

New China Life (601336 CH)

Clearer firm strategy in 2H19

NCI released 1H19 results on 28 Aug. GWP increased 9.0% YoY to RMB 74bn and net profit surged 81.8% YoY to RMB 10.5bn thanks to tax savings and quality growth. Net investment yield maintained at 5.0% YoY while total investment yield declined 0.1ppt to 4.7% because of impairment loss. Embedded value rose 10.5% YoY to RMB 61.36 per share. Overall speaking, the Company went through management team transition and business lull in 1H19. However, clarified strategy will likely lead to better 2H19 and current valuation is attractive.

- NBV declined 8.7% YoY in 1H19.** Individual agent channel FYRP declined 2.1% YoY. Margin pressure has been looming since 2H18. NBV margin for both individual channel and bancassurance channel experienced decline due to market competition and product strategy change. We expect NBV to grow 5.1% in 2H19, narrowing NBV decline for the whole year to 2.2%.
- Results positives.** 1) NII was stable at 5.0% backed by successful allocation of fixed income assets, such as non-standard assets in previous years and local government bond in 1H19. 2) Individual agent headcount increased 4.3%, or 16,000 from YE18 to 386,000, lending support for sales force in 2H19.
- Firm strategy clarified to resolve market concerns.** The new board and management team has decided to 1) pursue more balanced development of asset and liability and attach equal attention to both; 2) stick to protection-oriented products and enrich offering of pension products, medical care, term life in addition to critical illness products; 3) explore opportunities in long-term savings products to meet market demand; 4) enhance long-term equity investment.
- Catalysts in 2H19.** 1) Upgrade of critical illness products and release of product pipelines depending on market demand; 2) expanded agent team to support sales; 3) firm strategy to focus on asset-liability match.
- Adjust TP to RMB 55.22. Maintain HOLD.** Although NBV growth fell below our forecast, the Company recorded positive economic experience variances thanks to its investment performance, thus boosting EV to increase by 10.5% from YE18. We adjust TP to RMB 55.22, based on 40% premium to H-share TP. A-share stock is now trading at 0.78x FY19E P/EV. Maintain HOLD.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
GWP (RMB mn)	109,294	122,286	132,487	142,611	152,579
YoY Growth (%)	-2.9	11.9	8.3	7.6	7.0
Total income (RMB mn)	143,082	151,964	163,253	177,372	188,953
Net profit (RMB mn)	5,383	7,922	11,214	12,572	13,865
EPS (RMB)	1.73	2.54	3.59	4.03	4.44
EPS CHG (%)	8.9	47.2	41.6	12.1	10.3
P/B (x)	2.39	2.32	1.93	1.69	1.48
P/EV (x)	0.99	0.88	0.78	0.72	0.68
Yield (%)	1.07	1.58	2.23	2.50	2.76
RoEV (%)	19.7	13.9	13.9	10.0	8.6

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price	RMB55.22
(Previous TP)	RMB57.67)
Up/Downside	+13.2%
Current Price	RMB48.80

China Insurance Sector

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Stock Data

Mkt Cap (RMB mn)	131,464
Avg 3 mths t/o (RMB mn)	841.41
52w High/Low (RMB)	64.99/ 39.01
Total Issued Shares (mn)	1,034 (H)
	2,085 (A)

Source: Bloomberg

Shareholding Structure

Central Huijin Investment	31.34%
China Baowu Steel Group	12.09%

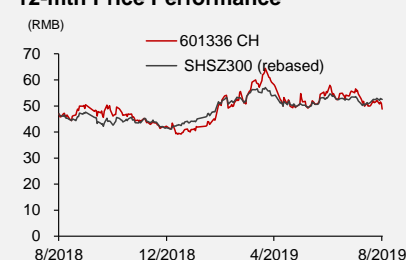
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.2%	-6.8%
3-mth	0.0%	-3.4%
6-mth	1.7%	-1.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- "Margin pressure and transition uncertainties" – 2 Jul 2019
- "Strong FYRP growth in 1Q19" – 29 Apr 2019
- "NBV margin expansion driven by product optimization" – 22 Mar 2019
- "Investor day takeaway" – 7 Dec 2018

Focus Charts

Figure 1: 1H19 results

RMB mn	1H19	1H18	... YoY (%)
Gross written premiums and policy fees	74,015	67,902	9.0%
Less: premiums ceded out	(1,248)	(876)	42.5%
Net written premiums and policy fees	72,676	67,026	8.4%
Net change in unearned premiums liabilities	(708)	(709)	-0.1%
Net premiums earned and policy fees	72,059	66,317	8.7%
Investment income	16,684	16,307	2.3%
Other income	349	343	1.7%
Total revenues	89,092	82,967	7.4%
Insurance benefits and claims	(63,425)	(59,919)	5.9%
Claims and net change in outstanding claims liabilities	(1,428)	(1,093)	30.6%
Life insurance death and other benefits	(39,623)	(46,866)	-15.5%
Increase in long-term insurance contract liabilities	(22,374)	(11,960)	87.1%
Policyholder dividends resulting from participation in profits	(19)	(35)	-45.7%
Investment contract benefits	(813)	(631)	28.8%
Commission and brokerage expenses	(8,943)	(8,657)	3.3%
Administrative expenses	(5,512)	(5,300)	4.0%
Other expenses	(318)	(237)	34.2%
Total benefits, claims and expenses	(79,030)	(74,779)	5.7%
Share of profits from associates/JVs	178	221	-19.5%
Finance costs	(648)	(661)	-2.0%
Profit before income tax	9,892	7,748	27.7%
Income tax expense	654	(1,948)	-133.6%
Non-controlling interests	(1)	1	-200.0%
Net profit	10,545	5,799	81.8%

Source: Company data, CMBIS estimates

Figure 2: Revision of forecast

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
GWP	132,567	142,695	152,667	132,909	143,531	154,155	-0.3%	-0.6%	-1.0%
Total income	163,253	177,372	188,953	164,959	178,052	191,247	-1.0%	-0.4%	-1.2%
Net profit	11,214	12,572	13,865	9,847	10,869	11,579	13.9%	15.7%	19.7%
New business value	11,942	12,576	13,141	12,514	13,335	14,190	-4.6%	-5.7%	-7.4%
Embedded value	194,767	210,895	225,293	189,449	205,830	222,432	2.8%	2.5%	1.3%
RoEV	13.9%	10.0%	8.6%	10.8%	10.2%	9.7%	+3.1ppt	-0.2ppt	-0.9ppt
NBV growth	-2.2%	5.3%	4.5%	2.5%	6.6%	6.4%	-4.7ppt	-1.3ppt	-1.9ppt

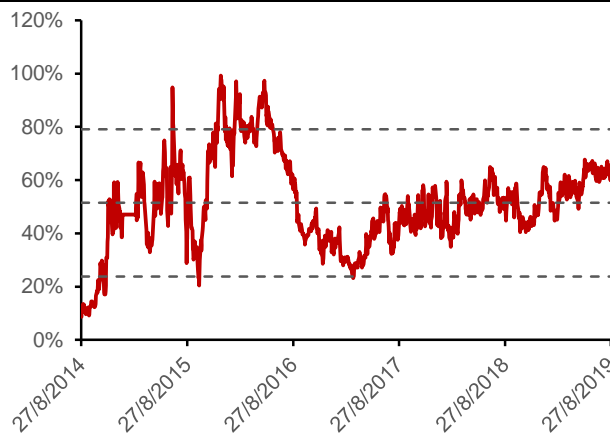
Source: Company data, CMBIS estimates

Figure 3: A-share P/EV



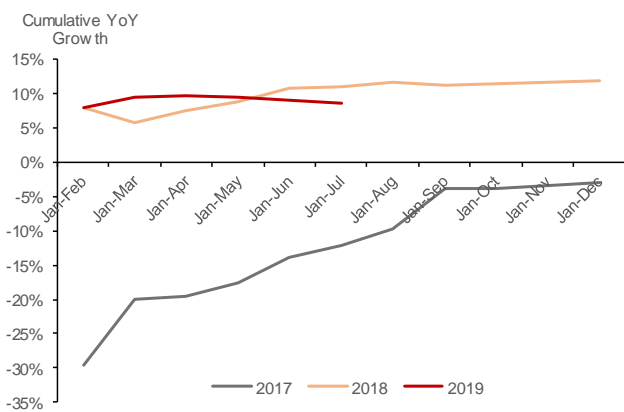
Source: Company data, CMBIS estimates

Figure 4: A/H premium



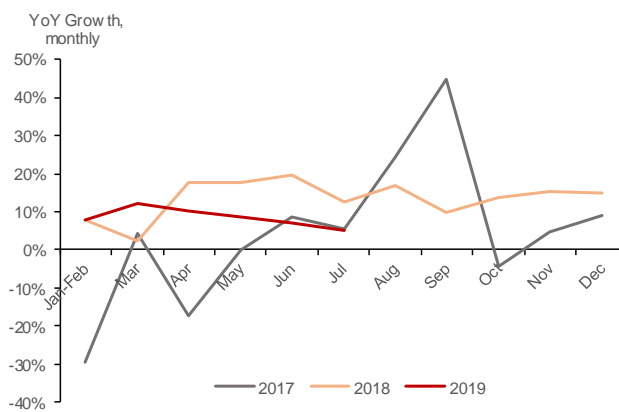
Source: Company data, CMBIS estimates

Figure 5: GWP growth, cumulative YoY



Source: Company data, CMBIS estimates

Figure 6: GWP growth, monthly YoY



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premium	109,356	122,341	132,567	142,695	152,667
Net premiums earned	107,990	120,002	129,399	139,926	149,746
Investment income	34,380	31,185	33,023	36,516	38,224
Other operating income	712	777	831	930	983
Total income	143,082	151,964	163,253	177,372	188,953
Insurance claims and reserves	(102,481)	(109,842)	(118,630)	(122,172)	(129,439)
Commissions expenses	(15,908)	(16,711)	(17,857)	(19,310)	(20,665)
Other operating expenses	(15,945)	(14,202)	(15,412)	(18,702)	(19,972)
Total expenses	(134,334)	(140,755)	(151,899)	(160,184)	(170,077)
Associates and JVs	296	404	392	396	400
Finance cost	(1,714)	(1,103)	(963)	(906)	(882)
Pre-tax profit	7,330	10,510	10,784	16,678	18,394
Income tax	(1,946)	(2,587)	431	(4,105)	(4,528)
Less: Minority interests	1	1	1	1	1
Net profit	5,383	7,922	11,214	12,572	13,865

Key ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Growth (%)					
GWP growth	(2.9)	11.9	8.4	7.6	7.0
Total income growth	(1.2)	6.2	7.4	8.6	6.5
Net profit growth	8.9	47.2	41.6	12.1	10.3
EV growth	18.6	12.8	12.5	8.3	6.8
Net investment yield	5.1	5.0	4.9	4.9	4.8
Total investment yield	5.2	4.6	4.6	4.6	4.5
Investment assets growth	1.3	1.7	14.6	7.3	5.5
Underwriting (%)					
Agent FYRP growth	19.0	(25.0)	0.1	2.0	2.0
Bancassurance FYRP growth	13.0	(26.9)	12.0	8.0	8.0
Agent FYRP/FYRP	76.8	77.3	75.2	74.2	73.0
Renewal growth	19.4	23.8	8.9	8.0	7.3
Renewal/overall GWP	72.2	79.9	80.3	80.5	80.8
NBV (RMB mn)	12,063	12,210	11,942	12,576	13,141
NBV growth	15.4	1.2	(2.2)	5.3	4.5
NBV margin (APE)	40.5	50.8	46.7	46.3	45.7

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Investment assets	688,315	699,826	797,112	860,946	908,054
other assets	21,960	34,103	34,969	37,990	40,933
Total assets	710,275	733,929	832,082	898,935	948,987
Insurance liabilities	575,277	594,620	637,212	678,841	723,556
Other liabilities	71,275	73,713	115,829	130,223	122,861
Total liabilities	646,552	668,333	753,041	809,064	846,416
Shareholders' equity	63,715	65,587	79,034	89,864	102,564
Minority interest	8	9	7	7	7
Total equity	63,723	65,596	79,041	89,871	102,571

Returns (%)

RoEV	19.7	13.9	13.9	10.0	8.6
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Solvency (%)

Core solvency ratio	275.9	269.6	286.9	287.8	286.8
Comprehensive solvency ratio	281.7	274.5	286.9	287.8	286.8

Per share

EPS (RMB)	1.73	2.54	3.59	4.03	4.44
DPS (RMB)	0.52	0.77	1.09	1.22	1.35
EVPS (RMB)	49.20	55.51	62.43	67.60	72.22
BVPS (RMB)	20.42	21.02	25.34	28.81	32.88

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