

China Life (2628 HK)

NBV growth beat

SUMMARY. China Life announced 1H19 result on 22 Aug. GWP increased 4.9% YoY to RMB 377.98bn. Net profit increased 128.9% YoY to RMB 37.6bn, in line with previous profit alert (115%~135%). NBV posted stellar growth at 22.7% YoY, exceeding anticipation as well as peers, whereas EV rose 11.5% from YE18 to RMB 886.8bn mainly on back of b-t-e NBV growth and investment variances.

- Net profit surged thanks to satisfactory investment and new tax policy.** The significant increase in net profit was primarily driven by, 1) non-recurring tax savings of RMB 5.15bn after adopting the new pre-tax deduction policy for insurance commissions and handling fees; 2) improvement in investment income, particularly regarding equity investment. Net realized gains and fair value gains in P&L was +RMB 16.9bn (vs. net loss of RMB 11.9bn in1H18). Annualized gross investment yield was 5.78%, up 2ppt YoY.
- Strong NBV growth of 22.7% YoY.** NBV growth was above major peers' according to our forecast (Ping An already announced 1H19 NBV growth at +4.7%). NBV margin increased 4.2ppt/7.9ppt for agent and bancassurance channel, respectively, thanks to optimizing business structure towards longer-duration and protection-oriented products. FYRP with 10y+ duration rose 68% to RMB 38.1bn, representing 45.8% of FYRP. Single premiums were reduced by nearly 90% to merely RMB 1bn.
- Agent team in a good shape.** Headcount of individual agents expanded 9.3% from YE18 to 1.573 million. FYRP from agent channel rose 5.0% YoY. Bancassurance sales representatives reached 241 thousand and recorded 43.4% increase in active insurance planners. We expect integration of the Company's insurance agents will progress steadily and lay a good foundation for FYRP and NBV growth in 2H19.
- Risks.** 1) Ramp-up of agent activity slower than expected; 2) capital market volatilities weigh on equity investment performance.
- Lift TP; Valuation undemanding.** Thanks to strong NBV growth and investment performance, we lift FY19E NBV and EV forecast by 2.0% and 1.3%, respectively. We therefore raise TP to HK\$ 27.88. The H-share stock is currently trading at 0.56x FY19E P/EV, below peers' average and historical avg. minus 1std. Attractive to accumulate.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
GWP (RMB mn)	511,966	535,826	568,674	611,612	654,852
YoY growth (%)	18.9	4.7	6.1	7.6	7.1
Total income (RMB mn)	643,355	627,419	725,362	779,757	834,172
Net profit (RMB mn)	32,253	11,395	46,114	55,119	60,285
EPS (RMB)	1.13	0.39	1.60	1.91	2.10
YoY Growth (%)	71.2	-65.2	306.2	19.8	9.5
P/B (x)	1.54	1.56	1.32	1.20	1.10
P/EV (x)	0.67	0.62	0.56	0.50	0.46
Yield (%)	2.3	0.9	3.7	4.4	4.8
ROEV (%)	13.7	9.9	12.8	12.2	11.9

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$27.88**
 (Previous TP **HK\$25.69**)
 Up/Downside **+53.7%**
 Current Price **HK\$18.14**

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	801,073
Avg 3 mths t/o (HK\$ mn)	608
52w High/Low (HK\$)	23.35/15.44
Total Issued Shares (mn)	7,441 (H) 1,500 (A)

Source: Bloomberg

Shareholding Structure

China Life Insurance (Group)	68.37%
Free float	31.63%

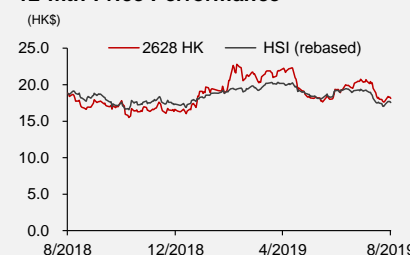
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.8%	-3.4%
3-mth	-0.1%	5.2%
6-mth	-11.2%	-3.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- "Revitalization efforts on track" - 4 Jul 2019
- "Coordinated scale and value growth" - 24 Apr 2019
- "Anticipating NBV recovery in 2019" - 29 Mar 2019

Focus Charts

Figure 1: 1H19 results

RMB mn	1H19	1H18	YoY
Gross written premiums	377,976	360,482	4.9%
Less: premiums ceded to reinsurers	(2,641)	(2,433)	8.5%
Net written premiums	375,335	358,049	4.8%
Net change in unearned premium reserves	(14,038)	(9,064)	54.9%
Net premiums earned	361,297	348,985	3.5%
Investment income	66,345	60,618	9.4%
Net realised gains on financial assets	3,786	(4,432)	NA
Net fair value gains through profit or loss	13,107	(7,460)	NA
Other income	3,686	3,979	-7.4%
Total revenues	448,221	401,690	11.6%
Insurance benefits and claims expenses			NA
Life insurance death and other benefits	(83,821)	(177,897)	-52.9%
A&H claims and expenses	(21,819)	(17,483)	24.8%
Increase in insurance contract liabilities	(224,409)	(117,939)	90.3%
Investment contract benefits	(4,617)	(4,829)	-4.4%
Policyholder dividends	(10,836)	(9,312)	16.4%
Underwriting and policy acquisition costs	(45,595)	(35,707)	27.7%
Finance costs	(1,930)	(2,128)	-9.3%
Administrative expenses	(16,958)	(14,924)	13.6%
Other expenses	(4,271)	(3,470)	23.1%
Statutory insurance fund contribution	(737)	(690)	6.8%
Total benefits, claims and expenses	(414,993)	(384,379)	8.0%
Share of profit of associates and JVs, net	5,665	4,136	37.0%
Profit before income tax	38,893	21,447	81.3%
Income tax	(964)	(4,744)	-79.7%
Non-controlling interests	(330)	(280)	17.9%
Net profit	37,599	16,423	128.9%

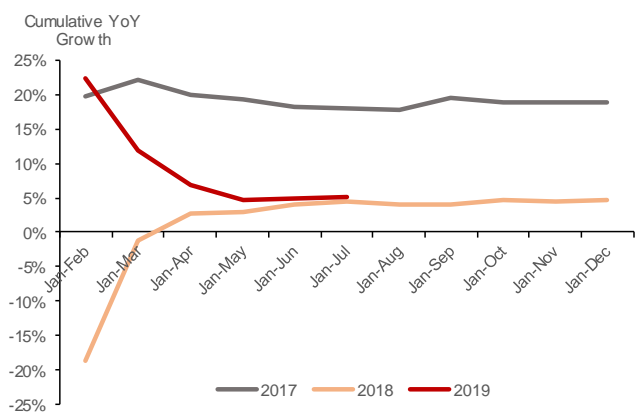
Source: Company data, CMBIS

Figure 2: Earnings revision

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
GWP	568,674	611,612	654,852	585,110	643,924	705,432	-2.8%	-5.0%	-7.2%
Total income	725,362	779,757	834,172	750,211	822,316	898,645	-3.3%	-5.2%	-7.2%
Net profit	46,114	55,119	60,285	34,700	40,884	45,026	32.9%	34.8%	33.9%
New business value	57,650	61,622	64,634	56,497	61,530	65,763	2.0%	0.1%	-1.7%
Embedded value	891,769	981,772	1,076,086	880,658	964,707	1,055,098	1.3%	1.8%	2.0%
RoEV	12.8%	12.2%	11.9%	11.4%	11.2%	11.1%	+1.4ppt	+1ppt	+0.8ppt
NBV growth	16.4%	6.9%	4.9%	14.1%	8.9%	6.9%	+2.3ppt	-2ppt	-2ppt

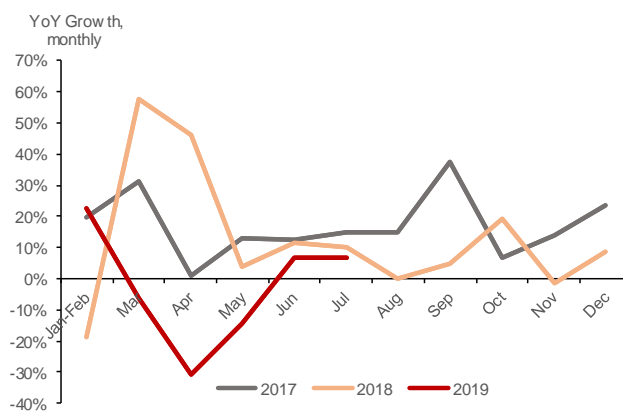
Source: Company data, CMBIS

Figure 3: GWP increased 5.1% in Jan-Jul 2019



Source: Company data, CMBIS

Figure 4: GWP growth, monthly



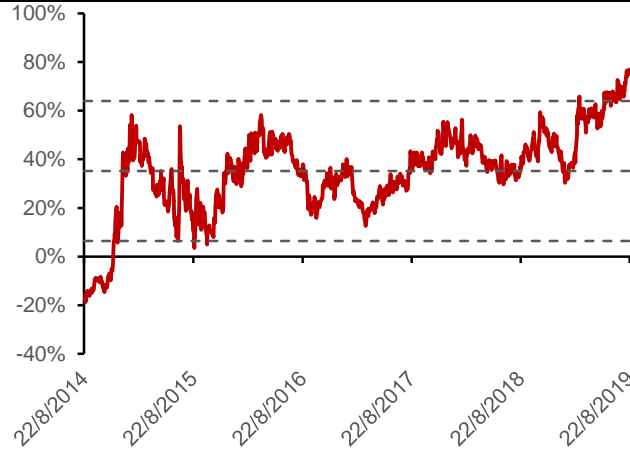
Source: Company data, CMBIS

Figure 5: P/EV



Source: Company data, CMBIS

Figure 6: A/H premium



Source: Company data, CMBIS

Financial Summary

Income

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premium	511,966	535,826	568,674	611,612	654,852
Net premiums earned	506,910	532,023	563,213	605,581	648,450
Investment income	128,952	87,298	153,555	164,933	175,826
Other operating income	7,493	8,098	8,594	9,243	9,897
Total income	643,355	627,419	725,362	779,757	834,172
Insurance claims and reserves	(466,043)	(479,219)	(517,144)	(548,797)	(585,415)
Policyholder dividends	(21,871)	(19,646)	(23,033)	(24,740)	(26,374)
Other operating expenses	(120,913)	(122,378)	(143,265)	(148,641)	(158,981)
Total expenses	(608,827)	(621,243)	(683,442)	(722,178)	(770,770)
Associates and JVs	7,143	7,745	9,294	9,759	10,247
Pre-tax profit	41,671	13,921	51,215	67,338	73,648
Income tax	(8,919)	(1,985)	(2,911)	(9,602)	(10,502)
Less: Minority interests	499	541	2,189	2,617	2,862
Net profit	32,253	11,395	46,114	55,119	60,285

Key ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Growth (%)					
GWP growth	18.9	4.7	6.1	7.6	7.1
Total income growth	19.0	(2.5)	15.6	7.5	7.0
Net profit growth	68.6	(64.7)	304.7	19.5	9.4
EV growth	12.6	8.3	12.2	10.1	9.6
Net investment yield	4.9	4.6	4.4	4.4	4.4
Total investment yield	5.2	3.3	5.0	5.0	5.0
Investment assets growth	12.2	12.7	9.7	6.6	6.6
Underwriting (%)					
FYRP growth	20.4	(7.7)	4.5	8.4	6.4
Agent FYRP growth	21.1	(12.2)	7.0	7.0	5.0
Agent FYRP/FYRP	79.8	75.9	77.7	76.7	75.7
Renewal growth	28.9	26.6	7.9	7.7	7.8
Renewal/overall GWP	56.3	68.1	69.2	69.3	69.8
NBV growth	21.9	(17.6)	16.4	6.9	4.9
NBV margin (Agent, APE)	47.3	42.2	46.0	45.5	45.0
NBV margin (Bancassurance, APE)	23.2	24.3	30.0	30.0	30.0

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Investment assets	2,753,124	3,104,014	3,405,083	3,630,829	3,869,485
other assets	144,467	150,389	177,719	235,554	296,756
Total assets	2,897,591	3,254,403	3,582,802	3,866,383	4,166,241
Insurance liabilities	2,025,133	2,216,031	2,424,968	2,637,199	2,851,758
Other liabilities	547,148	715,082	775,971	810,281	856,971
Total liabilities	2,572,281	2,931,113	3,200,938	3,447,480	3,708,729
Shareholders' equity	320,933	318,371	376,054	412,529	450,551
Minority interest	4,377	4,919	5,810	6,374	6,961
Total equity	325,310	323,290	381,864	418,903	457,513

Returns (%)

RoEV	13.7	9.9	12.8	12.2	11.9
ROE	10.3	3.6	13.3	14.0	14.0
Solvency (%)					
Core solvency ratio	277.6	250.6	265.8	266.6	271.8
Comprehensive solvency ratio	277.7	250.6	276.2	276.3	280.8
Per share					
EPS (RMB)	1.13	0.39	1.60	1.91	2.10
DPS (RMB)	0.40	0.16	0.65	0.77	0.85
EVPS (RMB)	25.97	28.13	31.55	34.73	38.07
BVPS (RMB)	11.35	11.26	13.30	14.60	15.94

Source: Company data, CMBIS estimates

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