Ping An Insurance Co. of China Ltd. (PNGAY)

Updated September 25th, 2018 by Bob Ciura

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	11.7%	**Volatility Percentile:**	78.0%
Fair Value Price:	$21	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	80.8%
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Valuation Percentile:**	66.6%
Dividend Yield:	2.1%	**5 Year Price Target**	$32	**Total Return Percentile:**	64.5%

Overview & Current Events

Ping An Insurance Company of China was founded in 1948. It is a Chinese holding company with subsidiaries in banking, insurance, and other financial services. The company operates in five segments: Life and Health Insurance, Property and Casualty, Banking, Asset Management, and Fintech & Healthtech. The Life and Health Insurance segment is the largest business, and represents over half of the company's operating profit.

On 8/22/18 the company reported first-half financial results for 2018. Through the first six months of the fiscal year, revenue increased by 16.7% as total assets increased by 5.5%. Shareholders' equity, an important metric for insurance companies, increased 9.0% since the end of fiscal 2017. Ping An's net income fell by 14.1%, driven entirely by a significant increase in its effective tax rate. The company's pretax earnings actually rose by 15.6%. Several of Ping An's core businesses performed well. Health and life insurance operating profit rose by 24.7% in the most recent quarter, while Ping An Asset Management's assets under management increased by 5.4%. Reflecting its strong core financial results, Ping An announced a 24% increase to its interim dividend payment.

Per-Share Growth

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2023**
EPS	$0.03	$0.28	$0.34	$0.36	$0.36	$0.52	$0.72	$0.86	$1.02	$1.46	***$1.59***	***$2.45***
DPS	$0.03	$0.07	$0.08	$0.06	$0.07	$0.09	$0.11	$0.15	$0.22	$0.44	***$0.48***	***$0.74***
Shares	15,755	14,614	15,053	15,580	15,850	15,816	15,902	18,188	17,826	17,853	***17,850***	***17,850***

Ping An's core businesses continue to perform well, and have a long runway of growth up ahead. China is a huge emerging market, with a population above 1 billion and a high rate of economic expansion. As a result, life and health insurance should see plenty of future growth. The company's technology innovations, centered on fintech and health technology, will also boost growth.

Notable among these initiatives is Ping An Good Doctor, which is a healthcare technology venture focused on providing online family doctor services. The initiative saw its revenue increase by a remarkable 150.3% year-on-year through the first six months of fiscal 2018. Ping An also owns Ping An Healthcare Technology, that provides smart cost control and social insurance-related services in over 200 cities in China. We expect 9% annual earnings and dividend growth over the next five years.

Valuation Analysis

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Now**	**2023**
Avg. P/E	152	31.4	33.0	18.2	23.9	17.3	14.2	12.8	9.8	14.3	***12.6***	***13.0***
Avg. Yld.	0.7%	0.8%	0.7%	0.9%	0.8%	1.0%	1.1%	1.4%	2.2%	2.1%	***2.1%***	***2.3%***

In fiscal 2017, Ping An reported earnings-per-share of RMB4.99, which works out to earnings-per-ADR of $1.46 (since the ADRs convert at 2-for-1). Therefore, the stock is trading at a price-to-earnings ratio of 12.6 based on expected earnings-per-share for 2018. We believe that a price-to-earnings ratio of 13.0 is appropriate for most insurance companies and that this company is trading near fair value. Valuation expansion will add only a minor boost to total returns in the area of 0.6% per year over the next five years. The current dividend yield is 2.1%, net of the 10% dividend withholding tax. This yield is roughly on-par with the average dividend yield of the S&P 500 Index, which makes Ping An stock competitive for investors looking for dividend income.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	50.0%	50.3%	45.7%	35.0%	38.0%	40.3%	46.7%	55.0%	56.0%	55.0%	***55.0%***	***55.0%***
Debt/A	90.5%	90.2%	90.0%	92.5%	92.6%	92.9%	91.2%	91.3%	91.3%	90.9%	***91.0%***	***91.0%***
Payout	100%	25.0%	23.5%	16.7%	19.4%	17.3%	15.3%	17.4%	21.6%	30.1%	***30.2%***	***30.2%***
Std. Dev.	45.0%	46.3%	33.4%	46.6%	32.8%	32.8%	30.4%	39.2%	29.8%	22.1%	***22.0%***	***22.0%***

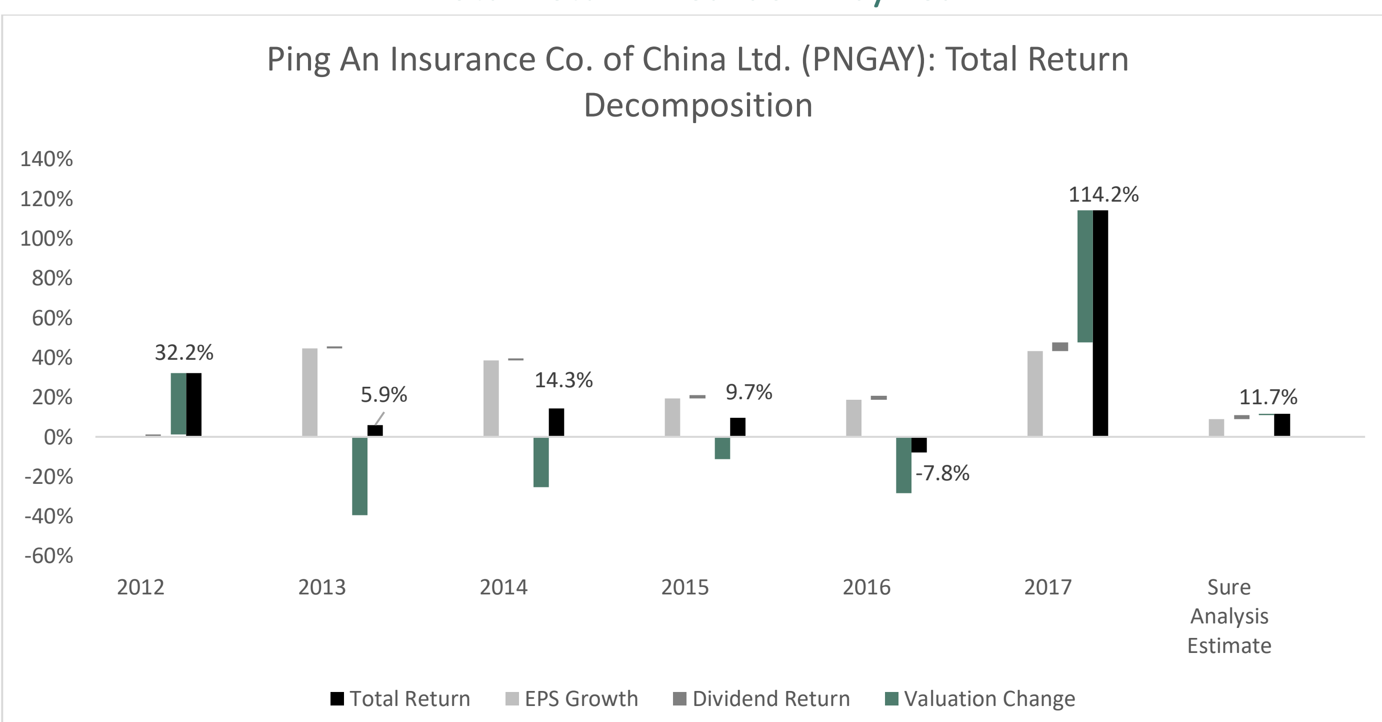
Ping An has very strong financial metrics, which leads to excellent safety and quality for this stock. As an insurance company, Ping An is highly profitable, since it generates cash flow from two sources—premium income as well as investment income from accumulated premiums not paid out as claims.

In addition, the company has no interest-bearing debt other than interest payable on financial products. As a result, Ping An has earned a credit rating of 'AAA' from both China Chengxin International Credit Rating Company and Dagong Global Credit Rating Co., Ltd., the major Chinese credit ratings agencies. The dividend is highly secure, with a payout ratio near 30%.

Final Thoughts & Recommendation

Ping An has a number of attractive qualities for investors considering whether to buy the stock. The company has a strong growth outlook moving forward, thanks to its top positioning in a premier emerging market. The company also has durable competitive advantages, and is in excellent financial position. Lastly, the stock pays an attractive dividend, with potential for dividend growth down the road, and shares trade for a modest valuation. Ping An is not the cheapest stock in our database, but high-quality growth companies rarely trade for discounted valuations. With a high level of expected return of 11.7% per year, we rate Ping An as a buy.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.