

# China Life (601628 CH)

## Investment and NBV outperform

China Life announced 9M19 set of result on 29 Oct 2019, which is highlighted by 1) net profit surge, mainly coming from investment gains and also from tax benefit; 2) satisfactory progress of underwriting business transition; and accordingly, 3) outstanding NBV growth. We stay bullish on the Company's near-term financial performance for the whole year and its long-term outlook as well since business reform initiatives have been reviving the largest lifer in China profoundly.

- **Net profit surged 190% YoY** to RMB 57.7bn (~88% of our revised FY19E net profit), thanks to **1) investment gains**. Investment income increased 88.2% YoY in 9M19 to ~RMB125.6bn according to our calculation. Realized gains and fair value gains from equity investment have contributed to the majority of improvement. **2) One-off tax benefit** of RMB 5.2bn, deducting which net profit would increase 164% YoY in 9M19.
- **Life transition underwent satisfactory progress. 1) Premium structure continued to optimize**, with longer payment durations and more protection-oriented products. FYRP with 10y+ payment duration accounted for 51.06% of FYRP in 9M19, up 15.7ppt YoY. The share of designated protection-oriented products increased 8.79ppt YoY. **2) Agent headcount maintained steady growth**. As of 30 Sep 2019, individual agents amounted to 1.663 million, up 15.6% from YE18 and 5.7% from 2Q19. Monthly average productive agents increased 37.4% YoY.
- **Solid NBV growth**. New business value achieved 20.4% YoY growth in 9M19, outperforming major peers. The figure was largely in line with our annual NBV growth estimate at 16.4% (1Q/1H NBV growth was 28.3%/26.2%, respectively). Our growth forecast is slightly lower than 9M19 number due to a higher base in 2H18.
- **Risks**. 1) Capital market volatilities in 4Q; 2) Challenges with respect to agent team management and quality improvement.
- **Raise TP to RMB 38.04**. We roll over valuation basis to FY20E. We raise TP to RMB 38.04 based on H-share TP plus historical average A/H premium of 50%. The A-share stock is now trading at 0.84x FY20E P/EV, close to historical average minus 1 STD. We remain bullish on the Company's near-term financial performance as well as long-term business prospect. Reiterate BUY.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
GWP (RMB mn)	511,966	535,826	568,674	611,612	654,852
YoY growth (%)	18.9	4.7	6.1	7.6	7.1
Total income (RMB mn)	643,355	627,419	734,515	784,680	838,420
Net profit (RMB mn)	32,253	11,395	65,570	87,466	94,365
EPS (RMB)	1.13	0.39	2.27	3.04	3.29
YoY Growth (%)	71.2	-65.2	478.2	33.8	8.1
P/B (x)	2.55	2.58	2.07	1.80	1.59
P/EV (x)	1.12	1.03	0.92	0.84	0.78
Yield (%)	1.38	0.55	3.17	4.23	4.57
ROEV (%)	13.7	9.9	12.8	12.2	12.0

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	RMB38.04
(Previous TP)	RMB37.52)
Up/Downside	+23.2%
Current Price	RMB30.87

### China Insurance Sector

#### Wenjie Ding, PhD

(852) 3900 0856 / (86) 755 2367 5597  
dingwenjie@cmbi.com.hk

#### Hanbo Xu

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

### Stock Data

Mkt Cap (RMB mn)	775,215
Avg 3 mths t/o (RMB mn)	369.25
52w High/Low (RMB)	33.00/ 19.78
Total Issued Shares (mn)	<b>1,500 (A)</b> 7,441(H)

Source: Bloomberg

### Shareholding Structure

China Life Insurance (Group)	68.37%
Free float	31.63%

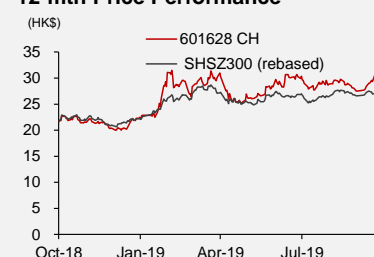
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	10.0%	8.4%
3-mth	3.1%	1.7%
6-mth	-0.4%	-0.6%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Ernst & Young

### Related Reports

1. "NBV growth beat" – 23 Aug 2019
2. "Revitalization efforts on track" - 4 Jul 2019
3. "Anticipating NBV recovery in 2019" – 29 Mar 2019
4. "Steadfast reform focusing on value creation" – 25 Feb 2019

**Figure 1: 9M19 result summary**

<b>(RMB mn)</b>						
<b>P&amp;L</b>	<b>9M18</b>	<b>9M19</b>	<b>YoY</b>	<b>3Q18</b>	<b>3Q19</b>	<b>YoY</b>
Gross written premiums	468,534	497,047	6.1%	108,052	119,071	10.2%
Net premiums earned	457,295	480,521	5.1%	108,310	119,224	10.1%
Investment income	66,712	125,559	88.2%	17,987	42,321	135.3%
Total income	529,264	611,473	15.5%	127,473	163,222	28.0%
Insurance benefits and claim expenses	(411,406)	(434,826)	5.7%	(98,087)	(104,777)	6.8%
Underwriting costs	(48,452)	(63,011)	30.0%	(12,745)	(17,416)	36.6%
Total expenses	(510,328)	(558,228)	9.4%	(125,848)	(143,205)	13.8%
Associates and JVs	6,150	8,712	41.7%	2,014	3,047	51.3%
Pre-tax profit	25,086	61,957	147.0%	3,639	23,064	533.8%
Income tax	(4,778)	(3,699)	-22.6%	(34)	(2,735)	7944.1%
Less: Minority interests	439	556	26.7%	159	226	42.1%
<b>Net profit</b>	<b>19,869</b>	<b>57,702</b>	<b>190.4%</b>	<b>3,446</b>	<b>20,103</b>	<b>483.4%</b>
<b>B/S</b>	<b>3Q18</b>	<b>3Q19</b>	<b>YoY</b>	<b>2Q19</b>	<b>3Q19</b>	<b>QoQ</b>
Investment assets	2,787,721	3,439,115	23.4%	3,304,129	3,439,115	4.1%
Total assets	3,116,499	3,609,078	15.8%	3,479,860	3,609,078	3.7%
Insurance contracts liabilities	2,195,467	2,523,567	14.9%	2,457,077	2,523,567	2.7%
Total liabilities	2,781,321	3,214,928	15.6%	3,106,271	3,214,928	3.5%
Equity attributable to shareholders	330,385	388,754	17.7%	368,434	388,754	5.5%
<b>Key indicators</b>	<b>9M18</b>	<b>9M19</b>	<b>YoY</b>	<b>3Q18</b>	<b>3Q19</b>	<b>YoY</b>
FYRP (RMB mn)	94,606	99,053	4.7%	12,894	15,920	23.5%
Gross investment yield	3.32%	5.72%	+2.40 ppt	n/a	n/a	n/a
Net investment yield	4.60%	4.83%	+0.23 ppt	n/a	n/a	n/a
<b>Key indicators</b>	<b>3Q18</b>	<b>3Q19</b>	<b>YoY</b>	<b>2Q19</b>	<b>3Q19</b>	<b>QoQ</b>
# of exclusive individual agents ('000)	1,455,000	1,663,000	14.3%	1,573,000	1,663,000	5.7%
Core solvency margin ratio	254.7%	262.0%	+7.3 ppt	258.6%	262.0%	+3.4 ppt
Comprehensive solvency ratio	262.2%	272.1%	+ 10.0 ppt	269.1%	272.1%	+ 3.1 ppt

Source: Company data, CMBIS

## Financial Summary

### Income

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premium	511,966	535,826	568,674	611,612	654,852
Net premiums earned	506,910	532,023	563,213	605,581	648,450
Investment income	128,952	87,298	153,555	164,933	175,826
Other operating income	7,493	8,098	8,594	9,243	9,897
<b>Total income</b>	<b>643,355</b>	<b>627,419</b>	<b>725,362</b>	<b>779,757</b>	<b>834,172</b>
Insurance claims and reserves	(466,043)	(479,219)	(504,311)	(518,267)	(552,488)
Policyholder dividends	(21,871)	(19,646)	(25,414)	(25,562)	(27,095)
Other operating expenses	(120,913)	(122,378)	(140,990)	(146,195)	(156,362)
<b>Total expenses</b>	<b>(608,827)</b>	<b>(621,243)</b>	<b>(670,715)</b>	<b>(690,023)</b>	<b>(735,946)</b>
Associates and JVs	7,143	7,745	11,618	12,198	12,808
Pre-tax profit	41,671	13,921	75,418	106,855	115,283
Income tax	(8,919)	(1,985)	(6,735)	(15,237)	(16,438)
Less: Minority interests	499	541	3,113	4,153	4,480
<b>Net profit</b>	<b>32,253</b>	<b>11,395</b>	<b>65,570</b>	<b>87,466</b>	<b>94,365</b>

### Key ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Growth (%)</b>					
GWP growth	18.9	4.7	6.1	7.6	7.1
Total income growth	19.0	(2.5)	17.1	6.8	6.8
Net profit growth	68.6	(64.7)	475.4	33.4	7.9
EV growth	12.6	8.3	12.2	9.2	8.3
Net investment yield	4.9	4.6	4.8	4.4	4.4
Total investment yield	5.2	3.3	5.5	5.0	5.0
Investment assets growth	12.2	12.7	12.0	6.8	5.3
<b>Underwriting (%)</b>					
FYRP growth	20.4	(7.7)	4.5	8.4	6.4
Agent FYRP growth	21.1	(12.2)	7.0	7.0	5.0
Agent FYRP/FYRP	79.8	75.9	77.7	76.7	75.7
Renewal growth	28.9	26.6	7.9	7.7	7.8
Renewal/overall GWP	56.3	68.1	69.2	69.3	69.8
NBV growth	21.9	(17.6)	16.4	6.9	4.9
NBV margin (Agent, APE)	47.3	42.2	46.0	45.5	45.0
NBV margin (Bancassurance, APE)	23.2	24.3	30.0	30.0	30.0

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Investment assets	2,753,124	3,104,014	3,477,422	3,713,283	3,908,556
other assets	144,467	150,389	213,647	265,759	356,054
<b>Total assets</b>	<b>2,897,591</b>	<b>3,254,403</b>	<b>3,691,070</b>	<b>3,979,042</b>	<b>4,264,610</b>
Insurance liabilities	2,025,133	2,216,031	2,529,641	2,704,235	2,884,047
Other liabilities	547,148	715,082	759,906	811,703	857,769
<b>Total liabilities</b>	<b>2,572,281</b>	<b>2,931,113</b>	<b>3,289,546</b>	<b>3,515,938</b>	<b>3,741,817</b>
<b>Shareholders' equity</b>	<b>320,933</b>	<b>318,371</b>	<b>395,414</b>	<b>456,058</b>	<b>514,839</b>
Minority interest	4,377	4,919	6,109	7,046	7,955
Total equity	325,310	323,290	401,523	463,104	522,793

### Returns (%)

RoEV	13.7	9.9	12.8	12.2	12.0
ROE	10.3	3.6	18.4	20.5	19.4
<b>Solvency (%)</b>					
Core solvency ratio	277.6	250.6	276.1	281.9	290.0
Comprehensive solvency ratio	277.7	250.6	286.6	291.6	299.0
<b>Per share</b>					
EPS (RMB)	1.13	0.39	2.27	3.04	3.29
DPS (RMB)	0.40	0.16	0.92	1.23	1.32
EVPS (RMB)	25.97	28.13	31.55	34.45	37.29
BVPS (RMB)	11.35	11.26	13.99	16.14	18.21

Source: Company data, CMBIS estimates

# 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.

### For recipients of this document in the United States

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.