

China Life (2628 HK)

NBV growth in line

China Life reported in-line 2020 results. NBV stayed largely flat YoY, beating industry peers. Net profit declined 13.8% YoY to RMB 50.3bn, mostly due to increase in insurance reserves and tax benefits in 2019. China Life has been progressing in technology deployment and strengthening sales force. We remain positive that deeper reforms will continue to be carried out by the Company.

- **Results positives.** 1) NBV in line and beat peers. Over the full year, NBV was RMB58.37bn, basically flat vs. RMB58.7bn in 2019. Agent channel NBV increased 1.2% to RMB57.7bn. 2) Business structure remained stable under adverse market conditions. Agent channel FYP increased 5.6% YoY and FYRP was up 3.7% YoY. NBV margin (APE-based) only edged mildly down by 1.3ppt to 48.4% for the individual channel. 3) Enhanced sales force quality. The Company adhered to the strategy of productive agents-driven business via tightening recruitment and management. Individual agent headcount was 1.378 million at YE20 vs. 1.745 million at YE19, whereas monthly average productive agents increased 9.7% YoY. 4) Administrative expenses ratio declined further to 4.68%, down 0.84ppt YoY, which reflected improving cost management of the Company.
- **Results negatives.** 1) Net profit decreased 13.8% to RMB 51.3bn mainly because of a) changes in discount rate assumptions resulted in an increase in insurance reserve, which reduced pre-tax profit by RMB 38.54bn, and b) pre-tax deduction of underwriting and policy acquisition costs adopted in 2019. 2) Net investment yield went down 27bps YoY to 4.34% and gross investment yield nudged up 6bps to 5.3%. Comprehensive investment yield went down 95bps to 6.33% due to fewer fair value gains of AFS securities were recognized in OCI this year.
- **Valuation.** We roll over valuation basis to YE21. We trim TP to HK\$ 23.67 to reflect changes in financial estimates and valuation assumptions. The Company's H-share is trading at 0.35x/0.32x FY21/22E P/EV. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY19A	FY20E	FY21E	FY22E	FY23E
GWP (RMB mn)	567,086	612,265	649,649	693,344	738,983
YoY growth (%)	5.8	8.0	6.1	6.7	6.6
Total income (RMB mn)	729,474	804,961	831,786	891,827	952,296
Net profit (RMB mn)	58,287	50,268	53,796	60,536	67,080
EPS (RMB)	2.05	1.77	1.87	2.11	2.34
YoY Growth (%)	421.2	-13.7	5.8	12.7	11.0
Consensus EPS (RMB)	N.A.	N.A.	1.99	2.28	2.50
P/B (x)	0.93	0.84	0.77	0.70	0.64
P/EV (x)	0.40	0.35	0.32	0.30	0.28
Yield (%)	5.5	4.8	5.1	5.8	6.4
ROEV (%)	19.1	16.8	10.4	10.6	10.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$23.67
(Previous TP)	HK\$28.14)
Up/Downside	+47.6%
Current Price	HK\$16.04

China Insurance Sector

Wenjie Ding, PhD

(852) 3900 0856 / (86) 755 2367 5597
dingwenjie@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	916,254
Avg 3 mths t/o (HK\$ mn)	991.91
52w High/Low (HK\$)	21.9/13.19
Total Issued Shares (mn)	7,441 (H)
	1,500 (A)

Source: Bloomberg

Shareholding Structure

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

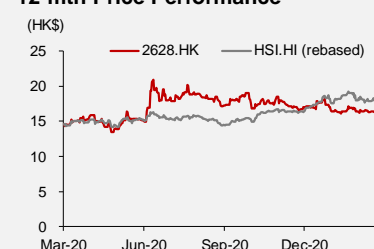
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.0%	0.3%
3-mth	-5.6%	-12.4%
6-mth	-7.0%	-22.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. "3Q20 in line despite NBV growth deceleration" – 29 Oct 2020
2. "Outperforming 1H20" – 27 Aug 2020
3. "Resilient against headwinds" – 24 Apr 2020
4. "Quality growth achieved" – 26 Mar 2020

Figure 1: China Life's 2020 results summary

(RMB mn)				
P&L	2020A	2019A	YoY	vs. CMBIS Est.
Gross written premiums	612,265	567,086	8.0%	-0.3%
Net premiums earned	604,666	560,278	7.9%	-0.3%
Investment income	190,980	161,001	18.6%	1.7%
Total income	804,961	729,474	10.3%	0.2%
Insurance benefits and claims	(580,801)	(509,467)	14.0%	2.8%
Underwriting costs	(84,342)	(81,396)	3.6%	-7.2%
Total expenses	(758,139)	(677,690)	11.9%	-0.8%
Associates and JVs	7,666	8,011	-4.3%	-8.9%
Pre-tax profit	54,488	59,795	-8.9%	14.1%
Income tax	(3,103)	(781)	297.3%	-150.0%
Less: Minority interests	1,117	727	53.6%	-54.3%
Net profit	50,268	58,287	-13.8%	-2.4%

B/S	2020A	2019A	YoY	vs. CMBIS Est.
Investment assets	4,095,454	3,573,154	14.6%	-0.5%
Total assets	4,252,410	3,726,734	14.1%	1.9%
Insurance contracts liabilities	2,973,225	2,552,736	16.5%	-2.8%
Total liabilities	3,795,479	3,317,392	14.4%	1.8%
Equity attr. to shareholders	450,051	403,764	11.5%	2.4%

Key indicators	2020A	2019A	YoY	vs. CMBIS Est.
NBV (RMB mn)	58,373	58,698	-0.6%	-1.6%
FYRP (RMB mn)	115,421	109,416	5.5%	-7.4%
Net investment yield	4.34%	4.61%	-27bp	-3bp
Gross investment yield	5.30%	5.24%	+6bp	0bp

Source: Company data, CMBIS

Financial Summary

Income

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	Key ratios	FY19A	FY20A	FY21E	FY22E	FY23E
Gross written premium	567,086	612,265	649,649	693,344	738,983	Growth (%)					
Net premiums earned	560,278	604,666	642,500	685,616	730,754	GWP growth	5.8	8.0	6.1	6.7	6.6
Investment income	161,001	190,980	179,402	195,662	210,299	Total income growth	16.3	10.3	3.3	7.2	6.8
Other operating income	8,195	9,315	9,884	10,549	11,243	Net profit growth	411.5	(13.8)	7.0	12.5	10.8
Total income	729,474	804,961	831,786	891,827	952,296	EV growth	18.5	13.8	8.1	8.3	8.4
						Net investment yield	4.6	4.3	4.2	4.1	4.1
Insurance claims and reserves	(509,467)	(580,801)	(589,987)	(628,960)	(669,739)	Total investment yield	5.2	5.3	4.5	4.5	4.4
Policyholder dividends	(22,375)	(28,279)	(26,565)	(28,972)	(29,844)	Investment assets growth	15.1	14.6	10.8	8.5	7.6
Other operating expenses	(145,848)	(149,059)	(157,874)	(168,112)	(178,758)						
Total expenses	(677,690)	(758,139)	(774,426)	(826,045)	(878,342)	Underwriting (%)					
						FYRP growth	4.8	5.5	10.0	9.1	8.0
Associates and JVs	8,011	7,666	7,336	7,020	6,718	Agent FYRP growth	21.1	3.7	10.0	9.0	8.0
Pre-tax profit	59,795	54,488	64,696	72,802	80,672	Agent FYRP/FYRP	87.7	86.3	86.3	86.2	86.2
						Renewal growth	5.8	8.4	5.1	6.3	6.4
Income tax	(781)	(3,103)	(9,704)	(10,920)	(12,101)	Renewal/overall GWP	68.0	68.3	67.7	67.4	67.3
Less: Minority interests	727	1,117	1,195	1,345	1,491	NBV growth	18.6	(0.6)	6.1	6.4	6.3
Net profit	58,287	50,268	53,796	60,536	67,080	NBV margin (Agent, APE)	41.4	37.0	39.3	38.4	37.9

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	Returns (%)					
Investment assets	3,573,154	4,095,454	4,539,747	4,925,062	5,298,857	RoEV	19.1	16.8	10.4	10.6	10.8
other assets	150,488	153,880	172,141	317,706	503,821	ROE	16.1	11.8	11.4	11.8	11.9
Total assets	3,726,734	4,252,410	4,711,888	5,242,769	5,802,678	Solvency (%)					
						Core solvency ratio	266.7	260.1	258.6	261.1	262.7
Insurance liabilities	2,552,736	2,973,225	3,355,582	3,783,438	4,231,161	Comprehensive solvency ratio	276.5	268.9	266.6	268.3	269.2
Other liabilities	764,656	822,254	858,058	912,817	971,214						
Total liabilities	3,317,392	3,795,479	4,213,640	4,696,255	5,202,375	Per share					
						EPS (RMB)	2.05	1.77	1.87	2.11	2.34
Shareholders' equity	403,764	450,051	490,668	538,198	591,169	DPS (RMB)	0.73	0.64	0.68	0.77	0.85
Minority interest	5,578	6,880	7,581	8,315	9,134	EVPS (RMB)	33.33	37.93	41.00	44.41	48.14
Total equity	409,342	456,931	498,249	546,513	600,303	BVPS (RMB)	14.29	15.92	17.36	19.04	20.92

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

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

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.