

New China Life (1336 HK)

Heading for balanced growth

NCI reported satisfactory 2020 results amid adverse market conditions and made progress toward balanced growth of both value and scale. In addition to above-average NBV growth, NCI's annual results were also highlighted by advancing asset management business and expanding agent team. While market conditions remain challenging in 2021, we think NCI is geared for faster growth in value-oriented insurance products and investment performance.

■ **Results positives.** 1) Resilient FYRP growth. FYRP from long-term insurance business rose 4.8%/125.9% for individual agent/bancassurance channels, respectively. 2) NBV growth turned positive in 2H20. NBV decreased 6.1% YoY (-11% in 1H20 but +1.9% in 2H20), which was better than industry average. 3) Upon optimizing agent recruitment criteria and implementing the new basic law, the Company's agent headcount reached record high at 606,000 at YE20, or +19.5% YoY. 4) Sound investment return. NCI achieved total/net investment yield of 5.5%/4.6%, +0.6/-0.2ppt respectively from the previous year. While maintaining steady gains in fixed-income investments, the Company seized structural opportunities in equity market and enlarged realized gains. In line with macro and market trends, NCI continued to reduce the share of non-standard asset investment to 25% at YE20 and is committed to "prudent, long-term and value-oriented" philosophy.

■ **Results negatives.** 1) NBV margin declined notably, down 6.1ppt YoY to 30.4% based on first-year standardized premiums. This was mainly due to fewer high-margin health insurance products sold this year. As the sales of value-oriented products gradually recovers, NBV margin is likely to be stable this year. 2) The percentage of qualified agent and per capita productivity both went down in the reporting period due to reduced face-to-face communication with clients and NCI's difficulties in the training and management of individual agents. We think agent team management may remain challenging in 2021.

■ **Valuation.** We roll over valuation basis to FY21E and modified EV and other financial forecasts. TP is slightly modified to HK\$41.52. The stock is now trading at 0.31x/0.29x FY21/22E P/EV. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
GWP (RMB mn)	138,131	159,511	177,144	195,394	214,201
YoY Growth (%)	13.0	15.5	11.1	10.3	9.6
Total income (RMB mn)	172,103	203,858	222,572	244,378	267,577
Net profit (RMB mn)	14,559	14,294	15,255	18,972	22,849
EPS (RMB)	4.67	4.58	4.89	6.08	7.32
EPS CHG (%)	83.8	-1.8	6.7	24.4	20.4
Consensus EPS (RMB)	N.A.	N.A.	4.72	5.45	6.17
P/B (x)	0.89	0.74	0.65	0.56	0.59
P/EV (x)	0.36	0.31	0.29	0.27	0.25
Yield (%)	5.88	5.80	6.19	7.69	9.27
RoEV (%)	19.8	17.7	10.0	9.7	9.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$41.52
(Previous TP)	HK\$41.60
Up/Downside	+43.9%
Current Price	HK\$28.85

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	150,816
Avg 3 mths t/o (HK\$ mn)	282.58
52w High/Low (HK\$)	36.75/21.47
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%

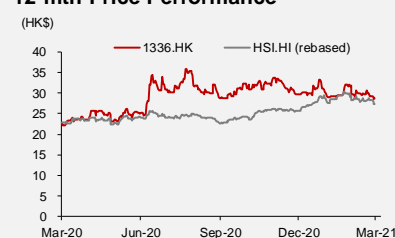
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.4%	-2.4%
3-mth	-2.5%	-7.8%
6-mth	0.0%	-16.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. "NBV decline likely narrowed in 3Q" – 28 Oct 2020
2. "Disappointing NBV growth, but EV beat" – 26 Aug 2020
3. "Satisfactory 1Q20" – 20 Apr 2020

Figure 1: NCI 2020 results summary

(RMB mn)				
P&L	2020A	2019A	YoY	vs. CMBIS est.
Gross written premiums	159,556	138,171	15.5%	0.0%
Net premiums earned	156,443	135,443	15.5%	0.4%
Investment income	46,400	35,842	29.5%	5.4%
Total income	203,858	172,103	18.5%	1.6%
Insurance benefits and claims	(153,311)	-125,928	21.7%	5.3%
Underwriting costs	(17,827)	-16,872	5.7%	-3.1%
Admin expenses	(12,395)	-13,037	-4.9%	-9.6%
Total expenses	(187,281)	-158,342	18.3%	3.7%
Associates and JVs	264	502	-47.4%	-49.9%
Pre-tax profit	15,491	13,221	17.2%	-21.2%
Income tax	(1,194)	1,339		
Less: Minority interests	3	1		
Net profit	14,294	14,559	-1.8%	-7.9%
B/S				
Investment assets	965,653	839,447	15.0%	2.9%
Total assets	1,004,376	878,970	14.3%	2.6%
Insurance contracts liabilities	754,409	658,191	14.6%	2.5%
Total liabilities	902,696	794,509	13.6%	2.6%
Equity attr. to shareholders	101,667	84,451	20.4%	2.9%
Key indicators				
FYRP (RMB mn)	20,919	19,341	8.2%	-8.8%
NBV (RMB mn)	9,182	9,779	-6.1%	-0.7%

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Gross written premium	138,171	159,556	177,184	195,434	214,241
Net premiums earned	135,443	156,443	173,891	191,860	210,294
Investment income	35,842	46,400	47,735	51,561	56,313
Other operating income	818	1,015	946	958	969
Total income	172,103	203,858	222,572	244,378	267,577
Insurance claims and reserves	(125,928)	(153,311)	(167,358)	(179,097)	(192,080)
Commissions expenses	(16,872)	(17,827)	(19,434)	(22,064)	(25,235)
Other operating expenses	(15,500)	(15,566)	(17,036)	(18,675)	(20,842)
Total expenses	(158,342)	(187,281)	(203,828)	(219,836)	(238,157)
Associates and JVs	502	264	277	291	306
Finance cost	-1,042	-1,350	-1,071	-1,114	-1,160
Pre-tax profit	13,221	15,491	17,950	23,719	28,565
Income tax	1,339	(1,194)	(2,693)	(4,744)	(5,713)
Less: Minority interests	1	3	3	3	3
Net profit	14,559	14,294	15,255	18,972	22,849

Key ratios

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Growth (%)					
GWP growth	12.9	15.5	11.0	10.3	9.6
Total income growth	13.3	18.5	9.2	9.8	9.5
Net profit growth	83.8	(1.8)	6.7	24.4	20.4
EV growth	18.4	17.3	8.2	8.0	7.1
Net investment yield	4.8	4.6	4.6	4.5	4.4
Total investment yield	4.9	5.5	4.9	4.8	4.7
Investment assets growth	20.0	15.0	11.5	10.7	10.1
Underwriting (%)					
Agent FYRP growth	(5.3)	10.0	10.0	8.0	8.0
Bancassurance FYRP growth	(11.6)	50.0	15.0	10.0	8.0
Agent FYRP/FYRP	78.5	72.9	72.0	71.7	71.7
Renewal growth	10.4	6.7	10.2	10.4	10.0
Renewal/overall GWP	78.0	72.2	71.5	71.5	71.7
NBV (RMB mn)	9,779	9,182	10,083	10,927	11,708
NBV growth	(19.9)	(6.1)	9.8	8.4	7.2
NBV margin (APE)	40.0	32.9	32.0	31.2	30.6

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Investment assets	839,447	965,653	1,081,476	1,196,852	1,317,213
other assets	38,371	37,480	38,835	40,543	42,343
Total assets	877,818	1,003,133	1,120,312	1,237,395	1,359,556
Insurance liabilities	658,191	754,409	858,002	970,473	1,091,209
Other liabilities	136,318	148,287	146,724	133,675	140,855
Total liabilities	794,509	902,696	1,004,727	1,104,148	1,232,064
Shareholders' equity	84,451	101,667	115,572	133,234	127,479
Minority interest	10	13	13	13	13
Total equity	84,461	101,680	115,585	133,247	127,492

Returns (%)					
RoEV	19.8	17.7	10.0	9.7	9.1
Solvency (%)					
Core solvency ratio	283.6	268.3	272.7	269.8	254.9
Comprehensive solvency ratio	283.6	277.8	281.1	277.2	261.5
Per share					
EPS (RMB)	4.67	4.58	4.89	6.08	7.32
DPS (RMB)	1.41	1.39	1.48	1.84	2.22
EVPS (RMB)	65.73	77.13	83.46	90.10	96.49
BVPS (RMB)	27.07	32.59	37.05	42.71	40.86

Source: Company data, CMBIS estimates

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