

China Life (2628 HK)

Strong lift in banca NBV margin; investment income may continue to rebound in 2H24

China Life reported strong 1H results with NBV +18.6% YoY on a like-for-like basis to RMB32.3bn, and EV back to double-digit growth by 11.4% to RMB 1.4tn from year start. Investment income soared 1.4x YoY to RMB56.7bn after the insurer fully adopted IFRS 9 for both A/H share reporting, driving the pre-tax profit to rise 27.6% YoY to RMB 47.9bn in 1H24, equivalent to 109.3% YoY surge in 2Q24 (CMBI est). We see outstanding margin expansion in bancassurance, of which the NBV margin +13.4pct like-for-like to >17% as we estimate. Total investment assets reached an all-time high to RMB 6.1tn with incremental FVOCI stocks amounted to RMB34.1bn, jumping 1.31x from year start, which evidenced the insurer's strategy on high-yield stocks to anchor a long-run stable investment return, in our view. Looking ahead, we expect optimized product and channel mix would support reductions on cost of liability in an orderly manner, to ride on tailwinds of a new round of PIR cuts since this Sep; and investment income to rebound in 2H24 on a low comparative last year. Maintain BUY with 12M-forward TP revised to HK\$15.5 implying 0.3x FY24E P/EV.

■ **Evident margin expansion to underpin NBV beat.** The insurer reported strong NBV growth by 18.4% YoY to RMB32.3bn in 1H24 after reflecting the actuarial change in long-run investment return assumption to 4.5% by end-2023, beating market consensus. We see evident improvement on agency and bancassurance NBV margin by +5.4pct/+13.4pct YoY to 30.6%/>17% (CMBI est) despite softer premium growth. 10yr+ regular-paid first-year premium (FYRP) remained strong, rising 9.4% YoY to RMB42.6bn which comprised 43.8% of total FYRP in 1H24, mainly derived from the agency channel (99.95%). We regard banca NBV margin increase as a result of 1) shrunk single-paid premiums by -78.2% YoY to RMB 4.1bn, indicative of the insurer's proactive mgt. on low-margin biz; 2) effective expense control under regulatory limit imposed on commissions; and 3) restated effect of actuarial change on the long-run investment return assumption to 4.5%. Heading to Sep, we expect product mix to diversify with higher proportions of par, in face of the guaranteed pricing interest rate cut to 2.5% starting from 1 Sep. Mgt. mentioned in call that participating policies measured under VFA accounted for circa.40% of total reserves; and given a nature of measuring their cost of liability based on floating interest rate, mgt. supposed the share of par policies in terms of FYP would substantially increase after Sep 2024. By far, the average cost of liability for guaranteed policies has been controlled at ~3% with minimal spread loss risk, for which mgt. guided to see a progressive downtrend in next 2-3 years.

■ **FVOCI stocks markedly increased to boost income.** Despite low interest rate and fluctuated equity market returns, the insurer achieved better-than-expected investment income by +1.4x YoY to RMB56.7bn, boosting pre-tax profit by 27.6% YoY to RMB47.9bn in 1H24. We attribute this uptrend to 1) 46.1% YoY increase in dividend from FVOCI stocks; 2) 2.27x YoY surge in realized gains on FVOCI debt instruments; and 3) 2.81x YoY jump in fair value change of FVTPL assets. For insurance funds, net/total investment yield was 3.33%/3.59%, -0.28/+0.26pct YoY and mgt. guided that comprehensive investment yield reached >5% in 1H24, leading to a positive investment variance in EV by RMB6.7bn, the first time after 1H21. Total investment assets amounted to RMB6.1tn, up 12.5% from year start, with increased bonds and equity funds by 19.2%/32.2% while reduced cash by 33.2%. In 1H24, more than RMB400bn was invested in ultra-long term special treasury bonds and high-grade credit bonds, equivalent to 11.5% of total bond investments, indicative of the insurer's address on asset-liability duration match. Stocks in FVOCI +1.31x from year start to RMB34.1bn, making up 21.4% of total FVOCI equities or 7.7% of total stocks. Looking ahead, we expect the share of high-dividend stocks in FVOCI would continue to grow, given a long-run pursuit of achieving stable investment outcome amid prolonged low interest rate cycles, to support investment income to rebound in 2H24, against a low base last year.

BUY (Maintain)

Target Price **HK\$15.50**
(Previous TP) **HK\$13.70**
Up/Downside **31.1%**
Current Price **HK\$11.82**

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Stock Data

Mkt Cap (HK\$ mn)	1,182.0
Avg 3 mths t/o (HK\$ mn)	317.2
52w High/Low (HK\$)	13.00/8.33
Total Issued Shares (mn)	100.0

Source: FactSet

Shareholding Structure

FMR LLC	7.1%
BlackRock, Inc.	5.9%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	13.0%	6.8%
3-mth	5.2%	6.6%
6-mth	22.5%	12.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

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- China Insurance - 7M24 Monthly: Life momentum kept strong; P&C edged up by auto & non-auto rebounds, Aug 20, 2024 ([link](#))

■ **Valuation:** The stock is trading at FY24E 0.2x P/EV and 0.6x P/B. We believe the resilient 1H results could underpin a stock re-rating combined with the newly announced interim dividends at RMB0.2/share, implying a payout of 14.8%. Maintain BUY. We revised up our 12M-forward TP to HK\$15.5 (prev. HK\$13.7) based on P/EV vs ROEV approach to reflect better underwriting and investment outcomes that jointly lifted EV. Key assumptions remain consistent as 1) 3.0% risk-free rate; 2) 5.5% market risk premium; 3) COE calc. based on CAPM at 9.80%; 4) 3% terminal growth; and 5) 40% consolidated Group discount ([Table](#)). We rolled forward EV sensitivity results from FY23 to 1H24, assuming a stress situation that long-term investment return may further drop by 150bps to 3.0%, implying -1.46% change to Group EV, better than previous -1.53% test results. New TP implies 0.3x FY24E P/EV and 0.8x FY24E P/B.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	68,112	47,547	52,294	54,361	57,678
EPS (Reported)(RMB)	2.36	1.63	1.79	1.87	1.98
Consensus EPS (RMB)	n.a	n.a	1.72	1.77	1.92
Group EV / share (RMB)	43.54	44.60	48.67	50.32	52.01
P/B (x)	0.8	0.6	0.6	0.6	0.6
P/Embedded value (x)	0.2	0.2	0.2	0.2	0.2
Dividend yield (%)	4.6	4.0	5.0	5.2	5.5
ROE (%)	17.3	9.7	10.5	10.5	10.8

Source: Company data, Bloomberg, CMBIGM estimates

Valuation

(RMB bn)	FY24E	FY25E	%
Embedded value	1,376	1,422	3.4%
EVPS (RMB)	48.67	50.32	3.4%
Target P/EV (x)	0.40x	0.23x	
Cost of equity	9.8%	9.8%	
ROEV (5yr average)	7.6%	5.6%	
Long-term growth	3.0%	3.0%	
EV sensitivity If INV return -150bps	-1.46%		
Group discount ratio	-40.0%		
Target valuation	544.4	326.7	
Target price (HK\$)	21.2	12.7	
Price target (TTM), HK\$	15.5		
Implied P/EV (x)	0.29x	0.28x	
Implied P/B (x)	0.81x	0.78x	
Upside (%)	31.1%		

Source: CMBIGM estimates

EV sensitivity (RDR @4.5%, INV return @8.0%)	VIF	VNB	EV
Base case	617,774	32,262	1,404,536
@RDR -50bps, reported	587,400	30,719	1,374,162
@RDR -50bps (%)	-4.9%	-4.8%	-2.2%
@INV return -1000bps, reported	481,519	25,148	1,268,281
@INV return -1000bps (%)	-22.1%	-22.1%	-9.7%
@INV return -100bps (%), 1H24	-2.21%	-2.21%	-0.97%
EV stress test, @INV return -150bps to 3%, 1H24			-1.46%

Source: Company data, CMBIGM estimates

China Life (2628 HK): 1H24/2Q24 key financial metrics

Fig. 1: Profitability analysis under IFRS 9 & IFRS 17 (restated figures in 1H23/2Q23)

(RMB mn)	1H24	1H23	Y/Y %	2Q24	2Q23	Y/Y %	1Q24	1Q23	Y/Y %
Profitability & NAV under IFRS 9 & 17									
Insurance revenue	106,622	91,941	16.0%	52,849	44,758	18.1%	53,773	47,183	14.0%
Insurance service expenses	(83,822)	(64,846)	29.3%	(42,801)	(33,686)	27.1%	(41,021)	(31,160)	31.6%
Net reinsurance income/(expenses)	(869)	(1,048)	-17.1%	311	(917)	n.a	(1,180)	(131)	n.a
Insurance service results	21,931	26,047	-15.8%	10,359	10,155	2.0%	11,572	15,892	-27.2%
Net insurance finance income/(expenses)	(91,399)	(73,481)	24.4%	(44,271)	(36,309)	21.9%	(47,128)	(37,172)	26.8%
Interest income / (expenses)	59,413	61,246	-3.0%	30,918	61,246	-49.5%	28,495	0	n.a
Investment income, excl. AJVs	56,736	23,606	140.3%	51,272	(30,732)	n.a	5,464	54,338	-89.9%
Expected credit losses	(146)	797	n.a	44	7,494	-99.4%	(190)	(6,697)	-97.2%
Net investment results	30,915	17,832	73.4%	12,107	2,069	485.2%	18,808	15,763	19.3%
Other results	(4,946)	(6,341)	-22.0%	(4,043)	(3,421)	18.2%	(903)	(2,920)	-69.1%
Operating profit before tax	47,900	37,538	27.6%	18,423	8,803	109.3%	29,477	28,735	2.6%
Net profit to equity S/H (IFRS 9 & 17)	38,278	36,151	5.9%	17,634	13,381	31.8%	20,644	22,770	-9.3%
Net asset value to S/H (IFRS 9 & 17)	493,834	477,093	3.5%	493,834	477,093	3.5%	480,406	477,093	0.7%

Source: Company data, HKEx, CMBIGM

Note: China Life (2628 HK) fully transferred to new accounting standards of IFRS 9 & 17 in A/H share reporting starting from 1/1/2024.

Fig. 2: Life core metrics – VNB growth and FYP/FYRP premiums

(RMB mn, %)	1H24	1H23	Y/Y %	2023	2022	Y/Y %	2H23	2H22	Y/Y %
Value of new business (VNB)	32,262	27,200	18.6%	36,860	32,944	11.9%	9,660	7,199	34.2%
Agency VNB	29,291	25,555	14.6%	34,646	31,385	10.4%	9,091	7,200	26.3%
Agency VNB contribution %	90.8%	94.0%	-3.2 pct	94.0%	95.3%	-1.3 pct	94.1%	100.0%	-5.9 pct
Other VNB*	2,971	1,645	80.6%	2,214	1,559	42.0%	569	(1)	n.a
Other VNB contribution %	9.2%	6.0%	3.2 pct	6.0%	4.7%	1.3 pct	5.9%	0.0%	5.9 pct
Agency VNB margin (FYP basis)	30.6	25.2	5.4 pct	29.9	27.4	2.5 pct			
Agency VNB margin (FYP APE basis)	31.0	28.2	2.8 pct	31.3	31.0	0.3 pct			
Other VNB margin (FYP basis)	17.9	4.5	13.4 pct	5.4	5.7	-0.3 pct			

Source: Company data, HKEx, CMBIGM

(RMB mn, %)	1H24	2023	Chg. (%)
Life Embedded value (EV)	1,404,536	1,260,567	11.4%
Contract service margin (CSM)	774,009	769,137	0.6%
CSM release rate (%), CMBI calc.	8.1%	7.9%	0.19pct

Source: Company data, HKEx, CMBIGM

*Note: new business value and y/y chg. were restated under new EV assumptions of long-term investment return at 4.5% and risk discount rate at 8.0%; NBV from other channels imply bancassurance NBV.

Premiums income breakdown	1H24	1H23	Y/Y %	2Q24	2Q23	Y/Y %	1Q24	1Q23	Y/Y %
First-year premiums (FYP)	160,266	171,213	-6.4%	47,822	53,544	-10.7%	112,444	117,669	-4.4%
First-year regular premiums (FYRP)	97,294	97,418	-0.1%	22,469	25,940	-13.4%	74,825	71,478	4.7%
10 yrs+ FYRP	42,616	38,957	9.4%	17,425	18,875	-7.7%	25,191	20,082	25.4%
as a % of FYP	43.8%	40.0%	3.8 pct	77.6%	72.8%	4.8%	33.7%	28.1%	5.6%
First-year single premiums (FYSP)	49,577	59,405	-16.5%	46,762	48,194	-3.0%	2,815	11,211	-74.9%
Short-term premiums (ST)	13,395	14,390	-6.9%	(21,409)	(20,590)	n.a	34,804	34,980	-0.5%
Renewals	329,300	298,902	10.2%	104,106	89,350	16.5%	225,194	209,552	7.5%
Gross written premiums (GWP)	489,566	470,115	4.1%	151,928	142,894	6.3%	337,638	327,221	3.2%
Annualized Premiums Earned (APE)	103,591	104,798	-1.2%	25,004	28,700	-12.9%	78,587	76,097	3.3%
as a % of FYP	43.8%	40.0%	3.8 pct	77.6%	72.8%	4.8%	33.7%	28.1%	5.6%

Premium income by distributions	1H24	1H23	Y/Y %
Agency FYP	94,283	89,602	5.2%
Agency FYRP	84,611	80,109	5.6%
as a % of FYP	89.7%	89.4%	0.3 pct
Bancassurance FYP	16,994	36,425	-53.3%
Bancassurance FYRP	12,671	17,294	-26.7%
as a % of FYP	74.6%	47.5%	27.1 pct
Group & Others FYP	48,989	45,186	8.4%
Group & Others FYSP	689	783	-12.0%
as a % of FYP	1.4%	1.7%	-0.3 pct
Agency APE	85,578	81,058	5.6%
Bancassurance APE	13,103	19,207	-31.8%
Group & Others APE	4,910	4,532	8.3%

Premiums income by business:

Life insurance FYP	101,147	115,359	-12.3%
Life FYRP	96,221	95,561	0.7%
as a % of FYP	95.1%	82.8%	12.3 pct
Health insurance FYP	51,799	47,593	8.8%
Health FYRP	1,073	1,857	-42.2%
as a % of FYP	2.1%	3.9%	-1.8 pct
Accident FYP	7,320	8,261	-11.4%
Accident FYRP	0	0	
as a % of FYP	0.0%	0.0%	0.0 pct
Life APE	96,714	97,541	-0.8%
Health APE	6,146	6,431	-4.4%
Accident APE	732	826	-11.4%

Source: Company data, HKEx, CMBIGM

*Note: all first-year premium figures incl. short-term premiums.

Fig. 3: Life core metrics – no. of agents/agent productivity by FYRP/persistency%

No. of agents & sales force (%)	2Q24	1Q24	Q/Q%	1Q24	4Q23	Q/Q%	4Q23	3Q23	Q/Q%
No. of life insurance agents (mn)	0.63	0.62	1.1%	0.62	0.63	-1.9%	0.63	0.66	-3.9%
as a % of total sales force	90.6%	91.6%	-1.0 pct	91.6%	91.4%	0.3 pct	91.4%	91.5%	-0.2 pct
Agent productivity growth %	1H24	1Q24	2023	9M23	1H23	1Q23	2022		
Agent productivity by per agent FYRP	12.4%	17.7%	28.8%	28.6%	38.1%	28.8%	51.7%		
Life policy persistency rate (%):	1H24	1H23	Y/Y %						

14-month persistency	91.5	89.2	2.3 pct
26-month persistency	84.4	79.3	5.1 pct

Source: Company data, HKEx, CMBIGM

Fig. 4: Life core metrics – core and comprehensive ratio (%)

CROSS-II Solvency ratio:	2Q24	1Q24	Q/Q%	1Q24	4Q23	Q/Q%	4Q23	3Q23	Q/Q%
Core solvency ratio (%)	151.90	154.97	-3.1pct	154.97	158.19	-3.2pct	158.19	161.25	-3.1pct
Comprehensive solvency ratio (%)	205.23	209.17	-3.9pct	209.17	218.54	-9.4pct	218.54	232.68	-14.1pct

Source: Company data, HKEx, CMBIGM

Fig. 5: Investment performance under IFRS 9 on a comparable basis

Investment performance	1H24	1H23	Y/Y %
Net investment yield (%)	3.03	3.31	-0.28 pct
Total investment yield (%)	3.59	3.33	0.26 pct

* Note: investment yields were restated under IFRS 9 on 1/1/2024.

Investment assets & Total assets	1H24	2023	Chg. (%)	2Q24	2023	Chg. (%)	1Q24	2023	Chg. (%)
Total investment assets (RMB bn)	6,086	5,413	12.5%	6,086	5,413	12.5%	5,932	5,413	9.6%
~ as a % of total assets	97.8%	95.7%	2.1 pct	97.8%	97.8%	0.0 pct	97.7%	95.7%	2.0 pct
Total assets (RMB bn)	6,223	5,654	10.1%	6,223	5,654	10.1%	6,071	5,654	7.4%

Mix by types%:

Bonds %	57.4%	54.1%	3.3 pct
Stocks %	7.3%	7.9%	-0.7 pct
Equity funds %	4.5%	3.8%	0.7 pct

Mix by IFRS 9 measurement%:

FVTPL	1,862,698	1,705,375	9.2%
FVOCI-D	3,007,118	2,744,169	9.6%
FVOCI-E	159,564	138,005	15.6%
Stocks	34,144	14,787	130.9%
Preferred stocks	51,453	50,445	2.0%
Others (perps)	73,967	72,773	1.6%
Amortized costs (AC)	191,099	211,349	-9.6%

Mix of non-standard assets%:

NSA-debt investment %	8.2%	8.9%	-0.6 pct
NSA-equity investment %	7.8%	8.5%	-0.7 pct

Investment income under IFRS 9	1H24	1H23	Y/Y %	2Q24	2Q23	Y/Y %	1Q24	1Q23	Y/Y %
Net investment income (RMB mn)	92,413	90,798	1.8%	49,732	48,074	3.4%	42,681	42,724	-0.1%
Total investment income (RMB mn)	122,366	81,443	50.2%	57,709	21,129	173.1%	64,657	60,314	7.2%

Source: Company data, HKEx, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		182,578	212,445	225,011	223,041	221,750
Insurance service expenses		(131,614)	(150,353)	(167,828)	(166,365)	(165,405)
Net expenses from reinsurance contracts held		2,155	(288)	(122)	(123)	(122)
Insurance service results		53,119	61,804	57,060	56,553	56,223
Net finance (expenses)/income from insurance contracts		(148,700)	(127,923)	(124,734)	(117,140)	(128,757)
Net finance (expenses)/income from reinsurance contracts		583	616	336	0	0
Interest income		0	122,994	123,476	133,656	150,176
Net investment income		175,360	(9,375)	10,329	(5,891)	(6,294)
Credit impairment losses		(3,150)	1,217	(292)	(292)	(292)
Net investment results		24,093	(12,471)	9,114	10,333	14,833
Other income		8,944	10,603	12,226	12,837	13,479
Other expenses		(15,212)	(18,131)	(18,318)	(18,711)	(19,114)
Other results		(11,131)	(12,836)	(11,507)	(11,830)	(12,187)
Profit before tax		70,060	44,576	63,478	63,954	67,856
Income taxes		(1,948)	2,971	(11,184)	(9,593)	(10,178)
Net profit		68,112	47,547	52,294	54,361	57,678
Net profit attributable to shareholders		66,680	46,181	50,733	52,767	56,080

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions	542,403	524,100	433,014	507,385	567,932	629,710
Balances with central bank and statutory deposits	6,333	6,333	6,520	6,937	7,765	8,610
Investments in associates and joint ventures	258,933	262,488	258,760	261,348	263,961	266,601
Property	58,150	56,369	55,190	55,122	55,055	54,989
Investment property	13,374	13,193	12,753	13,251	14,832	16,446
Reinsurance contract assets	19,327	24,096	25,846	27,252	30,476	33,988
Financial investments:	3,599,689	3,878,185	4,798,898	5,462,925	6,114,826	6,779,973
At amortized cost:	0	0	211,349	199,544	223,356	247,652
At fair value through other comprehensive income:	0	0	2,882,174	3,307,549	3,702,244	4,104,960
At fair value through profit or loss:	0	0	1,705,375	1,955,833	2,189,226	2,427,361
Deferred tax assets	24,180	46,126	24,431	29,311	35,166	42,191
Other assets	82,519	71,584	37,369	(82,397)	(111,812)	56,422
Cash and cash equivalents	60,459	127,594	149,305	93,139	104,254	115,594
Total assets	4,665,367	5,010,068	5,802,086	6,374,274	7,082,457	8,004,524
LIABILITIES						
Insurance contract liabilities	3,809,716	4,266,947	4,859,175	5,561,891	6,220,031	6,936,806
Borrowings	19,222	12,774	12,857	12,460	12,075	11,703
Obligations under repurchase agreements	239,446	148,958	216,851	117,685	63,868	34,661
Deferred tax liabilities	999	272	0	0	0	0
Current tax liabilities	248	238	309	245	194	154
Bonds payable	34,994	34,997	36,166	0	0	0
Other liabilities	164,095	170,749	189,506	178,607	264,428	484,321
Total liabilities	4,268,874	4,635,095	5,315,052	5,870,889	6,560,596	7,467,644
EQUITIES						
Share capital	28,265	28,265	28,265	28,265	28,265	28,265
Reserves	156,677	99,033	145,933	149,814	129,959	103,889
Retained profits	203,478	238,723	302,895	314,637	352,184	392,434
Total shareholders' equity	388,420	366,021	477,093	492,716	510,408	524,587
Non-controlling interests	8,073	8,952	9,941	10,670	11,452	12,292
Total equity	396,493	374,973	487,034	503,386	521,860	536,879
Total liabilities & equity	4,665,367	5,010,068	5,802,086	6,374,274	7,082,457	8,004,524

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	0.65	0.49	0.43	0.54	0.56	0.60
EPS (Reported)	1.80	2.36	1.63	1.79	1.87	1.98
Consensus EPS	n.a	n.a	n.a	1.72	1.77	1.92
Group embedded value/share (HK\$)	42.56	43.54	44.60	48.67	50.32	52.01
VNB/share (HK\$)	1.58	1.27	1.45	1.51	1.62	1.74
No. of shares basic	28,265	28,265	28,265	28,265	28,265	28,265
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Return on equity (ROE)	10.9%	17.3%	9.7%	10.5%	10.5%	10.8%
Return on embedded Value (ROEV)	11.5%	2.3%	2.4%	8.7%	3.3%	3.4%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)	0.3	0.2	0.2	0.2	0.2	0.2
P/B (x)	0.6	0.8	0.6	0.6	0.6	0.6
Dividend yield (%)	6.1	4.6	4.0	5.0	5.2	5.5

Source: Company data, CMBIGM estimates. Note: data quoted by market close on 30/8/2024.

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