

# New China Life (1336 HK)

## NBV decline likely narrowed in 3Q

In 9M20, NCI's GWP increased 24.5% YoY and agent-channel FYRP rose 9.5% YoY, outpacing industry average. Net profit declined 14.6% YoY to RMB11.1bn in 9M20, which narrowed 7.5ppt from 1H20, primarily due to last year's tax credit. Pre-tax profit stayed largely flat.

- Result positives.** 1) **NBV decline narrowed in 3Q.** Individual-channel FYRP maintained steady pace of increase, up 12.8%/9.5%YoY in 3Q20/9M20. The Company promoted higher-margin rider products in 3Q20, which likely lifted NBV margin. The Company did not release NBV figures in quarterly report, but it had kept the goal of positive NBV growth in 2020. Conditional on steady FYRP growth and improving NBV margin in 2H20, we forecast NBV to narrow its 11.4% YoY decline in 1H20 to 5.4% for the full year. 2) **Bancassurance development is a bright spot.** This channel generated RMB 22.3bn FYP in 9M20 (RMB17.4bn single premiums + RMB 4.9bn regular premiums) and was the backbone for premium growth in time of COVID-19. 3) **Investment income rose 65%/38% in 3Q20/9M20** on back of realized gains from equity trading and interest income from fixed income assets. Annualized total investment yield reached 5.6%, up 0.9ppt YoY.
- Risks.** 1) NCI's kickoff season started later than peers because the Company was working hard to fulfill 2020 goals. This could make it difficult to acquire customers in crowded markets. 2) With number of agents approaching 560,000, the Company need to pay more attention to training agents and increasing agent productivity.
- Reiterated firm strategies.** 1) To achieve balanced growth in both volume and value. The Company will primarily focus on health insurance products and annuity products to meet diversified insurance demand of households. 2) The Company takes bancassurance as an irreplaceable channel, which is likely to maintain good momentum of growth in the next few years. 3) To expand and enhance agent team, which sits at the core of life insurance business.
- Valuation.** We keep financial forecast and TP unchanged since the Company's 3Q performance was largely within our expectation. The Company's H-share is trading at 0.37/0.34x FY20/21E P/EV. Maintain BUY.

### Earnings Summary

| (YE 31 Dec)           | FY18A   | FY19A   | FY20E   | FY21E   | FY22E   |
|-----------------------|---------|---------|---------|---------|---------|
| GWP (RMB mn)          | 122,286 | 138,131 | 174,151 | 195,288 | 216,739 |
| YoY Growth (%)        | 11.9    | 13.0    | 26.1    | 12.1    | 11.0    |
| Total income (RMB mn) | 151,964 | 172,103 | 214,899 | 237,033 | 259,021 |
| Net profit (RMB mn)   | 7,922   | 14,559  | 13,189  | 14,144  | 14,902  |
| EPS (RMB)             | 2.54    | 4.67    | 4.23    | 4.53    | 4.78    |
| EPS CHG (%)           | 47.2    | 83.8    | -9.4    | 7.2     | 5.4     |
| Consensus EPS (RMB)   | N.A.    | N.A.    | 4.23    | 4.63    | 5.28    |
| P/B (x)               | 1.29    | 1.00    | 0.88    | 0.78    | 0.69    |
| P/EV (x)              | 0.49    | 0.41    | 0.37    | 0.34    | 0.32    |
| Yield (%)             | 2.83    | 5.18    | 4.70    | 5.04    | 5.31    |
| RoEV (%)              | 13.9    | 19.8    | 13.2    | 10.6    | 8.3     |

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

|               |            |
|---------------|------------|
| Target Price  | HK\$41.60  |
| (Previous TP) | HK\$41.60) |
| Up/Downside   | +33.3%     |
| Current Price | HK\$31.20  |

### China Insurance Sector

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### Stock Data

|                          |                               |
|--------------------------|-------------------------------|
| Mkt Cap (HK\$ mn)        | 195,898                       |
| Avg 3 mths t/o (HK\$ mn) | 264.43                        |
| 52w High/Low (HK\$)      | 36.75/19.51                   |
| Total Issued Shares (mn) | <b>1,034 (H)</b><br>2,085 (A) |

Source: Bloomberg

### Shareholding Structure

|                           |        |
|---------------------------|--------|
| Central Huijin Investment | 31.34% |
| China Baowu Steel Group   | 12.09% |

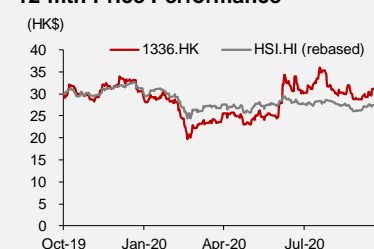
Source: HKEx

### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 7.6%     | 1.9%     |
| 3-mth | 3.1%     | 3.1%     |
| 6-mth | 27.2%    | 26.1%    |

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Related Reports

- "Disappointing NBV growth, but EV beat" – 26 Aug 2020
- "Satisfactory 1Q20" – 20 Apr 2020
- "Setting off to a challenging 2020" – 26 Mar 2020
- "Lackluster FYRP growth likely weighs on NBV" – 31 Oct 2019

**Figure 1: NCI's 9M20/3Q20 results summary**

| <b>(RMB mn)</b>                 |                |                |               |               |               |              |
|---------------------------------|----------------|----------------|---------------|---------------|---------------|--------------|
| <b>P&amp;L</b>                  | <b>9M20</b>    | <b>9M19</b>    | <b>YoY</b>    | <b>3Q20</b>   | <b>3Q19</b>   | <b>YoY</b>   |
| <b>Gross written premiums</b>   | <b>134,355</b> | <b>107,912</b> | <b>24.5%</b>  | <b>37,452</b> | <b>33,897</b> | <b>10.5%</b> |
| Net premiums earned             | 131,421        | 105,219        | 24.9%         | 36,615        | 33,160        | 10.4%        |
| Investment income               | 34,652         | 25,109         | 38.0%         | 13,901        | 8,425         | 65.0%        |
| <b>Total income</b>             | <b>166,774</b> | <b>130,998</b> | <b>27.3%</b>  | <b>50,698</b> | <b>41,906</b> | <b>21.0%</b> |
| Insurance benefits and claims   | (129,143)      | (95,009)       | 35.9%         | (39,350)      | (31,584)      | 24.6%        |
| Underwriting costs              | (14,258)       | (13,026)       | 9.5%          | (4,641)       | (4,083)       | 13.7%        |
| Admin expenses                  | (8,182)        | (8,405)        | -2.7%         | (2,862)       | (2,893)       | -1.1%        |
| Total expenses                  | (155,062)      | (118,897)      | 30.4%         | (48,758)      | (39,867)      | 22.3%        |
| Associates and JVs              | 328            | 220            | 49.1%         | 75            | 42            | 78.6%        |
| Pre-tax profit                  | 12,040         | 12,321         | -2.3%         | 2,786         | 2,429         | 14.7%        |
| Income tax                      | (933)          | 683            | -236.6%       | 102           | 29            | 251.7%       |
| Less: Minority interests        | (2)            | (1)            |               | (3)           | -             |              |
| <b>Net profit</b>               | <b>11,105</b>  | <b>13,003</b>  | <b>-14.6%</b> | <b>2,887</b>  | <b>2,458</b>  | <b>17.5%</b> |
| <b>B/S</b>                      | <b>3Q20</b>    | <b>3Q19</b>    | <b>YoY</b>    | <b>3Q20</b>   | <b>2Q20</b>   | <b>QoQ</b>   |
| Investment assets               | 899,141        | 784,969        | 14.5%         | 899,141       | 900,317       | -0.1%        |
| Total assets                    | 939,265        | 822,083        | 14.3%         | 939,265       | 939,351       | 0.0%         |
| Insurance contracts liabilities | 740,292        | 639,198        | 15.8%         | 740,292       | 717,531       | 3.2%         |
| Total liabilities               | 845,423        | 742,275        | 13.9%         | 845,423       | 848,175       | -0.3%        |
| Equity attr. to shareholders    | 93,380         | 79,798         | 17.0%         | 93,380        | 91,165        | 2.4%         |
| <b>Key indicators</b>           | <b>9M20</b>    | <b>9M19</b>    | <b>YoY</b>    | <b>3Q20</b>   | <b>3Q19</b>   | <b>YoY</b>   |
| Individual FYRP (RMB mn)        | 13,645         | 12,457         | 9.5%          | 3,845         | 3,410         | 12.8%        |
| NBV (RMB mn)                    | N/A            | N/A            | N/A           | N/A           | N/A           | N/A          |
| Total investment yield (%)      | 5.6%           | 4.7%           | +0.9 ppt      | N/A           | N/A           | N/A          |

Source: Company data, CMBIS

## Financial Summary

| Income statement              |                  |                  |                  |                  |                  | Key ratios                   |        |        |       |        |        |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------------------|--------|--------|-------|--------|--------|
| YE 31 Dec (RMB mn)            | FY18A            | FY19A            | FY20E            | FY21E            | FY22E            | YE 31 Dec (RMB mn)           | FY18A  | FY19A  | FY20E | FY21E  | FY22E  |
| Gross written premium         | 122,341          | 138,171          | 174,243          | 195,384          | 216,838          | <b>Growth (%)</b>            |        |        |       |        |        |
| Net premiums earned           | 120,002          | 135,443          | 169,565          | 191,003          | 212,066          | GWP growth                   | 11.9   | 12.9   | 26.1  | 12.1   | 11.0   |
| Investment income             | 31,185           | 35,842           | 44,462           | 45,128           | 46,026           | Total income growth          | 6.2    | 13.3   | 24.9  | 10.3   | 9.3    |
| Other operating income        | 777              | 818              | 871              | 902              | 929              | Net profit growth            | 47.2   | 83.8   | (9.4) | 7.2    | 5.4    |
| <b>Total income</b>           | <b>151,964</b>   | <b>172,103</b>   | <b>214,899</b>   | <b>237,033</b>   | <b>259,021</b>   | EV growth                    | 12.8   | 18.4   | 12.9  | 8.9    | 6.6    |
| Insurance claims and reserves | (109,842)        | (125,928)        | (159,868)        | (174,686)        | (191,139)        | Net investment yield         | 5.0    | 4.8    | 4.6   | 4.5    | 4.4    |
| Commissions expenses          | (16,711)         | (16,872)         | (20,009)         | (23,302)         | (25,872)         | Total investment yield       | 4.6    | 4.9    | 5.2   | 4.7    | 4.4    |
| Other operating expenses      | (14,202)         | (15,542)         | (17,832)         | (21,080)         | (23,236)         | Investment assets growth     | 1.7    | 20.0   | 13.3  | 11.9   | 10.5   |
| <b>Total expenses</b>         | <b>(140,755)</b> | <b>(158,342)</b> | <b>(197,709)</b> | <b>(219,068)</b> | <b>(240,247)</b> | <b>Underwriting (%)</b>      |        |        |       |        |        |
| Associates and JVs            | 404              | 502              | 527              | 553              | 581              | Agent FYRP growth            | (25.0) | (5.3)  | 10.0  | 10.0   | 8.0    |
| Finance cost                  | -1,103           | -1,042           | -1,021           | -613             | -490             | Bancassurance FYRP growth    | (26.9) | (11.6) | 50.0  | 15.0   | 10.0   |
| Pre-tax profit                | 10,510           | 13,221           | 16,696           | 17,905           | 18,865           | Agent FYRP/FYRP              | 77.3   | 78.5   | 72.8  | 71.9   | 71.5   |
| Income tax                    | (2,587)          | 1,339            | (3,506)          | (3,760)          | (3,962)          | Renewal growth               | 23.8   | 10.4   | 10.2  | 11.4   | 11.4   |
| Less: Minority interests      | 1                | 1                | 1                | 1                | 1                | Renewal/overall GWP          | 79.9   | 78.0   | 67.9  | 67.4   | 67.6   |
| <b>Net profit</b>             | <b>7,922</b>     | <b>14,559</b>    | <b>13,189</b>    | <b>14,144</b>    | <b>14,902</b>    | NBV (RMB mn)                 | 12,210 | 9,779  | 9,250 | 10,624 | 11,542 |
|                               |                  |                  |                  |                  |                  | NBV growth                   | 1.2    | (19.9) | (5.4) | 14.9   | 8.6    |
|                               |                  |                  |                  |                  |                  | NBV margin (APE)             | 50.8   | 40.0   | 29.8  | 30.2   | 29.6   |
|                               |                  |                  |                  |                  |                  | <b>Returns (%)</b>           |        |        |       |        |        |
| <b>Balance sheet</b>          |                  |                  |                  |                  |                  | RoEV                         | 13.9   | 19.8   | 13.2  | 10.6   | 8.3    |
| YE 31 Dec (RMB mn)            | FY18A            | FY19A            | FY20E            | FY21E            | FY22E            | <b>Solvency (%)</b>          |        |        |       |        |        |
| Investment assets             | 699,826          | 839,447          | 955,973          | 1,069,059        | 1,180,281        | Core solvency ratio          | 269.6  | 283.6  | 280.1 | 280.1  | 281.8  |
| Other assets                  | 34,103           | 38,371           | 40,392           | 43,013           | 45,616           | Comprehensive solvency ratio | 274.5  | 283.6  | 280.1 | 280.1  | 281.8  |
| <b>Total assets</b>           | <b>733,929</b>   | <b>877,818</b>   | 996,365          | 1,112,072        | 1,225,897        | <b>Per share</b>             |        |        |       |        |        |
| Insurance liabilities         | 594,620          | 658,191          | 750,310          | 851,426          | 961,338          | EPS (RMB)                    | 2.54   | 4.67   | 4.23  | 4.53   | 4.78   |
| Other liabilities             | 73,713           | 136,318          | 149,535          | 151,514          | 142,344          | DPS (RMB)                    | 0.77   | 1.41   | 1.28  | 1.37   | 1.44   |
| <b>Total liabilities</b>      | <b>668,333</b>   | <b>794,509</b>   | 899,845          | 1,002,940        | 1,103,682        | EVPS (RMB)                   | 55.51  | 65.73  | 74.24 | 80.85  | 86.19  |
| <b>Shareholders' equity</b>   | <b>65,587</b>    | <b>84,451</b>    | 96,510           | 109,123          | 122,205          | BVPS (RMB)                   | 21.02  | 27.07  | 30.94 | 34.98  | 39.17  |
| Minority interest             | 9                | 10               | 10               | 10               | 10               |                              |        |        |       |        |        |
| Total equity                  | 65,596           | 84,461           | 96,520           | 109,133          | 122,215          |                              |        |        |       |        |        |

Source: Company data, CMBIS estimates

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