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

Updated March 14th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$22	**5 Year CAGR Estimate:**	12.5%	**Volatility Percentile:**	68.1%
Fair Value Price:	$24	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	48.5%
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	2.0%	**Growth Percentile:**	75.3%
Dividend Yield:	2.5%	**5 Year Price Target**	$36	**Valuation Percentile:**	67.5%
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Total Return Percentile:**	69.0%

Overview & Current Events

Ping An Insurance Company of China was founded in 1988, and currently has a market cap of $193 billion. The technology-powered personal financial services group has 184 million retail customers and 538 million Internet users, making the firm one of the largest financial services companies in the world. Ping An has two strategies, "pan financial assets" and "pan healthcare," which focus on financial and healthcare services through the company's financial services platform, along with its five ecosystems: financial services, healthcare, auto services, real estate services and Smart City services. The Life and Health Insurance segment is the largest business, and represents over half of the company's operating profit.

On March 12th, 2019 Ping An announced full year 2018 results for the period ending December 31st, 2018. Operating profit came in at 112.57 billion RMB (Chinese Yuan, or ~$16.38 billion USD), representing an 18.9% year-over-year increase lead by strong improvements in the Life and Health Insurance, Other Asset Management, and Fintech & Healthtech businesses. Net profit attributable to shareholders totaled 107.4 billion RMB (~$15.62 billion USD), which represented a 20.6% increase compared to 2017. Ping An also announced a 5 - 10 billion RMB (~$730 million to ~$1.45 billion USD) share repurchase program in the next 12 months, with funds to come from the company's free cash flow.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.28	$0.34	$0.36	$0.36	$0.52	$0.72	$0.86	$1.02	$1.46	$1.75	***$1.87***	***$2.75***
DPS	$0.07	$0.08	$0.06	$0.07	$0.09	$0.11	$0.15	$0.22	$0.44	$0.50	***$0.55***	***$0.83***
Shares	14,614	15,053	15,580	15,850	15,816	15,902	18,188	17,826	17,853	17,870	***17,870***	***17,870***

Ping An's core businesses continue to perform well, and have a long growth runway 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 – which make up the majority of the company's operating profit - should see plenty of future growth.

In addition, Ping An's technology innovations, centered on fintech and health technology, will also boost growth. In 2018, the company's fintech and "healthtech" businesses reported operating profit growth of 24.9% year-over-year. These technology-oriented businesses currently represent about 6% of the company's total profit.

Notable growth initiatives include Ping An Good Doctor, which is a healthcare technology venture focused on providing online family doctor services. Ping An also owns Ping An Healthcare Technology, that provides smart cost control and social insurance-related services in over 200 cities in China. Collectively, we expect 8% annual earnings growth over the intermediate-term as the company continues to ride an expanding wave of progress in a fast growing economy.

Note that Ping An paid a 0.20 RMB (~$0.03 USD or ~$0.06 per ADR) 30th Anniversary Special Dividend in 2018, but we have only included the 1.72 RMB (~$0.25 USD or ~$0.50 per ADR) regular dividends in the table above.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	31.4	33.0	18.2	23.9	17.3	14.2	12.8	9.8	14.3	9.9	***11.8***	***13.0***

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Avg. Yld.	0.8%	0.7%	0.9%	0.8%	1.0%	1.1%	1.4%	2.2%	2.1%	2.9%	***2.5%***	***2.3%***

Ping An's valuation has varied significantly over the past decade, as earnings remained relatively stagnant for a few years, before increasing significantly in the 2013 to 2018 stretch. We believe that a price-to-earnings ratio of 13 is fair for the security, which takes into consideration the substantial growth potential, but also the fact that insurance companies rarely command a premium valuation. Still, at today's level, this leaves the potential for a small valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	25%	24%	17%	19%	17%	15%	17%	22%	30%	29%	***29%***	***30%***

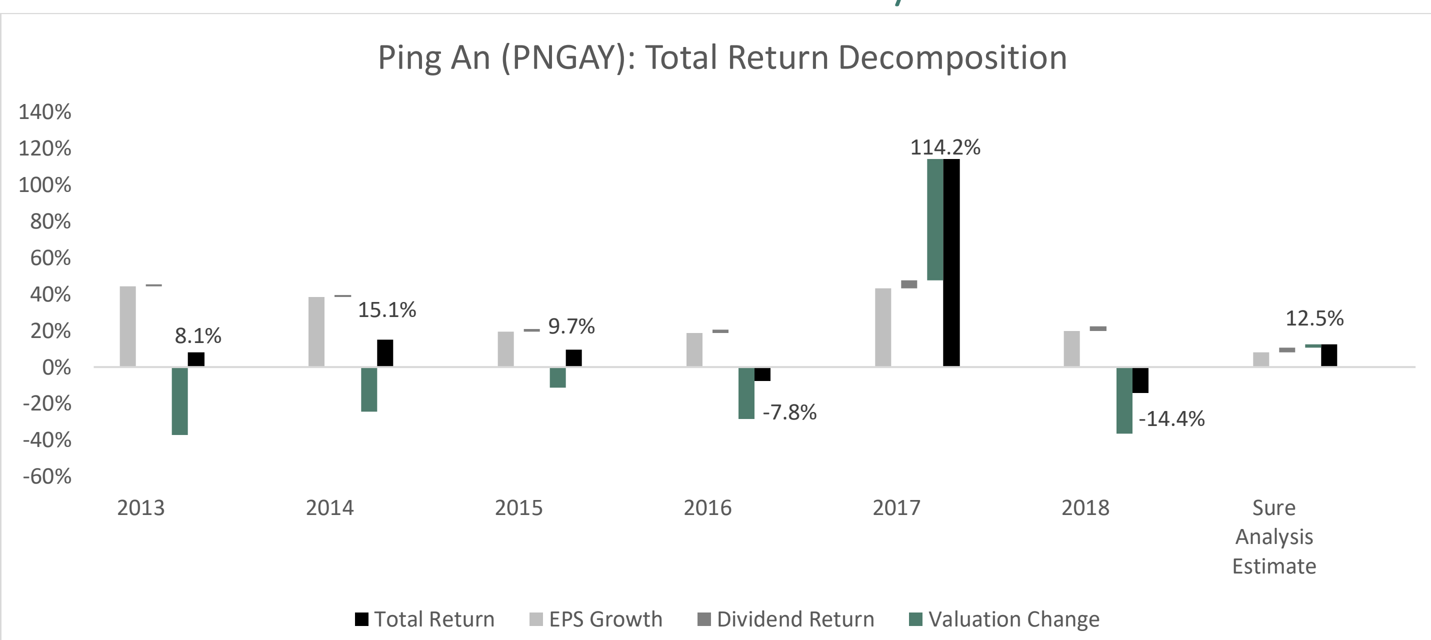
Ping An has significant competitive advantages, namely its strong brand and industry position. Moreover, the company continues to grow its customer base - it has nearly 184 million retail customers, along with over 538 million Internet users. Ping An is a highly profitable insurance company, generating cash flow from two sources - premium income as well as investment income from accumulated premiums not paid out as claims. Further, the company is diversified among a variety of financial, healthcare and technology related segments.

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 secure, with a payout ratio near 30%, and has been increasing nicely as of late.

Final Thoughts & Recommendation

Shares are up about 14% since our last update, while earnings came in better than expected. Ping An has a number of attractive qualities including a strong growth outlook - thanks to its top positioning in a premier emerging market – along with durable competitive advantages, an excellent financial position, a solid dividend with the potential for growth and a reasonable valuation. Granted these positives must be weighed against currency and country specific risks for the security. Still, Ping An earns a buy rating 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue ($B)	21.11	27.14	35.72	42.15	52.39	66.73	88.11	95.94	120.57	134.68
SG&A Exp.	3289	4316	6668	9166	11247	13901	17942	19526	20706	22342
D&A Exp.	209	208	334	510	546	598	635	718	830	1032
Net Profit	2035	2552	3010	3173	4578	6374	8626	9372	13205	16247
Net Margin	9.6%	9.4%	8.4%	7.5%	8.7%	9.6%	9.8%	9.8%	11.0%	12.1%
Free Cash Flow	13144	19993	10812	43135	35420	25432	18953	31723	15123	29588
Income Tax	797	650	1151	884	1660	2340	4494	3311	5153	6459

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	136.99	176.65	361.10	455.68	554.49	645.79	734.03	802.97	994.54	1038.4
Cash & Equivalents	15701	14942	39572	71878	62156	78759	84983	96055	96315	79734
Acc. Rec. ($B)	2.51	3.45	37.51	30.82	57.84	88.38	112.74	134.29	172.91	37.09
Goodwill & Int.	1867	1470	5286	5982	7243	6905	6506	8234	8261	7254
Total Liab. ($B)	123.56	159.02	334.02	422.09	514.93	588.75	670.32	732.93	904.49	938.99
Accounts Payable	1897	2217	15520	6332	8998	10522	11028	12240	14369	10473
LT Debt ($B)	4.13	3.91	10.77	17.23	19.56	26.36	57.85	79.15	123.98	141.44
Total Equity	12440	16891	20677	25572	30149	46681	51488	55210	72503	80900
D/E Ratio	0.33	0.23	0.52	0.67	0.65	0.56	1.12	1.43	1.71	1.75

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.7%	1.6%	1.1%	0.8%	0.9%	1.1%	1.3%	1.2%	1.5%	1.6%
Return on Equity	18.6%	17.4%	16.0%	13.7%	16.4%	16.6%	17.6%	17.6%	20.7%	21.2%
ROIC	14.3%	13.1%	10.1%	7.2%	8.3%	8.9%	8.4%	6.9%	7.3%	7.1%
Shares Out.	14,614	15,053	15,580	15,850	15,816	15,902	18,188	17,826	17,853	17,870
Revenue/Share	2.87	3.61	4.58	5.32	6.61	7.95	9.69	10.73	13.51	15.07
FCF/Share	1.79	2.66	1.39	5.44	4.47	3.03	2.08	3.55	1.69	3.31

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