term strategy	
CPIC	20%	21%	13%	15%	-5.9%	1. Adding new agents/branches , after halting branch openings for about 4 years to recruit more agents (Assuming agent number increase 3% to 5% yoy)	
NCI	43%	-5%	19%	18%	22.7%	2. Agent productivity increases c. 12% yoy , in line with peers and the income growth of consumers	
Taiping	49%	2%	15%	17%	14.9%	3. The new business of senior-living related insurance products is likely to contribute to premium income from 2012	
FYP growth in bancassurance channel							
China life							
Ping An	-3.5%	-33.8%	9.9%	18.8%			
CPIC	47.7%	-26.0%	10.0%	15.0%			
NCI	20.7%	-27.1%	12.0%	15.0%			
Taiping	72.7%	-34.6%	11.6%	15.0%		NCI medium-term strategy	
						Premium growth is likely to follow a back-loaded pattern with gradually loosening; NCI and Taiping have a lower base effect in 1H12	
						In 3Q11, NCI's bancassurance FYP recorded positive growth vs. decline for major insurers, although some of NCI's premium growth was low-margin single premium	

Source: Gao Hua Securities Research estimates.

Exhibit 13: We forecast NBV growth of 1% in 2011, 19% in 2012, and 19% in 2013, driven by ongoing NBM expansion and resumption of FYP growth in 2012/2013E

New business value (Rmb mn)	2008	2009	2010	2011E	2012E	2013E
FYP						
Individual life	5,138	7,299	10,418	9,898	11,753	13,839
Yoy growth		42%	43%	-5%	19%	18%
Bancassurance	29,896	36,710	44,318	32,308	36,184	41,612
Yoy growth		23%	21%	-27%	12%	15%
Wealth management	-	-	222	594	891	1,337
Yoy growth				168%	50%	50%
Group life	608	830	1,080	972	1,069	1,176
Yoy growth		37%	30%	-10%	10%	10%
Total FYP	35,642	44,839	56,038	43,772	49,898	57,964
Yoy growth		26%	25%	-22%	14%	16%
APE						
Individual life	4,749	6,779	9,615	9,135	10,868	12,821
Yoy growth		43%	42%	-5%	19%	18%
Bancassurance	8,483	13,611	15,425	10,926	12,237	14,072
Yoy growth		60%	13%	-29%	12%	15%
Wealth management	-	-	157	464	697	1,045
Yoy growth				195%	50%	50%
Group life	61	83	108	97	107	118
Yoy growth		37%	30%	-10%	10%	10%
Total APE	13,293	20,472	25,305	20,622	23,908	28,055
Yoy growth		54%	24%	-19%	16%	17%
New business margin (on FYP)						
Overall new business margin - unadjusted (on FYP)				8.5%	11.0%	11.4%
						11.7%
New business margin (on APE)						
Overall new business margin - unadjusted (on APE)				18.7%	23.3%	23.8%
						24.1%
New business value (after cost of solvency margin)						
Individual life			2708	3243	3912	4680
Bancassurance			2049	1475	1652	1900
Wealth management				93	139	209
Group life			-16	-15	-16	-18
Total new business value - unadjusted			4741	4796	5688	6771
Total new business value			4741	4796	5688	6771
NBV growth rates				1%	19%	19%

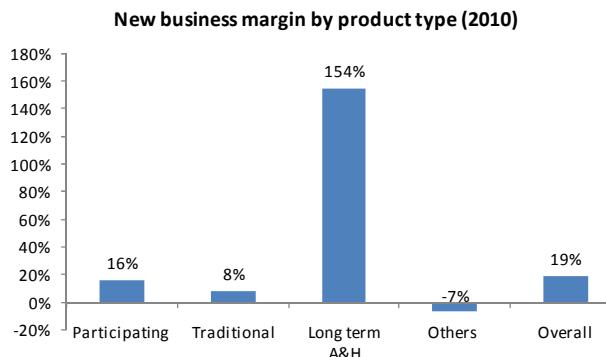
Source: Gao Hua Securities Research.

Selling more high-margin traditional health insurance products

Health insurance products have much higher margins for NCI, and often are sold as a rider to participating products. The NBM of long-term Accident & Health products was 154% in 2010, much higher than the 16% NBM of NCI's participating products (Exhibit 14).

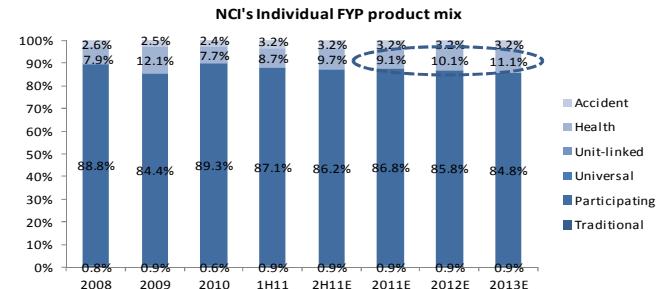
According to NCI's total premium by product mix, the proportion of high-margin traditional health insurance products was only 5% in 2010 for NCI, lower than Ping An and CPIC (Exhibit 16).

Exhibit 14: Health insurance products have much higher margins for NCI



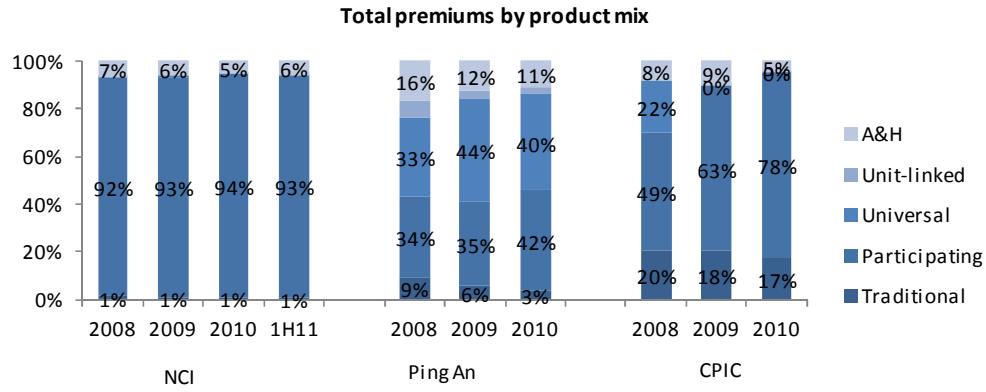
Source: Gao Hua Securities Research.

Exhibit 15: In 1H11, traditional health insurance products made up 8.7% of FYP in the agent channel vs. 7.7% in FY10



Source: Company data.

Exhibit 16: NCI's proportion of high-margin traditional health insurance products was 5% in 2010, lower than Ping An's 11% and CPIC's



Note: CPIC records long-term health insurance products in the traditional insurance line, at 17% of premiums in 2010.

Source: Company data.

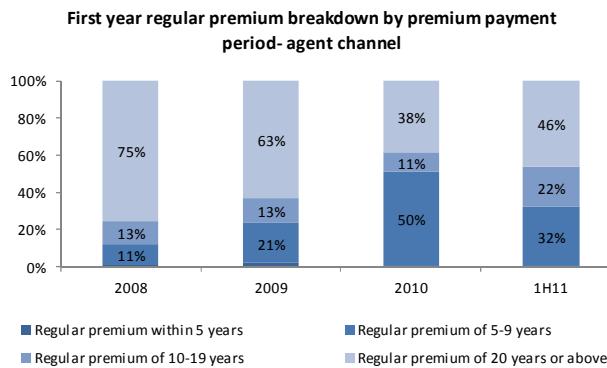
Selling more long-term regular products, especially via agent channels

NCI plans to offer more regular premium products, especially products with 20+ year premium payment periods in the agent channel, which it expects to increase its NBM.

NCI's proportion of regular premium products of 10+ years derived via agent channels has increased from 49% in 2010 to 68% in 1H2011. However, this is considerably below Taiping (85% in 1H11), providing potential to improve its premium payment term mix, in our view.

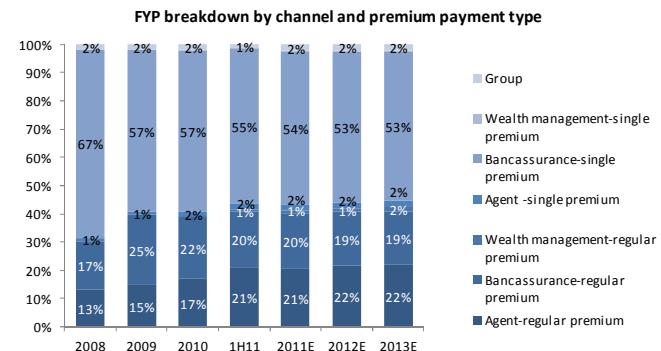
Meanwhile, we expect regular FYP via agent channels that have high NBMs will account for an increasing proportion of total FYP in 2011E, 2012E and 2013E (22% of total; Exhibit 18).

Exhibit 17: NCI's first-year regular premium breakdown by premium payment period in the agent channel: regular premium products of over 10 years accounted for 46% of FYP in 1H11, improving from 38% in FY10



Source: Gao Hua Securities Research.

Exhibit 18: NCI's FYP breakdown by channel and premium payment type: we expect NCI's regular FYP via agent channels with high NBMs to account for a rising proportion of total FYP in 2011E, 2012E and 2013E



Source: Gao Hua Securities Research.

Improving sales agent productivity

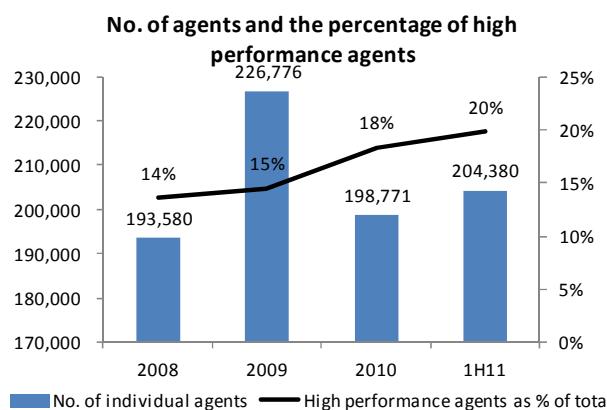
Since 2010, NCI has been optimizing its agent structure by retrenching under-performing individual insurance agents and increasing the proportion of "high-performing" individual insurance agents. The percentage of high-performing agents — i.e., those generating over Rmb8,000 monthly FYP in eastern provinces and over Rmb5,000 monthly FYP in mid/western regions — increased from 14% in 2008 to 20% in 1H2011 (Exhibit 19).

The average monthly FYP per agent grew at a CAGR of 18.9% from Rmb2,808 in 2008 to Rmb3,968 in 2010 and to Rmb4,155 in 1H2011 (Exhibit 20).

However, although NCI has a robust incentive system for agents, we believe it still has room to improve its agent productivity through these measures: (see also Exhibit 21)

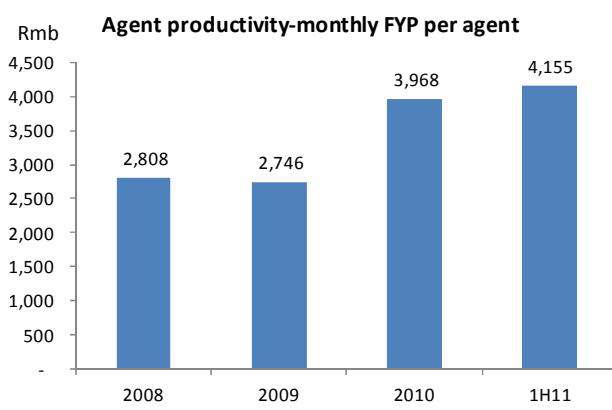
- Enhancing training quality.
- Increasing the number of policies sold per agent.
- Improving the agent IT support system (including mobile sales devices to be rolled out from 1H2012).
- Improving customer segmentation and product diversification.

Exhibit 19: No. of agents and the percentage of "high-performance" agents have continued to rise



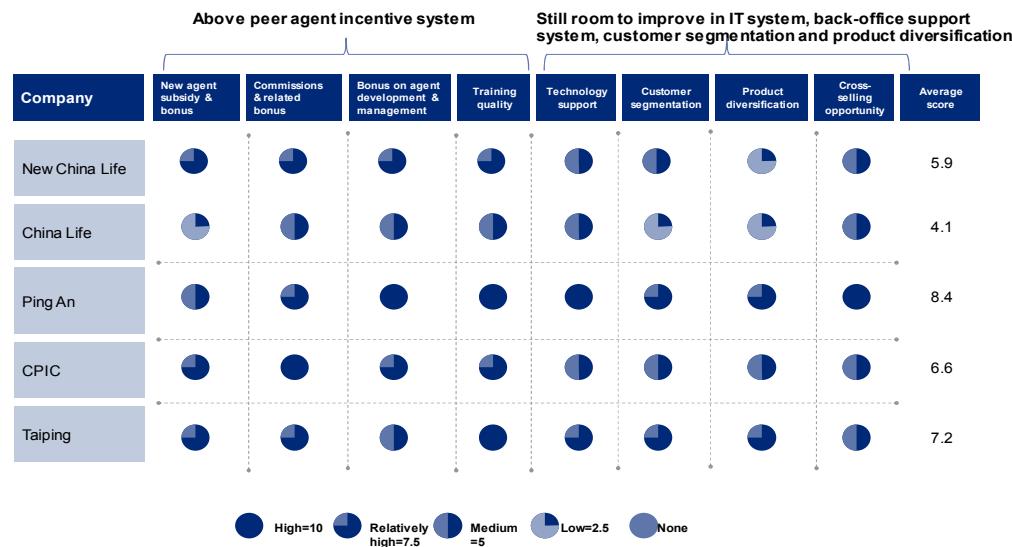
Source: Company data.

Exhibit 20: Agent productivity; monthly FYP per agent has increased steadily



Source: Company data.

Exhibit 21: We believe NCI has above-peer agent incentive system but there is still room for improvement, based on our analysis
 Detailed comparison of life insurers; agent incentive system, IT and back-office support systems

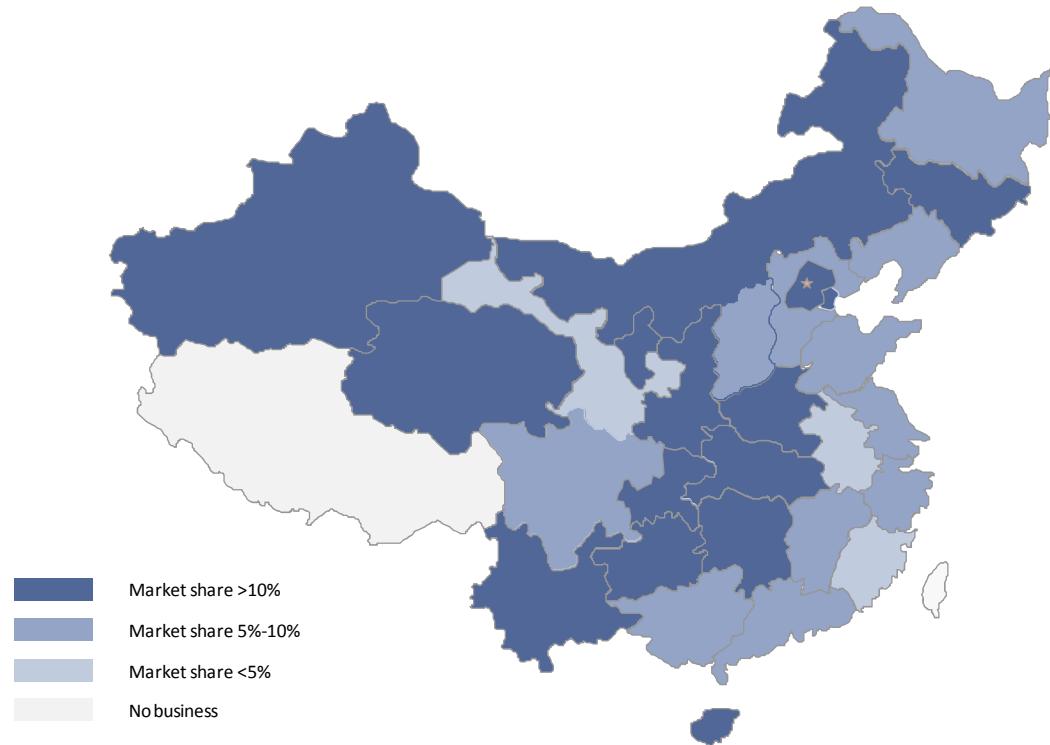


Source: Gao Hua Securities Research.

Adding new agents/sub-branches, particularly in economically developed areas
 NCI has strong market share in tier-2 cities, as well as in tier-1 cities Beijing and Shanghai. It has a strong presence in most central and western provinces, where premium growth rates are above the national average. NCI's current major markets are Beijing, Shanghai, Hubei, Hunan, and Henan. NCI had more than a 10% market share by premiums written in 17 provinces in 2010.

However, its footprint is relatively weak in many economically advanced coastal provinces, such as the two largest markets of Guangdong and Jiangsu, due to its limited network distribution. To achieve rapid FYP growth, NCI plans to add new agents and sub-branches, particularly in these densely populated and economically developed coastal provinces. This will mark a reversal of it having halted branch openings for about four years due to an insufficient solvency margin, which has now been addressed after the IPO.

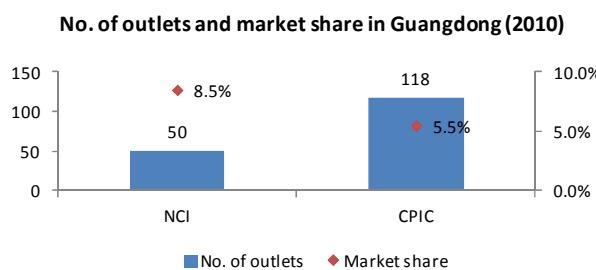
Exhibit 22: NCI has a strong presence in most central and western provinces
NCI's market share by region, 2010



Source: Gao Hua Securities Research.

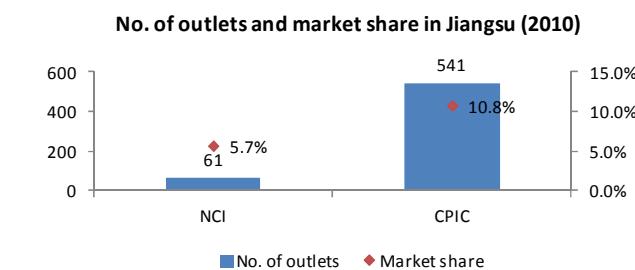
In Guangdong and Jiangsu (the top two provincial insurance markets), NCI has a limited number of outlets, but much higher productivity per outlet than CPIC (Exhibits 23 and 24). Management expects regulators will permit the company to begin opening new branches again soon, and plans to open more sub-branches by leveraging existing outlets.

Exhibit 23: No. of outlets and market share in Guangdong (2010)



Source: China Insurance Yearbook; Gao Hua Securities Research.

Exhibit 24: No. of outlets and market share in Jiangsu (2010)



Source: China Insurance Yearbook; Gao Hua Securities Research.

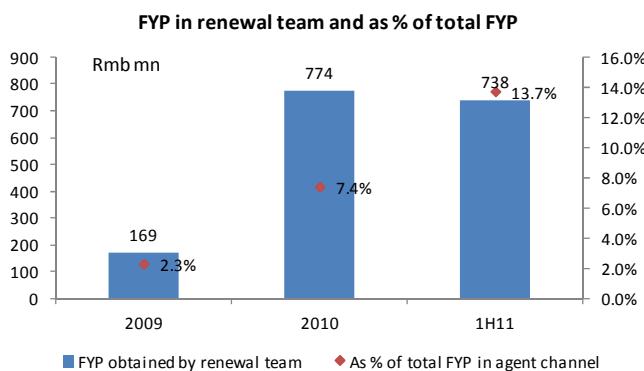
New distribution channels

- NCI aims to provide a comprehensive **wealth management platform** designed for mid-to high-end customers. NCI established a wealth management department in April 2010, and was among the first life insurers in China to provide wealth management services to high-end customers. As of 1H2011, NCI provided insurance products and wealth management services to mid-range to high-end customers in 17 branches. Its FYP via its wealth management channel was Rmb368mn in 1H, accounting for about 2% of total FYP.

We expect strong FYP growth off a low base through this channel as high-end customers have historically had above-national-average income growth in China.

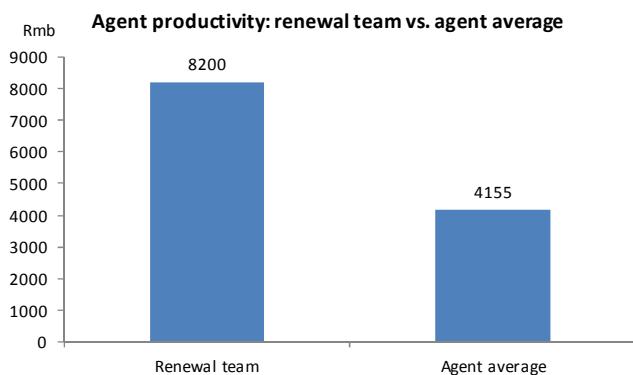
- In 2010, NCI adjusted the operating model of its **renewal team** to explore further FYP sales opportunities with existing clients. The renewal team, which is responsible for sales from existing customers, has achieved strong FYP growth since 2010 and showed much higher productivity than the agent average (Exhibits 25 and 26).
- NCI is also strengthening **cooperation with large, reputable corporations** and social groups such as China Continental P&C Insurance to expand cross-selling opportunities.

Exhibit 25: The renewal team has achieved strong FYP growth since 2010



Source: Company data.

Exhibit 26: The renewal team showed much higher productivity than the agent average



Source: Company data.

Pioneering senior care and health care business

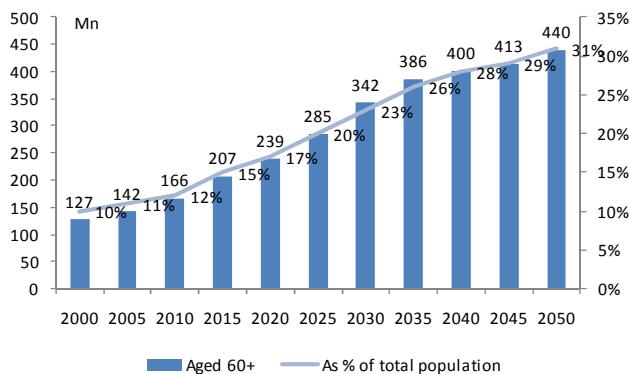
In the medium term, NCI plans to pioneer senior-living communities, health management, medical service, and nursing care systems, which will be offered to its customers.

We see significant growth potential in the senior and health care business with rapid aging of China's population and increasing health care needs and awareness (Exhibits 27-30). The 12th Five-Year plan encourages insurance companies to invest in pensions and senior housing entities and health care institutions.

We believe that by pioneering the development of senior care/health care business, NCI might be able to strengthen its branding, new business growth and competitiveness.

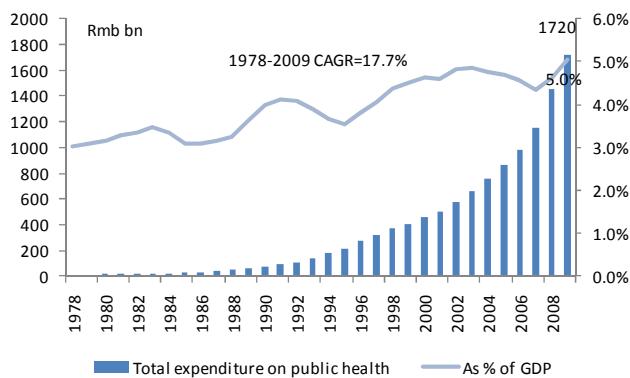
Management has indicated that NCI started to plan/design its two projects in the sub-urban area in Beijing since 2012, but we haven't included potential premium contributions from these businesses into our 2012E/13E earnings forecasts.

Exhibit 27: Total and proportion of the population aged over 60



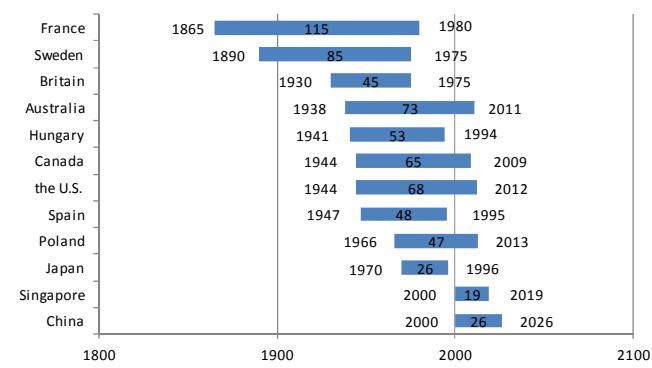
Source: CEIC, Gao Hua Securities Research.

Exhibit 29: Total expenditure on public health has grown steadily



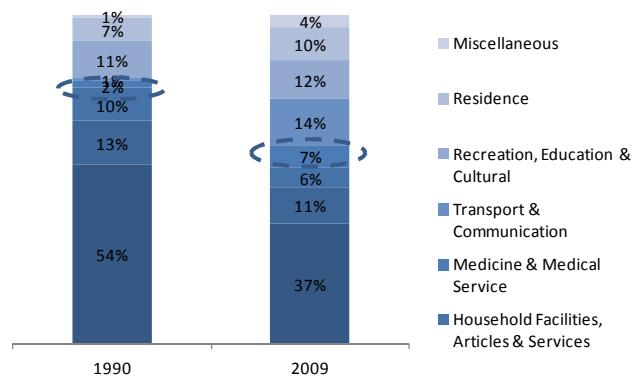
Source: CEIC, Gao Hua Securities Research.

Exhibit 28: China is aging rapidly, taking only 26 years for those aged 65+ to rise from 7% to 14% of the population



Source: UN; CEIC, Gao Hua Securities Research.

Exhibit 30: Medicine & Medical services account for an increasing portion of Urban household expenditure



Source: CEIC, Gao Hua Securities Research.

That said, its business models, especially for senior care, have not yet been tested in China, and will take time to refine:

- When market conditions allow, NCI aims to establish a senior living community system, a health management system, a medical service system and a nursing care system to be offered to NCI customers.
- We believe the revenue from senior care business will come from two sources — the sale of related insurance policies and rental income for regular and nursing homes (with an estimated 7% annual yield).

However, details of the business model are still being refined, although our study on similar business provided by the Samsung Group and Taikang Life suggest three major challenges:

- It will take significant capex to build senior care facilities/housing including land acquisition.
- Typically, people aged 70-80 are interested in living in senior housing complexes, but senior care/health care operating expenses are high, and could have high liability risk for operators.

- Many people, particularly those aged 60 and 70, might not be willing to exchange an urban lifestyle with their family for a senior care facility in the suburbs.

Continued reform momentum, potential ample reform dividends

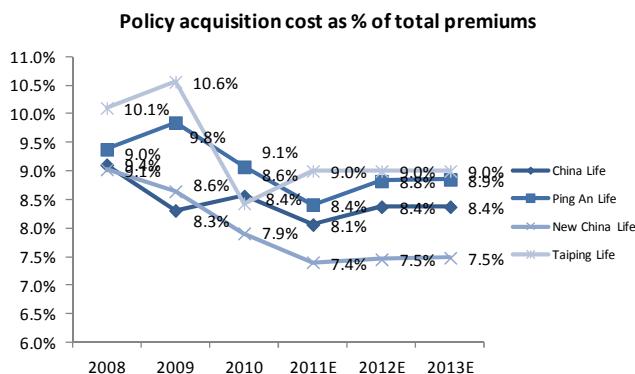
Ongoing IT system and internal control reforms

Since 2010, NCI has implemented a series of initiative to enhance its operating platform, including:

- Implementing a centralized comprehensive budgeting process to improve cost efficiency.
- Optimizing operations processes by increasing investment to establish an industry-leading information technology system, to better support front-office operations.

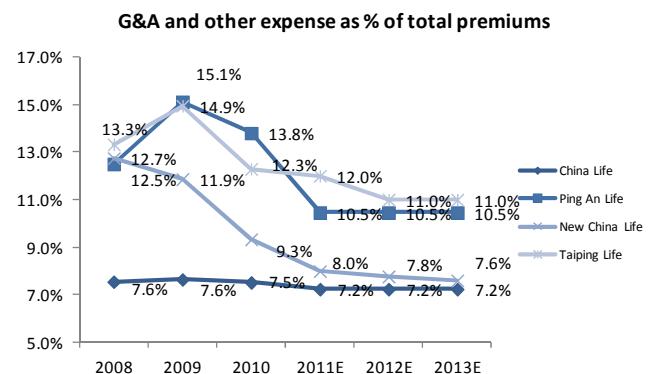
We believe these initiatives, if executed well, will help increase NCI's operating efficiency and new business margin. NCI's operating expense ratio, particularly the G&A expense ratio, improved significantly in 2010.

Exhibit 31: We expect policy acquisition cost as % of total premiums to decline with accumulation of renewal premiums



Source: Gao Hua Securities Research estimates.

Exhibit 32: The G&A expense ratio improved in 2010



Source: Gao Hua Securities Research estimates.

Potential to enhance investment returns by expanding investment channels...

As it has a solvency margin below 150% in 1H2011, NCI is prohibited from investing in many categories of investment assets, including relatively high-return infrastructure debt investment plans, unlisted equity securities, real estate and overseas investments, and unsecured corporate bonds.

However, when its solvency margin improves above the threshold (which we expect by 2012), NCI plans to expand into new investment channels to improve yields.

...and with several senior outside hires

Moreover, New China Asset Management recently hired as Vice Chairman, Ms. Xu Ying (ex-Chairman of Invesco Great Wall Fund Management Company Ltd.) and as CEO Mr. Li Quan (ex-Vice President of Bosera Asset Management Co., Ltd.) to strengthen its professional investment team.

We forecast NCI's total investment returns to be 3.9% in 2011E, 4.5% in 2012E, and 4.8% in 2013E, from 4.3% in 2010 (Exhibit 33).

Exhibit 33: Forecasts for investment asset allocation and investment returns

	2008	2009	2010	2011E	2012E	2013E	NCI		2008	2009	2010	2011E	2012E	2013E
NCI														
Cash and deposits	18%	16%	28%	36%	41%	38%	Cash and deposits		3.2%	3.2%	4.4%	4.2%	4.2%	4.3%
Fixed maturity investments	77%	70%	56%	52%	47%	48%	Fixed maturity investments		4.3%	5.0%	4.4%	4.4%	4.4%	4.4%
Equity investments	3%	12%	13%	10%	10%	12%	Equity investments		11.7%	3.0%	0.0%	6.5%	8.5%	
Others	2%	2%	2%	2%	2%	2%	Other investment assets		7.6%	2.6%	2.7%	2.8%	2.8%	
Total	100%	100%	100%	100%	100%	100%	Total investment yield		4.7%	4.3%	3.9%	4.5%	4.5%	4.8%
CPIC														
Cash and deposits	36%	34%	29%	29%	29%	29%	Cash and deposits		4.9%	4.4%	4.4%	5.0%	5.1%	5.0%
Fixed maturity investments	59%	53%	55%	53%	53%	53%	Fixed maturity investments		4.1%	4.6%	4.5%	4.3%	4.4%	4.4%
Equity investments	5%	13%	12%	13%	13%	13%	Equity investments		6.4%	22.3%	13.6%	-1.0%	7.0%	8.0%
Others	0%	0%	5%	5%	5%	5%	Other investment assets		-0.2%	-0.1%	0.0%	-0.1%	0.0%	0.0%
Total	100%	100%	100%	100%	100%	100%	Total investment yield		4.5%	6.0%	5.5%	3.6%	4.7%	4.8%
China Life														
Cash and deposits	28%	33%	37%	41%	42%	42%	Cash and deposits		5.0%	3.4%	3.8%	4.5%	4.5%	4.5%
Fixed maturity investments	64%	52%	49%	46%	45%	45%	Fixed maturity investments		5.0%	4.7%	4.5%	4.5%	4.2%	4.1%
Equity investments	8%	15%	15%	13%	13%	13%	Equity investments		-4.3%	17.9%	10.9%	-0.2%	6.9%	7.9%
Others	0%	0%	0%	0%	0%	0%	Other investment assets		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100%	100%	100%	100%	100%	100%	Total investment yield		3.6%	5.9%	5.2%	3.9%	4.7%	4.8%
Ping An														
Cash and deposits	28%	27%	29%	29%	29%	29%	Cash and deposits		4.0%	5.3%	5.4%	6.3%	6.1%	5.6%
Fixed maturity investments	62%	60%	59%	57%	57%	57%	Fixed maturity investments		4.1%	4.6%	5.1%	4.3%	4.3%	4.0%
Equity investments	8%	11%	10%	12%	12%	12%	Equity investments		-25.7%	25.2%	7.6%	-1.0%	8.3%	8.4%
Others	2%	2%	2%	2%	2%	2%	Other investment assets		-0.1%	0.0%	0.0%	-0.3%	-0.3%	-0.3%
Total	100%	100%	100%	100%	100%	100%	Total investment yield		-1.5%	6.1%	4.6%	3.9%	4.7%	4.9%
Taiping														
Cash and deposits	22%	21%	22%	25%	23%	23%	Cash and deposits		3.2%	2.6%	2.4%	2.8%	2.8%	2.7%
Fixed maturity investments	70%	63%	65%	63%	64%	64%	Fixed maturity investments		5.1%	4.2%	4.7%	4.6%	4.5%	4.4%
Equity investments	6%	15%	12%	11%	12%	12%	Equity investments		-2.1%	18.3%	14.1%	2.0%	8.0%	9.0%
Others	2%	1%	1%	1%	1%	1%	Other investment assets		5.4%	-2.7%	3.0%	4.0%	3.0%	3.0%
Total	100%	100%	100%	100%	100%	100%	Total investment yield		3.9%	5.3%	5.4%	3.7%	4.4%	4.5%

Source: Gao Hua Securities Research.

Company profile, evolution, and outside hires

Established in September 1996, NCI is a leading life insurance company in China, with a gross premium market share of 9% in 1H2011 (ranking fourth), up from 7.6% in 2008, 8.2% in 2009, and 8.9% in 2010.

Over its 15 years of operations, NCI has built a well-recognized brand and an extensive distribution network, with 34 branches and 1,443 sub-branches, 204,380 individual life insurance agents (equivalent to 43.1% of Ping An, and 72.5% of CPIC), and over 25,000 bancassurance outlets.

Central Huijin Investment Ltd. was the largest shareholder post IPO, with a 31.2% stake. State-owned Baosteel Group owns 15.1%, and Zurich Insurance Company Ltd. owns 12.5%. Other foreign shareholders hold 8.3% combined and include: Fullerton Management Pte. Ltd. (2.5%), CICC Securities (HK) Ltd. (2.1%), Nomura Securities Co. Ltd. (2.1%), Standard Chartered Principal Finance (Cayman) Ltd. (1.25%), and the International Finance Corporation (0.3%).

Company evolution: three stages

- Establishment stage: 1996-2006:** NCI established a national distribution network and strong bancassurance capability.
- Restructuring stage: 2007-2009:** NCI's shareholdings were restructured after former Chairman, Mr. Guan Guoliang, was discovered to have engaged in various "unlawful activities" by regulators. Following a regulator-driven move, China Insurance and Security Fund entered into equity transfer agreements with certain shareholders to acquire 38.8% of NCI. In 2009, China Insurance and Security Fund transferred its stake to the Central Huijin Investment Ltd.
- Reform stage: November 2009, March 2010 and still underway:** A new board of directors and new senior management were brought on board to push through reforms and the company's new growth strategy.

Exhibit 34: Key milestones of New China Life

Stage I: 1996-2006			Stage II: 2007-2009: restructuring under Insurance Security Fund			Stage III: 2010: present reform under new management team	
1996	2000	2004	2007	2009	2010	2011	
<ul style="list-style-type: none"> Established with registered capital of Rmb500 million 	<ul style="list-style-type: none"> Registered capital increased to Rmb1.2bn; Overseas investors hold 24.90% of total shares 	<ul style="list-style-type: none"> National distribution network established 	<ul style="list-style-type: none"> The ex-Chairman was investigated for unlawful activities while NCI chairman from Nov. 1998 to Dec. 2006 China Insurance and Security Fund Co. Ltd. acquired 38.815% of the total issued shares, for the purpose of preventing and mitigating risks. 	<ul style="list-style-type: none"> Central Huijin Investment Ltd. acquired all the shares held by China Insurance and Security Fund Co. Ltd., becoming the largest shareholder of NCI The new board of directors commenced work in Dec. 2009 	<ul style="list-style-type: none"> The new senior management team commenced in March. Since 2010, a series of initiatives to enhance internal management and IT infrastructure have been launched, including the integration of policy maintenance, claims settlement, underwriting, production of policies, and new policy return-visit operations. 	<ul style="list-style-type: none"> Registered capital increased to Rmb2.6bn through an injection of capital by existing shareholders 	

Source: Company data.

Exhibit 35: NCI has a recognized brand name, a nationwide distribution channel, and an extensive customer base

	New China Life	China Life	Ping An	CPIC	Taiping	New China Life as % of CPIC	New China Life as % of Ping An
Establishment time	1996	1982	1988	1991	2001		
Life premium and growth							
Life premium market share (1H11, New China GAAP)							
Life premium market share (1H11, New China GAAP)	9.0%	34.8%	12.9%	9.7%	3.1%	92.8%	70.2%
Life premium market share (2010, Old China GAAP)	8.9%	31.7%	15.1%	8.8%	3.1%	101.8%	58.9%
Standard premium market share (1H11)	7.5%	27.9%	18.7%	9.3%	3.2%	80.6%	40.2%
Life premium 2008-2010 CAGR (Old China GAAP)	40.5%	9.4%	26.7%	35.5%	98.2%	113.9%	151.4%
Products mix (2010)							
Life							
– Traditional	0.7%	18.6%	4.8%	17.4%	1.9%	4.0%	14.3%
– Participating	93.8%	72.3%	42.4%	77.9%	76.8%	120.4%	221.3%
– Universal	0.0%	2.8%	40.3%	0.1%	12.8%	30.4%	0.1%
– Unit-linked	0.0%	0.0%	2.9%	0.0%	1.0%	n.m.	0.0%
A&H and others	5.5%	6.3%	9.6%	4.7%	7.5%	117.2%	57.4%
Distribution channels (1H11)							
No. of branches	34	NA	35	NA	34		
No. of sub-branches	1,443	NA	>2000	NA	754		
Individual agents	204,380	662,000	474,586	282,000	46,124	72.5%	43.1%
Direct sales (group sales) force	910	14,900	2,893	NA	NA		
Bancassurance account managers	14,978	44,000	NA	NA	NA		
Bancassurance sales outlets	15,054	96,000	63,201	NA	NA		
Customer base							
Number of customers (1H11)							
– Individual (in thousands)	24,942	NA	47,926	NA	NA		52.0%
– Corporate (in thousands)	57	NA	718	NA	NA		7.9%
Number of customers (2010)							
– Individual (in thousands)	22,532	NA	45,318	40,691	NA	55.4%	49.7%
– Corporate (in thousands)	48	NA	652	469	NA	10.2%	7.4%
Market dimension (2010, Rmb mn)							
VIF	21,685	153,444	77,413	34,184	11,503	63.4%	28.0%
1-year NBV	4,741	19,839	15,507	6,100	1,827	77.7%	30.6%
Total assets	304,566	1,410,579	1,171,627	475,711	154,484	64.0%	26.0%
Total life gross premium and policy fees	91,956	318,229	96,877	87,873	37,218	104.6%	94.9%

* VIF and NBV are original figures of Taiping Life. CTIH holds 50.05% of TPL's total shares.

Source: Gao Hua Securities Research.

A strong sales force, but still room to improve agent productivity

As of 1H2011, NCI's total individual insurance agents numbered 204,380, representing one of the largest individual insurance agent teams in China. Amid the sector-wide difficulties in recruiting and retaining agents, NCI's number of agents increased 3% hoh in 1H2011, which was higher than the hoh growth rate of CPIC, China Life and Taiping.

The average monthly FYP per agent grew at a CAGR of 18.9% from Rmb2,808 in 2008 to Rmb3,968 in 2010 and Rmb4,155 in 1H2011.

Compared with peers, we believe NCI still has room to improve agent productivity by providing better training, support and benefits to agents (see Company Strategy section).

Exhibit 36: NCI has over 200,000 individual agents in 1H2011, representing one of the largest individual insurance agent teams in China

Number of individual life insurance agents	2008	2009	2010	1H11	% of chg			
					2008	2009	2010	1H11 hoh
CPIC	224000	254000	280000	282000	12%	13%	10%	1%
China Life	716000	777000	706000	662000	12%	9%	-9%	-6%
PingAn	355852	416570	453392	474586	18%	17%	9%	5%
Taiping	46781	60781	50527	46124	14%	30%	-17%	-9%
New China Life	193580	226776	198771	204380	17%	-12%	3%	
VS. Ping An	54%	54%	44%	43%				
Vs. CPIC	86%	89%	71%	72%				
Average monthly first-year written premium per agent(Rmb)								
2008	2009	2010	1H11	% of chg				2008
CPIC	2807	2597	2863	3773				-7%
China Life	NA	NA	NA	5752				NA
PingAn	5423	6261	7922	10,477				15%
Taiping	4046	4416	6353	8287				9%
New China Life	2808	2746	3968	4155				-2%
VS. Ping An	52%	44%	50%	40%				45%
Vs. CPIC	100%	106%	139%	110%				5%
New life insurance policies per agent per month								
2008	2009	2010	1H11					2008
CPIC	1.3	1.4	1.1	NA				
PingAn	1.1	1.1	1.1	1.3				
New China Life	1.04	0.86	0.75	0.86				

Source: Company data, Gao Hua Securities Research.

An experienced and enhanced board and management team after restructuring

After its restructuring, we believe NCI has a strong board and shareholder structure, as well as one of the most experienced management teams among China insurers.

The largest shareholder, Central Huijin Investment Ltd., which has been instrumental in China's banking/financial reform and privatization, has played an important role in NCI's reform. Zurich Insurance Company Ltd, the third-largest shareholder, actively participates on the board, and provides NCI with technical assistance in actuarial practices, and asset-liability management.

In our view, NCI's board members are experienced, professional and diversified.

NCI has made several outside hires to key positions since the second half of 2009, such as Chairman Mr. Kang Dian (ex-Chairman of the Board of Supervisors of Shenzhen Development Bank who contributed the successful restructuring of the bank together with the management team put in place by Newbridge Capital), and President Mr. He Zhiguang (ex-Taiping Life Chairman) with about thirty years' experience in insurance.

Key risks: execution; macro overtightening; sensitivity to A-shares

Execution

We believe NCI may face above-peer execution risks due to:

- Its relatively new management team and ongoing restructuring: Chairman and President, and other senior management such as the CFO and head of investment, although experienced industry professionals, only joined the firm in 2H2009.

We believe the challenge for management is to get the many middle managers and agent forces to embrace the reforms and strategic initiatives and to successfully instill a new corporate culture. An example of the challenges being faced is clear from management's push to more strictly control expenses and efficiency in its branches in 1H2011, which was a key reason for the slow FYP growth in 1H2011, in our view.

- Increasing competition within life insurance sectors, and particularly from banks' wealth management product sales push.
- Its senior/health care business' growth strategy and business models are still evolving.
- NCI is in the process of upgrading its IT system and internal control system to avoid further potential legal problems (see section below for information on the alleged unlawful activities at the company and subsequent shareholder restructuring, provisioning, and partial recovery of funds).

Prior unlawful issues

There have been two major cases of "unlawful activities", which have led to financial losses at NCI:

Case I was the alleged unlawful activities of NCI's former chairman, Mr Guan Guoliang.

According to the company, between November 26, 1998 and December 27, 2006, Mr. Guan apparently misused NCI's insurance funds, mainly by obtaining funds by pledging bonds held by NCI and investing the raised capital in external entities without due authorization. NCI paid Rmb2.91bn to redeem the pledged bonds with an uncovered loss of Rmb1,455.36 mn, for which it made full provision. Of this, Rmb354mn was recovered in 1Q11.

The ex-Chairman was subsequently replaced and following a regulator-driven move, the China Insurance and Security Fund — for the purpose of preventing and mitigating risks, as well protecting the insured parties and shareholders — entered into equity transfer agreements with certain shareholders affiliated with the ex-Chairman to acquire 38.8% of NCI for Rmb1,454.64 mn in 2007. In 2009, the China Insurance and Security Fund transferred its stake to Central Huijin Investment Ltd.

In our view, NCI has since significantly improved its corporate governance and the composition of its board, with balanced presentation between state, foreign (Zurich) and domestic shareholders.

Moreover, NCI plans to allocate a Rmb1bn special dividend to shareholders, sourced from profits from the auction and disposal of its entire 24% equity interest in Zijin Century, a property development company, and from the general net income from NCI. Of this special dividend, at least Rmb820mn will be preserved as "custodian funds" to protect shareholders against any further potential losses from the case. The auction price is set at Rmb2,042.5mn, with accounting costs of Rmb696mn.

Exhibit 37: The potential loss and provisioning from the ex-Chairman's "unlawful activities" and its impact (Rmb mn)

Total amount of the monetary loss	Total consideration of the equity transfer transactions between certain shareholders and the Insurance Security Fund	Remaining receivables in 2010	Provisions in 2010	Assets recovered in 1Q11	Remaining receivables in 1Q11	Provisions in 1Q11
2910	1455	1455	1455	354	1101	1101

Source: Company data.

Case II: Taizhou and Yongzhou cases: From 2003-2010 certain former employees of NCI's Taizhou municipal branch in Jiangsu province, and the Yongzhou municipal branch in Hunan province branch, allegedly sold counterfeit insurance policies under the company's brand, through which they defrauded funds for personal use. The amount required to settle all claims from defrauded policyholders was estimated by the company at Rmb295 mn and NCI has so far settled claims amounting to Rmb208 mn.

In our view, these cases demonstrate NCI's internal control systems can still be improved.

Economic hard landing, a slump in the A-share market

We estimate **NCI's 2012 earnings could be more sensitive to equity investment yields and bond yields** than China Life, Ping An and CPIC, partly due to the current lower profit margin of its product portfolio, and the low base of its profits.

That said, if inflation slows to below 4%, as our economists consider possible in 2Q12, and interbank rates start to decline, especially to below 4% (which is roughly the actual investment yield provided to policyholders) from 6.2% (as in September), we believe it would benefit the A-share equity returns of NCI, and NCI may face less competition from banks' wealth management product sales, yields for which are closely related to interbank rates. This would likely accelerate its FYP/NBV growth.

Exhibit 38: NCI's FY12E earnings are more sensitive to investment returns than China Life, CPIC and Ping An, but less so than Taiping

	2012E earnings sensitivity						
	Total investment yield	Cash and deposit return	Bond yield	Equity investment yield	P&C NEP growth rate	P&C Loss ratio	Tax rate
	Change by:	1pp	10bps	10bps	1pp	5pp	1pp
China Life	22.6%	0.9%	1.0%	3.0%	N/A	N/A	-2.5%
Ping An	27.0%	0.7%	1.7%	3.2%	0.4%	-2.6%	-1.4%
CPIC	18.7%	0.5%	1.0%	2.4%	0.6%	-3.0%	-2.7%
New China Life	42.4%	1.6%	2.1%	4.3%	N/A	N/A	-3.1%
PICC	17.1%	0.5%	0.9%	2.2%	1.0%	-12.1%	-1.3%
Taiping	47.8%	1.1%	3.0%	5.5%	-0.2%	-4.0%	-4.6%
Average	25.5%	0.9%	1.3%	3.0%	0.7%	-5.9%	-2.2%

Source: Gao Hua Securities Research estimates.

VIF and NBV are highly sensitive to investment return and discount rate assumptions

Moreover, based on its actuary report, we estimate the company's 1H11 value in force (VIF) is particularly sensitive to:

- **Long-term investment return:** a 50bp reduction in investment return assumptions would reduce NCI's VIF by 18%, similar to China Life's, higher than Ping An, but lower than CPIC, given NCI's lower exposure to policies sold before 2000 with high guaranteed rates (or "negative spread book").
We estimate the negative spread book accounted for about 2% of policy reserve in 1H2011, much lower than Ping An/CPIC.
We note NCI's long-term investment return actuary assumption of 5.5% is similar to China Life's, but higher than CPIC's 5.2% and Taiping's 4.5%.
- **Policy holder dividend payout ratio:** NCI's VIF is more sensitive to policy holder dividend payout ratio as NCI's main products are participating products, and as it has a relatively low NBM. That said, we do not expect NCI's dividend policy ratio of 70% will be revised in the near term.
- **Solvency margin:** NCI currently assumes a minimum 100% solvency margin requirement in calculating EV, in-line with Ping An, China Life and CPIC (vs. a minimum 120% for Taiping). If the solvency margin requirement were revised to a minimum 150%, it could face higher sensitivity than other insurers, partly due to the high capital consumption of its low-margin bancassurance business.
- **Discount rates:** A 50bp increase in the discount rate from the base case of 11.5% would decrease its VIF by 5.2%, slightly higher than other insurers. We note NCI uses a discount rate of 11.5%, the same as to CPIC/Taiping, but higher than the 11% adopted by China Life and Ping An.

As its new business mix is not significantly different from VIF, NCI's NBV has similarly high sensitivity to investment returns, policy holder dividend payout, solvency margin, and discount rates assumptions.

Exhibit 39: NCI's VIF sensitivity to investment return is high; it is also more sensitive than peers to discount rates, policy holder dividend payouts and solvency ratios

Sensitivity of 1H2011 VIF to various assumptions

1H11 Rmb mn (Taiping HK\$ mn)	NCI		China Life		Ping An		CPIC		Taiping		Average Change %
	VIF	Change %	VIF	Change %	VIF	Change %	VIF	Change %	VIF	Change %	
Base case	24,650		170,664		87,945		39,419		11,503		
Discount rate	-0.5pp	26,194	6.3%	179,993	5.5%	91,895	4.5%	41,288	4.7%	11,970	4.1%
	+0.5pp	23,376	-5.2%	161,987	-5.1%	84,209	-4.2%	37,661	-4.5%	11,085	-3.6%
Investment return	+0.5pp	29,048	17.8%	202,182	18.5%	100,944	14.8%	47,155	19.6%	12,575	9.3%
	-0.5pp	20,245	-17.9%	139,589	-18.2%	73,869	-16.0%	31,745	-19.5%	10,381	-9.8%
Expenses	+10%	23,803	-3.4%	168,137	-1.5%	86,521	-1.6%	38,643	-2.0%	11,143	-3.1%
	-10%	25,497	3.4%	173,186	1.5%	89,369	1.6%	40,195	2.0%	11,840	2.9%
Discontinuance	+10%	24,333	-1.3%	169,422	-0.7%	85,634	-2.6%	39,436	0.0%	11,479	-0.2%
	-10%	24,975	1.3%	171,950	0.8%	90,256	2.6%	39,402	0.0%	11,493	-0.1%
Mortality	+10%	24,527	-0.5%	168,937	-1.0%	86,324*	-1.8%	39,288	-0.3%	11,339	-1.4%
	-10%	24,773	0.5%	172,415	1.0%	89,566*	1.8%	39,550	0.3%	11,645	1.2%
Morbidity and lossratio	+10%	24,132	-2.1%	168,784	-1.1%			39,181	-0.6%		-0.9%
	-10%	25,168	2.1%	172,561	1.1%			39,657	0.6%		0.9%
Policyholder dividend payout ratio	+5%	20,802	-15.6%	NA	NA	84,660	-3.7%	37,957	-3.7%	10,988	-4.5%
150% of statutory minimum solvency margin		20,070	-18.6%	155,557	-8.9%	77,763	-11.6%	34,342	-12.9%	10,610	-7.8%
Taxable income based on China accounting standard		23,770	-3.6%	169,278	-0.8%	NA	NA	NA	NA	NA	-0.8%

* Change in both mortality and morbidity rates

Note: Taiping numbers are from 2010.

Source: Gao Hua Securities Research.

Exhibit 40: NBV sensitivity: NCI is more sensitive than peers to discount rates, investment returns, dividend payouts and solvency margins

The sensitivity of 1H2011 NBV to various assumptions

1H11 Rmb mn (Taiping HK\$ mn)	NCI		China Life		Ping An		CPIC		Taiping		Average
	NBV	Change %	NBV	Change %	NBV	Change %	NBV	Change %	NBV	Change %	Change %
Base case	4,710		20,506		17,051		6,693		1,827		
Discount rate	-0.5pp	5,028	6.7%	21,652	5.6%	18,025	5.7%	7,108	6.2%	2,068	6.6%
	+0.5pp	4,449	-5.5%	19,437	-5.2%	16,146	-5.3%	6,305	-5.8%	1,606	-6.0%
Investment return	+0.5pp	5,480	16.3%	23,560	14.9%	17,977	5.4%	7,489	11.9%	2,135	16.9%
	-0.5pp	3,937	-16.4%	17,586	-14.2%	16,135	-5.4%	5,909	-11.7%	1,499	-18.0%
Expenses	+10%	4,360	-7.4%	18,665	-9.0%	16,744	-1.8%	6,145	-8.2%	1,729	-5.4%
	-10%	5,059	7.4%	22,347	9.0%	17,358	1.8%	7,241	8.2%	1,916	4.9%
Discontinuance	+10%	4,588	-2.6%	20,432	-0.4%	16,490	-3.3%	6,683	-0.1%	1,791	-2.0%
	-10%	4,835	2.7%	20,574	0.3%	17,612	3.3%	6,703	0.1%	1,850	1.3%
Mortality	+10%	4,680	-0.6%	20,440	-0.3%	16,561*	-2.9%	6,673	-0.3%	1,791	-2.0%
	-10%	4,739	0.6%	20,572	0.3%	17,541*	2.9%	6,713	0.3%	1,853	1.4%
Morbidity and lossratio	+10%	4,602	-2.3%	20,432	-0.4%			6,630	-0.9%		-1.2%
	-10%	4,818	2.3%	20,581	0.4%			6,756	0.9%		1.2%
Policyholder dividend payout ratio	+5%	3,930	-16.6%	NA	NA	16,521	-3.1%	6,284	-6.1%	1,656	-9.4%
150% of statutory minimum solvency margin		3,807	-19.2%	18,507	-9.7%	15,748	-7.6%	5,943	-11.2%	1,583	-13.4%
Taxable income based on China accounting standard		4,533	-3.8%	20,817	1.5%	NA	NA	NA	NA	NA	-1.1%

* Change in both mortality and morbidity rates

Note: Taiping numbers are from 2010.

Source: Gao Hua Securities Research.

Exhibit 41: Actuarial assumptions: NCI's investment return assumption is at the high end of assumptions adopted by peers while the discount rates of 11.5% is as conservative as Taiping/CPIC. Overall, we believe the assumptions are similar to China Life's and Ping An's

Detailed actuarial assumptions

	New China Life	China Life	Ping An	CPIC	Taiping
Assumptions					
Risk discount rate	11.5%	11% (changed from 11.5% in 2008)	11.0% (changed from 11.5% in 2010)	11.5% (changed from 12% in 1H09)	11.5%
Investment return					
	5.2% in 2011 and grading to 5.5% in 2013 (for participating products)	4.85% in 2010 and grading to 5.35% in 2012, rising to 5.5% in 2013	4.75% in 2011 and to increase by 0.25% every year to 5.5% in 2014	4.85% in 2011 to 5.2% in 2014, and remaining at 5.2% thereafter	4.05% in 2011 and grading to 4.5% in 2020
Tax rates					
Average income tax	25%	25%	25%	25%	25%
Mortality (as % of China Life Table (2000-2003))					
Non-annuity products	Individual Life and Annuity Products (accumulation phase): Male: 65%, Female: 60%; Individual Annuity Products (payout phase): 75% of Individual Life	Based on China Life Insurance Mortality Table (1990-1993) and China Life Insurance Mortality Table (2000-2003), adjusted where appropriate to reflect the Group's recent historical mortality experience.	65%	Third year and beyond: 80%	70%, with a three-year selection period
Deferred annuity products					
Male			45%	90%	80%
Female			40%	90%	70%
Morbidity (as % of pricing table)					
	Morbidity assumptions have been expressed as a percentage of Taiwan morbidity tables. Central Scenario assumes ultimate morbidity rates of: Individual Dread Disease: Male: 65%, Female: 95%; Group Dread Disease: Male: 75%, Female: 105%	Based on Taiwanese experience in the critical illness market for critical illness products, adjusted where appropriate to reflect the Group's experience and expectation	Based on the Company's own pricing table	Based on experience and expectation	Based on the Group's own pricing tables
Expense loading	based on NCI's 2010 actual experience	NA	85%	Based on most recent experience	Based on experience
Per policy expense inflating	2.0%	NA	2%	2.5%	NA
Loss ratio for accident and health insurance	NA	NA	15%-85%	20%-75%	40%-57%
Policyholder dividends (as % of interest)					
Individual	70% of interest plus mortality surplus	NA	80% of interest plus mortality surplus	70% of interest plus mortality surplus	70% of interest plus mortality surplus
Bancassurance	70% of interest plus mortality surplus	NA	80% of interest plus mortality surplus	70% of interest plus mortality surplus	70% of interest plus mortality surplus
Group	70% of interest plus mortality surplus	NA	80% of interest	80% of interest surplus	70% of interest plus mortality surplus
Negative spread book					
Classification	NA	NA	Insurance policies with guaranteed rates of return equal to or in excess of 5%	Insurance policies with guaranteed rates of return equal to or in excess of 4%	NA
Discount rate	11.5%	NA	Earned rate	11.5%	NA
Required capital at % of solvency margin	100.0%	100.0%	100.0%	100.0%	120.0%

Source: Company data.

Relatively heavy reliance on bancassurance

NCI has relatively higher exposure to bancassurance, as we estimate around 79% of FYP and 43% NBV in 2010 was derived from bancassurance channels.

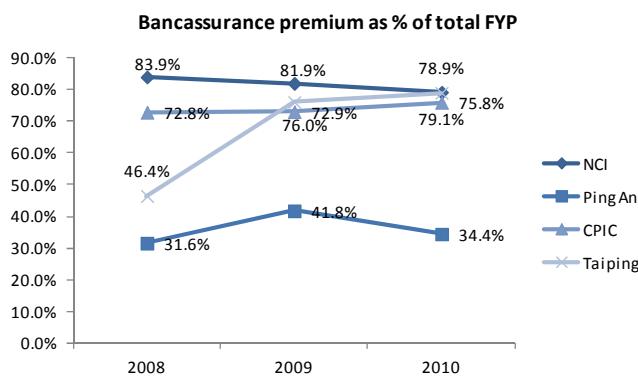
China insurers saw a significant decline in bancassurance volume in 2011, since the China Banking Regulatory Commission (CBRC) issued a rule in November 2010 preventing insurance agents selling bancassurance products from bank branches. Instead, bank staff are now responsible for selling these products.

In our financial forecasts for NCI and other insurers, we have assumed that bancassurance volumes recover to 12% yoy in 2012E (slightly below M2 growth of 14% yoy) after the one-off fall in 2011.

However, the risk is whether the bancassurance rule will continue to drag on insurance sales in 2012, and whether big banks focus on promoting the bancassurance products created by their affiliated joint-venture insurance companies, instead of the third-party products provided by insurers.

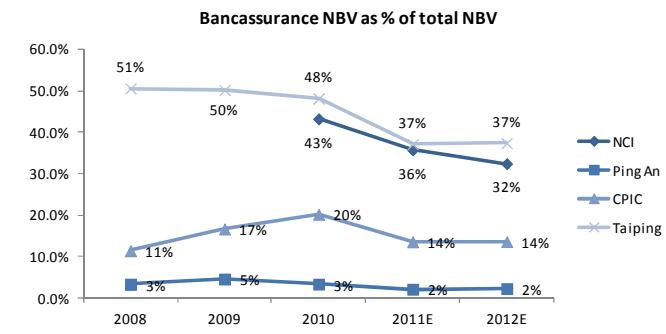
Nevertheless, we estimate 10% reduction of 2012E bancassurance FYP would reduce our 2012E NBV by 3.4%, which would still be a manageable decline, in our view.

Exhibit 42: Bancassurance premium as % of total FYP



Source: Company data.

Exhibit 43: Bancassurance NBV as % of total NBV



Source: Gao Hua Securities Research estimates.

Financial forecast: 15%/48% yoy 12E EV/EPS growth

EV forecasts

We forecast 2011E embedded value to increase 98% yoy to Rmb55,468mn, driven by:

- Rmb3,086mn in 11.5% expected return on period-start embedded value.
- Rmb5,154mn new business value 2011E
- Rmb-6,843mn in economic experience variances, mainly due to the unrealized mark to market losses in equity investment. We estimate 8% un-realized loss related to A-shares.
- Other movement including Rmb14 bn in capital raising from existing shareholders in 1Q11, and Rmb12 bn from A/H IPO proceeds.

We forecast 2012E/2013E embedded value to increase 15%/15% yoy to Rmb63,992mn /73,787mn, driven by:

- Rmb3,962mn/4,692mn in 11.5% expected return on period-start embedded value in 2012E/2013E.
- Rmb6,112mn/7,276mn new business value in 2012E/2013E.

- Rmb-927mn/-1,073mn in economic experience variances, mainly due to the variance between estimated investment returns and actuarial investment return assumptions of 5.3% and 5.5%, respectively

Exhibit 44: EV forecasts: We forecast 2012E/2013E embedded value to increase 15%/15% yoy, respectively
EV forecasts of NCI

Embedded value (Rmb mn)	2009	2010	2011E	2012E	2013E
Embedded value	20,333	28,085	55,468	63,922	73,787
Adjusted Net Worth	4,322	6,400	27,131	30,395	34,807
Value of In-force Business	16,010	21,685	28,338	33,527	38,980
Embedded value at beginning of period - unadjusted	20,333	28,083	55,468	63,922	
Expected return on period-start embedded value	2,654	3,086	3,962	4,692	
New business value in the period	5,095	5,154	6,112	7,276	
Operating experience variances	-70	0	0	0	
Economic experience variances	-255	-6,843	-927	-1,073	
Operating assumption and model changes	390				
Economic assumption and model changes					
Dividend payment to shareholders	-53	0	-694	-1,030	
Capital raising		14,000			
Other movements	-11	11,988			
Embedded value at end of period - unadjusted	20,333	28,083	55,468	63,922	73,787
Embedded value at end of period - adjusted	20,333	28,083	55,468	63,922	73,787
EV growth - adjusted		38%	98%	15%	15%
EVPS - adjusted (Rmb)	16.9	23.4	17.8	20.5	23.7
EVPS - adjusted (HK\$)	19.4	27.2	21.1	24.3	28.0
Memo:					
Investment return achieved		4.3%	3.9%	4.5%	4.8%
Investment return assumed by actuaries		5.2%	5.2%	5.4%	5.5%
Key EV ratios					
Return on period-start EV		13.1%	11.0%	7.1%	7.3%
Return on period-start value of in-force and one year NBV		12.2%	11.5%	11.5%	11.5%
NBV contributed to EV as % reported NBV		107.5%	107.5%	107.5%	107.5%

Source: Company data; Goldman Sachs Research estimates.

P&L forecasts

We forecast 2011E net profit attributable to shareholders to increase 23% yoy to Rmb2,776mn on the back of its improving operating expense ratio, driven by:

- 6% yoy growth in life Gross Written Premiums (GWP).
- Improving expense ratio to 7.2% policy acquisition commission expense ratio (vs. 7.9% in 2010 and 7.2% in 1H2011) and 7% G&A expense ratio (vs. 9.2% in 2010 and 6.6% in 1H2011).

We forecast 2012E/2013E net profit attributable to shareholders will increase 48%/37% yoy to Rmb4,121mn/5,663mn, driven by:

- Renewed high GWP growth: we forecast 20%/20% yoy growth in life GWP in 2012E/2013E, as we believe declining inflation and interest rates will reduce competition from banks' yield-driven wealth management product sales, and thereby improve life insurance sales off a low base in 2011E.
- Improving investment returns of 4.5%/4.8% in 2012E/2013E, mainly due to 4%/6% realized gains from equity investment as our GS Global ECS strategists have a fundamentally positive view on China equity markets over the medium term.

Exhibit 45: NCI's P&L forecasts

P&L (RMB mn)	2008	2009	2010	2011E	2012E	2013E	YoY growth				
	2008	2009	2010	2011E	2012E	2013E	2009	2010	2011E	2012E	2013E
Gross written premiums and policy fees	47,266	65,422	91,956	97,814	117,598	141,249	38%	41%	6%	20%	20%
Less: Premiums ceded to reinsurers	46	30	32	196	235	282	-35%	7%	511%	20%	20%
Net written premiums and policy fees	47,312	65,452	91,988	98,010	117,833	141,532	38%	41%	7%	20%	20%
Net change in unearned premium reserves	-53	-72	-128	-97	-107	-118	36%	78%	-24%	10%	10%
Net premiums earned and policy fees	47,259	65,380	91,860	97,913	117,726	141,414	38%	41%	7%	20%	20%
Investment income	1,589	8,362	10,521	12,412	17,954	23,891	426%	26%	18%	45%	33%
Other income	131	164	328	394	472	567	25%	100%	20%	20%	20%
Total income	48,979	73,906	102,709	110,718	136,153	165,872	51%	39%	8%	23%	22%
Net policyholders' benefits and claims paid											
Claims incurred	-339	-463	-702	-1,164	-1,512	-1,930	37%	52%	66%	30%	28%
Life insurance death and other benefits paid	-12,500	-10,300	-12,548	-17,585	-22,849	-29,173	-18%	22%	40%	30%	28%
Changes in long-term traditional insurance contracts liabilities	-24,701	-45,932	-70,361	-73,435	-88,530	-106,061	86%	53%	4%	21%	20%
Interest credited to long-term investment type insurance contracts liabilities	-770	-1,029	-772	-683	-820	-861	34%	-25%	-12%	20%	5%
Acquisition costs	-4,194	-5,623	-7,252	-7,043	-8,467	-10,170	34%	29%	-3%	20%	20%
General and administrative expenses	-5,616	-7,206	-8,410	-6,647	-8,232	-9,987	28%	17%	10%	20%	20%
Other expenses	-301	-509	-147	-176	-212	-254	69%	-71%	20%	20%	20%
Total benefits, claims and expenses	-48421	-71062	-100192	-106932	-130621	-158337	47%	41%	7%	22%	21%
Share of profits/(losses) of A jointly-controlled entity	0	0	1	0	0	0					
Finance costs	-376	-193	-263	-316	-379	-454	-49%	36%	20%	20%	20%
Profit/(loss) before tax	182	2,651	2,255	3,471	5,153	7,081					
Income tax	469	10	-5	-694	-1,031	-1,416					
<i>Tax rate</i>	258%	0%	0%	-20%	-20%	-20%					
Profit/(loss) after tax	651	2,661	2,250	2,777	4,122	5,664					
Minority interests	2	1	1	1	1	1					
Profit attribute to Equity holders	649	2,660	2,249	2,776	4,121	5,663	310%	-15%	23%	48%	37%
Per share data:											
# of shares	1,200	1,200	1,200	3,120	3,120	3,120					
# of fully diluted shares	1,200	1,200	1,200	3,120	3,120	3,120					
EPS (Rmb)	0.54	2.22	1.87	0.89	1.32	1.82					
ROAE		94.7%	41.6%	16%	14%	17%					
BVPS (Rmb)	1.2	3.5	5.5	9.1	10.2	11.7					
ROAA		1.4%	0.9%	0.8%	1.0%	1.1%					
DPS				0.22	0.33	0.45					

Note: no. of shares in millions.

Source: Company data, Gao Hua Securities Research estimates.

Balance sheet forecast

- Driven by accumulation of investment assets and increasing investment returns, we forecast financial assets to increase 22%/26%/25% yoy in 2011E/2012E/2013E, respectively.
- As such, we expect total assets to increase 22%/26%/25% yoy in 2011E/2012E/2013E.
- Mainly driven by first year premium growth and net changes in life insurance contract liabilities, we forecast total liabilities to increase 15%/28%/26% yoy in 2011E/2012E/2013E, respectively.

Exhibit 46: Balance sheet

Balance Sheet (RMB mn)	2008	2009	2010	2011E	2012E	2013E	Yoy growth				
							2009	2010	2011E	2012E	2013E
ASSETS											
Financial assets	156,052	197,047	292,866	350,614	443,451	555,368	26%	49%	20%	26%	25%
Cash and cash equivalents	6,521	12,608	27,368	24,543	31,042	38,876	93%	117%	-10%	26%	25%
Time deposits	21,738	18,891	55,210	100,865	150,773	172,164	-13%	192%	83%	49%	14%
Bond investment	120,511	138,169	164,726	181,617	208,422	266,577	15%	19%	10%	15%	28%
Equity investment	4,630	23,366	38,874	36,323	44,345	66,644	405%	66%	-7%	22%	50%
Other investment assets	2,652	4,013	6,688	7,265	8,869	11,107	51%	67%	9%	22%	25%
Other assets	8,907	9,572	11,700	19,625	24,531	30,664	7%	22%	25%	25%	25%
Total assets	164,959	206,619	304,566	370,239	467,982	586,032	25%	47%	22%	26%	25%
Liabilities and Equity											
Liabilities											
Insurance contracts	117,125	163,815	234,625	288,220	376,943	488,236	40%	43%			
Long-terms insurance contracts	116,659	163,226	233,821	287,256	375,786	486,846	40%	43%	23%	31%	30%
Short-terms insurance contracts	466	589	804	965	1,158	1,389	26%	37%	20%	20%	20%
Outstanding claim liabilities	122	159	274				30%	72%			
Unearned premium liabilities	344	430	530				25%	23%			
Financial liabilities	43,677	34,141	44,624	44,624	45,620	46,665	-22%	31%			
Investment contracts	21,658	20,543	19,912	19,912	20,908	21,953	-5%	-3%	0%	5%	5%
Borrowings	1,350	1,350	0	0	0	0	0%	-100%	0%	0%	0%
Financial assets sold under agreements to repurchase	20,669	12,248	24,712	24,712	24,712	24,712	-41%	102%	0%	0%	0%
Other liabilities	2,768	4,419	18,744	8,897	13,493	14,571	60%	324%			
Total liabilities	163,571	202,375	297,993	341,741	436,056	549,472	24%	47%	15%	28%	26%
Shareholders' equity											
Share capital	1,200	1,200	1,200	3,120	3,120	3,120	0%	0%	160%	0%	0%
Reserves	757	1,363	1,889	19,114	19,114	19,114	80%	39%	912%	0%	0%
Retained earnings/(Accumulated losses)	-577	1,675	3,478	6,254	9,681	14,314	-390%	108%	80%	55%	48%
Total shareholders' equity	1,380	4,238	6,567	28,487	31,915	36,548	207%	55%	334%	12%	15%
Non-controlling interests	8	5	6	10	11	13	-38%	20%	67%	12%	15%
Total equity	1,388	4,243	6,573	28,497	31,926	36,561	206%	55%	334%	12%	15%
Total liabilities and shareholders' equity	164,959	206,618	304,566	370,239	467,982	586,032	25%	47%	22%	26%	25%

Source: Gao Hua Securities Research.

信息披露附录

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信息披露

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高盛高华在今后 3 个月中预计将来下述公司获得或寻求获得投资银行服务报酬: 新华保险 (Rmb30.87)

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