

China Life (2628 HK)

Highest VNB growth in years; net profit decline narrowed on track

BUY (Maintain)

Target Price **HK\$13.70**
 (Previous TP) HK\$13.70
Up/Downside **31.5%**
Current Price **HK\$10.42**

China Insurance

Nika MA
 (852) 3900 0805
 nikama@cmbi.com.hk

Miao ZHANG
 (852) 3761 8910
 zhangmiao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	762,825.0
Avg 3 mths t/o (HK\$ mn)	343.5
52w High/Low (HK\$)	15.70/8.33
Total Issued Shares (mn)	28,265

Source: FactSet

Shareholding Structure

FMR LLC	7.0%
BlackRock, Inc.	5.9%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	11.0%	3.3%
3-mth	16.0%	1.2%
6-mth	-1.7%	-5.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

Related reports:

- China Life (2628 HK) – Outpaced VNB growth in 1H23; short-term NP pushback not affect value growth – Aug 25, 2023 ([link](#))
- China Life (2628 HK) – 3Q NP dragged by investment setbacks; first-in -sector steady agent scale props up 2024 NBV, Oct 31, 2023 ([link](#))
- China Life (2628 HK) - 4Q net loss markedly narrowed; VNB grew in low-teens despite revised EV assumptions, Apr 8, 2024 ([link](#))
- China Insurance - 1Q24 listed life insurers' growth dwindled; P&C rebounded in 3M24 driven by non-auto, Apr.22, 2024 ([link](#))

China Life announced 1Q24 results with the VNB YoY reaching the highest growth to 26.3% under new EV assumptions on a comparative basis, surpassing market consensus and our expectation of growth by low-to-mid teens. We see the ascending pattern attributable to 1) increased proportion of mid-to-long term regular-paid business given the 10yr+ FYRP +25.4% YoY to RMB25.2bn, taking 33.7% of total FYRP, +5.57pct compared to 1Q23 ([Fig.2](#)); 2) cost reductions on bancassurance; and 3) proactive contraction on products' pricing interest rates. Despite a 4.4% YoY decline on first-year premiums, we estimate that the insurer's VNB margin would sequentially improve over the 2Q-4Q24, thanks to an optimized structure of which the FYSP and total FYSP and short-term premiums were down by -74.9%/-18.6% YoY in 1Q24 ([Fig.2](#)). Once established, we expect the structure will be conducive to underwritings in 2Q-4Q24. On investment front, the insurer grew net investment results by +27.0% YoY to RMB16.1bn, a turnaround from loss since 3Q23. The narrowed A/L duration gap to 4.4yrs could be a hint. With rebounded equity market sentiment and limited downside for CN long-term interest rates, we expect better investment results in 2Q to drive growth in net profit.

■ **Highest VNB growth w/ shortened liability duration.** The +26.3% YoY uptick in first-quarter VNB implies an optimized mix with diverse product forms, durations and costs composition. The insurer controlled the durations of main underwriting products in 1Q24 to less than six years, lowering the avg. liability duration for reduced interest rate risk exposure. By end-23, avg. asset duration has dropped to 4.4yrs, from 4.7 yrs in FY22 and 5.2yrs in FY21. Despite an FYP decline, FYRP rose by 4.7% YoY to RMB74.8bn, of which the 10yr+ FYRP amounted to RMB25.2bn, +25.4% YoY proportioning to 33.67%, +5.57pct YoY. FYSP and total FYSP & ST premiums tumbled by -75%/19% YoY in 1Q24 due to the fall in bancassurance. Bancassurance FYSP largely contracted whereas 5yrs+ FYRP slightly up by 3.66% (VS FY23: +53.1%), as well indicating an optimized trend. Driven by better structure mix and cost reductions, we expect to see sequential margin expansion over 2Q-4Q24, paving way for VNB growth.

■ **Net investment result turnaround.** The insurer disclosed figures under IFRS9 since year-start of 2024. Net investment results in 1Q24 rose by 27.0% YoY to RMB16.1bn ([Fig.1](#)) implying a turnaround of loss since 2Q23. The strengthened investment results was driven by soared fair value gains on FICC-typed, +12.3x YoY vs 1Q23 given prolonged low interest rates. Total investment income grew by 7.2% YoY to RMB64.7bn, reflecting 3.23% annualized total investment yield, +0.24pct from 1Q23. With expanded investment asset scale to over RMB 5.9tn and prudent asset allocation striking balance b/w long-term bonds and high-yield stocks, we expect the equity rebound and limited downside on LT interest rates should boost the insurer's investment results in 2Q24 benefiting net profit growth.

■ **Valuation:** The stock is now trading at FY24E 0.2x P/EV and 0.6x P/B. We expect the valuation to rebound once the investment results stabilize. Maintain BUY, with TP at HK\$13.70 implying 0.3x FY24E P/EV and 0.7x FY24E P/B.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	68,112	47,547	48,339	50,275	54,526
EPS (Reported)(RMB)	2.36	1.63	1.64	1.70	1.85
Consensus EPS (RMB)	n.a	n.a	1.56	1.70	2.00
Group EV / share (RMB)	43.5	44.6	45.6	47.0	48.9
P/Embedded value (x)	0.2x	0.2x	0.2x	0.2x	0.2x
Dividend yield (%)	5.1	4.5	5.1	5.3	5.7
ROE (%)	17.3	9.7	9.5	9.7	10.1

Source: Company data, Bloomberg, CMBIGM estimates

China Life (2628 HK): 1Q24 key operating metrics

Fig. 1: Profitability analysis under IFRS 9 & IFRS 17 (restated 1Q23)

(RMB mn, %)	1Q24	1Q23	Y/Y %	4Q23	4Q22	Y/Y %	3Q23	3Q22	Y/Y %
Profitability & NAV under IFRS 9 & 17									
Insurance revenue	53,773	47,183	14.0%	76,006	45,193	68.2%	44,498	45,660	-2.5%
Insurance service expenses	(41,021)	(31,160)	31.6%	(51,182)	(35,627)	43.7%	(34,325)	(32,753)	4.8%
Net reinsurance income/(expenses)	(1,180)	(131)	800.8%	164	539	-69.6%	596	1,228	-51.5%
Insurance service results	11,572	15,892	-27.2%	24,988	10,105	147.3%	10,769	14,135	-23.8%
	<i>IFRS 9 + IFRS 17</i>			<i>IAS 39 + IFRS 17</i>					
Net insurance finance income/(expenses)	(47,128)	(37,172)	26.8%						
Interest income / (expenses)	28,495	n.a	n.a						
Investment income, excl. AJVs	2,758	51,256	-94.6%						
Fair value gains/(losses)	29,461	2,212	1231.9%						
Expected credit losses	(190)	(6,697)	-97.2%						
Net investment results	16,102	12,681	27.0%						
Other results	(903)	(2,920)	-69.1%						
Operating profit before tax	26,771	25,653	4.4%						
Net profit to equity S/H (IFRS 9 & 17)	20,644	22,770	-9.3%	10,640	11,166	-4.7%	(610)	16,209	n.a
Net asset value to S/H (IFRS 9 & 17)	480,406	327,784	46.6%	327,784	366,021	-10.4%	474,739	366,021	29.7%

Source: Company data, HKEx, CMBIGM

Note: China Life (2628 HK) adopted the transition plan for the new accounting standards for insurance contracts, namely IFRS 17, and did not restate the accounting standards on financial instruments, namely IAS 39 in 2023. Since 1 Jan, 2024, the company has implemented New Accounting Standards on Insurance Contracts and Financial Instruments, namely IFRS 17 and IFRS 9, and restated comparative figures for the relevant period with regards to insurance contracts in line with IFRS 17. Thus, net investment results abovementioned is incomparable for 3Q/4Q23.

Fig. 2: Life core metrics – VNB growth and FYP/FYRP premiums

Core life metrics:	1Q24	FY23	9M23	1H23	1Q23	FY22	9M22	1H22	1Q22
Value of new business (VNB) YoY%	26.3%	14.0%	14.0%	19.9%	7.7%	-19.6%	-15.4%	-13.8%	-14.3%

*Note: Value of new business y/y chg. was measured under new EV assumptions since FY23, with long-term investment return revised down to 4.5%, from 5.0% and risk discount rate down from 10.0% to 8.0%.

Premiums income breakdown:	1Q24	1Q23	Y/Y %	2023	2022_R	Y/Y %	9M23	9M22_R	Y/Y %
First-year premiums (FYP)	112,444	117,669	-4.4%	210,813	184,767	14.1%	196,656	171,338	14.8%
First-year regular premiums (FYRP)	74,825	71,478	4.7%	112,573	96,426	16.7%	105,982	91,370	16.0%
10 yrs+ FYRP	25,191	20,082	25.4%	49,522	41,821	18.4%	44,639	38,694	15.4%
as a % of FYP	33.7%	28.1%	5.6 pct	44.0%	43.4%	0.6 pct	42.1%	42.3%	-0.2 pct
First-year single & ST premiums	37,619	46,191	-18.6%	98,240	88,341	11.2%	90,674	79,968	13.4%
First-year single premiums (FYSP)	2,815	11,211	-74.9%	73,266	64,281	14.0%	21,355	12,928	65.2%
Short-term premiums (ST)	34,804	34,980	-0.5%	24,974	24,060	3.8%	69,319	67,040	3.4%
Renewals	225,194	209,552	7.5%	430,567	430,423	0.0%	382,143	382,767	-0.2%
Gross written premiums (GWP)	337,638	327,221	3.2%	641,380	615,190	4.3%	578,799	554,105	4.5%
Annualized Premiums Earned (APE)	78,587	76,097	3.3%	7,348	5,893	24.7%	10,252	13,577	-24.5%

Source: Company data, HKEx, CMBIGM

Fig. 3: Life core metrics – no. of total agents and agent productivity by FYRP YoY%

No. of agents & sales force (%)	1Q24	4Q23	Q/Q%	4Q23	3Q23	Q/Q%	3Q23	2Q23	Q/Q%
No. of life insurance agents (mn)	0.622	0.634	-1.9%	0.634	0.660	-3.9%	0.660	0.661	-0.2%
as a % of total sales force	91.6%	91.4%	0.3 pct	91.4%	91.5%	-0.2 pct	91.5%	91.7%	-0.1 pct

Agent productivity growth %	1Q24	2023	9M23	1H23	1Q23	2022
Agent productivity by per agent FYRP	17.7%	28.8%	28.6%	38.1%	28.8%	51.7%

Source: Company data, HKEx, CMBIGM

Fig. 4: Life core metrics – surrenders and surrender rate (%)

Surrenders & Surrender rate %	1Q24	1Q23	Y/Y %	4Q23	4Q22	Y/Y %	3Q23	3Q22	Y/Y %
Surrenders	11,927*	16,520	-27.8%	10,272	8,429	21.9%	10,987	9,578	14.7%
Surrender rate (%)	0.26	0.40	-0.14 pct	0.24	0.22	0.02 pct	0.26	0.25	0.01 pct

Source: Company data, HKEx, CMBIGM estimates

Note: 1Q24 surrender was calculated based on surrender rate, GWP and long-term life reserves in FY23.

Fig. 5: Life core metrics – core and comprehensive ratio (%)

CROSS-II Solvency ratio:	1Q24	4Q23	Q/Q%	4Q23	3Q23	Q/Q%	3Q23	2Q23	Q/Q%
Core solvency ratio (%)	154.97	158.19	-3.2%	158.19	161.25	-3.1%	161.25	140.43	20.8%
Comprehensive solvency ratio (%)	209.17	218.54	-9.4%	218.54	232.68	-14.1%	232.68	204.23	28.5%

Source: Company data, HKEx, CMBIGM

Fig. 6: Investment performance under IFRS 9 on a comparable basis

Investment performance	1Q24	1Q23	Y/Y %	2023	2022_R	Y/Y %	9M23	9M22_R	Y/Y %
Net investment yield (%)	2.82	3.62	-0.8 pct	3.70	3.96	-0.3 pct	3.81	4.12	-0.3 pct
Total investment yield (%)	3.23	4.21	-1.0 pct	2.43	3.90	-1.5 pct	2.81	4.03	-1.2 pct

Investment assets & Total assets	1Q24	2023	Chg.	2023	2022_R	Chg.	9M23	2022_R	Chg.
Total investment assets (RMB bn)	5,931.9	5,659.3	4.8%	5,659.3	4,811.9	17.6%	5,520.0	4,811.9	14.7%
~ as a % of total assets	97.7%	97.5%	0.2 pct	0.0%	0.0%	0.0 pct	95.8%	97.5%	-1.7 pct
Total assets (RMB bn)	6,070.8	5,802.1	4.6%	5,802.1	5,010.1	15.8%	5,759.4	5,010.1	15.0%

Investment income under IFRS 9	1Q24	1Q23	Y/Y %	2023	2022_R	Y/Y %	9M23	9M22_R	Y/Y %
Net investment income (RMB mn)	42,681	42,724	-0.1%	185,866	178,870	3.9%	148,340	145,686	1.8%
Total investment income (RMB mn)	64,657	60,314	7.2%	123,082	176,277	-30.2%	109,997	142,565	-22.8%

Source: Company data, HKEx, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		182,578	212,445	208,190	206,682	205,875
Insurance service expenses		(131,614)	(150,353)	(147,727)	(146,657)	(146,084)
Net expenses from reinsurance contracts held		2,155	(288)	(136)	(128)	(120)
Insurance service results		53,119	61,804	60,327	59,897	59,670
Net finance (expenses)/income from insurance contracts		(148,700)	(127,923)	(103,925)	(114,143)	(137,415)
Net finance (expenses)/income from reinsurance contracts		583	616	0	0	0
Interest income		0	122,994	125,069	133,387	145,110
Net investment income		175,360	(9,375)	(9,596)	(4,525)	13,078
Credit impairment losses		(3,150)	1,217	0	0	0
Net investment results		24,093	(12,471)	11,547	14,718	20,773
Other income		8,944	10,603	11,133	11,690	12,274
Other expenses		(15,212)	(18,131)	(17,854)	(18,389)	(18,941)
Other results		(11,131)	(12,836)	(12,294)	(12,552)	(12,811)
Profit before tax		70,060	44,576	64,453	67,033	72,701
Income taxes		(1,948)	2,971	(16,113)	(16,758)	(18,175)
Net profit		68,112	47,547	48,339	50,275	54,526
Net profit attributable to shareholders		66,680	46,181	46,329	48,168	52,217

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions	542,403	524,100	433,014	479,671	526,319	572,004
Balances with central bank and statutory deposits	6,333	6,333	6,520	7,223	7,925	8,613
Investments in associates and joint ventures	258,933	262,488	258,760	263,961	269,267	274,679
Property	58,150	56,369	55,190	58,208	61,433	64,876
Investment property	13,374	13,193	12,753	14,127	15,501	16,846
Reinsurance contract assets	19,327	24,096	25,846	28,843	32,068	35,623
Financial investments:	3,599,689	3,878,185	4,798,898	5,333,926	5,852,651	6,360,661
At amortized cost:	0	0	211,349	235,405	258,298	280,719
At fair value through other comprehensive income:	0	0	2,882,174	3,209,392	3,521,505	3,827,172
At fair value through profit or loss:	0	0	1,705,375	1,889,129	2,072,847	2,252,770
Deferred tax assets	24,180	46,126	24,431	37,373	57,170	87,454
Other assets	82,519	71,584	37,369	43,999	231,034	1,115,728
Cash and cash equivalents	60,459	127,594	149,305	147,445	161,785	175,827
Total assets	4,665,367	5,010,068	5,802,086	6,414,777	7,215,152	8,712,311
LIABILITIES						
Insurance contract liabilities	3,809,716	4,266,947	4,859,175	5,422,710	6,028,920	6,697,347
Borrowings	19,222	12,774	12,857	12,698	12,542	12,387
Obligations under repurchase agreements	239,446	148,958	216,851	204,924	193,653	183,002
Deferred tax liabilities	999	272	0	0	0	0
Current tax liabilities	248	238	309	328	348	369
Bonds payable	34,994	34,997	36,166	37,725	39,350	41,046
Other liabilities	164,095	170,749	189,506	230,488	419,653	1,243,802
Total liabilities	4,268,874	4,635,095	5,315,052	5,908,874	6,694,466	8,177,953
EQUITIES						
Share capital	28,265	28,265	28,265	28,265	28,265	28,265
Reserves	156,677	99,033	145,933	129,972	109,788	84,949
Retained profits	203,478	238,723	302,895	337,070	371,340	409,107
Total shareholders' equity	388,420	366,021	477,093	495,307	509,393	522,321
Non-controlling interests	8,073	8,952	9,941	10,596	11,293	12,037
Total equity	396,493	374,973	487,034	505,903	520,686	534,358
Total liabilities & equity	4,665,367	5,010,068	5,802,086	6,414,777	7,215,152	8,712,311

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	0.65	0.49	0.43	0.49	0.51	0.55
EPS (Reported)	1.80	2.36	1.63	1.64	1.70	1.85
Consensus EPS	n.a	n.a	n.a	1.56	1.70	2.00
Group embedded value/share (HK\$)	42.56	43.54	44.60	45.61	46.96	48.92
VNB/share (HK\$)	1.58	1.27	1.45	1.49	1.63	1.80
No. of shares basic	28,265	28,265	28,265	28,265	28,265	28,265
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Return on equity (ROE)	10.9%	17.3%	9.7%	9.5%	9.7%	10.1%
Return on asset (ROA)	1.1%	1.4%	0.9%	0.8%	0.7%	0.7%
Return on life embedded Value	13.9%	3.8%	3.6%	3.2%	4.0%	5.3%
VNB margin (FYP APE basis)	n.a	17.8%	17.5%	19.2%	19.8%	20.4%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)	0.2	0.2	0.2	0.2	0.2	0.2
P/B	0.6	0.7	0.6	0.6	0.5	0.5
Dividend yield (%)	6.7	5.1	4.5	5.1	5.3	5.7

Source: Company data, CMBIGM estimates | Note: P/L data in FY21 is not restated under new IFRS standards, and thus not included on a comparable basis.

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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