

New China Life (601336 CH)

Clearer firm strategy in 2H19

NCI released 1H19 results on 28 Aug. GWP increased 9.0% YoY to RMB 74bn and net profit surged 81.8% YoY to RMB 10.5bn thanks to tax savings and quality growth. Net investment yield maintained at 5.0% YoY while total investment yield declined 0.1ppt to 4.7% because of impairment loss. Embedded value rose 10.5% YoY to RMB 61.36 per share. Overall speaking, the Company went through management team transition and business lull in 1H19. However, clarified strategy will likely lead to better 2H19 and current valuation is attractive.

- NBV declined 8.7% YoY in 1H19.** Individual agent channel FYRP declined 2.1% YoY. Margin pressure has been looming since 2H18. NBV margin for both individual channel and bancassurance channel experienced decline due to market competition and product strategy change. We expect NBV to grow 5.1% in 2H19, narrowing NBV decline for the whole year to 2.2%.
- Results positives.** 1) NII was stable at 5.0% backed by successful allocation of fixed income assets, such as non-standard assets in previous years and local government bond in 1H19. 2) Individual agent headcount increased 4.3%, or 16,000 from YE18 to 386,000, lending support for sales force in 2H19.
- Firm strategy clarified to resolve market concerns.** The new board and management team has decided to 1) pursue more balanced development of asset and liability and attach equal attention to both; 2) stick to protection-oriented products and enrich offering of pension products, medical care, term life in addition to critical illness products; 3) explore opportunities in long-term savings products to meet market demand; 4) enhance long-term equity investment.
- Catalysts in 2H19.** 1) Upgrade of critical illness products and release of product pipelines depending on market demand; 2) expanded agent team to support sales; 3) firm strategy to focus on asset-liability match.
- Adjust TP to RMB 55.22. Maintain HOLD.** Although NBV growth fell below our forecast, the Company recorded positive economic experience variances thanks to its investment performance, thus boosting EV to increase by 10.5% from YE18. We adjust TP to RMB 55.22, based on 40% premium to H-share TP. A-share stock is now trading at 0.78x FY19E P/EV. Maintain HOLD.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
GWP (RMB mn)	109,294	122,286	132,487	142,611	152,579
YoY Growth (%)	-2.9	11.9	8.3	7.6	7.0
Total income (RMB mn)	143,082	151,964	163,253	177,372	188,953
Net profit (RMB mn)	5,383	7,922	11,214	12,572	13,865
EPS (RMB)	1.73	2.54	3.59	4.03	4.44
EPS CHG (%)	8.9	47.2	41.6	12.1	10.3
P/B (x)	2.39	2.32	1.93	1.69	1.48
P/EV (x)	0.99	0.88	0.78	0.72	0.68
Yield (%)	1.07	1.58	2.23	2.50	2.76
RoEV (%)	19.7	13.9	13.9	10.0	8.6

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price	RMB55.22
(Previous TP	RMB57.67)
Up/Downside	+13.2%
Current Price	RMB48.80

China Insurance Sector

Wenjie Ding, PhD
 (852) 3900 0856
 dingwenjie@cmbi.com.hk

Hanbo Xu
 (852) 3761 8725
 xuhanbo@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	131,464
Avg 3 mths t/o (RMB mn)	841.41
52w High/Low (RMB)	64.99/ 39.01
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%

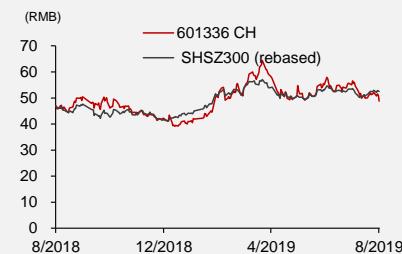
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.2%	-6.8%
3-mth	0.0%	-3.4%
6-mth	1.7%	-1.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- “Margin pressure and transition uncertainties” – 2 Jul 2019
- “Strong FYRP growth in 1Q19” – 29 Apr 2019
- “NBV margin expansion driven by product optimization” – 22 Mar 2019
- “Investor day takeaway” – 7 Dec 2018

Focus Charts

Figure 1: 1H19 results

RMB mn	1H19	1H18	... YoY (%)
Gross written premiums and policy fees	74,015	67,902	9.0%
Less: premiums ceded out	(1,248)	(876)	42.5%
Net written premiums and policy fees	72,676	67,026	8.4%
Net change in unearned premiums liabilities	(708)	(709)	-0.1%
Net premiums earned and policy fees	72,059	66,317	8.7%
Investment income	16,684	16,307	2.3%
Other income	349	343	1.7%
Total revenues	89,092	82,967	7.4%
Insurance benefits and claims	(63,425)	(59,919)	5.9%
Claims and net change in outstanding claims liabilities	(1,428)	(1,093)	30.6%
Life insurance death and other benefits	(39,623)	(46,866)	-15.5%
Increase in long-term insurance contract liabilities	(22,374)	(11,960)	87.1%
Policyholder dividends resulting from participation in profits	(19)	(35)	-45.7%
Investment contract benefits	(813)	(631)	28.8%
Commission and brokerage expenses	(8,943)	(8,657)	3.3%
Administrative expenses	(5,512)	(5,300)	4.0%
Other expenses	(318)	(237)	34.2%
Total benefits, claims and expenses	(79,030)	(74,779)	5.7%
Share of profits from associates/JVs	178	221	-19.5%
Finance costs	(648)	(661)	-2.0%
Profit before income tax	9,892	7,748	27.7%
Income tax expense	654	(1,948)	-133.6%
Non-controlling interests	(1)	1	-200.0%
Net profit	10,545	5,799	81.8%

Source: Company data, CMBIS estimates

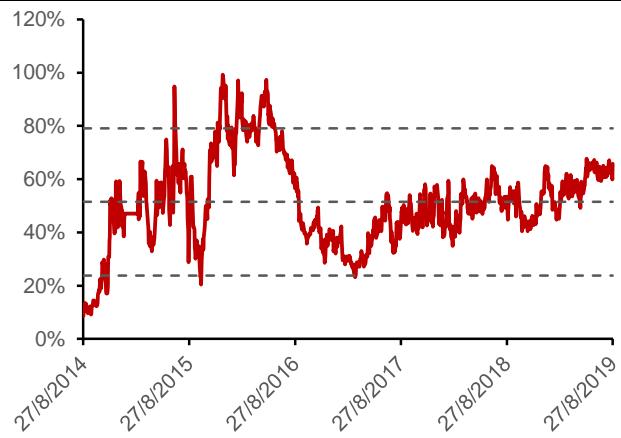
Figure 2: Revision of forecast

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
GWP	132,567	142,695	152,667	132,909	143,531	154,155	-0.3%	-0.6%	-1.0%
Total income	163,253	177,372	188,953	164,959	178,052	191,247	-1.0%	-0.4%	-1.2%
Net profit	11,214	12,572	13,865	9,847	10,869	11,579	13.9%	15.7%	19.7%
New business value	11,942	12,576	13,141	12,514	13,335	14,190	-4.6%	-5.7%	-7.4%
Embedded value	194,767	210,895	225,293	189,449	205,830	222,432	2.8%	2.5%	1.3%
RoEV	13.9%	10.0%	8.6%	10.8%	10.2%	9.7%	+3.1ppt	-0.2ppt	-0.9ppt
NBV growth	-2.2%	5.3%	4.5%	2.5%	6.6%	6.4%	-4.7ppt	-1.3ppt	-1.9ppt

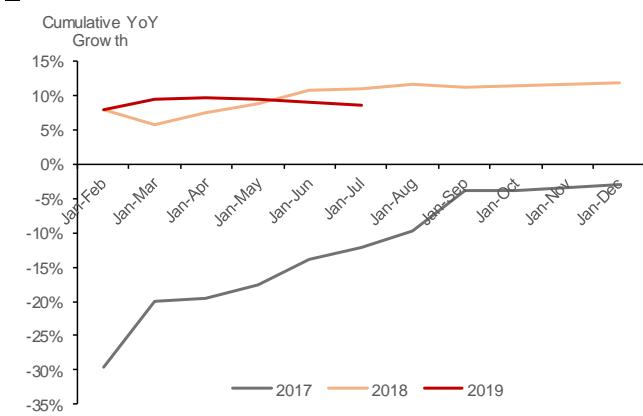
Source: Company data, CMBIS estimates

Figure 3: A-share P/EV

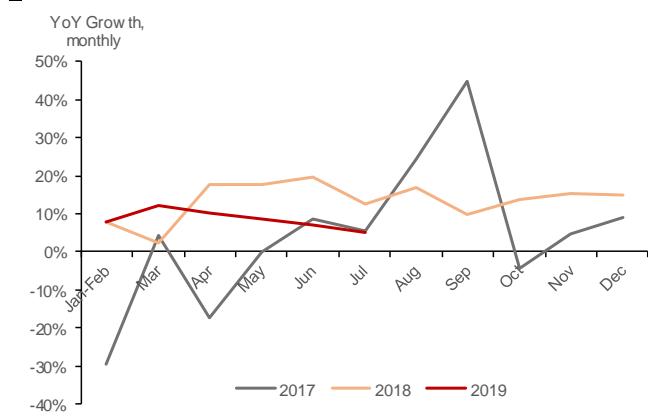
Source: Company data, CMBIS estimates

Figure 4: A/H premium

Source: Company data, CMBIS estimates

Figure 5: GWP growth, cumulative YoY

Source: Company data, CMBIS estimates

Figure 6: GWP growth, monthly YoY

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premium	109,356	122,341	132,567	142,695	152,667	Growth (%)					
Net premiums earned	107,990	120,002	129,399	139,926	149,746	GWP growth	(2.9)	11.9	8.4	7.6	7.0
Investment income	34,380	31,185	33,023	36,516	38,224	Total income growth	(1.2)	6.2	7.4	8.6	6.5
Other operating income	712	777	831	930	983	Net profit growth	8.9	47.2	41.6	12.1	10.3
Total income	143,082	151,964	163,253	177,372	188,953	EV growth	18.6	12.8	12.5	8.3	6.8
Insurance claims and reserves	(102,481)	(109,842)	(118,630)	(122,172)	(129,439)	Net investment yield	5.1	5.0	4.9	4.9	4.8
Commissions expenses	(15,908)	(16,711)	(17,857)	(19,310)	(20,665)	Total investment yield	5.2	4.6	4.6	4.6	4.5
Other operating expenses	(15,945)	(14,202)	(15,412)	(18,702)	(19,972)	Investment assets growth	1.3	1.7	14.6	7.3	5.5
Total expenses	(134,334)	(140,755)	(151,899)	(160,184)	(170,077)	Underwriting (%)					
Associates and JVs	296	404	392	396	400	Agent FYRP growth	19.0	(25.0)	0.1	2.0	2.0
Finance cost	(1,714)	(1,103)	(963)	(906)	(882)	Bancassurance FYRP growth	13.0	(26.9)	12.0	8.0	8.0
Pre-tax profit	7,330	10,510	10,784	16,678	18,394	Agent FYRP/FYRP	76.8	77.3	75.2	74.2	73.0
Income tax	(1,946)	(2,587)	431	(4,105)	(4,528)	Renewal growth	19.4	23.8	8.9	8.0	7.3
Less: Minority interests	1	1	1	1	1	Renewal/overall GWP	72.2	79.9	80.3	80.5	80.8
Net profit	5,383	7,922	11,214	12,572	13,865	NBV (RMB mn)	12,063	12,210	11,942	12,576	13,141
						NBV growth	15.4	1.2	(2.2)	5.3	4.5
						NBV margin (APE)	40.5	50.8	46.7	46.3	45.7

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	Returns (%)					
Investment assets	688,315	699,826	797,112	860,946	908,054	RoEV	19.7	13.9	13.9	10.0	8.6
other assets	21,960	34,103	34,969	37,990	40,933						
Total assets	710,275	733,929	832,082	898,935	948,987	Solvency (%)					
Insurance liabilities	575,277	594,620	637,212	678,841	723,556	Core solvency ratio	275.9	269.6	286.9	287.8	286.8
Other liabilities	71,275	73,713	115,829	130,223	122,861	Comprehensive solvency ratio	281.7	274.5	286.9	287.8	286.8
Total liabilities	646,552	668,333	753,041	809,064	846,416	Per share					
Shareholders' equity	63,715	65,587	79,034	89,864	102,564	EPS (RMB)	1.73	2.54	3.59	4.03	4.44
Minority interest	8	9	7	7	7	DPS (RMB)	0.52	0.77	1.09	1.22	1.35
Total equity	63,723	65,596	79,041	89,871	102,571	EVPS (RMB)	49.20	55.51	62.43	67.60	72.22
						BVPS (RMB)	20.42	21.02	25.34	28.81	32.88

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.) of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.