

New China Life (1336 HK)

Satisfactory 1Q20

NCI announced 1Q20 results on 28 Apr. GWP increased 34.9% YoY to RMB58.2bn, net profit rose 37.5% YoY to RMB 4.64bn thanks primarily to increase in investment income as well as reduction in admin expenses. Investment assets was up 7.0% from YE19 while total investment yield was 5.1%, up 0.9ppt from the previous year.

- **Robust regular premium growth.** Individual channel FYRP increased 12.3% to RMB 6.19bn, outpacing peers. This was mainly attributable to earlier preparation for the kick-off season in terms of product, sales promotion and agent team building. Total agent headcount increased 31%, or by 121 thousand over 2H19 to 507 thousand at YE19, which laid a solid foundation for business growth in 1Q20, particularly in Jan. Meanwhile, the bancassurance channel posted FYRP growth of 17% YoY. The Company also recorded RMB 11.1bn FYSP from bancassurance as a result of firm strategy to acquire more customers via single premium products.
- **Reinforced Investment.** Total investment yield was 5.1%, up 0.9ppt YoY and boosting investment assets by 7% compared to YE19. In spite of fair value loss of RMB 1.5bn in 1Q20 vs. RMB 595mn gain in 1Q19, P&L investment income increased ~40% to RMB 10.3bn YoY. We think the increase mainly came from dividend income and realized gains on trading securities as well as last year's relatively low base.
- **Major concerns and risks.** 1) NBV margin pressure. Although regular premium growth outpaced peers, NBV margin may face downward pressures and single premium products carried much lower margin; 2) Quality of bancassurance business over a longer time span. It is likely that bancassurance single premium products could lead to higher surrender rate in the following years.
- **TP unchanged at HK\$ 37.30. Reiterate BUY.** Overall speaking, the Company's performance in 1Q20 was solid. Earlier preparation in products, sales and agent team has provided buffer against negative impact from the COVID-19. We maintain our forecast and TP unchanged at HK\$ 37.3. Reiterate BUY.

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)	N.A.	N.A.	3.83	4.36	5.22
P/B (x)	1.10	0.85	0.77	0.68	0.61
P/EV (x)	0.42	0.35	0.33	0.30	0.28
Yield (%)	3.33	6.10	4.92	5.77	6.41
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\$37.30)
Up/Downside	+46.7%
Current Price	HK\$25.75

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	125,726
Avg 3 mths t/o (HK\$ mn)	305.47
52w High/Low (HK\$)	44.42/20.45
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%

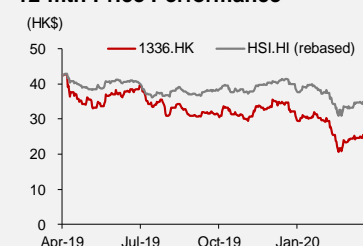
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	10.5%	5.6%
3-mth	-19.8%	-8.8%
6-mth	-18.5%	-10.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. "Setting off to a challenging 2020" – 26 Mar 2020
2. "Lackluster FYRP growth likely weighs on NBV" – 31 Oct 2019
3. "Clearer firm strategy in 2H19" – 30 Aug 2019
4. "Margin pressure and transition uncertainties" – 2 Jul 2019

Figure 1: NCI's 1Q20 results summary

(RMB mn)					
P&L	1Q20	1Q19	YoY	4Q19	QoQ
Gross written premiums	58,245	43,169	34.9%	30,259	92.5%
Net premiums earned	56,919	42,002	35.5%	30,224	88.3%
Investment income	10,274	7,294	40.9%	10,733	-4.3%
Total income	67,546	49,429	36.7%	41,105	64.3%
Insurance benefits and claims	(53,421)	(37,176)	43.7%	(30,919)	72.8%
Underwriting costs	(4,812)	(4,726)	1.8%	(3,846)	25.1%
Admin expenses	(2,570)	(2,763)	-7.0%	(4,632)	-44.5%
Total expenses	(62,011)	(45,340)	36.8%	(39,445)	57.2%
Associates and JVs	34	(19)	-278.9%	282	-87.9%
Pre-tax profit	5,569	4,070	36.8%	900	518.8%
Income tax	(933)	(702)	32.9%	656	-242.2%
Less: Minority interests	(1)	(1)	0.0%	2	-150.0%
Net profit	4,635	3,367	37.7%	1,556	197.9%
B/S	1Q20	1Q19	YoY	4Q19	QoQ
Investment assets	897,939	730,773	22.9%	839,447	7.0%
Total assets	939,040	767,646	22.3%	878,970	6.8%
Insurance contracts liabilities	692,322	613,663	12.8%	658,191	5.2%
Total liabilities	851,385	694,441	22.6%	794,509	7.2%
Equity attr. to shareholders	87,644	73,195	19.7%	84,451	3.8%
Key indicators	1Q20	1Q19	YoY	4Q19	QoQ
FYRP (RMB mn)	8,112	7,154	13.4%	3,344	142.6%
Core solvency margin ratio	273%	274%	-1.8 ppt	284%	-11.1 ppt
Comprehensive solvency margin ratio	273%	279%	-6.5 ppt	284%	-11.1 ppt

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Gross written premium	122,341	138,171	152,323	167,471	183,204
Net premiums earned	120,002	135,443	149,015	163,850	179,280
Investment income	31,185	35,842	39,352	42,004	45,589
Other operating income	777	818	871	902	929
Total income	151,964	172,103	189,238	206,757	225,798
Insurance claims and reserves	(109,842)	(125,928)	(138,566)	(149,966)	(163,643)
Commissions expenses	(16,711)	(16,872)	(17,882)	(19,990)	(21,872)
Other operating expenses	(14,202)	(15,542)	(16,659)	(18,382)	(19,978)
Total expenses	(140,755)	(158,342)	(173,106)	(188,337)	(205,493)
Associates and JVs	404	502	527	553	581
Finance cost	-1,103	-1,042	-1,021	-613	-490
Pre-tax profit	10,510	13,221	15,638	18,361	20,396
Income tax	(2,587)	1,339	(3,910)	(4,590)	(5,099)
Less: Minority interests	1	1	1	1	1
Net profit	7,922	14,559	11,728	13,770	15,296

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Growth (%)					
GWP growth	11.9	12.9	10.2	9.9	9.4
Total income growth	6.2	13.3	10.0	9.3	9.2
Net profit growth	47.2	83.8	(19.4)	17.4	11.1
EV growth	12.8	18.4	6.9	8.7	7.9
Net investment yield	5.0	4.8	4.6	4.6	4.5
Total investment yield	4.6	4.9	4.7	4.6	4.6
Investment assets growth	1.7	20.0	10.2	9.1	8.0
Underwriting (%)					
Agent FYRP growth	(25.0)	(5.3)	5.0	10.0	8.0
Bancassurance FYRP growth	(26.9)	(11.6)	8.0	6.0	5.0
Agent FYRP/FYRP	77.3	78.5	78.0	78.6	79.1
Renewal growth	23.8	10.4	9.3	8.8	9.1
Renewal/overall GWP	79.9	78.0	77.3	76.4	76.2
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

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Investment assets	699,826	839,447	929,889	1,014,382	1,095,157
other assets	34,103	38,371	40,214	42,713	45,184
Total assets	733,929	877,818	970,103	1,057,095	1,140,341
Insurance liabilities	594,620	658,191	728,391	805,089	887,955
Other liabilities	73,713	136,318	147,775	146,665	134,631
Total liabilities	668,333	794,509	876,165	951,754	1,022,586
Shareholders' equity	65,587	84,451	93,928	105,331	117,745
Minority interest	9	10	10	10	10
Total equity	65,596	84,461	93,938	105,341	117,755

Returns (%)					
RoEV	13.9	19.8	9.0	10.3	9.6
Solvency (%)					
Core solvency ratio	269.6	283.6	272.7	267.3	264.6
Comprehensive solvency ratio	274.5	283.6	272.7	267.3	264.6
Per share					
EPS (RMB)	2.54	4.67	3.76	4.41	4.90
DPS (RMB)	0.77	1.41	1.14	1.33	1.48
EVPS (RMB)	55.51	65.73	70.23	76.32	82.31
BVPS (RMB)	21.02	27.07	30.11	33.76	37.74

Source: Company data, CMBIS estimates

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