

# China Life (2628 HK)

## 3Q NP dragged by investment setbacks; first-in-sector steady agent scale props up 2024 NBV

China Life disclosed 3Q results with net profit attributable to shareholders declined by 36.0% YoY in 9M23, indicating a net loss of RMB610mn in 3Q23 (vs a net gain of RMB16.2bn in 3Q22). The drop under the old standard was sharper, shown as -47.8%/-99.1 YoY in 9M/3Q23. We see the 3Q net earnings setback a result of: 1) pressured investment income, with total investment yield down to 2.81%, -1.22pct/-0.52pct from 9M22/1H23; and 2) enlarged impairment loss on equities of RMB19.7bn in 3Q, versus RMB9.1bn in 2Q (+117% QoQ). Despite investment underperformance, the company showed in-line NBV growth by +14.0% YoY in 9M23, driven by +14.8% YoY in first-year premiums (FYP). We estimate that 3Q NBV was down by ~6% YoY, possibly caused by certain demands released in advance before Jul 31. Given the equity market fluctuations likely continue to pressure on earnings, we lower the FY23-FY25E earnings forecasts to RMB21.9bn/RMB 42.3bn/RMB47.4bn (vs prior: RMB 40.8bn/RMB45.3bn/RMB50.2bn).

■ **Investment pressure continued in 3Q.** The company recorded a net loss of RMB610mn in 3Q, -104% YoY amid continued fluctuations in Chinese equity markets. The CSI 300/SHCOMP/GEI Index fell by 3.98%/2.86%/ 9.53% in 3Q (vs 2Q: -5.15%/-2.16%/-7.69%) (Fig.1-3), giving rise to more volatile returns during transitions to new accounting standard. The insurer's total investment income declined 22.8%/57.5% YoY in 9M/3Q23 to RMB110bn, sliding from -7.3%/-28.8% YoY in 1H/2Q23. The mgt. addressed the decline was due to the added positions of equity instruments in 3Q22, at the market lows by then, yet given continued weakness in fair value over costs for more than a year, the paper loss ultimately being reflected into spread and impairment losses, and negatively affected to P/L net income. In our interim report, we viewed the NP pushback of China Life as a common topic of the sector (link), not representing the company's underwriting fundamentals. We still maintain that stance and yet considering the investment volatility to sustain in 4Q, we see possibilities of further equity impairments to be recorded, which may stress the Group's overall profitability. Given this, we revise down FY23-25E earnings to RMB 21.9bn/RMB42.3bn/RMB47.4bn, with corresponding est. total investment yield at 3.1%/3.5%/3.6% over the period.

■ **Steady agency and resumed services for jumpstart pre-paid clients.** The company reported a total number of 0.66mn agents in 3Q, stabilizing from a scale of 0.661mn in 1H23 (-0.2% QoQ), as the industry-first to see a steady agent team. We estimate the 3Q NBV down by ~6%, largely in line, with NBV margin staying flat. The resumption of the jumpstart services to pre-paid customers lowered concerns on the company's recent operations. With increased productivity (3Q: FYRP per agent +28.6% YoY) and a steady team size, we maintain a positive outlook on the insurer's NBV growth in 2024.

■ **Valuation:** The Company is now trading at 0.2x FY23E P/EV and 0.6x FY23E P/B, well below 2yr/5yr avg.-1std. With GCNY10 steady above 2.7% (Fig.4), we expect the valuation to enjoy a rebound with economic recovery.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (RMB mn)	50,766	32,082	21,931	42,294	47,384
EPS (RMB)	1.80	1.14	1.44	1.70	1.89
Consensus EPS (RMB)	na	na	1.34	1.90	1.99
VNB/share (RMB)	1.58	1.27	1.48	1.67	1.76
P/B (x)	0.7	0.7	0.6	0.6	0.6
P/Embedded value (x)	0.2	0.2	0.2	0.2	0.2
Dividend yield (%)	5.3	4.8	6.2	6.9	7.7
ROE (%)	10.9	7.0	6.5	9.1	9.5

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$17.81**  
 (Previous TP) **HK\$17.81)**  
**Up/Downside** **66.4%**  
**Current Price** **HK\$10.70**

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### Stock Data

Mkt Cap (HK\$ mn)	79,618.7
Avg 3 mths t/o (HK\$ mn)	377.3
52w High/Low (HK\$)	15.70/8.55
Total Issued Shares (mn)	7441.0

Source: FactSet

### Shareholding Structure

Ministry of Finance	90.0%
NCSSF	10.0%

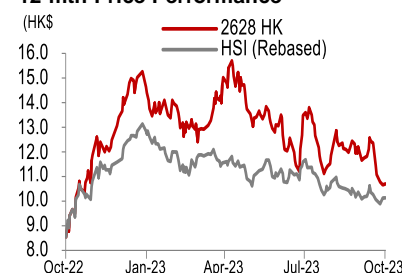
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-12.3%	-10.3%
3-mth	-20.6%	-9.2%
6-mth	-28.8%	-18.6%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Auditor: Ernst & Young**

### Recent reports:

- China Life (2628 HK) – Outpaced VNB growth in 1H23; short-term NP pushback not affect value growth – Aug 25, 2023 (link)

## China Life 9M / 3Q23 key metrics overview

China Life(2628 HK):	9M23	9M22	Y/Y %	3Q23	3Q22	Y/Y %	2Q23	2Q22	Y/Y %
<b>Profitability &amp; NAV under IFRS vs ASBE:</b>									
Insurance revenue	136,439	137,385	-0.7%	44,498	45,660	-2.5%	44,758	45,615	-1.9%
Insurance service expenses	(99,171)	(95,987)	3.3%	(34,325)	(32,753)	4.8%	(33,686)	(28,803)	17.0%
Net reinsurance premiums income/(expenses)	(452)	1,616	n.a	596	1,228	-51.5%	(917)	371	n.a
<b>Insurance service results</b>	<b>36,816</b>	<b>43,014</b>	<b>-14.4%</b>	<b>10,769</b>	<b>14,135</b>	<b>-23.8%</b>	<b>10,155</b>	<b>17,183</b>	<b>-40.9%</b>
<b>Net profit to equity S/H (IFRS)</b>	<b>35,541</b>	<b>55,514</b>	<b>-36.0%</b>	<b>(610)</b>	<b>16,209</b>	<b>-103.8%</b>	<b>18,266</b>	<b>24,153</b>	<b>-24.4%</b>
<b>Net profit to S/H (ASBE)</b>	<b>16,209</b>	<b>31,025</b>	<b>-47.8%</b>	<b>53</b>	<b>5,669</b>	<b>-99.1%</b>	<b>(11,192)</b>	<b>9,991</b>	<b>-212.0%</b>
<b>Net asset value to S/H (IFRS)</b>	<b>474,739</b>	<b>366,021</b>	<b>29.7%</b>						
<b>Net asset value to S/H (ASBE)</b>	<b>441,878</b>	<b>436,169</b>	<b>1.3%</b>						
<b>Core life metrics:</b>									
	9M23 / 22	1H23 / 22	1Q23 / 22	FY22 / 21	9M22 / 21	1H22 / 21	1Q22 / 21		
<b>Value of new business</b>	<b>14.0%</b>	<b>19.9%</b>	<b>7.7%</b>	<b>-19.6%</b>	<b>-15.4%</b>	<b>-13.8%</b>	<b>-14.3%</b>		
<b>Premiums income breakdown:</b>									
First-year premiums (FYP)	196,656	171,338	14.8%	25,443	31,980	-20.4%	53,544	38,463	39.2%
First-year regular premiums	105,982	91,370	16.0%	8,564	11,532	-25.7%	25,940	14,472	79.2%
<b>10 yrs+ FYRP</b>	<b>44,639</b>	<b>38,694</b>	<b>15.4%</b>	<b>5,682</b>	<b>8,468</b>	<b>-32.9%</b>	<b>18,875</b>	<b>11,120</b>	<b>69.7%</b>
<i>as a % of FYP</i>	<i>42.1%</i>	<i>42.3%</i>	<i>-0.2 pct</i>	<i>66.3%</i>	<i>73.4%</i>	<i>-7.1 pct</i>	<i>72.8%</i>	<i>76.8%</i>	<i>-4.1 pct</i>
First-year single premiums	69,319	79,968	-13.3%	(4,476)	20,448	-121.9%	27,604	23,991	15.1%
Renewals	382,143	382,767	-0.2%	83,241	82,156	1.3%	89,350	86,495	3.3%
Gross written premiums (GWP)	578,799	554,105	4.5%	108,684	114,136	-4.8%	142,894	124,958	14.4%
<b>Annualized Premiums Earned (APE)</b>	<b>112,914</b>	<b>99,367</b>	<b>13.6%</b>	<b>8,116</b>	<b>13,577</b>	<b>-40.2%</b>	<b>28,700</b>	<b>16,871</b>	<b>70.1%</b>
<b>No. of agents &amp; productivity:</b>									
	3Q23	2Q23	Q/Q%	2Q23	1Q23	Q/Q%	1Q23	4Q22	Q/Q%
No. of life insurance agents (mn)	0.660	0.661	-0.2%	0.661	0.662	-0.2%	0.662	0.668	-0.9%
<i>as a % of total sales force</i>	<i>91.5%</i>	<i>91.7%</i>	<i>-0.1 pct</i>	<i>91.7%</i>	<i>91.7%</i>	<i>0.0 pct</i>	<i>91.7%</i>	<i>91.6%</i>	<i>0.1 pct</i>
<b>Agent productivity (FYRP/agent)</b>			<b>28.6%</b>						
<b>Surrenders:</b>									
	9M23	9M22	Y/Y %	3Q23	3Q22	Y/Y %	2Q23	2Q22	Y/Y %
Surrenders	38,468	28,693	34.1%	10,987	9,578	14.7%	10,961	8,800	24.6%
Surrender rate (%)	0.88	0.74	0.14 pct	0.26	0.25	0.01 pct	0.26	0.24	0.03 pct
<b>CROSS-II Solvency ratio (%)</b>									
	3Q23	2Q23	Q/Q%	2Q23	1Q23	Q/Q%	1Q23	4Q22	Q/Q%
<b>Core solvency ratio</b>	<b>161.25</b>	<b>140.43</b>	<b>14.8%</b>	<b>140.43</b>	<b>147.53</b>	<b>-4.8%</b>	<b>147.53</b>	<b>143.59</b>	<b>2.7%</b>
Comprehensive solvency ratio	232.68	204.23	13.9%	204.23	210.19	-2.8%	210.19	206.78	1.7%

Source: Company data, HKEx, CMBIGM estimates

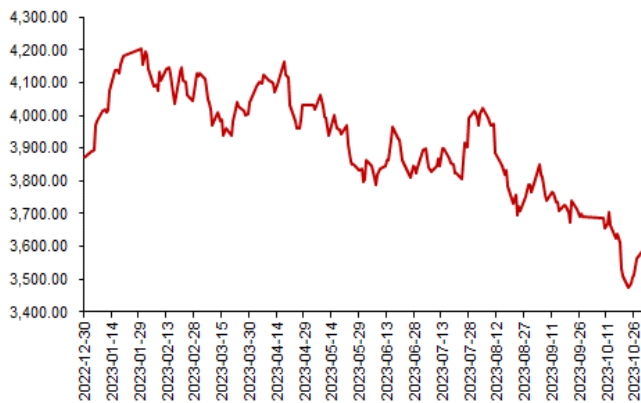
## China Life 9M / 3Q23 key metrics overview (continued)

Investment performance:	9M23	2022	Y/Y %	3Q23	3Q22	Y/Y %	1H23	2022	Y/Y %
Net investment yield (%)	3.81	4.00	-0.2 pct	4.24	3.93	0.3 pct	3.39	4.00	-0.6 pct
Total investment yield (%)	2.81	3.94	-1.1 pct	1.37	3.56	-2.2 pct	2.89	3.94	-1.0 pct
Total investment assets (bn)	5,519.95	4,811.89	14.7%	5,519.95	4,923.48	12.1%	5,386.67	4,811.89	11.9%
~ as a % of total assets	95.8%	96.0%	-0.2 pct	95.8%	96.0%	-0.2 pct	97.8%	96.0%	1.8 pct
Net investment income (mn)	148,340	145,686	1.8%	57,755	48,677	18.6%	45,009	51,195	-12.1%
Total investment income (mn)	109,997	142,565	-22.8%	18,625	44,023	-57.7%	38,440	53,984	-28.8%

Source: Company data, HKEx, CMBIGM estimates

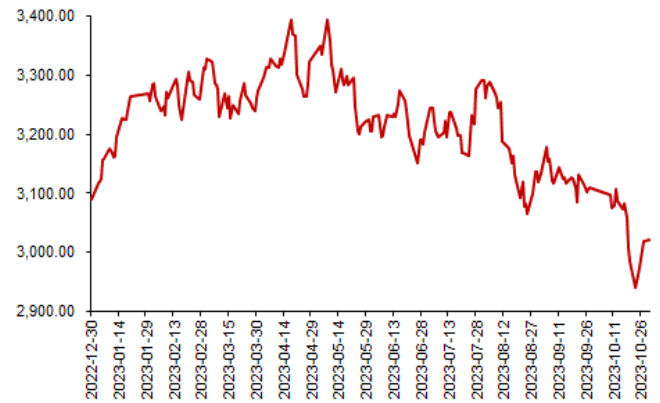
Note: The Company adopts the transition plan for the new accounting standards for insurance contracts from 1 Jan. 2023 to 31 Dec. 2025 with comparative info associated to insurance contracts (ASBE No. 25) restated, while those associated with financial instruments (ASBE No.22) was not required for restatements, which caused the difference in A-share and H-share report results.

Figure 1: CSI 300 YTD performance: 2Q/3Q -5.15%/-3.98%



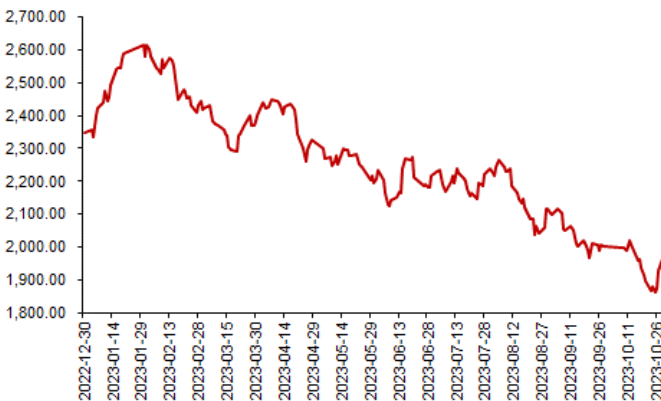
Source: Wind, CMBIGM

Figure 2: SHCOMP YTD performance: 2Q/3Q -2.16%/-2.86%



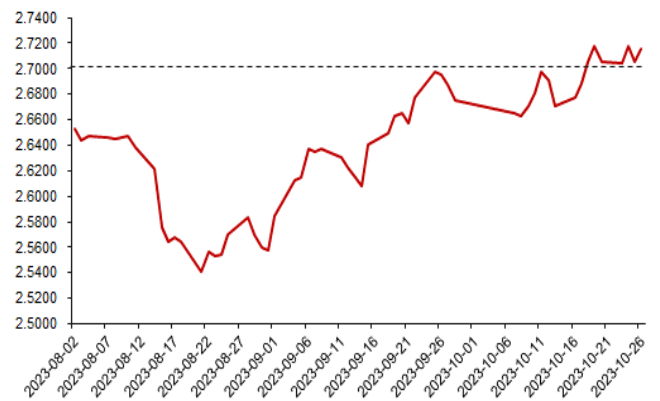
Source: Company data, CMBIGM

Figure 3: GEI YTD performance: 2Q/3Q -7.69%/-9.53%



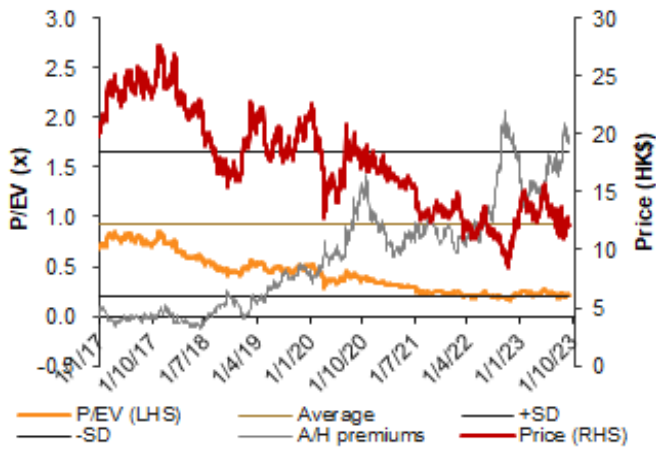
Source: Wind, CMBIGM

Figure 4: GCNY10 YTD stayed above 2.7% in mid Oct 23



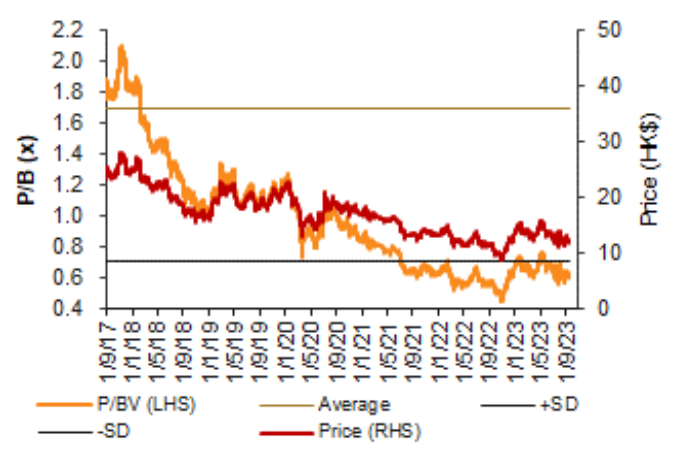
Source: Company data, CMBIGM

**Figure 5: China Life 12-month forward P/EV**



Source: Wind, CMBIGM estimates

**Figure 6: China Life 12-month forward P/B**



Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Total income</b>	<b>805,049</b>	<b>824,933</b>	<b>804,388</b>	<b>792,601</b>	<b>855,691</b>	<b>897,134</b>
Premiums written (gross)	612,265	618,327	615,190	634,496	658,781	689,503
Premiums earned (net)	604,666	611,251	607,825	626,900	650,894	681,248
Investment income	154,497	178,387	186,629	189,380	199,476	210,565
Realized gains (losses)	36,483	25,287	551	(34,000)	(5,000)	(5,000)
Other operating income	9,403	10,008	9,383	10,321	10,321	10,321
<b>Losses</b>	<b>(758,239)</b>	<b>(784,921)</b>	<b>(780,825)</b>	<b>(770,438)</b>	<b>(810,906)</b>	<b>(847,583)</b>
Selling	(580,801)	(618,754)	(631,978)	(626,379)	(659,381)	(689,464)
Underwriting & commissions	(84,361)	(65,744)	(54,777)	(56,496)	(58,658)	(61,394)
Other operating expense	(93,077)	(100,423)	(94,070)	(87,562)	(92,867)	(96,725)
Equity in affiliates (pretax)	7,666	10,328	484	3,291	4,306	5,448
<b>Pretax income</b>	<b>54,476</b>	<b>50,340</b>	<b>24,047</b>	<b>25,455</b>	<b>49,091</b>	<b>54,999</b>
Income taxes	(3,103)	1,917	9,467	(2,545)	(4,909)	(5,500)
<b>Consolidated net income</b>	<b>51,373</b>	<b>52,257</b>	<b>33,514</b>	<b>22,909</b>	<b>44,182</b>	<b>49,499</b>
Minority interest	1,116	1,491	1,432	979	1,888	2,115
<b>Net income</b>	<b>50,257</b>	<b>50,766</b>	<b>32,082</b>	<b>21,931</b>	<b>42,294</b>	<b>47,384</b>
<b>Net income available to common</b>	<b>50,257</b>	<b>50,766</b>	<b>32,082</b>	<b>21,931</b>	<b>42,294</b>	<b>47,384</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Assets</b>						
Cash & short-term investments	56,655	60,459	127,594	136,970	150,103	163,981
Total fixed income securities investment	2,399,915	2,735,661	2,662,594	2,620,314	2,871,550	3,137,042
Total equity securities investment	1,385,120	1,648,973	2,000,431	1,968,666	2,157,421	2,356,888
Real estate assets	70,040	71,524	69,562	67,882	69,159	70,509
Premium balance receivables	65,930	71,458	72,148	72,148	72,148	72,148
Investment in unconsolidated subs.	239,584	257,953	261,179	261,179	261,179	261,179
Deferred tax assets	87	121	22,307	22,307	22,307	22,307
Other assets	35,135	46,331	36,173	60,290	60,290	60,290
<b>Total assets</b>	<b>4,252,466</b>	<b>4,892,480</b>	<b>5,251,988</b>	<b>5,713,661</b>	<b>6,218,515</b>	<b>6,752,018</b>
<b>Liabilities &amp; shareholders' equity</b>						
<b>Insurance policy liabilities</b>	<b>2,973,225</b>	<b>3,419,899</b>	<b>3,880,160</b>	<b>4,289,492</b>	<b>4,760,422</b>	<b>5,262,684</b>
ST debt & curr. portion LT debt	299,981	421,461	306,697	584,764	584,764	584,764
Long-term debt	60,944	59,814	52,684	51,115	51,115	51,115
Deferred tax liabilities	15,286	7,481	272	272	272	272
Other liabilities	446,093	496,691	567,054	290,556	290,556	290,556
<b>Total liabilities</b>	<b>3,795,529</b>	<b>4,405,346</b>	<b>4,806,867</b>	<b>5,255,460</b>	<b>5,726,390</b>	<b>6,228,652</b>
<b>Total common equity</b>	<b>456,937</b>	<b>487,134</b>	<b>445,121</b>	<b>458,202</b>	<b>492,125</b>	<b>523,366</b>
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	209,769	243,692	274,933
Equity reserves	237,935	249,755	206,216	211,216	211,216	211,216
<b>Total shareholders' equity</b>	<b>450,056</b>	<b>479,061</b>	<b>436,169</b>	<b>449,250</b>	<b>483,173</b>	<b>514,414</b>
Minority interest	6,881	8,073	8,952	8,952	8,952	8,952
<b>Total equity</b>	<b>456,937</b>	<b>487,134</b>	<b>445,121</b>	<b>458,202</b>	<b>492,125</b>	<b>523,366</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>4,252,466</b>	<b>4,892,480</b>	<b>5,251,988</b>	<b>5,713,661</b>	<b>6,218,515</b>	<b>6,752,018</b>

<b>PER SHARE DATA</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
DPS	0.64	0.65	0.49	0.62	0.69	0.77
EPS (Reported)	1.77	1.80	1.14	1.44	1.60	1.77
Consensus EPS	na	na	na	1.34	1.90	1.99
Group embedded value/share (HK\$)	37.93	42.56	43.54	46.01	48.87	51.91
VNB/share (HK\$)	2.07	1.58	1.27	1.48	1.67	1.76
No. of shares basic	28,265	28,265	28,265	28,265	28,265	28,265
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Return on equity (ROE)	11.8%	10.9%	7.0%	6.5%	9.1%	9.5%
Return on asset (ROA)	1.3%	1.1%	0.6%	0.4%	0.7%	0.7%
Return on life embedded Value	12.9%	11.5%	2.3%	5.5%	6.0%	6.0%
VNB margin (FYP APE basis)	43.3%	38.1%	30.1%	31.1%	31.1%	31.1%
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	8.8	6.8	8.9	6.9	6.2	5.6
P/B	1.0	0.7	0.7	0.6	0.6	0.6
Div yield (%)	4.1	5.3	4.8	6.2	6.9	7.7
Div payout (%)	36.2	36.1	43.0	43.2	43.2	43.2

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

# Disclosures & Disclaimers

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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.

## CMBIGM 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 CMBIGM

**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

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