

# China Life (2628 HK)

## 3Q20 in line despite NBV growth deceleration

China Life reported +9.4% YoY increase of GWP, +7.1% YoY growth of FYRP and +2.7% growth of NBV in 9M20. Net profit declined 18.4% YoY to RMB 47.1bn, primarily due to increase in insurance reserves, which reduced pre-tax profit by RMB 19.1bn. Overall speaking, China Life has exhibited resilience and stuck to business value growth under the circumstance of COVID-19 and its aftershocks.

■ **Result highlights.** 1) NBV increased 2.7% YoY in 9M20. Although NBV growth decelerated a bit from +6.7% in 1H20, it still outpaced industry average and major peers. Such deceleration was also a result of the Company strategically slowing its pace of expansion in 3Q in order to enhance business quality and agent productivity. 2) Product mix improved further, represented by rising proportions of FYRP with payment duration of 10+ years and designated protection-oriented products. 3) The Company has started kickoff season earlier than peers to better prepare for business development in 2021. It also pledges to serve customer demand for both savings and protection products.

■ **Result negatives.** 1) Number of individual agents declined to 1.581 million at the end of 3Q, down 6.4% from 1.69 million as at 30 Jun 2020. China Life may also confront challenges promoting agent productivity and quality. 2) Net/Total investment yield edged down 36bps/36bps to 4.47%/5.36%, respectively, similar to the trends in 1H20. As one of the early investors of Ant Financial, however, China Life is likely to book fair value gains on available-for-sale assets in OCI after successful listing of Ant Financial.

■ **Risks.** 1) Slower recovery of insurance demand in post-pandemic era. 2) Stock market volatilities reducing P&L investment income.

■ **Reiterate BUY.** We keep NBV and EV forecast unchanged, though we adjusted some of the financial estimates to reflect 3Q results. TP remained HK\$ 28.14. The Company's H-share is trading at 0.43x/0.4x FY20/21E P/EV, or ~67% discount to its A-share's value. Maintain BUY and one of our sector top picks.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	535,826	567,086	614,350	668,525	724,298
YoY growth (%)	4.7	5.8	8.3	8.8	8.3
Total income (RMB mn)	627,419	729,474	803,451	862,609	921,859
Net profit (RMB mn)	11,395	58,287	51,513	60,524	67,358
EPS (RMB)	0.39	2.05	1.79	2.11	2.35
YoY Growth (%)	-65.2	421.2	-12.7	17.7	11.5
Consensus EPS (RMB)	N.A.	N.A.	1.71	1.94	2.31
P/B (x)	1.40	1.11	1.02	0.91	0.82
P/EV (x)	0.56	0.47	0.43	0.40	0.36
Yield (%)	1.0	4.6	4.1	4.8	5.3
ROEV (%)	9.9	19.1	11.4	11.2	11.2

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$28.14
(Previous TP)	HK\$28.14)
Up/Downside	+55.3%
Current Price	HK\$18.12

### China Insurance Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	1,313,112
Avg 3 mths t/o (HK\$ mn)	838.49
52w High/Low (HK\$)	21.99/11.18
Total Issued Shares (mn)	7,441 (H)
	1,500 (A)

Source: Bloomberg

#### Shareholding Structure

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

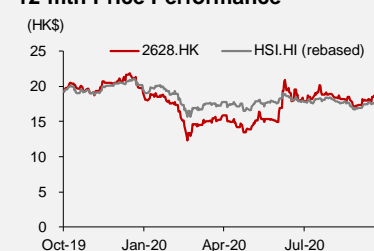
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	5.1%	-0.1%
3-mth	0.1%	0.4%
6-mth	15.1%	14.4%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Ernst & Young

#### Related Reports

1. "Outperforming 1H20" – 27 Aug 2020
2. "Resilient against headwinds" -24 Apr 2020
3. "Quality growth achieved" – 26 Mar 2020

**Figure 1: China Life's 9M20/3Q20 result summary**

<b>(RMB mn)</b>						
<b>P&amp;L</b>	<b>9M20</b>	<b>9M19</b>	<b>YoY</b>	<b>3Q20</b>	<b>3Q19</b>	<b>YoY</b>
Gross written premiums	543,553	497,047	9.4%	116,186	119,071	-2.4%
Net premiums earned	526,355	480,521	9.5%	118,419	119,224	-0.7%
Investment income	139,977	125,559	11.5%	47,858	42,321	13.1%
<b>Total income</b>	<b>672,990</b>	<b>611,473</b>	10.1%	<b>168,559</b>	<b>163,222</b>	3.3%
Insurance benefits and claims	(488,908)	(434,826)	12.4%	(116,958)	(104,777)	11.6%
Underwriting costs	(70,207)	(63,011)	11.4%	(13,689)	(17,416)	-21.4%
<b>Total expenses</b>	<b>(626,144)</b>	<b>(558,228)</b>	12.2%	<b>(153,257)</b>	<b>(143,205)</b>	7.0%
Associates and JVs	6,974	8,712	-19.9%	2,954	3,047	-3.1%
Pre-tax profit	53,820	61,957	-13.1%	18,256	23,064	-20.8%
Income tax	(5,899)	(3,699)	59.5%	(1,397)	(2,735)	-48.9%
Less: Minority interests	843	556	51.6%	316	226	39.8%
<b>Net profit</b>	<b>47,078</b>	<b>57,702</b>	-18.4%	<b>16,543</b>	<b>20,103</b>	-17.7%

<b>B/S</b>	<b>3Q20</b>	<b>3Q19</b>	<b>YoY</b>	<b>3Q20</b>	<b>2Q20</b>	<b>QoQ</b>
Investment assets	3,880,410	3,439,115	12.8%	3,880,410	3,781,024	2.6%
Total assets	4,059,708	3,609,078	12.5%	4,059,708	3,966,033	2.4%
Insurance contracts liabilities	2,930,173	2,523,567	16.1%	2,930,173	2,858,092	2.5%
Total liabilities	3,635,628	3,214,928	13.1%	3,635,628	3,543,856	2.6%
Equity attr. to shareholders	417,502	388,754	7.4%	417,502	415,906	0.4%

<b>Key indicators</b>	<b>9M20</b>	<b>9M19</b>	<b>YoY</b>	<b>3Q20</b>	<b>3Q19</b>	<b>YoY</b>
NBV (RMB mn)	N/A	N/A	2.7%	N/A	N/A	N/A
FYRP (RMB mn)	106,049	99,053	7.1%	11,879	6,188	92.0%
Net investment yield	4.47%	4.83%	-36 bps	N/A	N/A	N/A
Gross investment yield	5.36%	5.72%	-36 bps	N/A	N/A	N/A

	<b>3Q20</b>	<b>3Q19</b>	<b>YoY</b>	<b>3Q20</b>	<b>2Q20</b>	<b>QoQ</b>
Core solvency margin ratio	255.5%	262.0%	-6.5 ppt	255.5%	258.2%	-2.7 ppt
Comprehensive solvency ratio	264.5%	272.1%	-7.6 ppt	264.5%	267.3%	-2.8 ppt

Source: Company data, CMBIS

## Financial Summary

### Income

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Gross written premium	535,826	567,086	614,350	668,525	724,298
Net premiums earned	532,023	560,278	606,458	659,828	714,983
Investment income	87,298	161,001	187,708	192,678	195,930
Other operating income	8,098	8,195	9,285	10,103	10,946
<b>Total income</b>	<b>627,419</b>	<b>729,474</b>	<b>803,451</b>	<b>862,609</b>	<b>921,859</b>
Insurance claims and reserves	(479,219)	(509,467)	(565,248)	(606,372)	(645,479)
Policyholder dividends	(19,646)	(22,375)	(33,787)	(34,682)	(35,267)
Other operating expenses	(122,378)	(145,848)	(165,076)	(174,283)	(187,947)
<b>Total expenses</b>	<b>(621,243)</b>	<b>(677,690)</b>	<b>(764,111)</b>	<b>(815,337)</b>	<b>(868,694)</b>
Associates and JVs	7,745	8,011	8,412	8,832	9,274
Pre-tax profit	13,921	59,795	47,751	56,104	62,439
Income tax	(1,985)	(781)	6,208	7,293	8,117
Less: Minority interests	541	727	2,446	2,873	3,198
<b>Net profit</b>	<b>11,395</b>	<b>58,287</b>	<b>51,513</b>	<b>60,524</b>	<b>67,358</b>

### Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Growth (%)</b>					
GWP growth	4.7	5.8	8.3	8.8	8.3
Total income growth	(2.5)	16.3	10.1	7.4	6.9
Net profit growth	(64.7)	411.5	(11.6)	17.5	11.3
EV growth	8.3	18.5	9.0	9.3	9.1
Net investment yield	4.6	4.6	4.4	4.2	4.1
Total investment yield	3.3	5.2	5.3	5.0	4.9
Investment assets growth	12.7	15.1	15.2	4.7	4.2
<b>Underwriting (%)</b>					
FYRP growth	(7.7)	4.8	14.0	9.5	7.7
Agent FYRP growth	(12.2)	5.8	13.5	9.7	7.9
Agent FYRP/FYRP	75.9	76.6	76.4	76.5	76.6
Renewal growth	26.6	5.8	7.7	9.0	9.3
Renewal/overall GWP	68.1	68.0	67.7	67.8	68.4
NBV growth	(17.6)	18.6	1.0	9.2	7.7
NBV margin (Agent, APE)	42.2	47.0	41.0	41.5	41.4

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Investment assets	3,104,014	3,573,154	4,116,412	4,309,084	4,488,194
other assets	150,389	150,488	57,561	185,741	294,780
<b>Total assets</b>	<b>3,254,403</b>	<b>3,726,734</b>	<b>4,173,973</b>	<b>4,494,825</b>	<b>4,782,974</b>
Insurance liabilities	2,216,031	2,552,736	3,057,448	3,254,644	3,462,401
Other liabilities	715,082	764,656	670,167	744,272	770,509
<b>Total liabilities</b>	<b>2,931,113</b>	<b>3,317,392</b>	<b>3,727,615</b>	<b>3,998,916</b>	<b>4,232,910</b>
<b>Shareholders' equity</b>	<b>318,371</b>	<b>403,764</b>	<b>439,567</b>	<b>488,364</b>	<b>541,695</b>
Minority interest	4,919	5,578	6,792	7,545	8,369
Total equity	323,290	409,342	446,358	495,909	550,064

### Returns (%)

RoEV	9.9	19.1	11.4	11.2	11.2
ROE	3.6	16.1	12.2	13.0	13.1

### Solvency (%)

Core solvency ratio	250.6	266.7	258.4	251.7	247.6
Comprehensive solvency ratio	250.6	276.5	266.9	259.3	254.5

### Per share

EPS (RMB)	0.39	2.05	1.79	2.11	2.35
DPS (RMB)	0.16	0.73	0.65	0.76	0.84
EVPS (RMB)	28.13	33.33	36.34	39.73	43.35
BVPS (RMB)	11.26	14.29	15.55	17.28	19.17

Source: Company data, CMBIS estimates

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