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

Updated November 28th, 2018 by Bob Ciura

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	12.7%	**Volatility Percentile:**	75.0%
Fair Value Price:	$20	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	34.2%
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.4%	**Growth Percentile:**	82.6%
Dividend Yield:	2.3%	**5 Year Price Target**	$32	**Valuation Percentile:**	58.1%
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Total Return Percentile:**	68.4%

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.

In late October, Ping An reported (10/30/18) third-quarter financial results for 2018. Total operating profit increased by 20% over the same period a year ago. Life & Health new business increased 10% for the quarter which drove Ping An's growth. Separately, the banking operating segment improved measurably, as the percentage of non-performing loans and loans more than 90 days overdue fell in the third quarter. Overall, earnings-per-share increased 19.4% for the third quarter.

Growth on a Per-Share Basis

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 growth. 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. In the 2018 third quarter, Ping An's fintech and "healthtech" businesses reported profit growth of 700% year-over-year. These technology-oriented businesses now represent 6.3% of the company's total profit, up from just 0.9% in the same quarter last year.

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	***12.1***	***13.0***
Avg. Yld.	0.7%	0.8%	0.7%	0.9%	0.8%	1.0%	1.1%	1.4%	2.2%	2.1%	***2.3%***	***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 12.1 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 1.4% per year over the next five years. The current dividend yield is 2.3%, 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
Payout	100%	25.0%	23.5%	16.7%	19.4%	17.3%	15.3%	17.4%	21.6%	30.1%	***30.2%***	***30.2%***

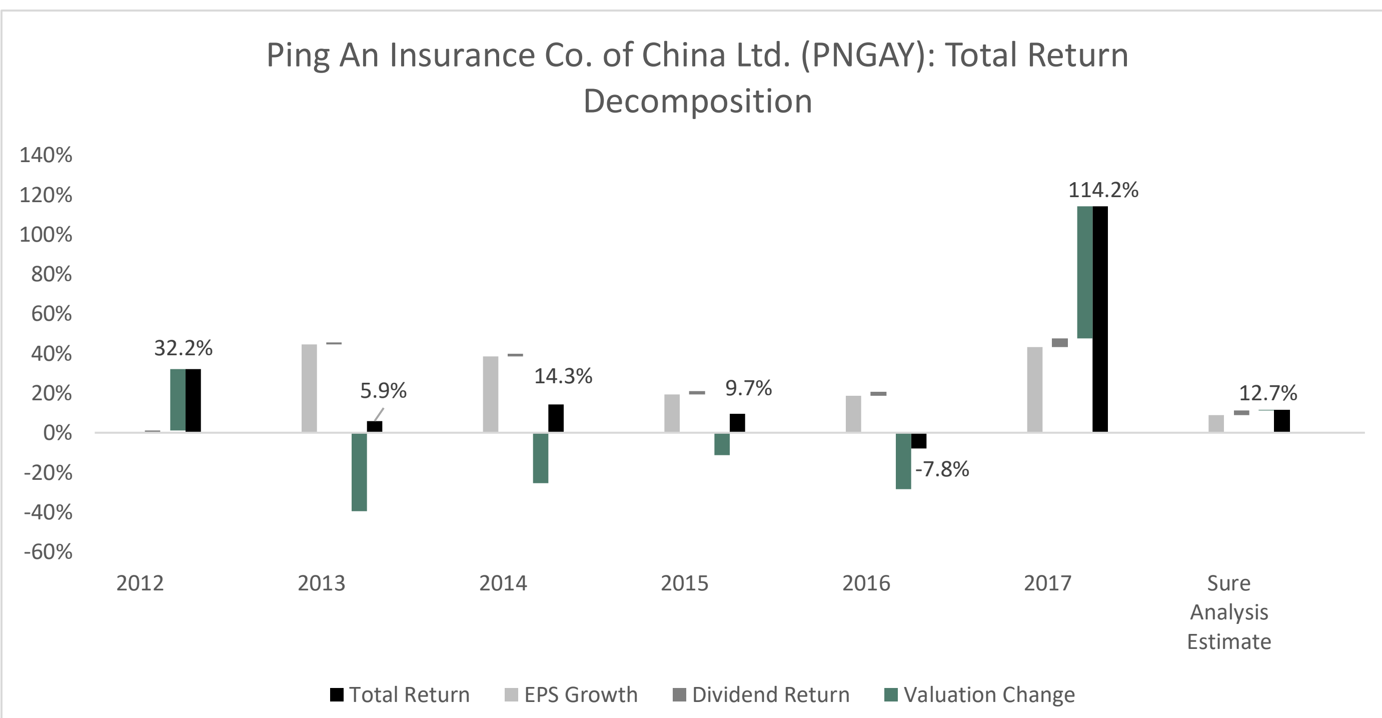
Ping An has very strong financial metrics, which leads to excellent safety and quality for this stock. As an insurance company, Ping An is highly profitable, since it generates cash flow from two sources—premium income as well as investment income from accumulated premiums not paid out as claims. It also has significant competitive advantages, namely its strong brand and industry position. Ping An continues to grow its customer base—it has over 181 million retail customers, along with over 513 million Internet users.

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 12.7% per year, Ping An earns a buy recommendation from Sure Dividend at current prices.

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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue ($B)	15.05	21.11	27.14	35.72	42.15	52.39	66.73	88.11	95.94	121.75
SG&A Exp.	2079	3289	4316	6668	9166	11247	13901	17942	19526	20706
D&A Exp.	141	209	208	334	510	546	598	635	718	830
Net Profit	204	2035	2552	3010	3173	4578	6374	8626	9372	13205
Net Margin	1.4%	9.6%	9.4%	8.4%	7.5%	8.7%	9.6%	9.8%	9.8%	10.8%
Free Cash Flow	7690	13144	19993	10812	43135	35420	25432	18953	31723	15123
Income Tax	-450	797	650	1151	884	1660	2340	4494	3311	5153

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	103.41	136.99	176.65	361.10	455.68	554.49	645.79	734.03	802.97	994.54
Cash & Equivalents	7633	15701	14942	39572	71878	62156	78759	84983	96055	96315
Acc. Receivable ($B)	1.59	2.51	3.45	37.51	30.82	57.84	88.38	112.74	134.29	172.89
Inventories	N/A	229	N/A	17	179	N/A	N/A	N/A	N/A	N/A
Goodwill & Int. Ass.	1485	1867	1470	5286	5982	7243	6905	6506	8234	8261
Total Liab. ($B)	93.55	123.56	159.02	334.02	422.09	514.93	588.75	670.32	732.93	904.49
Accounts Payable	1508	1897	2217	15520	6332	8998	10522	11028	12240	13902
LT Debt ($B)	1.03	4.13	3.91	10.77	17.23	19.56	26.36	57.85	79.15	123.98
Shareholder's Equity	9473	12440	16891	20677	25572	30149	46681	51488	55210	72503
D/E Ratio	0.11	0.33	0.23	0.52	0.67	0.65	0.56	1.12	1.43	1.71

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	0.2%	1.7%	1.6%	1.1%	0.8%	0.9%	1.1%	1.3%	1.2%	1.5%
Return on Equity	1.7%	18.6%	17.4%	16.0%	13.7%	16.4%	16.6%	17.6%	17.6%	20.7%
ROIC	1.5%	14.3%	13.1%	10.1%	7.2%	8.3%	8.9%	8.4%	6.9%	7.3%
Shares Out.	15,755	14,614	15,053	15,580	15,850	15,816	15,902	18,188	17,826	17,853
Revenue/Share	2.02	2.87	3.61	4.58	5.32	6.61	7.95	9.69	10.73	13.64
FCF/Share	1.03	1.79	2.66	1.39	5.44	4.47	3.03	2.08	3.55	1.69

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.