



December 10, 2014

China | Financial Services

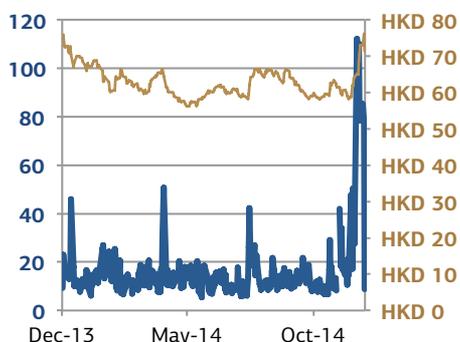
# Ping An Insurance (Grp) Co. of China (2318 HK)



**Anne Stevenson-Yang**  
+86 139 1082 0535  
anne@jcapitalresearch.com

**Matthew Lowenstein**  
+1 646 400 1424  
matt@jcapitalresearch.com

**Ping An (2318 HK) one-year share price in HKD (blue) and volume (gold, in mln shares)**



Source: Bloomberg

## Company name (2318 HK)

Price	HKD 71.40
Rating	<b>SELL</b>
Price target	<b>HKD 50.66</b>
Difference	<b>29%</b>
Market Cap	HKD 565 bln
P/E	99.8x ttm

Source:

## Sucking cash

### + Tencent/Alibaba investment might be debt

A closer look at Ping An suggests that the company really needed the nearly USD 6 bln in cash it got from the recent private placement.

### + A-share rally

Ping An's rally in the last month appears to be driven by the remarkable performance of the Shanghai exchange, up 42% YTD. Ping An is up along with other Chinese insurers on the strength of its A-share portfolio.

### + Zhongan Insurance

Zhongan Insurance is a case in point of the tangled relationships that Alibaba tends to have with investees. Zhongan was founded by a consortium of Alibaba, Tencent, Alibaba investors, and Ping An.

### + Reiterate SELL, TP: HKD 50.66

We base our target on a multiple of book value.

## Stretched

Ping An Insurance Group’s private placement last week of 36.8 bln RMB—roughly 6% of its entire market cap—came as no surprise to anyone familiar with the company’s high leverage. It was just two quarters ago that marking Ping An’s balance sheet to market would have resulted in only 83% of the capital required by regulators. Moreover, if Ping An, one of the most aggressive shadow banks in all of China, were to account for its off-balance sheet assets, it would be levered at roughly 18x its equity. This is dangerously thin capitalization for any financial institution, but potentially lethal for a company with as much property and project lending as Ping An.

### **Alibaba and Tencent’s investment in Ping An may come with hidden liabilities**

News that internet giants Alibaba and Tencent were among the investors in Ping An’s private placement was received ebulliently, with the shares up nearly 6% on December 2, the day word got out of just who was buying the Ping An shares. But investors should be wary. Alibaba money frequently comes with undisclosed liabilities and it is common to see investees “buying back” assets from Alibaba a year or so down the line. Sogou is a case in point: Sohu sold Alibaba a \$15mln stake in Sogou only to buy it back two years later for \$25.8 mln. It may be useful to view Alibaba and Tencent’s contribution to the capital raise as a kind of loan, or at least not quite equity.

Ping An may be looking for more cash to shore up Ping An Bank. Mired in bad loans and mismanagement, the bank is perennially in need of new capital and received an infusion from the parent company just last July. NPLs, a consequently the coverage ratio, look good until the “special mention” loan category is included.

**Table 1. Ping An Bank NPL Ratio (Adjusted) (RMB mlns)**

	2014 - Q1	2014 - Q2	2014 - Adjusted	Statutory requirement
NPLs	8,105	8,668	34,000	n/a
Loan loss reserve	-16,335	-17,179	-17,179	n/a

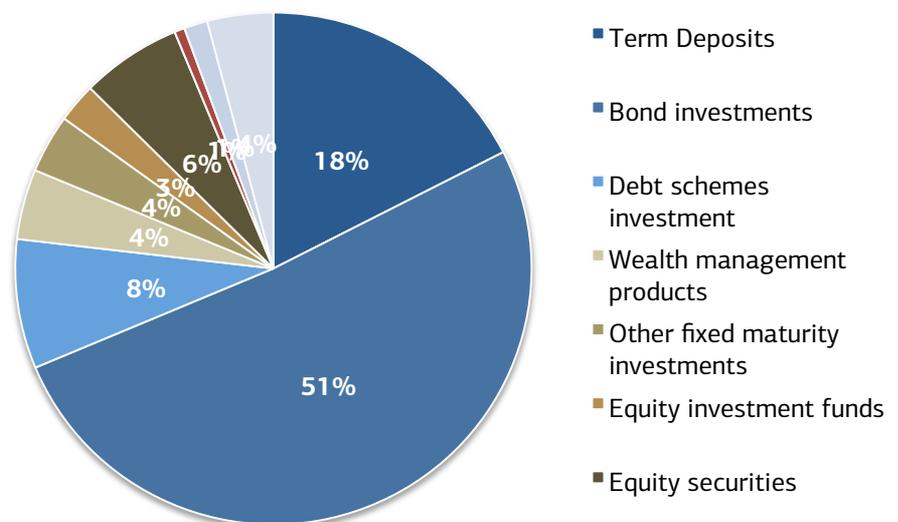
Coverage ratio	202%	198%	51%	150%
Normal loans	858,128	904,227		
Special mention loans	24,116	25,332		
*Gross loans	890,349	938,227		
Net loans	874,014	921,048		
NPL ratio	0.94%	0.96%		
NPL + special mention ratio	3.75%	3.76%		

Source: Company reports and J Capital analysis

\*Net loans equal gross loans net of loan loss reserve

It may also be that investors in the private placement are feeling bullish on the A-share market. Even before the private placement was announced on Nov. 30, the Shanghai composite had seen a roughly 12.2% run over the past month. This will redound to Ping An's advantage, owing to a considerable A-Share portfolio.

### Chart 1. Ping An's Investment Funds



Source: Company reports

While Ping An's insurance float is mostly invested in fixed maturity investments—much of which go into property and

## Ping An Insurance (2318 HK)

**Anne Stevenson-Yang** +86 139 1082 0535 [anne@jcapitalresearch.com](mailto:anne@jcapitalresearch.com)  
**Matthew Lowenstein** +1 646 400 1424 [matt@jcapitalresearch.com](mailto:matt@jcapitalresearch.com)

---

infrastructure—equity securities still make up over 6% of its investments.

### The blurry line between equity and debt

If we regard Alibaba’s investment as a form of debt, the question will be how Ping An will pay up. Watch for equity transfers in Zhong An Insurance. Zhong An is an online insurance company established by Alibaba, Tencent, Ping An, and a consortium of other investors who appear to enjoy close links to Alibaba through equity holders Youru Holdings, an investor Jack Ma’s Yunfeng fund, and Shenzhen Shidexin Investments and Shenzhen Rixun Web Technology Ltd., run by brothers who have long-standing relationships with Jack Ma as co-investors in the “Sichuan Nature Protection Fund.”<sup>1</sup>

Zhongan has miniscule sales considering its substantial capital investment of RMB 10 bln in 2012. The company managed premiums of only RMB 440,000 in the first 10 months of 2014, making Zhongan the smallest insurer in China. Zhongan nevertheless had the highest “complaint rate” in the industry, according to the CIRC, nearly 10 times the industry average.<sup>2</sup>

In summary, we believe that Ping An’s capital raise and the run-up in A shares will buy time for Ping An. But the quality of its balance sheet remains poor, and our doubts about the ultimate solvency of the company remain unchanged.

---

<sup>1</sup> <http://finance.chinanews.com/it/2013/02-20/4578926.shtml>

<sup>2</sup> <http://money.sohu.com/20141201/n406537278.shtml>

## Disclaimer

*This publication is issued by J Capital Research (“J Capital”). This publication has been prepared for the general use of the clients of J Capital and unauthorized copying or distribution is prohibited. Nothing in this document shall be construed as a solicitation to buy or sell any security or product. In preparing this document, J Capital did not take into account the investment objectives, financial situation and particular needs of the reader. Before making an investment decision, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. J Capital accepts no liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this publication and/or further communication in relation to this document.*