

Company Report

China Life (2628 HK)

Undervalued leading player; Maintain BUY on valuation

- NBV growth to outperform peers; agent productivity improved
- Gloomy capital market might impact profitability in ST
- Valuation appealing; maintain BUY

NBV growth to outperform peers

China Life's total NBV dropped by 13.8% yoy in 1H22, outperformed major peers. Its NBV margin on total FYP came in at 18.5%, vs. 22.3% in 1H21. China Life, as a leading life player, is more likely to show resilient performance in 2H22. The Company actively explored sales system reform, aiming at building a more professional and specialized sales force, and emphasized technology-empowered development. We expect its NBV to decrease by ~8% yoy in 2022, meaning a performance that is better than peers.

Agent productivity improved

Total number of agents in its individual agent business sector slipped in the 2Q22, which was 746k at end-1H22 vs. 820k at end-2021 (or 780k at end-1Q22, Fig. 3). However, agent productivity measured by per-agent NBV increased by ~29% yoy in 1H22, indicating increasingly sustainable business growth over the long term.

Gloomy capital market might impact profitability in ST

China Life's shareholders' net profit dropped by 38% yoy in 1H22, partly due to investment performance relating to the gloomy capital market in 1H22. In details, the annualized gross investment yield was 4.21% in 1H22, vs. 5.69% in 1H21. Total comprehensive income dropped by 49.0% yoy in 1H22. The capital markets (e.g. the CSI-300 index dropped by ~15% qoq in 3Q22) continued to be volatile in 3Q22, which might negatively impact the Company's profitability in the short term. Per our sensitivity test, if market value of equity investment decreases by 10%, the negative impact on embedded value of China Life will be ~2.68% (Fig. 5).

Valuation appealing; Maintain BUY on valuation

China Life is trading at ~0.17x 22E P/EV or ~0.47x 22E P/B. Valuation is undemanding. China Life's P/EV ratio will still fall short of 1x (Fig. 7) if: 1) we assume its entire VIF is zero; 2) we also assume a valuation discount equivalent to 5% of its investment assets taking into account real estate investment risks; 3) and we further apply a valuation discount (Fig. 7) as China life has significant shareholdings in Guangfa Bank, and Guangfa Bank has loan exposure to the real estate sector. Maintain BUY on valuation. Maintain TP at HKD17.7, equivalent to ~0.32x 22E P/EV, or 40% discount to its past 5-yr average P/EV. China Life remains our top pick of the sector. **Key catalysts:** robust NBV growth, good investment performance, China's recovery policies might impact capital market and in turn life players' EV (Fig. 5); **Key downside risks:** lower-than-expected NBV growth, adverse capital market.

Financials

Year ended 31 Dec (RMB mn)	2020 restated	2021A	2022E	2023E	2024E
Total revenue	805,049	824,930	813,733	857,213	904,938
Shareholders' net profit	50,257	50,921	43,276	47,192	51,573
EPS (RMB)	1.77	1.80	1.53	1.67	1.82
BVPS (RMB)	15.92	16.93	17.81	18.93	20.16
P/E (x)	4.70	4.61	5.43	4.98	4.56
P/B (x)	0.52	0.49	0.47	0.44	0.41
P/EV (x)	0.22	0.20	0.17	0.16	0.14
ROE (%)	11.83	10.97	8.81	9.09	9.34

Sources: Company data, CMS (HK) estimates; Note: share price is as of Oct. 12, 2022

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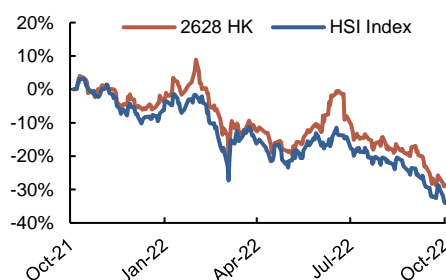
WHAT'S NEW

Company updates

BUY

Previous	BUY
Price (Oct. 12, 2022)	HKD9.78
12-month Target Price (Potential up/downside)	HKD17.7 (+81%)
Previous	HKD17.7

Price Performance



Source: Wind

%	1m	6m	12m
2628 HK	(14.2)	(19.0)	(28.6)
HSI Index	(13.6)	(21.9)	(33.1)

Sector: Insurance

Hang Seng Index (Oct. 12, 2022)	16,701
HSCEI (Oct. 12, 2022)	5,692

Key Data

52-week range (HKD)	9.67-15.04
Market cap (HKD mn)	735,795
Avg. daily volume (mn)	25.4

Shareholding Structure

China Life Insurance (Group) Company	68.37%
HKSCC Nominees Limited	25.92%
China Securities Finance Corporation Limited	2.51%
No. of shares outstanding (mn)	28,265
Free float	3.20%

Sources: Bloomberg, Wind, Company data

Related Research

1. China Life (2628 HK) - In-line 1H22 results; Maintain BUY on valuation (BUY) (Aug. 26, 2022)
2. China Life (2628 HK) - Leading life player; Maintain BUY on valuation (BUY) (Jul. 20, 2022)
3. China Life (2628 HK) - 1Q22 results demonstrated resiliency (BUY) (Apr. 28, 2022)

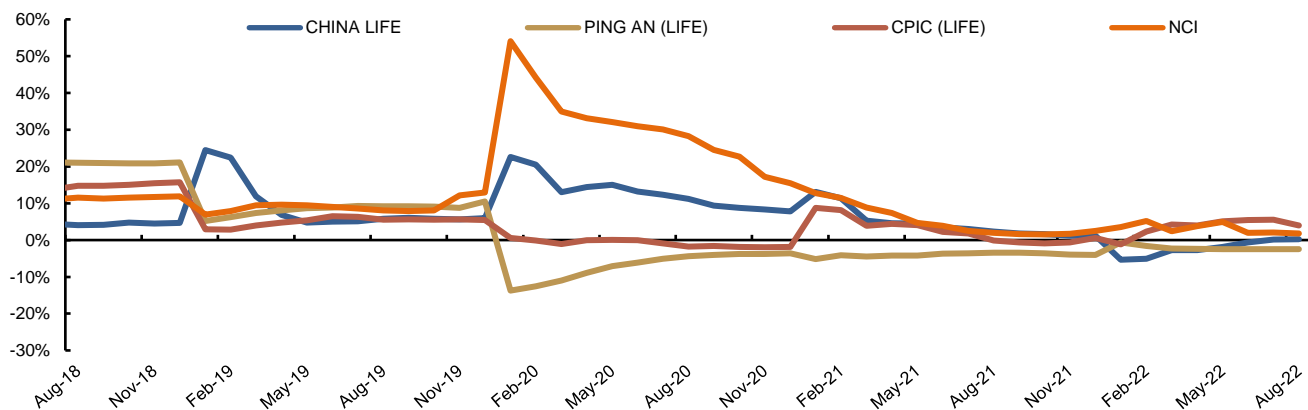
Focus charts

Figure 1: China Life key 1H22 results

(RMB bn)	1H22	1H21	yoy/hoh
Aggregate Performance:			
Total GWP	440.0	442.3	-0.5%
Total FYP	139.4	133.9	4.1%
Total long-term Regular FYP	79.8	80.7	-1.0%
Total long-term Regular FYP with duration longer than 10Y	30.2	28.9	4.4%
Renewal GWP	300.6	308.4	-2.5%
Total NBV	25.7	29.9	-13.8%
Aggregate NBV Margin	18.5%	22.3%	
Life EV	1,250.9	1,203.0 (end-2021)	4.0%
Individual Agent Sector Performance:			
Total number of individual business agents ('000)	746	820(end-2021)	-9.0%
Individual Agent Sector Regular FYP with duration longer than 10Y	30.2	28.9	4.7%
Individual Channel NBV	24.2	29.0	-16.5%
Individual Channel NBV Margin	30.4%	36.5%	
Profitability:			
Net investment yield	4.15%	4.33%	
Gross investment yield	4.21%	5.69%	
Ordinary shareholders' net profit	25.4	41.0	-38.0%
Shareholders' total comprehensive income	19.9	39.1	-49.0%
Weighted average ROE (unannualized)	5.20%	8.72%	

Sources: Company data, CMS (HK)

Figure 2: Growths of accumulated life GWP



Sources: Wind, CMS (HK)

Figure 3: Number of exclusive life insurance agents

('000)	2019	1H20	2020	1Q21	1H21	3Q21	2021	1Q22	1H22
Monthly average agent number: Ping An	1,200	1,108	1,055 *	986 **	940	706 ***	796	538 ****	514
Period end agent number: China Life	1,613	1,690	1,378	1,282	1,150	980	820	780	746
Monthly average agent number: CPIC	790	766	749	n.a.	641	n.a.	525	n.a.	312
Period end agent number: NCI	507	526	606	n.a.	441	n.a.	389	n.a.	318
Growth	hoh	hoh	yoy	YTD	YTD	YTD	yoy	YTD	YTD
Monthly average agent number: Ping An	-2.83%	-7.67%	-12.08%	-3.7% **	-10.90%	-31.02% ***	-24.55%	-10.41% ****	-35.43%
Period end agent number: China Life	2.54%	4.77%	-14.57%	-7.0%	-16.55%	-28.88%	-40.49%	-4.88%	-9.02%
Monthly average agent number: CPIC	-0.75%	-3.04%	-5.19%	n.a.	-14.42%	n.a.	-29.91%	n.a.	-40.57%
Period end agent number: NCI	31.35%	3.75%	19.53%	n.a.	-27.23%	n.a.	-35.81%	n.a.	-18.25%

Sources: Company data, CMS (HK); Note: *2021 revised data; ** 1Q21-end figure (986K) compared with 2020-end figure (1,024K); *** 3Q21-end figure (706K) compared with 2020-end figure (1,024K); **** 1Q22-end figure (538K) compared with 2021-end figure (600K)

Figure 4: Allocation of investment assets (1H22)

(RMB mn)	Ping An (2318 HK)		China Life (2628 HK)		CPIC (2601 HK)		NCI (1336 HK)	
	Carrying Value	Percentage	Carrying Value	Percentage	Carrying Value	Percentage	Carrying Value	Percentage
Term deposits	251,787	5.9%	510,832	10.3%	218,354	11.2%	186,747	16.4%
Debt financial assets	2,834,716	66.4%	3,187,833	64.1%	1,264,723	65.2%	578,471	50.7%
Equity financial assets	543,792	12.7%	559,247	11.2%	233,393	12.0%	179,891	15.8%
Other equity financial assets *	386,441	9.0%	297,335	6.0%	163,306	8.4%	111,619	9.8%
Other investment assets	135,598	3.2%	282,765	5.7%	11,624	0.6%	65,824	5.8%
Cash, cash equivalents and others	118,445	2.8%	139,070	2.8%	49,767	2.6%	17,813	1.6%
Total	4,270,779		4,977,082		1,941,167		1,140,365	

Sources: Company data, CMS (HK); *Note: other equity financial assets may include equity asset management products, private equity, equity plans, unlisted equity investments, preferred shares, and long-term equity stakes and so on.

Figure 5: Sensitivity analysis for the structure of investment assets

Company	Ticker	Investment on equities	Assumed gain on equity investments	Group EV	Impact on group EV ***
		(RMB mn) *	(RMB mn) **	(RMB mn)	
Ping An	2318 HK	543,792	54,379	1,441,261	2.26%
China Life	2628 HK	559,247	55,925	1,250,877	2.68%
CPIC	2601 HK	233,393	23,339	509,078	2.75%
NCI	1336 HK	179,891	17,989	258,873	4.17%

Sources: Company data, CMS (HK) estimates; Note: *Investment on equities consists of equities and funds (including bond funds); **Assuming 10% gain on equity investments; ***Assuming the Company retains 60% of the gain.

Figure 6: A/H premium

Company	Ticker	Current A/H premium (x)	Historical Max. A/H premium (x)	Historical Min. A/H premium (x)	Historical Avg. A/H premium (x)
China Life	2628 HK	3.63	3.63	0.75	1.42
NCI	1336 HK	2.10	2.61	0.94	1.57
CPIC	2601 HK	1.60	1.65	0.72	1.13
Ping An	2318 HK	1.19	1.64	0.69	0.97

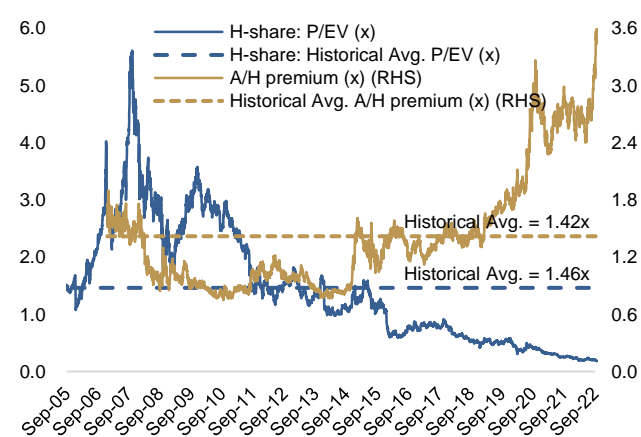
Sources: Wind, CMS (HK); Note: prices are as of Oct. 12, 2022

Figure 7: Sensitivity of P/EV (zero VIF assumed)

(RMB mn)	China Life (2628 HK)	Ping An (2318 HK)	CPIC (2601 HK)	NCI (1336 HK)
Adjusted net worth (End-1H22)	703,520	916,424	295,964	161,413
Assumed VIF	-	-	-	-
Minus: additional valuation discount equal to 5% of insurance investment assets	248,854	213,539	97,058	57,018
Minus: additional valuation discount on potential shareholders' losses from bank loans, assuming 20% loss ratio on real estate loans, construction loans, and residential mortgage loans as of end-1H22	43,079 **	119,202	-	-
Implied valuation	411,587	583,683 ***	198,906	104,395
Current market value *	250,384	643,274	124,783	40,519
Current market value * / Implied valuation	61%	110%	63%	39%

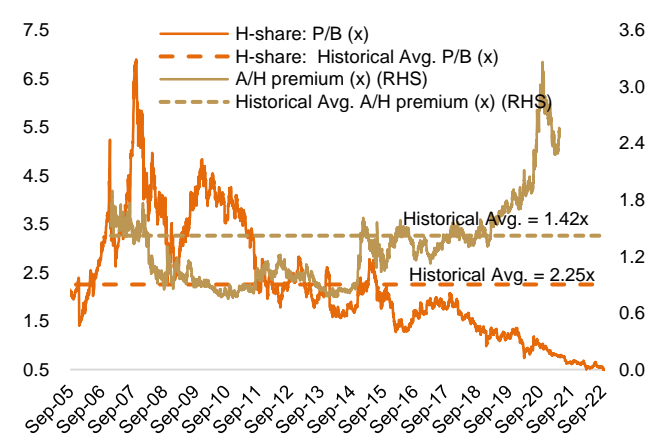
Sources: Wind, Company data, CMS (HK); Note: * as of Oct. 12, 2022. ** Data of Guangfa Bank as of end-2021; ***The implied valuation for Ping An might be slightly smaller due to potential losses on property proprietary trading of Ping An Trust

Figure 8: P/EV valuation and A/H premium of China Life



Sources: Wind, Company data, CMS (HK) estimates

Figure 9: P/B valuation and A/H premium of China Life



Sources: Wind, Company data, CMS (HK) estimates

Valuation comparison

Company	Ticker	Rating	Price	TP	Mkt Cap (USD mn)	P/EV (x)		P/E (x)		P/B (x)		ROE (%)		Dividend Yield (%)	
			Local ccy	(HKD)		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
HK Listed Peers															
Ping An	2318 HK	BUY	38.9	71.4	100,154	0.39	0.36	5.4	4.8	0.67	0.62	12.5	12.9	5.5	6.3
China Life	2628 HK	BUY	9.8	17.7	102,552	0.17	0.16	5.4	5.0	0.47	0.44	8.8	9.1	6.6	7.2
China Pacific	2601 HK	BUY	14.3	24.3	24,821	0.20	0.19	5.0	4.5	0.49	0.45	10.0	10.4	7.2	7.9
New China Life	1336 HK	BUY	14.3	26.5	9,807	0.13	0.12	3.6	2.9	0.33	0.31	9.4	11.0	8.2	10.4
ZA Online	6060 HK	BUY	17.1	30.9	3,198	n.a.	n.a.	n.a.	20.1	1.27	1.20	0.03	6.2	0.0	0.0
China Taiping *	966 HK	NR	6.3	n.a.	2,866	n.a.	n.a.	3.8	2.8	0.25	0.23	6.8	8.5	6.1	7.4
PICC Group *	1339 HK	NR	2.3	n.a.	27,778	n.a.	n.a.	3.7	3.3	0.40	0.36	10.9	11.3	8.5	9.0
PICC P&C *	2328 HK	NR	8.2	n.a.	23,294	n.a.	n.a.	6.1	5.5	0.76	0.69	12.8	13.2	6.6	7.2
China Re *	1508 HK	NR	0.5	n.a.	2,462	n.a.	n.a.	3.8	2.7	0.19	0.18	5.3	6.8	7.2	11.1
AIA *	1299 HK	NR	68.6	n.a.	103,692	n.a.	n.a.	27.8	14.5	1.99	1.81	7.3	13.1	2.1	2.3
Arithmetic Average						0.23	0.21	7.2	6.6	0.68	0.63	8.4	10.2	5.8	6.9
Weighted Average						0.27	0.24	11.0	7.3	0.93	0.85	9.7	11.6	5.3	5.9
China A-share Listed Peers *															
Ping An	601318 CH	NR	41.9	n.a.	100,154	n.a.	n.a.	6.5	5.4	0.85	0.81	13.1	14.8	5.9	6.3
China Life	601628 CH	NR	32.1	n.a.	102,552	n.a.	n.a.	20.0	16.3	1.81	1.67	9.2	11.1	1.8	2.2
China Pacific	601601 CH	NR	20.7	n.a.	24,821	n.a.	n.a.	8.3	6.7	0.85	0.77	10.7	12.4	4.6	5.5
New China Life	601336 CH	NR	27.2	n.a.	9,807	n.a.	n.a.	8.2	5.9	0.75	0.68	10.0	12.2	3.7	5.0
PICC Group	601319 CH	NR	5.1	n.a.	27,778	n.a.	n.a.	8.9	7.9	0.97	0.89	11.0	11.3	3.5	3.7
Arithmetic Average								10.4	8.5	1.05	0.96	10.8	12.4	3.9	4.5
Weighted Average								12.2	10.0	1.23	1.14	11.0	12.7	3.9	4.3

Company	Ticker	Rating	Price Local ccy	TP (HKD)	Mkt Cap (USD mn)	P/EV (x)		P/E (x)		P/B (x)		ROE (%)		Dividend Yield (%)	
						2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
Global Peers *															
GREAT-WEST LIFEC	GWO CN	NR	28.7	n.a.	19,341	n.a.	n.a.	8.0	7.6	1.12	1.09	14.1	14.9	6.9	7.4
MUENCHENER RUE-R	MUV2 GR	NR	239.9	n.a.	32,604	n.a.	n.a.	11.0	8.5	1.33	1.20	10.3	15.1	4.8	5.1
HANNOVER RUECK S	HNR1 GR	NR	153.9	n.a.	18,039	n.a.	n.a.	13.1	10.3	1.89	1.69	13.0	17.5	4.0	4.1
METLIFE INC	MET US	NR	62.6	n.a.	49,915	n.a.	n.a.	8.7	7.5	1.47	1.40	10.9	13.4	3.2	3.3
PRUDENTIAL PLC	PRU LN	NR	858.2	n.a.	26,214	n.a.	n.a.	10.7	8.2	1.47	1.28	12.4	16.5	1.9	2.0
AFLAC INC	AFL US	NR	57.4	n.a.	36,278	n.a.	n.a.	10.8	10.6	1.37	1.30	12.2	12.4	2.8	3.0
MANULIFE FIN	MFC CN	NR	21.2	n.a.	29,188	n.a.	n.a.	6.7	6.4	0.80	0.77	12.4	12.2	6.2	6.7
ALLIANZ SE-VINK	ALV GR	NR	164.4	n.a.	65,231	n.a.	n.a.	9.6	6.9	1.01	0.95	10.3	14.7	6.9	7.3
SAMSUNG LIFE INS	032830 KS	NR	65,100.0	n.a.	9,104	n.a.	n.a.	10.8	8.4	0.39	0.37	3.4	4.9	4.5	5.3
AEGON NV	AGN NA	NR	3.9	n.a.	8,024	n.a.	n.a.	7.8	5.2	0.37	0.35	3.7	6.7	5.9	6.9
AXA SA	CS FP	NR	22.6	n.a.	51,393	n.a.	n.a.	7.3	6.8	0.93	0.87	11.8	12.8	7.3	7.8
DAI-ICHI LIFE	8750 JP	NR	2,244.0	n.a.	15,702	n.a.	n.a.	6.2	8.4	0.46	0.51	7.2	5.7	3.6	3.8
Average								9.2	7.9	1.05	0.98	10.1	12.2	4.8	5.2

Sources: Company data, Bloomberg, CMS (HK) estimates; Note: Share prices are as of Oct.12, 2022; * Forecast is based on Bloomberg consensus

Financial Summary

Consolidated Statement of Financial Position

Year ended 31 Dec (RMB mn)	2020 restated	2021 A	2022E	2023E	2024E
Property, plant and equipment	52,747	54,398	55,486	56,596	57,728
Investment properties	14,217	13,374	15,417	16,804	18,254
Investments in associates and joint ventures	239,584	257,953	282,651	308,073	334,652
Debt financial assets	1,865,794	2,470,354	2,678,855	2,920,364	3,172,866
Equity financial assets	700,748	699,457	770,867	840,200	912,689
Term deposits	545,678	529,488	590,998	644,153	699,728
Statutory deposits	6,333	6,333	6,333	6,333	6,333
Loans	658,535	666,087	719,476	784,187	851,843
Financial assets purchased under agreements to resell	7,947	12,915	10,278	11,203	12,169
Accrued investment income	45,200	51,097	83,953	96,020	108,285
Premiums receivable	20,730	20,361	23,415	26,927	30,967
Deferred tax assets	87	121	133	146	161
Reinsurance assets	6,095	6,630	6,962	7,310	7,675
Other assets	32,116	42,077	44,181	46,390	48,709
Cash and cash equivalents	56,655	60,440	64,239	70,017	76,057
Total assets	4,252,466	4,891,085	5,353,246	5,834,723	6,338,115
Insurance contracts	2,973,225	3,419,899	3,827,511	4,253,483	4,698,720
Investment contracts	288,212	313,594	329,274	345,737	363,024
Interest-bearing loans and borrowings	19,556	18,686	18,499	18,314	18,131
Financial liabilities at fair value through profit or loss	3,732	3,416	3,348	3,281	3,215
Financial assets sold under agreements to repurchase	122,249	239,446	246,629	250,329	254,084
Policyholder dividends payable	122,510	124,949	131,196	134,476	137,838
Premiums received in advance	53,021	48,699	48,212	47,730	47,253
Bonds payable	34,992	34,994	34,994	34,994	34,994
Annuity and other insurance balances payable	55,031	56,818	59,659	60,852	62,069
Statutory insurance fund	384	339	339	339	339
Other liabilities	107,140	135,858	132,356	129,923	125,693
Current income tax liabilities	191	248	248	248	248
Deferred tax liabilities	15,286	7,481	7,481	7,481	7,481
Total liabilities	3,795,529	4,404,427	4,839,746	5,287,187	5,753,089
Share capital	28,265	28,265	28,265	28,265	28,265
Reserves and retained earnings	421,791	450,320	475,224	506,837	541,420
Shareholders' equity	450,056	478,585	503,489	535,102	569,685
Total equity	456,937	486,658	513,500	547,536	585,027

Consolidated Statement of Cash Flows

Year ended 31 Dec (RMB mn)	2020 restated	2021 A	2022E	2023E	2024E
Net cash from operating activities	304,019	286,448	273,129	266,134	270,802
Net cash from investing activities	(292,799)	(393,731)	(250,540)	(240,499)	(243,153)
Net cash from financing activities	(7,760)	111,139	(18,770)	(19,813)	(21,539)
Effect of foreign exchange rate changes	(144)	(71)	(20)	(45)	(70)
Net increase in cash and cash equivalents	3,316	3,785	3,799	5,778	6,041
Cash and cash equivalents at end of year	56,655	60,440	64,239	70,017	76,057

Consolidated Statement of Income

Year ended 31 Dec (RMB mn)	2020 restated	2021 A	2022E	2023E	2024E
Gross written premiums and policy fees	612,265	618,327	622,691	648,702	678,217
Net premiums earned and policy fees	604,666	611,251	616,464	642,215	671,434
Total Investment income	190,980	203,674	186,764	203,967	221,922
Other income	9,403	10,005	10,505	11,031	11,582
Total revenues	805,049	824,930	813,733	857,213	904,938
Insurance benefits and claims	(580,801)	(618,754)	(589,174)	(612,899)	(637,723)
Investment contracts benefits	(9,846)	(10,628)	(11,159)	(11,717)	(12,303)
Underwriting and policy acquisition costs	(84,361)	(65,744)	(75,143)	(79,026)	(83,512)
Administrative expenses	(37,706)	(40,808)	(41,624)	(42,457)	(43,306)
Other expenses	(13,499)	(16,720)	(20,064)	(24,077)	(28,892)
Policyholder dividends resulting from participation in profits	(28,279)	(26,511)	(31,813)	(38,176)	(45,811)
Total benefits, claims and expenses	(754,492)	(779,165)	(768,978)	(808,351)	(851,547)
Net gains on investments of associates and joint ventures	7,666	10,328	11,361	12,497	13,747
Finance costs	(3,747)	(5,598)	(5,878)	(6,231)	(6,604)
Profit before income tax	54,476	50,495	50,238	55,127	60,534
Income tax expense	(3,103)	1,917	(5,024)	(5,513)	(6,053)
Net profit for the year	51,373	52,412	45,214	49,615	54,480
Attributable to:					
Owners of the parent	50,257	50,921	43,276	47,192	51,573

Financial Ratios

	2020 restated	2021 A	2022E	2023E	2024E
EPS for ordinary shares (RMB)	1.77	1.80	1.53	1.67	1.82
BVPS for ordinary shares (RMB)	15.92	16.93	17.81	18.93	20.16
Life NBV per share (RMB) *	2.07	1.58	1.45	1.56	1.67
Life EV per share (RMB) *	37.93	42.56	47.59	53.15	59.28
ROE (%)	11.83	10.97	8.81	9.09	9.34
NBV growth yoy	-0.6%	-23.3%	-8.4%	7.2%	7.3%
NBM on FYP	30.1%	25.5%	22.2%	22.6%	22.9%

Sources: Company data, CMS (HK) estimates; Note: *Our estimates are based on base-case assumptions

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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