INSURANCE JOURNAL (/)

China's Ping An Saw Stock Market Capitalization Climb Whopping $1 01B in 2017

By Kana Nishizawa and Enda Curran | January 8, 2018

Insurance may lack the buzz and cachet enjoyed by tech companies, yet the stock of one Chinese company in the industry has kept pace handsomely with some of the highest-flying champions of the digital revolution.

Ping An Insurance (Group) Co.'s success shows how the lines between "new" and "old" economy businesses are breaking down, forcing investors and strategists to rethink classifications and appropriate valuations. China is at the forefront of this melding of industries, thanks to its pressure on companies to move up the value chain, and a regulatory approach that gives firms a freer hand at innovating new products and services.

The world has moved too much to 'new' and 'old'" categorizations, says Joshua Crabb, head of Asian equities at Old Mutual Global Investors in Hong Kong. Ping An's "phenomenal performance" reflects its emergence as a combination of a "boring old" life insurer and a "leading internet company," he says.

Another star that's transcended the "boring" classification is China Molybdenum Co., which at one point focused on a metal used to toughen steel, but now enjoys a new-economy style valuation thanks to its holdings of cobalt, which is essential for electric vehicles. Or consider Midea Group Co., a household appliance maker that's seen its stock soar as it developed smart-home technology and became a leader in manufacturing automation.

The insurer's stock-market capitalization climbed $101 billion last year, a gain that Crabb attributes to its investments in online services and bets on rising demand for insurance as China's middle class expands.

Similar dynamics are driving change in a host of industries, from auto manufacturing to property development, with the application of digital technology such as the internet-of-things revamping the landscape.

“

“In China we have found a lot of cases where the old or traditional economy starts to adopt new technology to redefine itself,” said Xia Le, an economist at Banco Bilbao Vizcaya Argentaria SA in Hong Kong. “The nature of recent technological advances is that they didn’t lead to the rise of new industries, but rather they were applied to traditional industries.”

Chinese authorities have cautiously allowed new businesses to experiment and flourish in sometimes gray or undefined areas. In the financial world, as startups made inroads into traditional lending and saving, banks tried to fend them off by exploring new technologies, moving their business online and increasingly interfacing with customers via smartphones.

With the Communist Party leadership’s goals of reducing pollution, onshoring higher-value manufacturing and applying automation and big data, China is leading the charge in breaking down borders between old and new sections of the economy. The size of the population and fewer privacy restrictions also give it an advantage in artificial-intelligence development.

Investors could miss out if they only consider front-line technology companies and overlook how old-economy businesses are evolving, said David Gaud, Asia chief investment officer at Pictet Wealth Management in Singapore. In the auto space, some carmakers are embracing new-energy vehicles along with deploying robots. In property, developers have the potential to incorporate technology and use big data to shift into providing services for tenants, Gaud said.

One property company, Greenland Holdings Corp., said it’s invested in the country’s largest e-sports operator to drive sales at its properties.

“What is considered as old economy and uninteresting may turn into sectors which are more in line with the current economy — and they are cheap,” he said, without mentioning specific companies that he regards offering attractive valuations.

As for Ping An, its valuation at 17 times reported earnings is still a third that of tech shares in the MSCI China Index, according data compiled by Bloomberg. That’s after its stock price doubled in Hong Kong last year. There may be more gains if the Shenzhen-based insurer, which has invested in innovations from online-banking platforms to facial-recognition systems, succeeds in its ambition to generate half its earnings from tech, from almost zero today. Ping An was unchanged at the close on Monday, while MSCI China’s tech gauge advanced 0.6 percent.

Midea, the appliance maker that bought German robot champion Kuka AG last year and is promoting so-called smart-home devices, has seen its stock soar 97 percent the past year, putting its valuation at 22 times reported earnings. China Molybdenum, whose cobalt goes into rechargeable batteries used in electric vehicles, is up about 180 percent over that time in Hong Kong, with a price-to-earnings ratio of 38.

China’s markets are so large that they offer the potential for a rapid scaling up of new products and services, and new ways of delivering them — in turn providing a platform for diffusion across the globe. This confluence of the rapid emergence of a China propelled by value added and the penetration of technology into all aspects of daily life will reshape the global economy, says Tan Teng Boo, a fund manager at Malaysia’s Capital Dynamics Sdn Bhd.