

New China Life (1336 HK)

Set off to a challenging 2020

NCI's 2019 results were mixed, reflecting both achievements and uncertainties. Net profit +83.8% YoY, NBV -19.9% and EV +18.4%. 2019 is a year of reflection and preparation for NCI. Setting off again in 2020, the Company will continue to face challenges executing new strategic missions, which aims for balanced growth of volume and quality. Nevertheless, current low valuation offers cushion.

■ **Result highlights.** **1)** Net profit increased 83.8% YoY to RMB 14.56bn, thanks primarily to increase in investment income and tax deductions; **2)** Agent headcount rose 37% YoY/31.3% HoH to 507,000 at YE19. Team expansion laid foundation for premium and business growth. **3)** Underwriting quality improved, underpinned by declining surrender rate and increasing 25-month persistency ratio. **4)** Total investment yield edged up 0.3ppt to 4.9%, boosting investment assets to grow 20%. Proportion of common stocks and funds reached 12.2% at YE19, up 1.5ppt YoY.

■ **Result negatives.** **1)** NBV -19.9% YoY (-8.7%/-32.5% in 1H/2H). Not only FYRP decreased (-6.7%), but also NBV margin shrank 11.6ppt to 36.5% on standardized premium basis. **2)** Agent qualified rate declined 5.7ppt to 33.1%, which foreshadows difficulties in 2020 to solidify agent team and boost productivity. **3)** Net investment yield inched down 0.2ppt to 4.8%, though total investment yield edged up 0.3ppt to 4.9%. As interest rate goes down and previous high-yield investment matures, the Company's NIY may be under pressure. **4)** EV increased 19.8% primary due to positive investment experience variances and other adjustment, instead of more "organic" new business growth.

■ **Risks.** 1) NBV margin pressure; 2) FYRP growth despite above-peers GWP growth in Jan-Feb; 3) Investment yield decline.

■ **Trim TP to HK\$ 37.30. Reiterate BUY.** We revise up CoR assumption to reflect market volatilities and lower NBV/EV forecast to reflect margin pressure. We thereby trim TP to HK\$ 37.3. The Company's H-share is now trading at merely 0.31x FY20E P/EV. Too much concerns have been priced in.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	122,286	138,131	152,231	167,375	183,105
YoY Growth (%)	11.9	13.0	10.2	9.9	9.4
Total income (RMB mn)	151,964	172,103	189,238	206,757	225,798
Net profit (RMB mn)	7,922	14,559	11,728	13,770	15,296
EPS (RMB)	2.54	4.67	3.76	4.41	4.90
EPS CHG (%)	47.2	83.8	-19.4	17.4	11.1
Consensus EPS (RMB)	2.54	4.37	3.83	4.36	5.22
P/B (x)	1.02	0.79	0.71	0.64	0.57
P/EV (x)	0.39	0.33	0.31	0.28	0.26
Yield (%)	3.58	6.56	5.28	6.21	6.89
RoEV (%)	13.9	19.8	9.0	10.3	9.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$37.30
 (Previous TP) HK\$42.59
Up/Downside +56.1%
Current Price HK\$23.90

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Stock Data

Mkt Cap (HK\$ mn)	117,404
Avg 3 mths t/o (HK\$ mn)	309.67
52w High/Low (HK\$)	45.84/20.45
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%

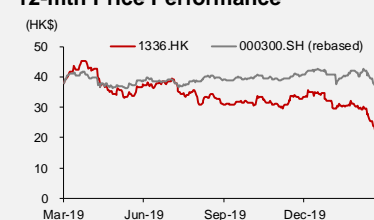
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-21.0%	-13.0%
3-mth	-27.1%	-20.7%
6-mth	-23.4%	-20.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. "Lackluster FYRP growth likely weighs on NBV" – 31 Oct 2019
2. "Clearer firm strategy in 2H19" – 30 Aug 2019
3. "Margin pressure and transition uncertainties" – 2 Jul 2019
4. "Strong FYRP growth in 1Q19" – 29 Apr 2019

Figure 1: NCI's 2019 results summary

(RMB mn)									vs.
P&L	3Q19	4Q19	QoQ	4Q18	YoY	2018A	2019A	YoY	CMBIS est.
Gross written premiums	33,897	30,259	-10.7%	22,333	35.5%	122,341	138,171	12.9%	4.6%
Net premiums earned	33,160	30,224	-8.9%	22,401	34.9%	120,002	135,443	12.9%	5.0%
Investment income	8,425	10,733	27.4%	6,812	57.6%	31,185	35,842	14.9%	5.1%
Total income	41,906	41,105	-1.9%	29,331	40.1%	151,964	172,103	13.3%	5.0%
Insurance benefits and claims	(31,584)	(30,919)	-2.1%	(21,066)	46.8%	(109,842)	(125,928)	14.6%	8.8%
Underwriting costs	(4,083)	(3,846)	-5.8%	(3,634)	5.8%	(16,711)	(16,872)	1.0%	4.6%
Admin expenses	(2,893)	(4,632)	60.1%	(3,692)	25.5%	(11,968)	(13,037)	8.9%	6.4%
Total expenses	(39,867)	(39,445)	-1.1%	(28,231)	39.7%	(140,755)	(158,342)	12.5%	7.9%
Associates and JVs	42	282	571.4%	268	5.2%	404	502	24.3%	28.1%
Pre-tax profit	2,429	900	-62.9%	265	239.6%	10,510	13,221	25.8%	-20.3%
Income tax	29	656		(45)		(2,587)	1,339		
Less: Minority interests	-	2	n/a	2	0.0%	1	1		
Net profit	2,458	1,556	-36.7%	220	607.3%	7,922	14,559	83.8%	-8.0%
									vs.
B/S	3Q19	4Q19	QoQ	4Q18	YoY	2018A	2019A	YoY	CMBIS est.
Investment assets	784,969	839,447	6.9%	773,231	8.6%	699,826	839,447	20.0%	5.7%
Total assets	822,083	878,970	6.9%	733,929	19.8%	733,929	878,970	19.8%	6.0%
Insurance contracts liabilities	639,198	658,191	3.0%	594,620	10.7%	594,620	658,191	10.7%	3.8%
Total liabilities	742,275	794,509	7.0%	668,333	18.9%	668,333	794,509	18.9%	6.6%
Equity attr. to shareholders	79,798	84,451	5.8%	65,587	28.8%	65,587	84,451	28.8%	1.0%
									vs.
Key indicators	3Q19	4Q19	QoQ	4Q18	YoY	2018A	2019A	YoY	CMBIS est.
FYRP (RMB mn)	4,299	3,344	-22.2%	3,542	-5.6%	20,734	19,341	-6.7%	-7.5%
NBV (RMB mn)	n/a	n/a	n/a	n/a	n/a	12,210	9,779	-19.9%	-15.7%

Source: Company data, CMBIS estimates

Financial Summary

Income statement						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Gross written premium	122,341	138,171	152,323	167,471	183,204	Growth (%)					
Net premiums earned	120,002	135,443	149,015	163,850	179,280	GWP growth	11.9	12.9	10.2	9.9	9.4
Investment income	31,185	35,842	39,352	42,004	45,589	Total income growth	6.2	13.3	10.0	9.3	9.2
Other operating income	777	818	871	902	929	Net profit growth	47.2	83.8	(19.4)	17.4	11.1
Total income	151,964	172,103	189,238	206,757	225,798	EV growth	12.8	18.4	6.9	8.7	7.9
Insurance claims and reserves	(109,842)	(125,928)	(138,566)	(149,966)	(163,643)	Net investment yield	5.0	4.8	4.6	4.6	4.5
Commissions expenses	(16,711)	(16,872)	(17,882)	(19,990)	(21,872)	Total investment yield	4.6	4.9	4.7	4.6	4.6
Other operating expenses	(14,202)	(15,542)	(16,659)	(18,382)	(19,978)	Investment assets growth	1.7	20.0	10.2	9.1	8.0
Total expenses	(140,755)	(158,342)	(173,106)	(188,337)	(205,493)	Underwriting (%)					
Associates and JVs	404	502	527	553	581	Agent FYRP growth	(25.0)	(5.3)	5.0	10.0	8.0
Finance cost	-1,103	-1,042	-1,021	-613	-490	Bancassurance FYRP growth	(26.9)	(11.6)	8.0	6.0	5.0
Pre-tax profit	10,510	13,221	15,638	18,361	20,396	Agent FYRP/FYRP	77.3	78.5	78.0	78.6	79.1
Income tax	(2,587)	1,339	(3,910)	(4,590)	(5,099)	Renewal growth	23.8	10.4	9.3	8.8	9.1
Less: Minority interests	1	1	1	1	1	Renewal/overall GWP	79.9	78.0	77.3	76.4	76.2
Net profit	7,922	14,559	11,728	13,770	15,296	NBV (RMB mn)	12,210	9,779	9,550	10,763	11,752
						NBV growth	1.2	(19.9)	(2.3)	12.7	9.2
						NBV margin (APE)	50.8	40.0	34.8	34.4	33.9
						Returns (%)					
Balance sheet						RoEV	13.9	19.8	9.0	10.3	9.6
YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E	Solvency (%)					
Investment assets	699,826	839,447	929,889	1,014,382	1,095,157	Core solvency ratio	269.6	283.6	272.7	267.3	264.6
Other assets	34,103	38,371	40,214	42,713	45,184	Comprehensive solvency ratio	274.5	283.6	272.7	267.3	264.6
Total assets	733,929	877,818	970,103	1,057,095	1,140,341	Per share					
Insurance liabilities	594,620	658,191	728,391	805,089	887,955	EPS (RMB)	2.54	4.67	3.76	4.41	4.90
Other liabilities	73,713	136,318	147,775	146,665	134,631	DPS (RMB)	0.77	1.41	1.14	1.33	1.48
Total liabilities	668,333	794,509	876,165	951,754	1,022,586	EVPS (RMB)	55.51	65.73	70.23	76.32	82.31
Shareholders' equity	65,587	84,451	93,928	105,331	117,745	BVPS (RMB)	21.02	27.07	30.11	33.76	37.74
Minority interest	9	10	10	10	10						
Total equity	65,596	84,461	93,938	105,341	117,755						

Source: Company data, CMBIS estimates

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