

China Life (2628 HK)

Outperforming in 1H20

China Life reported +6.7% YoY growth of NBV, the highest among listed lifers, on back of strong FYRP growth (+13.3% YoY) and steady NBV margin. Embedded value rose 7.8% from YE19. In time of COVID-19, China Life showed greater resilience amongst peers and achieved marked growth even on top of last year's high base. We continue to like the Company's persistent efforts in promoting customer-centric and value-oriented business. We think the Company will continue to deliver satisfactory results in 2H20.

- **Result highlights.** 1) NBV +6.7% YoY against COVID-19 headwinds. FYRP increased strongly by 13.3% YoY, among which the percentage of premiums from designated protection-oriented products rose +3.4ppt. NBV margin of individual agent channel was 39.3% in 1H20, largely stable compared to 39.7% in 1H19. 2) Clear positioning of diversified business sectors and bancassurance channel upgrade. In 1H20, bancassurance channel achieved FYRP growth of +43.9% YoY and active account managers increased substantially. 3) Individual agent team maintained quality growth. Number of individual agents reached 1.69 million, +4.8% from YE19 and monthly average productive agents increased by 40% YoY. 4) Embedded value rose 7.8% from YE19 thanks to new business growth and positive contribution from operating variances and market value adjustments.
- **Result negatives.** 1) Net profit declined 18.8% to RMB 30.5bn, primarily due to discount rate assumption change for insurance reserves, which reduced pre-tax profit by RMB 12.7bn and last year's pre-tax deduction policies. 2) Net/Gross investment yield edged to 4.29%/5.34%, down 37bp/44bp YoY, under the circumstances of interest rate decline and last year's high base particularly with respect to fair value gains.
- **Reiterate BUY.** We revise up NBV, EV, net profit forecast of the Company to reflect better-than-expected 1H20 growth metrics. We therefore raise Target Price to HK\$ 28.14, which corresponds to 0.68x FY20E P/EV. Maintain BUY and one of our sector top picks.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	535,826	567,086	624,775	684,101	745,333
YoY growth (%)	4.7	5.8	10.2	9.5	9.0
Total income (RMB mn)	627,419	729,474	820,889	888,084	961,426
Net profit (RMB mn)	11,395	58,287	54,610	62,118	68,131
EPS (RMB)	0.39	2.05	1.90	2.16	2.38
YoY Growth (%)	-65.2	421.2	-7.4	13.9	9.8
Consensus EPS (RMB)	0.39	2.07	1.71	1.94	2.31
P/B (x)	1.21	0.99	1.07	0.96	0.87
P/EV (x)	0.49	0.43	0.46	0.41	0.37
Yield (%)	1.2	5.1	4.0	4.6	5.0
ROEV (%)	9.9	19.1	13.8	12.6	12.3

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$28.14
(Previous TP	HK\$24.95)
Up/Downside	+49.4%
Current Price	HK\$18.84

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,149,690
Avg 3 mths t/o (HK\$ mn)	1,274.31
52w High/Low (HK\$)	21.99/11.18
Total Issued Shares (mn)	7,441 (H)
	1,500 (A)

Source: Bloomberg

Shareholding Structure

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

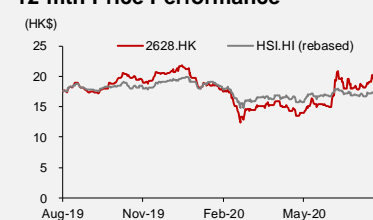
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.3%	0.7%
3-mth	34.4%	22.8%
6-mth	4.9%	10.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. "Resilient against headwinds" – 24 Apr 2020
2. "Quality growth achieved" – 26 Mar 2020
3. "Investment and NBV outperform" – 31 Oct 2019
4. "NBV growth beat" – 23 Aug 2019
5. "Revitalization efforts on track" – 4 Jul 2019

Figure 1: China Life's 1H20 summary

(RMB mn)						
P&L	1H20	1H19	YoY	2Q20	1Q20	QoQ
Gross written premiums	427,367	377,976	13.1%	119,591	307,776	-61.1%
Net premiums earned	407,936	361,297	12.9%	118,418	289,518	-59.1%
Investment income	92,119	83,238	10.7%	49,691	42,428	17.1%
Total income	504,431	448,221	12.5%	170,537	333,894	-48.9%
Insurance benefits and claims	(371,950)	(330,049)	12.7%	(112,714)	(259,236)	-56.5%
Underwriting costs	(56,518)	(45,595)	24.0%	(21,949)	(34,569)	-36.5%
Total expenses	(472,887)	(414,993)	14.0%	(157,068)	(315,819)	-50.3%
Associates and JVs	4,020	5,665	-29.0%	1,013	3,007	-66.3%
Pre-tax profit	35,564	38,893	-8.6%	14,482	21,082	-31.3%
Income tax	(4,502)	(964)	367.0%	(742)	(3,760)	-80.3%
Less: Minority interests	527	330	59.7%	295	232	27.2%
Net profit	30,535	37,599	-18.8%	13,445	17,090	-21.3%

B/S	1H20	1H19	YoY	2Q20	1Q20	QoQ
Investment assets	3,781,024	3,304,129	14.4%	3,781,024	3,676,151	2.9%
Total assets	3,966,033	3,479,860	14.0%	3,966,033	3,874,719	2.4%
Insurance contracts liabilities	2,858,092	2,457,077	16.3%	2,858,092	2,786,342	2.6%
Total liabilities	3,543,856	3,106,271	14.1%	3,543,856	3,455,216	2.6%
Equity attr. to shareholders	415,906	368,434	12.9%	415,906	413,715	0.5%

Key indicators	1H20	1H19	YoY	2Q20	1Q20	QoQ
NBV (RMB mn)	36,889	34,569	6.7%	n/a	n/a	n/a
FYRP (RMB mn)	94,170	83,133	13.3%	18,114	16,353	10.8%
Net investment yield	4.29%	4.66%	-0.4 ppt	n/a	4.29%	n/a
Gross investment yield	5.34%	5.78%	-0.4 ppt	n/a	5.13%	n/a
Core solvency margin ratio	258.2%	258.6%	-0.4 ppt	258.2%	275.2%	-16.9 ppt
Comprehensive solvency ratio	267.3%	269.1%	-1.8 ppt	267.3%	281.6%	-14.3 ppt

Source: Company data, CMBIS

Figure 2: Forecast revisions

RMB mn	New			Old			Diff		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
GWP	624,775	684,101	745,333	598,759	639,941	683,192	4.3%	6.9%	9.1%
Total income	820,889	888,084	961,426	753,663	797,293	842,116	8.9%	11.4%	14.2%
Net profit	54,610	62,118	68,131	50,510	52,721	54,492	8.1%	17.8%	25.0%
New business value	62,741	69,953	75,331	59,272	64,105	68,968	5.9%	9.1%	9.2%
NBV growth	6.9%	11.5%	7.7%	1.0%	8.2%	7.6%	5.9 ppt	3.3 ppt	0.1 ppt
Embedded value	1,049,701	1,160,606	1,279,120	1,027,232	1,122,586	1,227,300	2.2%	3.4%	4.2%

Source: Company data, CMBIS estimates

Financial Summary

Income

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Gross written premium	535,826	567,086	624,775	684,101	745,333
Net premiums earned	532,023	560,278	615,256	676,303	736,940
Investment income	87,298	161,001	196,190	201,442	213,222
Other operating income	8,098	8,195	9,442	10,339	11,264
Total income	627,419	729,474	820,889	888,084	961,426
Insurance claims and reserves	(479,219)	(509,467)	(572,127)	(616,249)	(667,109)
Policyholder dividends	(19,646)	(22,375)	(29,429)	(30,216)	(31,983)
Other operating expenses	(122,378)	(145,848)	(161,994)	(175,661)	(189,577)
Total expenses	(621,243)	(677,690)	(763,550)	(822,126)	(888,670)
Associates and JVs	7,745	8,011	8,412	8,832	9,274
Pre-tax profit	13,921	59,795	65,750	74,790	82,029
Income tax	(1,985)	(781)	(8,548)	(9,723)	(10,664)
Less: Minority interests	541	727	2,593	2,949	3,235
Net profit	11,395	58,287	54,610	62,118	68,131

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Growth (%)					
GWP growth	4.7	5.8	10.2	9.5	9.0
Total income growth	(2.5)	16.3	12.5	8.2	8.3
Net profit growth	(64.7)	411.5	(6.3)	13.7	9.7
EV growth	8.3	18.5	11.4	10.6	10.2
Net investment yield	4.6	4.6	4.4	4.2	4.1
Total investment yield	3.3	5.2	5.5	4.9	4.6
Investment assets growth	12.7	15.1	17.4	14.0	12.4
Underwriting (%)					
FYRP growth	(7.7)	4.8	12.4	9.4	7.7
Agent FYRP growth	(12.2)	5.8	10.4	9.8	7.9
Agent FYRP/FYRP	75.9	76.6	75.3	75.6	75.7
Renewal growth	26.6	5.8	9.3	10.1	10.2
Renewal/overall GWP	68.1	68.0	67.5	67.8	68.6
NBV growth	(17.6)	17.5	7.8	11.5	7.7
NBV margin (Agent, APE)	42.2	45.3	44.0	44.9	44.9

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Investment assets	3,104,014	3,573,154	4,193,987	4,780,508	5,371,347
other assets	150,389	150,488	134,931	168,602	227,274
Total assets	3,254,403	3,726,734	4,328,918	4,949,110	5,598,621
Insurance liabilities	2,216,031	2,552,736	3,120,517	3,644,251	4,207,049
Other liabilities	715,082	764,656	753,179	799,920	832,770
Total liabilities	2,931,113	3,317,392	3,873,696	4,444,171	5,039,819
Shareholders' equity	318,371	403,764	448,295	497,256	550,299
Minority interest	4,919	5,578	6,926	7,683	8,502
Total equity	323,290	409,342	455,222	504,939	558,802

Returns (%)

RoEV	9.9	19.1	13.8	12.6	12.3
ROE	3.6	16.1	12.8	13.1	13.0

Solvency (%)

Core solvency ratio	250.6	266.7	266.7	270.6	277.2
Comprehensive solvency ratio	250.6	276.5	275.3	278.2	284.1

Per share

EPS (RMB)	0.39	2.05	1.90	2.16	2.38
DPS (RMB)	0.16	0.73	0.68	0.78	0.85
EVPS (RMB)	28.13	33.33	37.14	41.06	45.26
BVPS (RMB)	11.26	14.29	15.86	17.59	19.47

Source: Company data, CMBIS estimates

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