

# New China Life (1336 HK)

## Disappointing NBV growth, but EV beat

NCI reported mixed 1H20 results. While premium growth was robust and industry-leading, NBV decreased 11.4% due to margin decline. Investment performance was satisfactory and EV rose 9.6% from YE19. Although 1H20 revealed challenges amid COVID-19, the Company restated its strategic plan to pursue balanced growth of both volume and value, which bodes well for new business generation in 2H20 and onward. We revise up EV estimate and raise TP to HK\$ 41.60. Maintain BUY.

■ **Result positives.** **1)** Robust and strong premium growth against adverse market conditions. Individual channel FYRP from long-term insurance business rose 8.3% YoY to RMB9.8bn. Bancassurance achieved +38% YoY growth in FYRP and 133.8% YoY growth in premium income driven by single premium products. **2)** Steady growth of investment income. TIY edged up 0.4ppt to 5.1% on back of thicker realized gains of equity securities although NIY declined. Investment assets rose 7.3% from YE19 to RMB 900bn; **3)** EV rose 9.6% from YE19, of which positive operating experience variances coming from improving 13-month persistency ratio and change of risk discount rate were the primary drivers.

■ **Result negatives.** **1)** NBV declined 11.4% YoY to RMB 5.22bn due primarily to margin pressure. NBV margin on FYP basis shrank from 37.9% in 1H19 to 15.3% in 1H20, which offset expansion in FYP. This was mainly attributable to a larger share of shorter payment products sold in 1H20. **2)** Agent productivity and qualified rate declined although agent team expanded 4% from YE19. Challenges remain in 2H20 regarding training and retain of new agents.

■ **Stick to balanced development strategy.** Although NBV growth missed expectation in 1H20, the Company restated its strategy of simultaneously boosting business volume and value growth via continuous product structure optimization (health insurance, annuity insurance and riders) and channel optimization. The Company will shift focus to value-oriented products in 2H20 in chase for NBV growth.

■ **Valuation.** We revise up EV estimate to reflect b-t-e EV growth in 1H20. TP is therefore raised to HK\$ 41.60, which corresponds to 0.5x FY20E P/EV. Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	122,286	138,131	174,151	195,288	216,739
YoY Growth (%)	11.9	13.0	26.1	12.1	11.0
Total income (RMB mn)	151,964	172,103	214,899	237,033	259,021
Net profit (RMB mn)	7,922	14,559	13,189	14,144	14,902
EPS (RMB)	2.54	4.67	4.23	4.53	4.78
EPS CHG (%)	47.2	83.8	-9.4	7.2	5.4
Consensus EPS (RMB)	N.A.	N.A.	4.23	4.63	5.28
P/B (x)	1.10	0.85	0.93	0.82	0.73
P/EV (x)	0.42	0.35	0.39	0.35	0.33
Yield (%)	3.33	6.10	4.46	4.78	5.03
RoEV (%)	13.9	19.8	13.2	10.6	8.3

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

**Target Price** HK\$41.60  
**(Previous TP)** HK\$37.30  
**Up/Downside** +30.8%  
**Current Price** HK\$31.80

### China Insurance Sector

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### Stock Data

Mkt Cap (HK\$ mn)	169,761
Avg 3 mths t/o (HK\$ mn)	411.32
52w High/Low (HK\$)	36.75/19.51
Total Issued Shares (mn)	<b>1,034 (H)</b> 2,085 (A)

Source: Bloomberg

### Shareholding Structure

Central Huijin Investment	31.34%
China Baowu Steel Group	12.09%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	2.7%	-0.4%
3-mth	35.5%	24.3%
6-mth	10.2%	15.4%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Related Reports

1. "Satisfactory 1Q20" – 20 Apr 2020
2. "Setting off to a challenging 2020" – 26 Mar 2020
3. "Lackluster FYRP growth likely weighs on NBV" – 31 Oct 2019

**Figure 1: NCI's 1H20 results summary**

<b>(RMB mn)</b>						
<b>P&amp;L</b>	<b>1H20</b>	<b>1H19</b>	<b>YoY</b>	<b>2Q20</b>	<b>1Q20</b>	<b>QoQ</b>
Gross written premiums	96,903	74,015	30.9%	38,658	58,245	-33.6%
Net premiums earned	94,806	72,059	31.6%	37,887	56,919	-33.4%
Investment income	20,751	16,684	24.4%	10,477	10,274	2.0%
Total income	116,076	89,092	30.3%	48,530	67,546	-28.2%
Insurance benefits and claims	(89,793)	(63,425)	41.6%	(36,372)	(53,421)	-31.9%
Underwriting costs	(9,617)	(8,943)	7.5%	(4,805)	(4,812)	-0.1%
Admin expenses	(5,320)	(5,512)	-3.5%	(2,750)	(2,570)	7.0%
Total expenses	(106,304)	(79,030)	34.5%	(44,293)	(62,011)	-28.6%
Associates and JVs	253	178	42.1%	219	34	544.1%
Pre-tax profit	9,254	9,892	-6.4%	3,685	5,569	-33.8%
Income tax	(1,035)	654	-258.3%	(102)	(933)	-89.1%
Less: Minority interests	1	(1)	-200.0%	2	(1)	-300.0%
<b>Net profit</b>	<b>8,218</b>	<b>10,545</b>	<b>-22.1%</b>	<b>3,583</b>	<b>4,635</b>	<b>-22.7%</b>
<b>B/S</b>						
	<b>1H20</b>	<b>1H19</b>	<b>YoY</b>	<b>1H20</b>	<b>2H19</b>	<b>HoH</b>
Investment assets	900,317	773,231	16.4%	900,317	839,447	7.3%
Total assets	939,351	808,124	16.2%	939,351	878,970	6.9%
Insurance contracts liabilities	717,531	622,998	15.2%	717,531	658,191	9.0%
Total liabilities	848,175	731,524	15.9%	848,175	794,509	6.8%
Equity attr. to shareholders	91,165	76,590	19.0%	91,165	84,451	8.0%
<b>Key indicators</b>						
	<b>1H20</b>	<b>1H19</b>	<b>YoY</b>	<b>2Q20</b>	<b>1Q20</b>	<b>QoQ</b>
FYRP (RMB mn)	13,459	11,698	15.1%	5,347	8,112	-34.1%
NBV (RMB mn)	5,221	5,890	-11.4%	n.a.	n.a.	n.a.
Core solvency margin ratio	272%	285%	-13.1 ppt	272%	273%	-0.7 ppt
Comprehensive solvency margin ratio	282%	290%	-7.7 ppt	282%	273%	9.3 ppt

Source: Company data, CMBIS

**Figure 2: Forecast revisions**

<b>RMB mn</b>	<b>New</b>			<b>Old</b>			<b>Diff</b>		
	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
GWP	174,243	195,384	216,838	152,323	167,471	183,204	14.4%	16.7%	18.4%
Total income	214,899	237,033	259,021	189,238	206,757	225,798	13.6%	14.6%	14.7%
Net profit	13,189	14,144	14,902	11,728	13,770	15,296	12.5%	2.7%	-2.6%
New business value	9,250	10,624	11,542	9,550	10,763	11,752	-3.1%	-1.3%	-1.8%
NBV growth	-5.4%	14.9%	8.6%	-2.3%	12.7%	9.2%	-3.1 ppt	2.1 ppt	-0.5 ppt
Embedded value (group)	231,583	252,220	268,880	219,095	238,077	256,768	5.7%	5.9%	4.7%

Source: Company data, CMBIS

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Gross written premium	122,341	138,171	174,243	195,384	216,838
Net premiums earned	120,002	135,443	169,565	191,003	212,066
Investment income	31,185	35,842	44,462	45,128	46,026
Other operating income	777	818	871	902	929
<b>Total income</b>	<b>151,964</b>	<b>172,103</b>	<b>214,899</b>	<b>237,033</b>	<b>259,021</b>
Insurance claims and reserves	(109,842)	(125,928)	(159,868)	(174,686)	(191,139)
Commissions expenses	(16,711)	(16,872)	(20,009)	(23,302)	(25,872)
Other operating expenses	(14,202)	(15,542)	(17,832)	(21,080)	(23,236)
<b>Total expenses</b>	<b>(140,755)</b>	<b>(158,342)</b>	<b>(197,709)</b>	<b>(219,068)</b>	<b>(240,247)</b>
Associates and JVs	404	502	527	553	581
Finance cost	-1,103	-1,042	-1,021	-613	-490
Pre-tax profit	10,510	13,221	16,696	17,905	18,865
Income tax	(2,587)	1,339	(3,506)	(3,760)	(3,962)
Less: Minority interests	1	1	1	1	1
<b>Net profit</b>	<b>7,922</b>	<b>14,559</b>	<b>13,189</b>	<b>14,144</b>	<b>14,902</b>

### Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Growth (%)</b>					
GWP growth	11.9	12.9	26.1	12.1	11.0
Total income growth	6.2	13.3	24.9	10.3	9.3
Net profit growth	47.2	83.8	(9.4)	7.2	5.4
EV growth	12.8	18.4	12.9	8.9	6.6
Net investment yield	5.0	4.8	4.6	4.5	4.4
Total investment yield	4.6	4.9	5.2	4.7	4.4
Investment assets growth	1.7	20.0	13.3	11.9	10.5
<b>Underwriting (%)</b>					
Agent FYRP growth	(25.0)	(5.3)	10.0	10.0	8.0
Bancassurance FYRP growth	(26.9)	(11.6)	50.0	15.0	10.0
Agent FYRP/FYRP	77.3	78.5	72.8	71.9	71.5
Renewal growth	23.8	10.4	10.2	11.4	11.4
Renewal/overall GWP	79.9	78.0	67.9	67.4	67.6
NBV (RMB mn)	12,210	9,779	9,250	10,624	11,542
NBV growth	1.2	(19.9)	(5.4)	14.9	8.6
NBV margin (APE)	50.8	40.0	29.8	30.2	29.6

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Investment assets	699,826	839,447	955,973	1,069,059	1,180,281
other assets	34,103	38,371	40,392	43,013	45,616
<b>Total assets</b>	<b>733,929</b>	<b>877,818</b>	<b>996,365</b>	<b>1,112,072</b>	<b>1,225,897</b>
Insurance liabilities	594,620	658,191	750,310	851,426	961,338
Other liabilities	73,713	136,318	149,535	151,514	142,344
<b>Total liabilities</b>	<b>668,333</b>	<b>794,509</b>	<b>899,845</b>	<b>1,002,940</b>	<b>1,103,682</b>
<b>Shareholders' equity</b>	<b>65,587</b>	<b>84,451</b>	<b>96,510</b>	<b>109,123</b>	<b>122,205</b>
Minority interest	9	10	10	10	10
Total equity	65,596	84,461	96,520	109,133	122,215

<b>Returns (%)</b>					
RoEV	13.9	19.8	13.2	10.6	8.3
<b>Solvency (%)</b>					
Core solvency ratio	269.6	283.6	280.1	280.1	281.8
Comprehensive solvency ratio	274.5	283.6	280.1	280.1	281.8
<b>Per share</b>					
EPS (RMB)	2.54	4.67	4.23	4.53	4.78
DPS (RMB)	0.77	1.41	1.28	1.37	1.44
EVPS (RMB)	55.51	65.73	74.24	80.85	86.19
BVPS (RMB)	21.02	27.07	30.94	34.98	39.17

Source: Company data, CMBIS estimates

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