

Company Report

China Life (2628 HK)

Enhanced agent quality; undemanding valuation

■ NBV growth to outperform peers in 2022E

■ Agent quality improved; sector's outlook is positive

■ Valuation undemanding; raise TP to HKD18.5 and maintain BUY

NBV growth to outperform peers in 2022E

Shareholders' NP of China Life decreased by 35.8% yoy, and total comprehensive income was negative in 3Q22. Total NBV dropped by 15.4% yoy in 3Q22, which outperformed major peers. At end-3Q22, the core and comprehensive solvency ratios of the Company were 161.93% and 230.26%, respectively, well above the critical levels. We expect its NBV to decrease by ~12% yoy in 2022E, meaning a performance that is better than peers.

Agent quality improved, benefiting long-term growth

Major life players are seeking to build high-performing agent force. China Life's total NBV dropped by 15.4% yoy in 3Q22, while its number of agents in the individual channel dropped by a larger ~26.5% yoy in 3Q22, indicating increased agent productivity under its strategy of 'stabilizing headcount while seeking higher productivity', which might support its long-term growth.

Positive outlook on the asset side

In December, the Politburo meeting emphasized that "stability is the top priority and progress should be made in stability", and urged to do a good job in "stabilizing growth, stabilizing employment, and stabilizing prices". Business activities and consumptions are resilient during the Chinese New Year period, taking into account the spread of COVID pandemic after the loosening of COVID control policy. Meanwhile, accommodative policies on property, infrastructure and manufacturing should underpin business cycle to normalize. The potentially stabilized economic conditions might positively impact China's life players' investment performance.

Valuation is still 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. The resulted valuation suggests most risks have been priced in for China Life, indicating attractive valuation for long term investors.

Raising TP to HKD18.5; Maintain BUY on valuation

China Life is trading at ~0.27x 22E P/EV or ~0.24x 23E P/EV, valuation is undemanding. Maintain BUY on valuation and positive outlook. Raise TP by ~11% to HKD18.5, equivalent to ~0.31x 23E P/EV (~0.32x 22E P/EV previously applied), 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; **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	800,186	844,252	889,580
Shareholders' net profit	50,257	50,921	33,603	41,208	47,555
EPS (RMB)	1.77	1.80	1.19	1.46	1.68
BVPS (RMB)	15.92	16.93	17.47	18.50	19.66
P/E (x)	7.18	7.04	10.67	8.70	7.54
P/B (x)	0.80	0.75	0.73	0.69	0.65
P/EV (x)	0.33	0.30	0.27	0.24	0.21
ROE (%)	11.83	10.97	6.91	8.11	8.82

Sources: Company data, CMS (HK) estimates; Note: share price is as of Feb. 2, 2023

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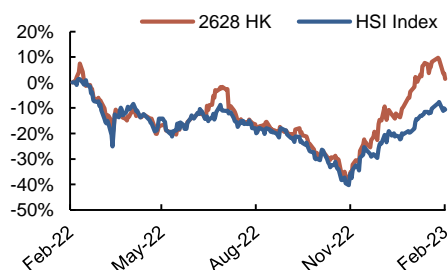
WHAT'S NEW

Company updates; Raise TP

BUY

Previous	BUY
Price (Feb. 2, 2023)	HKD14.10
12-month Target Price (Potential up/downside)	HKD18.5 (+31%)
Previous	HKD16.7

Price Performance



Source: Wind

%	1m	6m	12m
2628 HK	1.0	22.8	1.3
HSI Index	7.1	9.2	(9.3)

Sector: Insurance

Hang Seng Index (Feb. 2, 2023)	21,958
HSCEI (Feb. 2, 2023)	7,506

Key Data

52-week range (HKD)	8.53-15.36
Market cap (HKD mn)	784,396
Avg. daily volume (mn)	30.5

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

- China Life (2628 HK) - Positive outlook; Maintain BUY (BUY) (Dec. 16, 2022)
- China Life (2628 HK) - Undervalued leading player; Maintain BUY on valuation (BUY) (Oct. 13, 2022)
- China Life (2628 HK) - In-line 1H22 results; Maintain BUY on valuation (BUY) (Aug. 26, 2022)

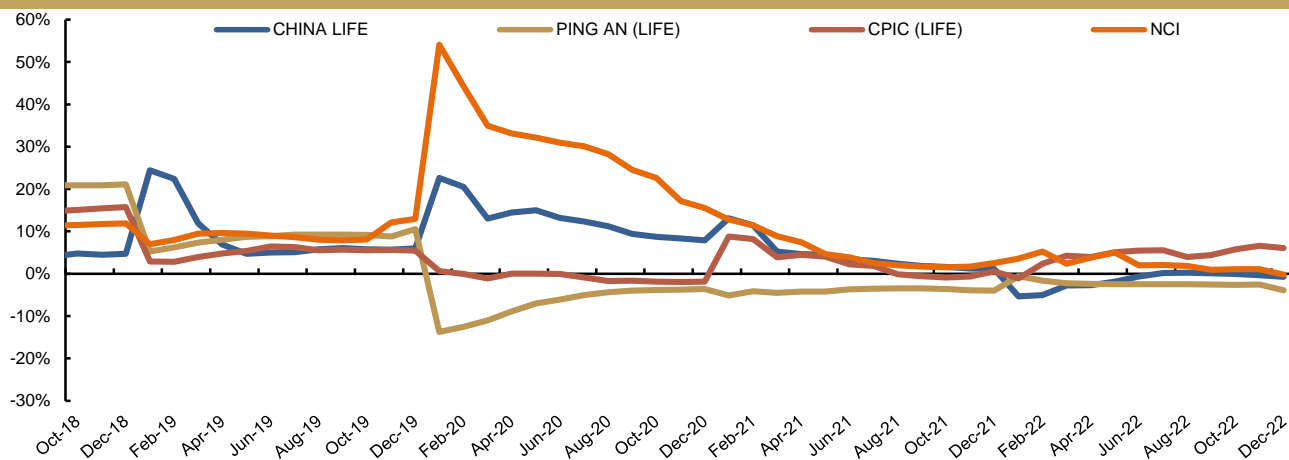
Focus charts

Figure 1: China Life key 3Q22 results

(RMB bn)	3Q22	3Q21	yoy
Aggregate Performance:			
Total GWP	554.1	553.4	0.1%
Total long-term Regular FYP	91.4	91.5	-0.2%
Total long-term Regular FYP with duration longer than 10Y	38.7	36.9	4.9%
Renewal GWP	382.8	392.2	-2.4%
Total NBV	n.a.	n.a.	-15.4%
Individual Agent Sector Performance:			
Total number of individual business agents ('000)	720	746 (end-1H22)	-3.5% (qoq)
Profitability:			
Net investment yield	4.12%	4.40%	
Gross investment yield	4.03%	5.25%	
Ordinary shareholders' net profit	31.1	48.5	-35.8%
Shareholders' total comprehensive income	(6.5)	38.6	n.a.

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	1H21	3Q21	2021	1Q22	1H22	3Q22
Monthly average agent number: Ping An	1,200	1,108	1,055 *	940	706 **	796	538 ***	514	488 ****
Period end agent number: China Life	1,613	1,690	1,378	1,150	980	820	780	746	720
Monthly average agent number: CPIC	790	766	749	641	n.a.	525	n.a.	312	n.a.
Period end agent number: NCI	507	526	606	441	n.a.	389	n.a.	318	n.a.
Growth	hoh	hoh	yoy	YTD	YTD	yoy	YTD	YTD	YTD
Monthly average agent number: Ping An	-2.83%	-7.67%	-12.08%	-10.90%	-31.02% **	-24.55%	-10.41% ***	-35.43%	-18.68% ****
Period end agent number: China Life	2.54%	4.77%	-14.57%	-16.55%	-28.88%	-40.49%	-4.88%	-9.02%	-7.69%
Monthly average agent number: CPIC	-0.75%	-3.04%	-5.19%	-14.42%	n.a.	-29.91%	n.a.	-40.57%	n.a.
Period end agent number: NCI	31.35%	3.75%	19.53%	-27.23%	n.a.	-35.81%	n.a.	-18.25%	n.a.

Sources: Company data, CMS (HK); Note: *2021 revised data; ** 3Q21-end figure (706K) compared with 2020-end figure (1,024K); *** 1Q22-end figure (538K) compared with 2021-end figure (600K); **** 3Q22-end figure (488K) 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 of EVs to gains on equity investment assets

Company	Ticker	Investment on equities (RMB mn) *	Assumed gain on equity investments (RMB mn) **	Group EV (RMB mn)	Impact on group EV ***
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	2.80	3.70	0.75	1.45
NCI	1336 HK	1.78	2.61	0.94	1.58
CPIC	2601 HK	1.41	1.68	0.72	1.14
Ping An	2318 HK	0.98	1.64	0.69	0.98

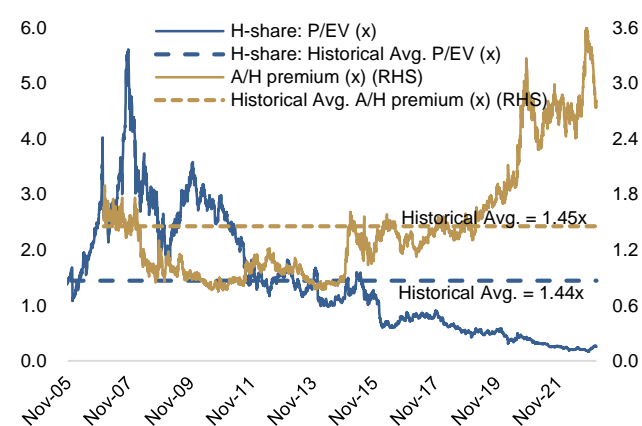
Sources: Wind, CMS (HK); Note: prices are as of Feb. 2, 2023

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 *	341,239	945,397	176,279	54,089
Current market value * / Implied valuation	83%	162%	89%	52%

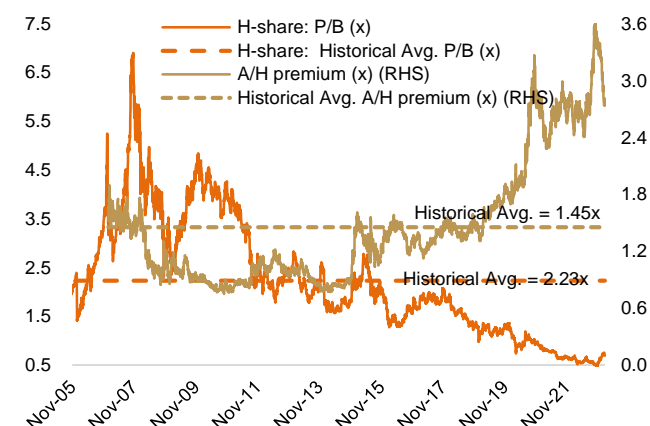
Sources: Wind, Company data, CMS (HK); Note: * as of Feb. 2, 2023. ** Data of Guangfa Bank as of end-2021; ***The implied valuation for Ping An might be slightly smaller due to potential losses on property proprietary trading of Ping An Trust

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	60.4	65.9	135,053	0.65	0.59	9.2	8.1	1.10	1.02	12.1	12.7	3.3	3.7
China Life	2628 HK	BUY	14.1	18.5	116,393	0.27	0.24	10.7	8.7	0.73	0.69	6.9	8.1	3.4	4.1
China Pacific	2601 HK	BUY	21.4	24.3	33,618	0.32	0.30	7.9	7.2	0.77	0.72	10.0	10.4	4.6	5.0
New China Life	1336 HK	BUY	20.3	24.9	12,048	0.20	0.18	7.0	5.2	0.51	0.47	7.4	9.5	4.3	5.8
ZA Online	6060 HK	BUY	26.2	30.9	4,881	n.a.	n.a.	n.a.	30.8	1.95	1.84	0.03	6.2	0.0	0.0
China Taiping *	966 HK	NR	10.0	n.a.	4,517	n.a.	n.a.	6.3	4.5	0.39	0.36	6.6	8.4	3.7	5.1
PICC Group *	1339 HK	NR	2.6	n.a.	29,869	n.a.	n.a.	3.9	3.6	0.43	0.39	11.2	11.2	7.9	8.3
PICC P&C *	2328 HK	NR	7.3	n.a.	20,612	n.a.	n.a.	4.8	4.5	0.63	0.58	13.5	13.4	8.4	8.7
China Re *	1508 HK	NR	0.6	n.a.	3,195	n.a.	n.a.	4.8	3.4	0.23	0.22	5.0	6.6	5.9	9.1
AIA *	1299 HK	NR	85.4	n.a.	126,012	n.a.	n.a.	41.9	17.0	2.57	2.28	6.7	13.8	1.8	1.9
Arithmetic Average						0.36	0.33	10.7	9.3	0.93	0.86	8.0	10.0	4.3	5.2
Weighted Average						0.44	0.40	17.2	10.1	1.29	1.17	9.0	11.4	3.5	4.0
China A-share Listed Peers *															
Ping An	601318 CH	NR	50.8	n.a.	135,053	n.a.	n.a.	8.5	6.5	1.03	0.92	12.0	14.8	4.9	5.3
China Life	601628 CH	NR	33.9	n.a.	116,424	n.a.	n.a.	23.6	18.4	1.92	1.77	8.4	10.5	1.6	2.0
China Pacific	601601 CH	NR	25.9	n.a.	33,436	n.a.	n.a.	10.0	8.3	1.06	0.97	10.5	12.3	3.8	4.4
New China Life	601336 CH	NR	30.9	n.a.	12,048	n.a.	n.a.	11.3	7.5	0.85	0.77	8.2	12.1	2.5	4.3
PICC Group	601319 CH	NR	5.2	n.a.	29,869	n.a.	n.a.	8.8	8.0	0.97	0.89	11.4	11.3	3.6	3.7
Arithmetic Average								12.4	9.7	1.17	1.06	10.1	12.2	3.3	3.9
Weighted Average								14.2	11.1	1.34	1.22	10.3	12.6	3.4	3.8

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
Global Peers *															
GREAT-WEST LIFEC	GWO CN	NR	35.5	n.a.	24,807	n.a.	n.a.	10.5	9.8	1.34	1.36	13.1	14.0	5.4	5.7
MUENCHENER RUE-R	MUV2 GR	NR	324.7	n.a.	49,552	n.a.	n.a.	14.2	11.1	1.97	1.75	12.3	16.5	3.6	3.8
HANNOVER RUECK S	HNR1 GR	NR	178.4	n.a.	23,416	n.a.	n.a.	15.1	11.8	2.30	2.02	13.6	18.1	3.3	3.6
METLIFE INC	MET US	NR	69.7	n.a.	54,311	n.a.	n.a.	10.0	8.4	2.42	2.13	11.6	13.9	2.8	3.0
PRUDENTIAL PLC	PRU LN	NR	1,346.0	n.a.	45,219	n.a.	n.a.	18.9	14.2	2.65	2.23	13.1	16.5	1.1	1.2
AFLAC INC	AFL US	NR	68.9	n.a.	42,391	n.a.	n.a.	13.1	12.3	1.72	1.73	12.4	13.6	2.3	2.4
MANULIFE FIN	MFC CN	NR	26.2	n.a.	36,682	n.a.	n.a.	8.8	8.1	0.98	0.99	11.9	12.0	5.0	5.3
ALLIANZ SE-VINK	ALV GR	NR	221.3	n.a.	97,202	n.a.	n.a.	12.5	9.2	1.56	1.44	10.6	16.7	5.1	5.5
SAMSUNG LIFE INS	032830 KS	NR	68,200.0	n.a.	11,005	n.a.	n.a.	10.9	9.2	0.51	0.47	3.8	5.6	4.4	5.0
AEGON NV	AGN NA	NR	5.1	n.a.	11,679	n.a.	n.a.	90.2	7.9	0.60	0.56	(3.4)	7.8	4.6	5.9
AXA SA	CS FP	NR	28.8	n.a.	73,856	n.a.	n.a.	9.4	8.6	1.30	1.21	12.0	14.9	5.8	6.2
DAI-ICHI LIFE	8750 JP	NR	2,987.5	n.a.	23,841	n.a.	n.a.	8.1	12.6	0.60	0.79	7.2	5.6	2.8	2.9
Average								18.5	10.3	1.50	1.39	9.8	12.9	3.9	4.2

Sources: Company data, Bloomberg, CMS (HK) estimates; Note: Share prices are as of Feb.2, 2023; * Forecast is based on Bloomberg consensus

Financial Summary

Consolidated Statement of Financial Position

Year ended 31 Dec (RMB mn)	2020 restated	2021A	2022E	2023E	2024E
Property, plant and equipment	52,747	54,398	55,486	56,596	57,728
Investment properties	14,217	13,374	15,407	16,786	18,224
Investments in associates and joint ventures	239,584	257,953	282,454	307,735	334,113
Debt financial assets	1,865,794	2,470,354	2,676,983	2,917,153	3,167,740
Equity financial assets	700,748	699,457	770,330	839,278	911,217
Term deposits	545,678	529,488	590,586	643,447	698,600
Statutory deposits	6,333	6,333	6,333	6,333	6,333
Loans	658,535	666,087	718,975	783,326	850,469
Financial assets purchased under agreements to resell	7,947	12,915	10,271	11,190	12,150
Accrued investment income	45,200	51,097	83,804	95,764	107,876
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	64,194	69,940	75,935
Total assets	4,252,466	4,891,085	5,349,514	5,828,321	6,327,897
Insurance contracts	2,973,225	3,419,899	3,825,728	4,246,455	4,681,920
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	140,079	142,723	146,312
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	4,845,686	5,292,960	5,756,908
Share capital	28,265	28,265	28,265	28,265	28,265
Reserves and retained earnings	421,791	450,320	465,551	494,662	527,382
Shareholders' equity	450,056	478,585	493,816	522,927	555,647
Total equity	456,937	486,658	503,828	535,362	570,989

Consolidated Statement of Cash Flows

Year ended 31 Dec (RMB mn)	2020 restated	2021A	2022E	2023E	2024E
Net cash from operating activities	304,019	286,448	267,668	263,142	265,844
Net cash from investing activities	(292,799)	(393,731)	(245,124)	(241,021)	(240,394)
Net cash from financing activities	(7,760)	111,139	(18,770)	(16,330)	(19,385)
Effect of foreign exchange rate changes	(144)	(71)	(20)	(45)	(70)
Net increase in cash and cash equivalents	3,316	3,785	3,754	5,746	5,995
Cash and cash equivalents at end of year	56,655	60,440	64,194	69,940	75,935

Consolidated Statement of Income

Year ended 31 Dec (RMB mn)	2020 restated	2021A	2022E	2023E	2024E
Gross written premiums and policy fees	612,265	618,327	620,799	645,108	673,076
Net premiums earned and policy fees	604,666	611,251	611,487	638,657	666,345
Total investment income	190,980	203,674	179,694	196,140	213,308
Other income	9,403	10,005	9,005	9,455	9,927
Total revenues	805,049	824,930	800,186	844,252	889,580
Insurance benefits and claims	(580,801)	(618,754)	(587,392)	(607,655)	(627,951)
Investment contracts benefits	(9,846)	(10,628)	(11,159)	(11,717)	(12,303)
Underwriting and policy acquisition costs	(84,361)	(65,744)	(74,126)	(77,958)	(82,391)
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)	(766,178)	(802,039)	(840,654)
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	39,491	48,479	56,069
Income tax expense	(3,103)	1,917	(3,949)	(4,848)	(5,607)
Net profit for the year	51,373	52,412	35,542	43,631	50,462
Attributable to:					
Owners of the parent	50,257	50,921	33,603	41,208	47,555

Financial Ratios

	2020 restated	2021A	2022E	2023E	2024E
EPS for ordinary shares (RMB)	1.77	1.80	1.19	1.46	1.68
BVPS for ordinary shares (RMB)	15.92	16.93	17.47	18.50	19.66
Life NBV per share (RMB) *	2.07	1.58	1.39	1.49	1.60
Life EV per share (RMB) *	37.93	42.56	47.53	53.02	59.08
ROE (%)	11.83	10.97	6.91	8.11	8.82
NBV growth yoy	-0.6%	-23.3%	-12.2%	7.3%	7.4%
NBM on FYP	30.1%	25.5%	21.5%	21.9%	22.2%

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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