

# China Life (2628 HK)

## Quality growth achieved

China Life's 2019 results were highlighted by outstanding NBV growth and net profit surge. Meanwhile, agent team progressed in both headcount and productivity. We remain bullish on the Company's performance in 2020 and its transform initiatives are beginning to payoff. The Company also showed business resilience amid COVID-19. Historical-low valuation offers opportunity to accumulate.

- Result highlights.** **1)** Net profit surged 411.5% YoY (in line with positive profit alert), or +>360% YoY if deducting one-off tax benefit of RMB 5.154bn; **2)** NBV rose 18.6% YoY (22.7%/13% in 1H/2H) to RMB 58.7bn, outpacing major peers, on back of FYRP growth (agent FYRP +6% YoY) and margin expansion (+3.1 ppt YoY in agent channel). Premium and product structure continue to optimize. **3)** Stable and productive agent team. As of YE19, individual agents totaled 1.613 million, up 12.1% YoY/2.5% QoQ. Monthly average productive agents increased 34.9% YoY and 43.5% more agents are able to sell protection-oriented products. Solid agent team building has laid the foundation for premium and NBV growth in the future. **4)** Total investment yield was 5.24%, up 1.95ppt YoY thanks primarily to net fair value gains and realized gains from equity trading.
- Risks and challenges.** **1)** Capital market volatilities may weigh on investment income and profit growth in 2020 on top of 2019's high base. **2)** Net investment yield edged down 3bp to 4.61% in 2019. Though being relatively stable, NIY may face further downward pressure in 2020. To boost yield, the Company has increased proportion of stocks and funds (to 11% at YE19), as well as non-standard assets.
- Showed resilience against COVID-19 impact.** The Company achieved 22.6%/9.9% YoY premium growth in Jan and Feb of 2020, respectively. Cumulative growth was 20.5% YoY in Jan-Feb, outpacing major peers.
- Reiterate BUY.** Due to market volatilities amid COVID-19 panic, we revise up CoR assumptions and thus trim TP to HK\$24.95, which corresponds to 0.62x FY20E P/EV. The Company's H-share is now trading at 0.36 FY20E P/EV, which we think grossly deviates from firm fundamentals and should have more-than-necessarily priced in the worst scenarios.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	535,826	567,086	598,759	639,941	683,192
YoY growth (%)	4.7	5.8	5.6	6.9	6.8
Total income (RMB mn)	627,419	729,474	753,663	797,293	842,116
Net profit (RMB mn)	11,395	58,287	50,510	52,721	54,492
EPS (RMB)	0.39	2.05	1.76	1.84	1.90
YoY Growth (%)	-65.2	421.2	-14.4	4.5	3.5
Consensus EPS (RMB)	0.39	2.07	1.63	1.80	n/a
P/B (x)	1.21	0.96	0.87	0.80	0.73
P/EV (x)	0.49	0.41	0.36	0.32	0.28
Yield (%)	1.2	5.3	4.6	4.8	5.0
ROEV (%)	9.9	19.1	15.7	15.0	14.6

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$24.95
(Previous TP)	HK\$28.26)
Up/Downside	+77.0%
Current Price	HK\$14.10

### China Insurance Sector

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### Stock Data

Mkt Cap (HK\$ mn)	729,450
Avg 3 mths t/o (HK\$ mn)	521.11
52w High/Low (HK\$)	22.75/12.86
Total Issued Shares (mn)	<b>7,441 (H)</b> 1,500 (A)

Source: Bloomberg

### Shareholding Structure

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

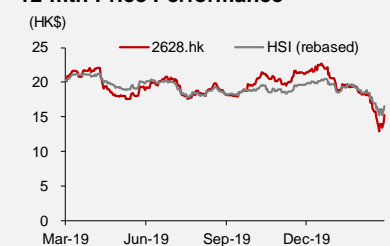
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-18.1%	-6.4%
3-mth	-28.2%	-15.0%
6-mth	-17.2%	-8.7%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Ernst & Young

### Related Reports

- "Investment and NBV outperform" – 31 Oct 2019
- "NBV growth beat" – 23 Aug 2019
- "Revitalization efforts on track" - 4 Jul 2019
- "Coordinated scale and value growth" – 24 Apr 2019

Figure 1: China Life's 2019 results summary

(RMB mn)									
P&L	3Q19	4Q19	QoQ	4Q18	YoY	2018A	2019A	YoY	vs. CMBI est.
Gross written premiums	119,071	70,039	-41.2%	67,292	4.1%	535,826	567,086	5.8%	-0.3%
Net premiums earned	119,224	79,757	-33.1%	74,728	6.7%	532,023	560,278	5.3%	0.7%
Investment income	42,321	35,442	-16.3%	20,581	72.2%	87,298	161,001	84.4%	-5.0%
<b>Total income</b>	<b>163,222</b>	<b>118,001</b>	<b>-27.7%</b>	<b>97,956</b>	<b>20.5%</b>	<b>627,419</b>	<b>729,474</b>	<b>16.3%</b>	<b>-0.7%</b>
Insurance benefits and claims	(104,777)	(74,641)	-28.8%	(67,813)	10.1%	(479,219)	(509,467)	6.3%	1.0%
Underwriting costs	(17,416)	(18,385)	5.6%	(14,253)	29.0%	(62,705)	(81,396)	29.8%	6.0%
<b>Total expenses</b>	<b>(143,205)</b>	<b>(119,462)</b>	<b>-16.6%</b>	<b>(110,716)</b>	<b>7.9%</b>	<b>(621,243)</b>	<b>(677,690)</b>	<b>9.1%</b>	<b>1.0%</b>
Associates and JVs	3,047	(701)		1,595		7,745	8,011	3.4%	-31.0%
Pre-tax profit	23,064	(2,162)		(11,165)		13,921	59,795	329.5%	-20.7%
Income tax	(2,735)	2,918		2,793		(1,985)	(781)	-60.7%	-88.4%
Less: Minority interests	226	171	-24.3%	102	67.6%	541	727	34.4%	-76.6%
<b>Net profit</b>	<b>20,103</b>	<b>585</b>	<b>-97.1%</b>	<b>(8,474)</b>	<b>n/a</b>	<b>11,395</b>	<b>58,287</b>	<b>411.5%</b>	<b>-11.1%</b>
B/S	3Q19	4Q19	QoQ	4Q18	YoY	2018A	2019A	YoY	vs. CMBI est.
Investment assets	3,439,115	3,573,154	3.9%	3,104,014	15.1%	3,104,014	3,573,154	15.1%	7.2%
Total assets	3,609,078	3,726,734	3.3%	3,254,403	14.5%	3,254,403	3,726,734	14.5%	3.6%
Insurance contracts liabilities	2,523,567	2,552,736	1.2%	2,216,031	15.2%	2,216,031	2,552,736	15.2%	5.6%
Total liabilities	3,214,928	3,317,392	3.2%	2,931,113	13.2%	2,931,113	3,317,392	13.2%	4.0%
Equity attr. to shareholders	388,754	403,764	3.9%	318,371	26.8%	318,371	403,764	26.8%	0.6%
Key indicators	3Q19	4Q19	YoY	4Q18	YoY	2018A	2019A	YoY	vs. CMBI est.
NBV (RMB mn)	n/a	n/a	n/a	n/a	n/a	49,511	58,698	18.6%	1.4%
FYRP (RMB mn)	15,920	10,363	23.5%	9,813	5.6%	104,419	109,416	4.8%	-0.3%
Gross investment yield	n/a	n/a	n/a	n/a	n/a	3.29%	5.24%	2ppt	-0.2ppt
Net investment yield	n/a	n/a	n/a	n/a	n/a	4.64%	4.61%	0ppt	-0.2ppt
Key indicators	3Q19	4Q19	QoQ	4Q18	YoY	2018A	2019A	YoY	vs. CMBI est.
# of agents	1,663,000	1,613,000	5.7%	1,439,000	12.1%	1,439,000	1,613,000	12.1%	14.4%
Core solvency margin ratio	262.0%	266.7%	4.7ppt	250.6%	16.2ppt	250.6%	266.7%	16.2ppt	6.1ppt
Comprehensive solvency ratio	272.1%	276.5%	4.4ppt	250.6%	26ppt	250.6%	276.5%	26ppt	5.9ppt

Source: Company data, CMBIS



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