

China Life (2628 HK)

Outpaced VNB growth in 1H23; short-term NP pushback not affect value growth

China Life delivered strong VNB growth of +19.9% in 1H23, beat market expectation given its more value-focus product strategy in traditional life and annuities amid the first-half trend in savings sales among peers. Despite an improved underwriting structure, the insurer's net profit down by 8.0% in 1H23 (vs +17.8% in 1Q23), translating to -24.4% in 2Q23, primarily hurt by investment loss given a bumpy equity market in 2Q23. We believe the interim NP pushback is in short-term, and expect the more balanced product and channel mix to drive the insurer's long-term value growth amid an industry-wide product shift in 2H23. Maintain BUY, with TP unchanged at HK\$17.81, implying 0.4x FY23E P/EV.

- **VNB up 19.9% YoY in 1H23, beat market expectation.** The insurer delivered strong VNB growth in 1H23 to RMB30.86bn, representing +19.9% YoY growth, outpacing the market expectation given its more value-focus product strategy in traditional life and annuities when major peers shifting towards sales of savings policies, esp. under the recent regulatory change of guaranteed interest rate reduction from 3.5% to 3.0%. We think a more balanced product mix with endowment/whole-life/annuity each proportioning to 47%/37%/17% of total GWP will enhance the insurer's market share at 20.2% in 1H23 (+0.1pct vs 2H22), and drive long-term value growth in 2H23.
- **NP -8.0% pushback by sluggish equity investment in 2Q23 and prudent provisions for asset impairment.** Despite strong momentum recovery as well as progressive structural improvement, the insurer recorded a 8.0% decline in net profit in 1H23, vs +17.8% in 1Q23, primarily due to a bumpy equity market in 2Q23 which dragged investment income, and RMB12.84bn impairment loss (+226% YoY) for FVTPL equity, netting off underwriting profits. Yet, noteworthy, the adoption of IFRS 9 & 17 smoothed the fall in net profit, given the new standards allowed: 1) asset reclassification with an OCI option to reflect impairments and fair value change into reserves (IFRS 9), and 2) CSM absorption for chg. in discount rate assumptions (IFRS 17), whereas NP was down by 36.3% YoY as disclosed in A-share report with the old comparable standard. We believe the interim NP pushback was more due to market fluctuations that led to challenges across the industry. As the insurer continued to shorten the A/L duration gap to ~5 years, the risks on interest spread loss shall be plausibly avoided.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (RMB mn)	50,766	32,082	47,345	52,667	58,253
EPS (Reported)(RMB)	1.8	1.1	1.7	1.9	2.1
YoY growth (%)	1.7	(36.7)	46.9	11.2	10.6
Consensus EPS (RMB)	na	na	1.7	2.0	2.1
VNB/share (RMB)	1.6	1.3	1.5	1.7	1.8
Group embedded value / share (RMB)	42.6	43.5	46.0	48.8	51.70
P/B (x)	0.7	0.7	0.6	0.6	0.5
P/Embedded value (x)	0.2	0.2	0.2	0.2	0.2
Dividend yield (%)	5.3	4.8	6.8	7.6	8.4
ROE (%)	10.9	7.0	9.9	9.3	8.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$17.81
Up/Downside 56.2%
Current Price HK\$11.40

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Stock Data

Mkt Cap (HK\$ mn)	863,522
Avg 3 mths t/o (HK\$ mn)	387.02
52w High/Low (HK\$)	15.84/8.53
Total Issued Shares (mn)	7441.0

Source: FactSet

Shareholding Structure

Ministry of Finance	90.0%
NCSSF	10.0%

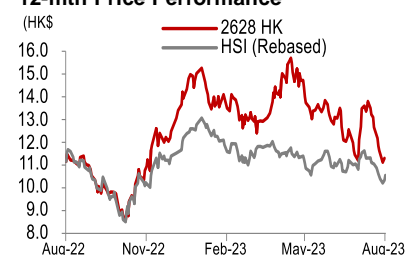
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.8%	4.3%
3-mth	-18.6%	-14.5%
6-mth	-15.6%	-7.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

- **Limited property exposure with reduced shareholding in Sino-Ocean.** The insurer disclosed in details on exposure to its property-related debt and equity holdings in the meeting. After the reduction of shareholding in Sino-Ocean, the stock exposure on property dropped to less than 0.4% of total investment assets. On the fixed income side, bonds/non-standard debts remained low with exposure less than 0.2%/0.3% respectively, and loans to LGFVs was kept <3.3% of total assets, targeting good provincial platforms.
- **Valuation:** China Life (H) is trading at 0.22x FY23E P/EV and 0.6x FY23E P/B, ranking at 9.1%/4.8% in 5-year historical valuation percentile. The A/H premiums reached to historical high level, giving H-share more upside under lower valuation when sentiment recovered. Looking ahead, we see the NP pushback is short-term, and we like the company on its balanced product mix, deepening agency reform, and limited property exposure. Maintain BUY with TP at HK\$17.81, implying 0.4x FY23E P/EV and 0.8x FY23E P/B.

China Life 1H23 key metrics overview

China Life(2628 HK):	1H23	1H22_Restate	Y/Y %	2Q23	2Q22	Y/Y %
Net profit & net asset value under IFRS vs ASBE:						
Insurance revenue	91,941	91,725	0.2%	44,758	n.a	n.a
Insurance service expenses	(64,846)	(63,234)	2.5%	(33,686)	n.a	n.a
Net profit attribute to equity S/H under IFRS 9&17	36,151	39,305	-8.0%	18,266	24,153	-24.4%
Net profit attribute to equity S/H under ASBE	16,156	25,356	-36.3%			
Net asset value attribute to equity S/H under IFRS 9&17	477,935	366,021	30.6%			
Net asset value attribute to equity S/H under ASBE	449,362	436,169	3.0%			
Core life metrics:						
Value of new business (VNB)	30,864	25,745	19.9%			
Agency VNB	27,404	24,185	13.3%			
Agency VNB contribution %	88.8%	93.9%	-5.5%			
VNB margin (FYP basis)	27.0	28.5	-1.5 pct			
VNB margin (FYP APE basis)	30.2	30.4	-0.2 pct			
Life Embedded value (EV)	1,311,669	1,250,877	4.9%			
Contract service margin (CSM)	802,380	n.a	n.a			
Premiums income breakdown:						
First-year premiums (FYP)	171,213	139,358	22.9%	53,544	38,463	39.2%
First-year regular premiums (FYRP)	97,418	79,838	22.0%	25,940	14,472	79.2%
10 yrs+ FYRP	38,957	30,226	28.9%	18,875	11,120	69.7%
as a % of FYP	40.0%	37.9%	2.1 pct	72.8%	76.8%	-4.1%
First-year single premiums (FYSP)	73,795	59,520	24.0%	27,604	23,991	15.1%
Renewals	298,902	300,611	-0.6%	89,350	86,495	3.3%
Gross written premiums (GWP)	470,115	439,969	6.9%	142,894	124,958	14.4%
Annualized Premiums Earned (APE)	104,798	85,790	22.2%	28,700	16,871	70.1%
Premium income by distributions:						
Agency FYP (incl ST insurance)	89,602	78,471	14.2%			
Agency FYRP	80,109	68,957	16.2%			
as a % of FYP	89.4%	87.9%	1.5 pct			
Bancassurance FYP (incl. ST insurance)	36,425	16,902	115.5%			
Bancassurance FYRP	17,294	10,864	59.2%			
as a % of FYP	47.5%	64.3%	-16.8 pct			

China Life(2628 HK):	1H23	1H22_Restate	Y/Y %	2Q23	2Q22	Y/Y %
Group & Others FYP, (incl. ST insurance)	45,186	43,985	2.7%			
Group & Others FYSP	783	723	8.3%			
as a % of FYP	1.7%	1.6%	0.1 pct			
Agency APE	81,058	69,908	15.9%			
Bancassurance APE	19,207	11,468	67.5%			
Group & Others APE	4,532	4,414	2.7%			
Premiums income by business:						
Life insurance FYP (incl. ST insurance)	115,359	83,519	38.1%			
Life FYRP	95,561	76,874	24.3%			
as a % of FYP	82.8%	92.0%	-9.2 pct			
Health insurance FYP (incl. ST insurance)	47,593	47,954	-0.8%			
Health FYRP	1,857	2,961	-37.3%			
as a % of FYP	3.9%	6.2%	-2.3 pct			
Accident FYP (incl. ST insurance)	8,261	7,885	4.8%			
Accident FYRP	0	3	-100.0%			
as a % of FYP	0.0%	0.0%	0.0 pct			
Life APE	97,541	77,539	25.8%			
Health APE	6,431	7,460	-13.8%			
Accident APE	826	791	4.4%			
Other operating metrics:						
1) Agent productivity	2Q23	1Q23	Q/Q%	1Q23	4Q22	Q/Q%
No. of life insurance agents (mn)	0.661	0.66	-0.2%	0.66	0.67	-0.9%
as a % of total sales force	91.7%	91.7%	0.0 pct	91.7%	91.6%	0.1 pct
Semi-annual, YoY%:	1Q23 Y/Y%	1H23 Y/Y %				
Agent productivity (FYRP/month/agent),	28.8%	38.1%				
2) Life policy persistency rate (%):						
14-month persistency	89.2	85.1	4.1 pct			
26-month persistency	79.3	76.5	2.8 pct			
3) Surrender:						
Surrender rate	27,481	19,115	43.8%	10,961	8,800	24.6%
Surrender rate (%)	0.7	0.5	0.1 pct	0.3	0.2	0.0 pct
CROSS-II Solvency ratio:						
Core solvency ratio (%)	140.43	169.05	-16.9%			
Comprehensive solvency ratio (%)	204.23	235.56	-13.3%			
Investment performance:						
Net investment yield (%)	3.3					
Total investment yield (%)	3.3					
Total investment income (RMB mn)	91,372					
Total investment assets (RMB mn)	5,386,667					
Mix by types%:						
FICC-related assets (incl. cash & others) %	76.8%					
Equity-related assets %	18.1%					
Investment property %	0.2%					
Mix of non-standard financial assets%:						
NSA-debt investment %	8.9%					
NSA-equity investment %	7.0%					

Source: Company data, CMBI | Note: In accordance with IFRS 9 - Financial Instruments, the information of investment business in 1H23 is not required for restatement and thus of no comparability vs 1H22.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Total income	805,049	824,933	804,388	808,815	829,079	855,146
Premiums written (gross)	612,265	618,327	615,190	598,581	595,588	602,457
Premiums earned (net)	604,666	611,251	607,825	592,542	589,346	595,963
Investment income	154,497	178,387	186,629	185,496	201,795	218,870
Realized gains (losses)	36,483	25,287	551	21,088	28,298	30,562
Other operating income	9,403	10,008	9,383	9,688	9,640	9,751
Losses	(758,239)	(784,921)	(780,825)	(773,350)	(789,604)	(811,482)
Selling	(580,801)	(618,754)	(631,978)	(624,660)	(629,064)	(646,079)
Underwriting & commissions	(84,361)	(65,744)	(54,777)	(53,298)	(53,032)	(53,643)
Other operating expense	(93,077)	(100,423)	(94,070)	(95,392)	(107,508)	(111,760)
Equity in affiliates (pretax)	7,666	10,328	484	23	1	0
Pretax income	54,476	50,340	24,047	35,488	39,476	43,663
Income taxes	(3,103)	1,917	9,467	13,971	15,541	17,190
Consolidated net income	51,373	52,257	33,514	49,459	55,018	60,853
Minority interest	1,116	1,491	1,432	2,113	2,351	2,600
Net income	50,257	50,766	32,082	47,345	52,667	58,253
Net income available to common	50,257	50,766	32,082	47,345	52,667	58,253

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	56,655	60,459	127,594	174,922	191,151	208,576
Total fixed income securities investment	2,399,915	2,735,661	2,662,594	2,875,095	3,104,596	3,352,457
Total equity securities investment	1,385,120	1,648,973	2,000,431	2,125,689	2,295,745	2,479,404
Real estate assets	70,040	71,524	69,562	67,727	65,960	64,255
Premium balance receivables	65,930	71,458	72,148	75,460	80,330	85,790
Investment in unconsolidated subs.	239,584	257,953	261,179	282,073	304,639	329,010
Deferred tax assets	87	121	22,307	22,307	22,307	22,307
Other assets	35,135	46,331	36,173	134,020	216,878	289,934
Total assets	4,252,466	4,892,480	5,251,988	5,757,294	6,281,605	6,831,733
Liabilities & shareholders' equity						
Insurance policy liabilities	2,973,225	3,419,899	3,880,160	4,292,146	4,723,390	5,156,628
ST debt & curr. portion LT debt	299,981	421,461	306,697	288,825	263,086	250,639
Long-term debt	60,944	59,814	52,684	51,115	51,115	51,115
Deferred tax liabilities	15,286	7,481	272	0	0	0
Other liabilities	446,093	496,691	567,054	591,883	619,165	648,661
Total liabilities	3,795,529	4,405,346	4,806,867	5,223,969	5,656,756	6,107,043
Total common equity	456,937	487,134	445,121	533,326	624,849	724,690
Common stock/ordinary capital	28,265	28,265	28,265	28,265	28,265	28,265
Capital surplus	0	0	0	0	0	0
Retained earnings	183,856	201,041	201,688	244,424	288,767	337,141
Equity reserves	237,935	249,755	206,216	249,911	295,250	344,710
Total shareholders' equity	450,056	479,061	436,169	522,600	612,282	710,115
Minority interest	6,881	8,073	8,952	10,726	12,567	14,575
Total equity	456,937	487,134	445,121	533,326	624,849	724,690
Total liabilities & shareholders' equity	4,252,466	4,892,480	5,251,988	5,757,294	6,281,605	6,831,733

PER SHARE DATA	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
DPS	0.6	0.7	0.5	0.7	0.8	0.9
EPS (Reported)	1.8	1.8	1.1	1.7	1.9	2.1
Diluted EPS	1.8	1.8	1.1	1.7	1.9	2.1
Consensus EPS	Na	na	na	1.7	2.0	2.1
Group embedded value/share (HK\$)	37.9	42.6	43.5	46.0	48.8	51.7
VNB/share (HK\$)	2.07	1.58	1.27	1.48	1.7	1.8
No. of shares basic	28,265	28,265	28,265	28,265	28,265	28,265
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Return on equity (ROE)	11.8%	10.9%	7.0%	9.9%	9.3%	8.8%
Return on asset (ROA)	1.3%	1.1%	0.6%	0.9%	0.9%	0.9%
Return on life embedded Value	12.9%	11.5%	2.3%	5.5%	5.8%	5.8%
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	8.8	6.8	8.9	6.3	5.7	5.1
P/B	1.0	0.7	0.7	0.6	0.5	0.5
Div yield (%)	4.1	5.3	4.8	6.8	7.6	8.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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