

China Life (2628 HK)

4Q net loss markedly narrowed; VNB grew in low-teens despite revised EV assumptions

China Life disclosed full-year results with net profit attributable to shareholders amounted to RMB 46.2bn (-30.7% YoY), equivalent to RMB 10.6bn net profit in 4Q23 (-4.7% YoY), significantly narrowed from -103.8% YoY to a net loss of RMB 610mn in 3Q23 (IFRS-based). The contraction in 4Q net loss outpaced expectation given the equity market movements exacerbated in 4Q23, evidenced by the CSI 300/SHCOMP -7.0%/-4.4% YoY in 4Q23, vs -4.4%/-2.9% YoY in 3Q23 (Fig. 5). We regard the narrowing quarterly loss a mix of: 1) strong rebound in insurance revenue by +32.6% in 2H23 (+68.2% YoY in 4Q23), underpinned by RMB 44.1bn contractual service margin release (+103.4% YoY) in 2H23, and 2) contracted net investment loss to c.RMB3.7bn in 4Q23, from c.RMB18.2bn in 3Q23 (Semi-Q). Despite EV revisions, the insurer sustained low-teen VNB growth by +11.9% YoY to RMB36.9bn (vs old assumptions: +14.0% YoY to RMB 41.0bn), and EV by +5.6% to RMB1.26tn (vs old: +5.1% YoY to RMB1.29tn). We anticipate the one-off impact of EV assumptions change will not affect the insurer's value generation, and expect net investment results to turn positive in 1H24 given better index performances in 1Q24 and increased fund proportions to bonds (55.8%), which is likely to yield for higher spread income within a low interest environment. Concerning pressured investment yield (<3%, Fig 8) and depressed sentiment, we derive our new target price under new IFRS standards at HK\$13.7, implying 0.3x FY24E P/EV based on P/EV-RoEV, cross-checked with DDM. Maintain BUY.

■ **Solid underwriting underpins insurance revenue.** The life insurer sustained resilient operating growth given the first-year premium (FYP)/first-year regular premium (FYRP) and 10yrs+ FYRP +14.1%/+16.7%/+18.4% YoY in 2023. Of which, agency FYP/agency FYRP grew by +10.8%/+12.6% to RMB110.4bn/RMB91.8bn, with the 10yrs+FYRP making up to 53.9% of the channel's FYRP, reflecting an optimized structure tilting towards long-term protection policies. Agency VNB +10.4% to RMB34.6bn implying strengthened VNB margin (FYP basis) to 29.9% (vs FY22: 27.4%) by end-2023. Bancassurance accumulated growth with the channel's FYP/FYRP/5yrs+FYRP +49.3%/+39.4%/+53.1% YoY. Other VNB, primarily contributed by bancassurance, jumped 42% YoY to RMB 2.21bn. With increased productivity to further unleash, we expect VNB to rise in the mid-teens in FY24, driven by both FYP and margin increases.

■ **EV assumptions chg. left limited impact to VNB growth.** China Life revised down key EV assumptions, in line with industry, with the long-term investment return -50bps to 4.5% and the risk discount rate (RDR) -200bps to 8%, landing at the low-end of the industry average (8%-10%). The refinements cut VNB by -10.2% to RMB36.86bn (+11.9% YoY), vs RMB41.04bn (+14.0% YoY) based on end-2022 assumptions, and EV by -2.5% to RMB 1.26tn (+5.6% YoY), vs RMB 1.29tn (+5.1% YoY). A write-off of RMB40.6bn was recorded to reflect the chg. (-3.3% to EV) and negative investment variances (-6.0% to EV), jointly resulted a FY23 ROEV at 3.4% (CMBI est). We expect the negative impact to be one-off and the revision allows better EV comprehension to macro exposure.

■ **Pressured investment still a key concern to valuation.** The insurer ended at 2.43% total investment yield and 3.70% net investment yield by end 2023, -1.47pct / -0.26pct YoY to prior year under restated new IFRS basis. The stock is now trading at 0.2x FY24E P/EV and 0.5x FY24E P/B, reflecting continued depressed sentiment given a downward-trending 10-year govt. bond yield to less than 2.3% (Fig. 9). Despite a cross-sector guide-down on LT investment return to 4.5%, concerns on macro headwinds weigh on the insurer's portfolio, of which 76% to fixed-income assets incl. cash, and contract H-share valuation. With respect to asset pressure and actuarial chg. on underlying assumptions, we adjust our target price based on P/EV-RoEV based on Gordon Growth and cross-check with the Dividend Discount Model (DDM). The new TP is HK\$13.7, implying 0.3x FY24E P/EV, and 0.7x FY24E P/B (Fig. 5). Maintain BUY rating.

BUY (Maintain)

Target Price **HK\$13.70**
(Previous TP) HK\$17.81
Up/Downside **47.2%**
Current Price **HK\$9.31**

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Stock Data

Mkt Cap (HK\$ mn)	731,037.0
Avg 3 mths t/o (HK\$ mn)	309.9
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%

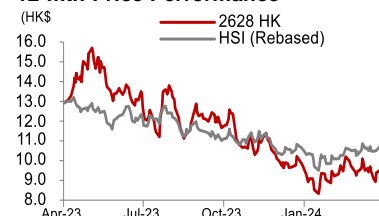
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.6%	-2.7%
3-mth	-3.2%	-4.3%
6-mth	-19.6%	-17.2%

Source: FactSet

12-month 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 (2628 HK) – 3Q NP dragged by investment setbacks; first-in -sector steady agent scale props up 2024 NBV, Oct 31, 2023 ([link](#))

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	68,112	47,547	61,582	65,609	71,496
EPS (Reported)(RMB)	2.36	1.63	1.88	2.00	2.18
Consensus EPS (RMB)	n.a	n.a	1.79	1.91	2.16
VNB/share (RMB)	1.27	1.45	1.49	1.63	1.80
Group EV / share (RMB)	43.54	44.60	45.88	47.35	49.22
P/B (x)	0.7	0.5	0.5	0.5	0.4
P/Embedded value (x)	0.2	0.2	0.2	0.2	0.2
Dividend yield (%)	5.7	5.0	7.3	7.8	8.5
ROE (%)	17.3	9.7	12.0	12.1	12.6

Source: Company data, Bloomberg, CMBIGM estimates

Semi-annual & quarterly operating metrics

Semi-annual P/L metrics	1H23	2H23	FY23	1H23	2H23	FY23
Insurance revenue	91,941	120,504	212,445	0.2%	32.6%	16.4%
Insurance service expense	(64,846)	(85,507)	(150,353)	-2.5%	25.0%	14.2%
Net reinsurance G/L	(1,048)	760	(288)	-370.1%	-57.0%	-113.4%
Insurance service results	26,047	35,757	61,804	-9.8%	47.5%	16.4%
Net insurance finance income/(expenses)	(73,793)	(53,514)	(127,307)			
Interest income / (expenses)	61,246	61,748	122,994			
Investment income, incl. AJVs	29,270	(30,566)	(1,296)			
<i>Investment income, excl. AJVs</i>	23,606	(32,981)	(9,375)			
Change in fair value (G/L)	0	0	0			
Credit impairment loss	797	420	1,217			
Net investment results	17,520	(21,912)	(4,392)			
<i>Net investment results, excl. AJVs</i>	11,856	(24,327)	(12,471)			
Net profit attribute to shareholders	36,151	10,030	46,181	-8.0%	-63.4%	-30.7%
Net asset value attribute to equity	477,935	477,093	477,093	30.6%	30.3%	30.3%

Source: Company data, CMBIGM | Note: investment results are not comparable as the insurer did not restate the investment-related data under IFRS 9 in FY22.

Quarterly P/L metrics	1Q23	2Q23	3Q23	4Q23	1Q23	2Q23	3Q23	4Q23
Insurance revenue	47,183	44,758	44,498	76,006	2.3%	-1.9%	-2.5%	68.2%
Insurance service expense	(31,160)	(33,686)	(34,325)	(51,182)	-9.5%	-17.0%	-4.8%	43.7%
Net reinsurance G/L	(131)	(917)	596	164	-870.6%	-347.2%	-51.5%	-69.6%
Insurance service results	15,892	10,155	10,769	24,988	35.9%	-40.9%	-23.8%	147.3%
Net insurance finance income/(expenses)	(41,367)	(32,426)	(26,771)	(26,743)				
Interest income / (expenses)	29,569	31,677	27,227	34,521				
Investment income, incl. AJVs	17,398	11,872	(6,692)	(23,874)				
<i>Investment income, excl. AJVs</i>	14,189	9,417	(7,747)	(25,234)				
Change in fair value (G/L)	12,810	(12,810)	(12,089)	12,089				
Credit impairment loss	(193)	990	138	282				
Net investment results	18,217	(697)	(18,187)	(3,725)				
<i>Net investment results, excl. AJVs</i>	15,008	(3,152)	(19,242)	(5,085)				
Net profit attribute to shareholders	17,885	18,266	(610)	10,640	18.0%	-24.4%	-103.8%	-4.7%
Net asset value attribute to equity S/H	496,619	477,935	474,739	477,093	35.7%	30.6%	29.7%	30.3%

Source: Company data, CMBIGM | Note: investment results are not comparable as the insurer did not restate the investment-related data under IFRS 9 in FY22.

Valuation

We rerate the stock based P/EV vs RoEV and cross-check with DDM, with key assumptions including: 1) 3.0% risk-free rate; 2) 5.5% market risk premium, revised down from 7.0% in correlation with the underlying risk premium of implied actuarial risk discount rate (RDR), down by 200bps from 10.0% to 8.0%; 3) COE calc. based on CAPM at 9.80%; 4) 3% terminal growth for DDM, in line with 3% long-term growth(g) for Gordon Growth Model; 5) EV sensitivity to stress test: assume RDR further down by 150bps to 3.0% from current 4.5%, implying -1.53% change to EV under the revised assumptions.

Figure 1: EV sensitivity under new vs old assumptions by end 2023

EV sensitivity (@RDR 8.0%, INV return 4.5%)	VIF	VNB	EV
Base case	584,807	36,860	1,260,567
@RDR -50bps	616,352	39,263	1,292,112
@RDR -50bps (%)	5.4%	6.5%	2.5%
@INV return -1000bps	456,240	26,112	1,132,000
@INV return -1000bps (%)	-22.0%	-29.2%	-10.2%
If @RDR -50bps, INV return -50bps	4.2%	5.0%	2.0%
@INV return -100bps (%), 2023	-2.20%	-2.92%	-1.02%
EV stress test, @INV return -150bps to 3%, 2023			-1.53%
EV sensitivity @INV return -100bps, 2022			
Base case	547,825	36,004	1,230,519
@INV return -50bps	437,094	27,524	1,119,788
@INV return -100bps (%), 2022	-40.4%	-47.1%	-18.0%
EV stress test, @INV return -150bps to 3%, 2022			-27.0%

Source: Company data, CMBIGM estimates

Figure 2: P/EV-RoEV based on Gordon Growth

COE	9.8%
Risk-free	3.0%
Beta	1.24x
Risk premium	5.5%
Terminal growth (%)	3.0%
No. of shares outstanding (mn)	28,265
CNY/HKD exchange rate	1.083

Source: Wind, CMBIGM estimates

P/EV-RoEV (RMB bn, %)	FY24E	FY25E
Embedded value	1,297	1,338
EVPS (RMB)	45.88	47.35
Target P/EV (x)	0.29x	0.12x
Cost of equity	9.8%	9.8%
RoEV (5-year avg.)	6.4%	4.4%
Long-term growth	3.0%	3.0%
EV sensitivity If INV return -150bps	-1.53%	
Group discount ratio	-40.0%	
Target valuation	380.4	166.2
Target price (HK\$)	14.6	6.4
Price target (TTM), HK\$	12.4	
Implied P/EV (x)	0.25x	
Implied P/B (x)	0.64x	

Source: CMBIGM estimates

Figure 3: Dividend discount model (DDM)

DDM (RMB mn, %)	FY24E	FY25E	FY26E	FY27E
DPS (RMB)	0.63	0.67	0.73	0.77
Dividend paid (RMB mn)	17,712	18,871	20,568	21,790
PV of dividends	68,402	55,668	40,410	21,790
Terminal value	248,467	272,867	299,662	329,089
Total valuation (RMB mn)	316,870	328,534	340,072	350,879
Target price (HK\$)	12.14	12.59		
Price target (HK\$), TTM	12.3			
Implied P/EV (x)	0.25x			
Implied P/B (x)	0.63x			

Source: CMBIGM estimates

Figure 4: P/B-ROE based on Gordon Growth as the bull case scenario

To set aside EV assumptions impact to the life insurer's valuation, we incorporate the P/B-ROE method as a bull case scenario to reflect pure effects on net profit attributable to shareholders driven by insurance service results and net investment results under the new IFRS standards. The core assumptions are as aforementioned, with a five-year avg. ROE rolling forward to 12.3%/12.4% in FY24/FY25.

P/B-ROE	FY24E	FY25E
Shareholders' equity (RMB bn)	507.4	531.7
BVPS (RMB)	17.95	18.81
Fair value P/B (x)	0.82x	0.83x
Cost of equity	9.8%	9.8%
ROE (5yr avg. 2020-2024)	12.3%	12.4%
Long-term growth	3.0%	3.0%
Group discount ratio	-40.0%	-40.0%
Target valuation	416.4	439.1
Target price (HK\$)	16.0	17.0
Price target (TTM), HK\$ under P/B-ROE	16.3	
Implied P/EV (x)	0.33x	
Implied P/B (x)	0.84x	

Source: CMBIGM estimates

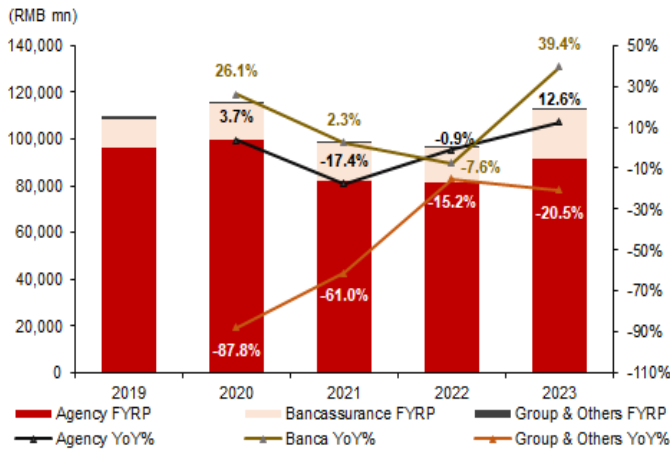
Figure 5: New TP HK\$13.7, implying 0.3x FY24E P/EV & 0.7x FY24E P/B

(HK\$)	FY24	FY25
Price target (HK\$), TTM	13.7	
Previous TP(HK\$)	17.81	
Guide-down (%)	-23.1%	
Implied P/EV (x)	0.28x	0.27x
Implied P/B (x)	0.70x	0.67x

Source: CMBIGM estimates

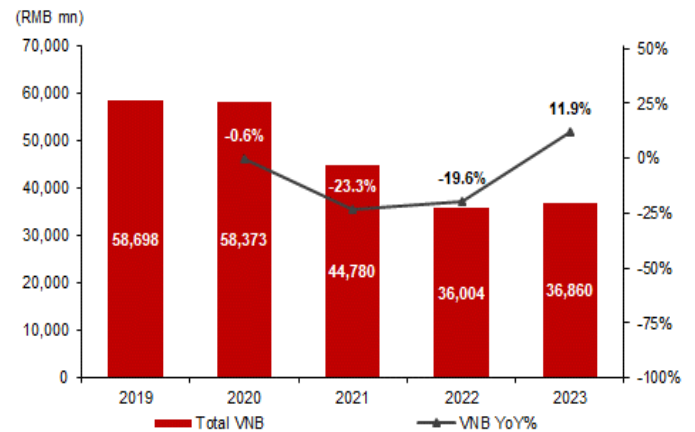
Focus Charts

Figure 6: FYRP by distribution and YoY% (RMB mn)



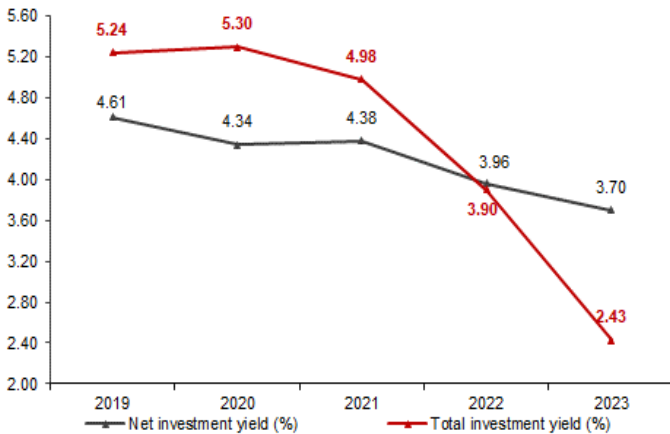
Source: Company data, CMBIGM

Figure 7: VNB achieved low-teens growth in 2023



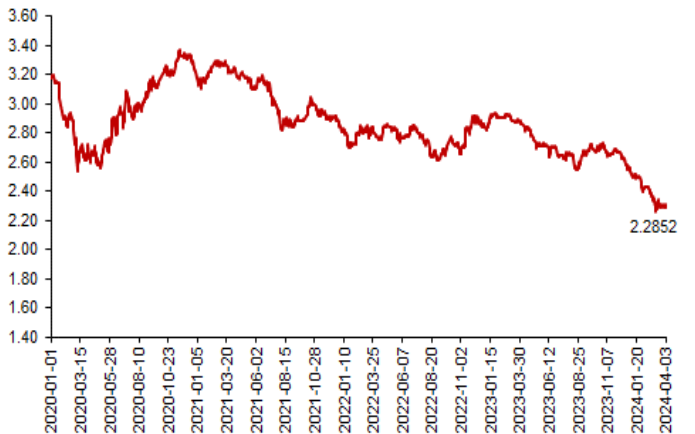
Source: Company data, CMBIGM | Note: restated VNB in 2023 under new EV assumptions.

Figure 8: Total investment yield (%) fell below 3.0%



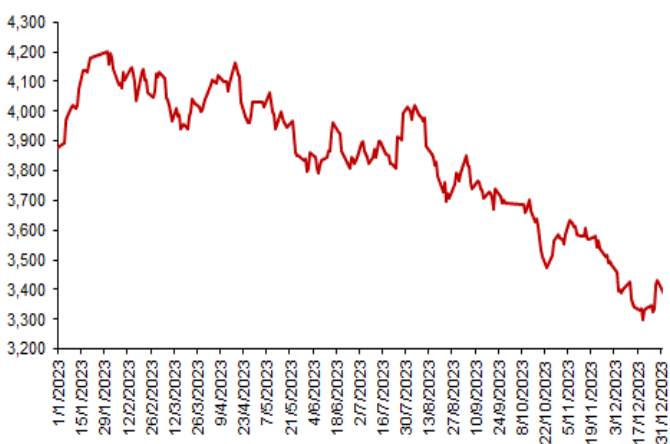
Source: Company data, CMBIGM | Note: both net investment yield and total investment yield in FY22 (restate) and FY23 are under IFRS 9 & 17.

Figure 9: China 10Yr gov't bond yield less than 2.3%



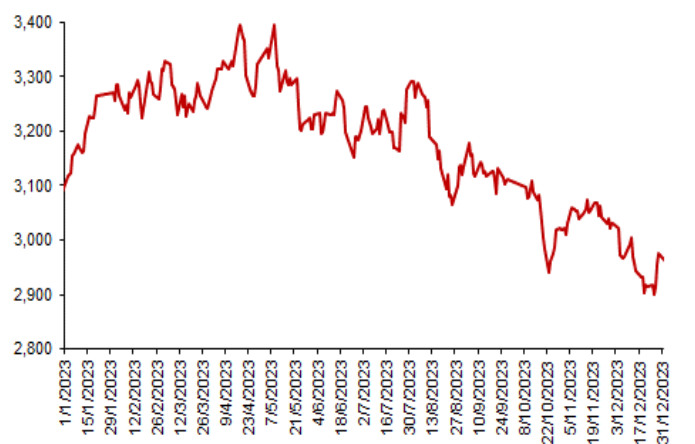
Source: Wind, CMBIGM

Figure 10: CSI 300 Index performance in 2023



Source: Wind, CMBIGM

Figure 11: SHCOMP Index performance in 2023



Source: Wind, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		182,578	212,445	218,319	228,216	241,290
Insurance service expenses		(131,614)	(150,353)	(154,512)	(161,517)	(170,770)
Net expenses from reinsurance contracts held		2,155	(288)	(158)	(162)	(169)
Insurance service results		53,119	61,804	63,649	66,537	70,350
Net finance (expenses)/income from insurance contracts		(148,700)	(127,923)	(112,898)	(125,686)	(148,193)
Net finance (expenses)/income from reinsurance contracts		583	616	0	0	0
Interest income		0	122,994	126,012	134,727	147,244
Net investment income		175,360	(9,375)	(902)	4,991	18,008
Credit impairment losses		(3,150)	1,217	0	0	0
Net investment results		24,093	(12,471)	12,212	14,031	17,058
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)	(12,309)	(12,639)	(13,038)
Profit before tax		70,060	44,576	68,424	72,899	79,440
Income taxes		(1,948)	2,971	(6,842)	(7,290)	(7,944)
Net profit		68,112	47,547	61,582	65,609	71,496
Net profit attributable to shareholders		66,680	46,181	59,041	62,905	68,560

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	480,468	529,608	578,226
Balances with central bank and statutory deposits	6,333	6,333	6,520	7,235	7,974	8,706
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	14,151	15,598	17,030
Reinsurance contract assets	19,327	24,096	25,846	28,875	32,129	35,690
Financial investments:	3,599,689	3,878,185	4,798,898	5,342,786	5,889,220	6,429,850
At amortized cost:	0	0	211,349	235,796	259,912	283,772
At fair value through other comprehensive income:	0	0	2,882,174	3,214,723	3,543,509	3,868,803
At fair value through profit or loss:	0	0	1,705,375	1,892,267	2,085,799	2,277,275
Deferred tax assets	24,180	46,126	24,431	37,373	57,170	87,454
Other assets	82,519	71,584	37,369	52,110	223,711	1,084,000
Cash and cash equivalents	60,459	127,594	149,305	147,690	162,795	177,740
Total assets	4,665,367	5,010,068	5,802,086	6,432,856	7,248,905	8,758,251
LIABILITIES						
Insurance contract liabilities	3,809,716	4,266,947	4,859,175	5,428,670	6,040,353	6,709,983
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	5,914,834	6,705,900	8,190,590
EQUITIES						
Share capital	28,265	28,265	28,265	28,265	28,265	28,265
Reserves	156,677	99,033	145,933	129,380	108,472	82,696
Retained profits	203,478	238,723	302,895	349,782	394,975	444,663
Total shareholders' equity	388,420	366,021	477,093	507,427	531,711	555,624
Non-controlling interests	8,073	8,952	9,941	10,596	11,293	12,037
Total equity	396,493	374,973	487,034	518,023	543,005	567,661
Total liabilities & equity	4,665,367	5,010,068	5,802,086	6,432,856	7,248,905	8,758,251

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	0.65	0.49	0.43	0.63	0.67	0.73
EPS (Reported)	1.80	2.36	1.63	1.88	2.00	2.18
Consensus EPS	n.a	n.a	n.a	1.79	1.91	2.16
Group embedded value/share (HK\$)	42.56	43.54	44.60	45.88	47.35	49.22
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%	12.0%	12.1%	12.6%
Return on asset (ROA)	1.1%	1.4%	0.9%	1.0%	0.9%	0.9%
Return on embedded Value	13.9%	3.8%	3.6%	3.8%	4.6%	5.4%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x
P/B (x)	0.5x	0.7x	0.5x	0.5x	0.5x	0.4x
Dividend yield (%)	7.6	5.7	5.0	7.3	7.8	8.5
Dividend payout (%)	36.1	20.8	26.3	30.0	30.0	30.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets; P/L data in FY21 is not restated under new IFRS standards, and thus not included for comparable basis.

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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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