

# China Life (2628 HK)

## New business volume growth turned positive in 2Q22

China Life reported 13.8% YoY decline of VNB for 1H22, slightly narrowing from 14.3% YoY decline in 1Q22. New business premium growth showed a turnaround in 2Q22, as the insurer's first-year premiums (FYP) and first-year regular premiums (FYRP) growth turned positive to +22% YoY and +17% YoY respectively in 2Q22 (vs -2% YoY/ -4% YoY in 1Q22). Agency productivity continued to improve, while agent headcount is gradually stabilizing. Bancassurance delivered strong FYP growth of +39% YoY in 1H22, driven by improving productivity of sales representatives. Net profit declined by 38% YoY to RMB25.4bn in 1H22, representing 58% of our FY22 forecast. Similar to peers, the earnings decline was primarily dragged by lower investment income amid market volatilities.

■ **New business volume growth turned positive in 2Q22.** The insurer's new business premiums growth finally picked up in 2Q22, after declining for seven consecutive quarters. FYP APE grew 18% YoY in 2Q22, up from the 4% YoY decrease in 1Q22, while FYP and FYRP also recorded double digit growth in 2Q22. FYP contribution from FYRP with 10 years+ payment duration edged up 0.1ppt YoY to 21.7% in 1H22, reflecting stable business quality.

■ **Agency productivity continued to improve, while agency scale is gradually stabilizing.** Agent headcount slid to 0.75mn at end-2Q22, down only 4% QoQ or 9% HoH, significantly narrowing from the double digit QoQ decline in 1Q21-4Q21. The management highlighted that agent number edged down only 0.9% MoM in June 2022. On the other hand, agent productivity increased by 61% YoY on a FYP basis and +35% YoY on a VNB basis, driven by improving retention rates and higher contribution from experienced agents. We expect the agent headcount to remain largely stable in 2H22 and FY23, and the agent productivity to further improve.

■ **Valuation.** China Life H is trading at 0.2x P/EV FY22E and 0.6x P/BV FY22E with operating RoEV at 11%. We think the downside from the current trough valuation is limited. Looking forward, we expect to see sequential improvement on new business momentum in 2H22 and FY23. Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit (RMB mn)	50,257	50,921	43,918	49,192	58,776
EPS (Reported)(RMB)	1.77	1.80	1.53	1.71	2.05
YoY growth (%)	(13.7)	1.7	(15.1)	12.1	19.6
Consensus EPS (RMB)	1.80	1.10	2.00	2.30	2.60
VNB/share (RMB)	2.07	1.58	1.43	1.52	1.67
YoY growth (%)	(0.6)	(23.3)	(9.5)	6.1	9.5
Group embedded value / share (RMB)	37.93	42.56	46.41	50.84	55.79
P/B (x)	0.6	0.6	0.6	0.6	0.5
P/Embedded value (x)	0.3	0.2	0.2	0.2	0.2
Dividend yield (%)	6.4	6.5	5.6	6.3	7.5
ROE (%)	16.8	13.9	10.6	10.7	11.0

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$17.81**  
 (Previous TP) HK\$17.81  
**Up/Downside** **56.5%**  
**Current Price** **HK\$11.38**

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### Stock Data

Mkt Cap (HK\$ mn)	85,422.7
Avg 3 mths t/o (HK\$ mn)	12.1
52w High/Low (HK\$)	14.94/11.02
Total Issued Shares (mn)	7441.0

Source: FactSet

### Shareholding Structure

Ministry of Finance	90.0%
NCSSF	10.0%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-2.0%	0.9%
3-mth	0.2%	1.2%
6-mth	-11.6%	4.8%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Auditor: Ernst & Young

### Related Reports

- China Life – Focus on agency upgrade – 27 Aug 2021 ([link](#))
- China Insurance FY21 results preview – 11 Mar 2022 ([link](#))
- China Life –1Q22 VNB momentum better-than-peers – 28 Apr 2022 ([link](#))

## China Life 1H22 results overview

(RMBmn)	1H21	1H22	YoY chg	2Q21	2Q22	YoY chg	1Q21	1Q22	YoY chg
Net profit attribute to shareholders	40,968	25,416	-38.0%	12,383	10,238	-17.3%	28,585	15,178	-46.9%
VNB	29,867	25,745	-13.8%				-	-	N/A
Net investment yield (%)	4.3	4.2	(0.2) ppt				4.1	4.0	(0.1) ppt
Total investment yield (%)	5.7	4.2	(1.5) ppt				6.4	3.9	(2.6) ppt
Total investment assets	4,457,269	4,977,082	11.7%				4,282,189	4,717,681	10.2%
Total investment income	117,638	98,542	-16.2%				65,112	44,558	-31.6%
Surrender rate (%)	0.67	0.51	(0.2) ppt	0.31	0.24	(0.1) ppt	0.38	0.28	(0.1) ppt
Persistency (%)									
14-month	81.2	85.1	3.9 ppt				-	-	-
26-month	81.6	76.5	(5.1) ppt				-	-	-
# of agents (mn)	1.15	0.75	-35%	-0.10	-0.04	-58%	1.28	0.78	-39.2%
Agent productivity (FYP basis/month/agent)	10,392	16,703	61%				-	-	N/A
Agent productivity (VNB basis/month/agent)	3,820	5,148	35%				-	-	N/A
FYP	133,914	139,358	4%	31,465	38,463	22%	102,449	100,895	-2%
FYRP	80,674	79,838	-1%	12,398	14,472	17%	68,276	65,366	-4%
10 yrs+ FYRP	28,940	30,226	4%	9,284	11,120	20%	19,656	19,106	-3%
Single	53,240	59,520	12%	19,067	23,991	26%	34,173	35,529	4%
Renewal	308,385	300,611	-3%	86,942	86,495	-1%	221,443	214,116	-3%
Total premium income	442,299	439,969	-1%	118,407	124,958	6%	323,892	315,011	-3%
FYP APE	85,998	85,790	0%	14,305	16,871	18%	71,693	68,919	-4%
	21.6%	21.7%		29.5%	28.9%				
FYP by distribution									
Agent	78,816	78,471	0%				-	-	N/A
Bancassurance	12,180	16,902	39%				-	-	N/A
Group & Others	42,918	43,985	2%				-	-	N/A
FYP by products									
Life	74,339	83,519	12%				-	-	N/A
Health	50,829	47,954	-6%				-	-	N/A
Accident	8,746	7,885	-10%				-	-	N/A

Source: Company data, CMBI estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Total income</b>	<b>729,474</b>	<b>805,049</b>	<b>824,930</b>	<b>796,640</b>	<b>846,445</b>	<b>880,042</b>
Premiums written (gross)	567,086	612,265	618,327	621,357	631,903	646,943
Premiums earned (net)	560,278	604,666	611,251	614,598	624,880	639,674
Investment income	139,919	154,497	178,387	144,990	182,659	198,832
Realized gains (losses)	21,082	36,483	25,287	26,999	28,681	31,068
Other operating income	8,195	9,403	10,005	10,054	10,225	10,468
<b>Losses</b>	<b>(677,690)</b>	<b>(758,239)</b>	<b>(784,763)</b>	<b>(763,934)</b>	<b>(809,051)</b>	<b>(833,714)</b>
Selling	(509,467)	(580,801)	(618,754)	(590,532)	(630,590)	(649,126)
Underwriting & commissions	(81,396)	(84,361)	(65,744)	(74,563)	(75,828)	(77,633)
Other operating expense	(86,827)	(93,077)	(100,265)	(98,839)	(102,633)	(106,955)
Equity in affiliates (pretax)	8,011	7,666	10,328	10,844	11,387	11,956
<b>Pretax income</b>	<b>59,795</b>	<b>54,476</b>	<b>50,495</b>	<b>43,551</b>	<b>48,781</b>	<b>58,284</b>
Income taxes	(781)	(3,103)	1,917	1,653	1,852	2,213
<b>Consolidated net income</b>	<b>59,014</b>	<b>51,373</b>	<b>52,412</b>	<b>45,204</b>	<b>50,633</b>	<b>60,497</b>
Minority interest	727	1,116	1,491	1,286	1,440	1,721
<b>Net income</b>	<b>58,287</b>	<b>50,257</b>	<b>50,921</b>	<b>43,918</b>	<b>49,192</b>	<b>58,776</b>
<b>Net income available to common</b>	<b>58,287</b>	<b>50,257</b>	<b>50,921</b>	<b>43,918</b>	<b>49,192</b>	<b>58,776</b>

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Assets</b>						
Cash & short-term investments	53,306	56,655	60,440	67,316	74,017	83,612
Total fixed income securities investment	2,079,264	2,399,915	2,735,661	2,886,132	3,085,038	3,382,040
Total equity securities investment	1,205,032	1,385,120	1,648,973	1,738,219	1,858,276	2,037,544
Real estate assets	67,419	70,040	70,290	71,673	73,190	74,842
Premium balance receivables	58,984	65,930	71,458	76,655	80,615	86,401
Investment in unconsolidated subs.	222,983	239,584	257,953	272,174	290,973	319,043
Deferred tax assets	128	87	121	121	121	121
Other assets	39,618	35,135	46,189	216,509	349,390	323,701
<b>Total assets</b>	<b>3,726,734</b>	<b>4,252,466</b>	<b>4,891,085</b>	<b>5,328,800</b>	<b>5,811,620</b>	<b>6,307,304</b>
<b>Liabilities &amp; shareholders' equity</b>						
<b>Insurance policy liabilities</b>	<b>2,552,736</b>	<b>2,973,225</b>	<b>3,419,899</b>	<b>3,817,745</b>	<b>4,240,590</b>	<b>4,665,745</b>
ST debt & curr. portion LT debt	281,923	299,981	421,461	431,227	440,412	450,121
Long-term debt	61,985	60,944	59,278	57,096	57,096	57,096
Deferred tax liabilities	10,330	15,286	7,481	0	0	0
Other liabilities	410,418	446,093	496,308	525,612	557,638	592,321
<b>Total liabilities</b>	<b>3,317,392</b>	<b>3,795,529</b>	<b>4,404,427</b>	<b>4,831,680</b>	<b>5,295,735</b>	<b>5,765,283</b>
<b>Total common equity</b>	<b>409,342</b>	<b>456,937</b>	<b>486,658</b>	<b>497,120</b>	<b>515,885</b>	<b>542,020</b>
Common stock/ordinary capital	28,265	28,265	28,265	28,265	28,265	28,265
Capital surplus	7,791	0	0	0	0	0
Retained earnings	170,487	183,856	201,265	206,168	214,428	225,931
Equity reserves	197,221	237,935	249,055	255,123	265,343	279,578
<b>Total shareholders' equity</b>	<b>403,764</b>	<b>450,056</b>	<b>478,585</b>	<b>489,556</b>	<b>508,036</b>	<b>533,773</b>
Minority interest	5,578	6,881	8,073	7,564	7,849	8,247
<b>Total equity</b>	<b>409,342</b>	<b>456,937</b>	<b>486,658</b>	<b>497,120</b>	<b>515,885</b>	<b>542,020</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>3,726,734</b>	<b>4,252,466</b>	<b>4,891,085</b>	<b>5,328,800</b>	<b>5,811,620</b>	<b>6,307,304</b>

<b>PER SHARE DATA</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
DPS (RMB)	0.73	0.64	0.65	0.56	0.63	0.75
EPS (Reported) (RMB)	2.05	1.77	1.80	1.53	1.71	2.05
Diluted EPS (RMB)	2.05	1.77	1.80	1.53	1.71	2.05
Consensus EPS (RMB)	na	1.80	1.10	2.00	2.30	2.60
Group embedded value/share (HK\$)	33.33	37.93	42.56	46.41	50.84	55.79
VNB/share (HK\$)	2.08	2.07	1.58	1.43	1.52	1.67
No. of shares basic	28,265	28,265	28,265	28,265	28,265	28,265
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Return on equity (ROE)	16.1%	11.8%	11.0%	9.1%	9.9%	11.3%
Return on asset (ROA)	1.7%	1.3%	1.1%	0.9%	0.9%	1.0%
Return on life embedded Value	16.9%	12.9%	11.5%	8.7%	9.1%	9.3%
VNB margin (FYP APE basis)	45.3%	43.3%	38.1%	33.4%	33.4%	33.4%
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	8.5	8.8	6.8	6.6	5.8	4.9
PE (diluted)	8.5	8.8	6.8	6.6	5.8	4.9
P/B	1.2	1.0	0.7	0.6	0.6	0.5
Div yield (%)	4.2	4.1	5.3	5.6	6.3	7.5
Div payout (%)	35.6	36.2	36.1	36.7	36.6	36.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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