

China Life (2628 HK)

Resilient against headwinds

China Life announced 1Q20 performance on 23 Apr. Overall speaking, the Company showed resilience amid COVID-19 by achieving +13% GWP growth, +8.3% YoY NBV growth, +13.9% FYRP growth. Net/total investment yield recorded 4.29%/5.31%, respectively.

- Result highlight. 1)** NBV rose 8.3% YoY, which was remarkable against the backdrop of COVID-19 and given last year's high base. Among the driving forces, first-year regular premiums rose 13.9% YoY. We believe NBV margin compressed a bit in 1Q due to difficulties in selling longer-term and higher margin products. **2)** Investment assets increased 2.8% from YE19. Net investment yield in annualized term was 4.29%, which was down only 2bp YoY and remained steady growth in the environment of declining interest rate. **3)** Agent team in good shape and achieved quality improvement – monthly average productive agents from strengthened sales force rose by 18.4% YoY. Total number of sales force from all channels was >2 million.
- Negatives/risks.** Net profit declined 34.4% YoY to RMB 17.1bn primarily because capital market volatilities resulted in RMB 5.4bn fair value loss on trading securities in contrast to RMB 13.9bn fair value gain in the same period last year (booked in P&L) and fair value loss on AFS securities (booked in OCI). Underwriting cost also went higher in 1Q20. Claims payments related to COVID-19 was RMB 23.2mn.
- COVID-19 negatives could linger in Apr.** Life premium growth still faces pressures. Headline premium growth of the Company was 22.6%/9.9%/-4.1% in Jan/Feb/Mar, respectively, leaving growth during 1Q20 at 13.0% YoY. Although China Life's premium growth outpaced major peers in 1Q20, decline enlarged in Mar, manifesting that restricted social activities is still crunching on life insurance business entering 2Q. Recovery will be gradual.
- Reiterate BUY.** The Company's 1Q performance was in-line with our and market expectation, including negative profit growth on last year's extraordinary investment gains. We maintain our financial forecasts. Target price is unchanged at HK\$24.95, which corresponds to 0.62x FY20E P/EV.

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	0.99	0.87	0.80	0.73
P/EV (x)	0.49	0.43	0.39	0.34	0.31
Yield (%)	1.2	5.1	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\$24.95)
Up/Downside	+57.7%
Current Price	HK\$15.82

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	757,291
Avg 3 mths t/o (HK\$ mn)	896.60
52w High/Low (HK\$)	22.9/11.64
Total Issued Shares (mn)	7,441 (H)
	1,500 (A)

Source: Bloomberg

Shareholding Structure

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

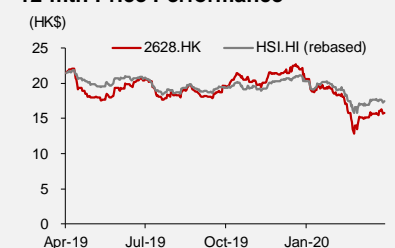
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	17.5%	6.4%
3-mth	-23.4%	-10.8%
6-mth	-18.8%	-10.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- "Quality growth achieved" – 26 Mar 2020
- "Investment and NBV outperform" – 31 Oct 2019
- "NBV growth beat" – 23 Aug 2019
- "Revitalization efforts on track" - 4 Jul 2019

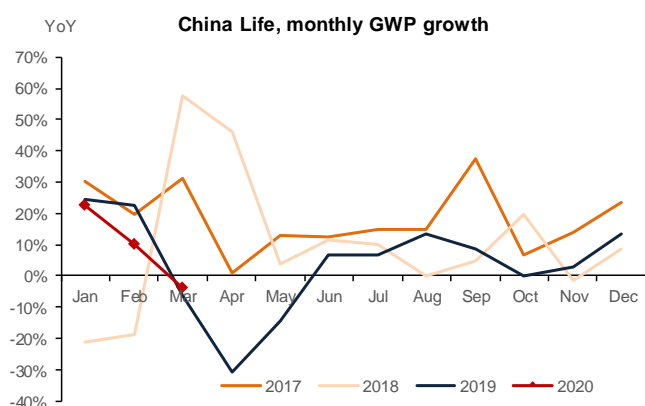
Figure 1: China Life's 1Q20 summary

(RMB mn)					
P&L	1Q20	1Q19	YoY	4Q19	QoQ
Gross written premiums	307,776	272,353	13.0%	70,039	339.4%
Net premiums earned	289,518	257,552	12.4%	79,757	263.0%
Investment income	42,428	48,682	-12.8%	35,442	19.7%
Total income	333,894	308,048	8.4%	118,001	183.0%
Insurance benefits and claims	(259,236)	(231,430)	12.0%	(74,641)	247.3%
Underwriting costs	(34,569)	(25,806)	34.0%	(18,385)	88.0%
Total expenses	(315,819)	(276,910)	14.1%	(119,462)	164.4%
Associates and JVs	3,007	2,174	38.3%	(701)	-529.0%
Pre-tax profit	21,082	33,312	-36.7%	(2,162)	-1075.1%
Income tax	(3,760)	(7,116)	-47.2%	2,918	-228.9%
Less: Minority interests	232	162	43.2%	171	35.7%
Net profit	17,090	26,034	-34.4%	585	2821.4%

B/S	1Q20	1Q19	YoY	4Q19	QoQ
Investment assets	3,676,151	3,189,483	15.3%	3,573,154	2.9%
Total assets	3,874,719	3,373,287	14.9%	3,726,734	4.0%
Insurance contracts liabilities	2,786,342	2,405,994	15.8%	2,552,736	9.2%
Total liabilities	3,455,216	3,003,848	15.0%	3,317,392	4.2%
Equity attr. to shareholders	413,715	364,356	13.5%	403,764	2.5%

Key indicators	1Q20	1Q19	YoY	4Q19	QoQ
NBV (RMB mn)	8.30%	28.30%	n/a	n/a	n/a
FYRP (RMB mn)	76,056	66,780	64.4%	10,363	634%
Gross investment yield	5.13%	6.71%	158 bps	n/a	n/a
Net investment yield	4.29%	4.31%	2 bps	n/a	n/a

Source: Company data, CMBIS

Figure 2: Increasing pressures on premium growth in Mar

Source: NBS, Wind, CMBIS

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