

China Life (2628 HK)

3Q NPAT boosted by net fair value gains; expect resilient full-year NBV upswing

Positive on pure life insurer; raise TP to HK\$20.0. We revise up the insurer's FY24-26E EPS forecasts by 148%/38%/31% to RMB4.45/2.58/2.61 ([table](#)), to reflect the 3Q investment outperformance and improved fundamentals, and **remain positive on the insurer's profit realization in 4Q24.** 3Q NPAT soared 17.7x YoY to RMB66.2bn, outgrowing most listed peers, mainly driven by net fair value gains (+80x YoY), as the insurer held the second highest exposure of FVTPL core equities (i.e. stocks and equity funds) among listed peers at 11.2% by 1H24. As a pure life insurer, we expect China Life capable of riding on the wave of equity market rally, and result in better 2H24 investment prints on top of a low base in 2H23. For NBV, we expect margin expansions to continue driving the NBV uptick given 1) Sep/Oct pricing interest rate (PIR) cut shifted focus to par product sales, which could lower the cost of liability compared to traditional guaranteed products; 2) regulations on restrictive commission costs extended to the agency channel, providing upside for further margin increase; and 3) lengthened policy term structure with 10yr+ FYRP contributing 46.4% of total FYRP in 9M24, +4.6pct YoY. Looking ahead, we expect FY24E NBV growth at 17%, staying resilient given improved UW product and channel mix. **Maintain BUY, and raise 12m-forward TP to HK\$20.0 (prev. HK\$15.5), implying FY24E 0.41x P/EV and 0.91x P/BV.**

■ **Expect NBV growth of 17% in FY24E.** In 9M24, NBV grew 25.1% YoY on a like-for-like basis, higher than that in 1H24 with growth at 18.6% YoY, indicating strong growth momentum in 3Q24 underpinned by margin expansion and FYP rises. We estimate 3Q NBV could rise >40% YoY amid a surge of new business sales, where the 3Q FYP/FYRP/10yr+ FYRP was up 46.4%/85.5%/74.9% YoY. We attribute the premium growth to 1) the release of front-loaded demands in Jul/Aug prior to the PIR cut for traditional guaranteed products; 2) booming par product sales in Sep; and 3) stabilized agency force with heightened productivity, enhanced with a rapidly advanced new team under the "Seed Program". In 9M24, the agent scale stabilized at 641k, mildly up 1.9%/1.1% vs 2Q/year-start. Agent productivity measured by monthly FYRP per agent rose 17.7% YoY (vs 1H24: +12.4%). For 4Q, mgmt. guided that the product mix will shift to the increasing sum-assured whole life (IWLPs) and participating products for the FY25 jumpstart sales. **Expect FY24 NBV growth by 17% YoY.**

■ **3Q investment surge unsustainable; expect allocations to HDY stocks.** Total investment income (TII) surged 152% YoY to RMB261.4bn in 9M24, implying the 3Q TII soared 5.28x YoY to RMB139.1bn, primarily driven by net fair value gains thanks to the equity market rally in 3Q24. We notice the insurer assigned more equities into FVTPL, rather than FVOCI, given core equities (incl. stocks and equity funds) under FVTPL and stocks under FVOCI made up 11.2%/0.6% of total investment assets by 1H24, which allowed the life insurer to fully benefit from net fair value gains, which was up 73.3x YoY in 3Q24 under a beta-driven momentum. Despite the upsurge, we do not think the investment outperformance to be sustainable. In the long run, we regard an increased allocation to high-dividend yield (HDY) stocks under FVOCI will be strategically conducive to smoothing the volatility of net profit and net asset value changes.

■ **Valuation/Key risks:** The stock is trading at FY24E 0.3x P/EV and 0.8x P/BV, +1.9/2.2STD above the respective 3-yr historical avg. We expect more upside underpinned by improved book value and embedded value. **We revise up FY24-26E EPS forecast by 148%/38%/31% to RMB4.45/2.58/2.61 ([table](#))** to factor in the 3Q investment outperformance and improved UW mix. **Maintain BUY, and raise 12m-forward TP to HK\$20.0 (prev. HK\$15.5) implying FY24E 0.41x P/EV (prev. 0.3x) and 0.91x P/BV (prev. 0.81x).** Key risks involve underperforming FY25 jumpstart sales; increased volatility in equity market; and prolonged low interest rate that will weigh on reinvestment yields.

BUY (Maintain)

Target Price HK\$20.00
 (Previous TP) HK\$15.50
Up/Downside 21.8%
Current Price HK\$16.42

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Stock Data

Mkt Cap (HK\$ mn)	1,642.0
Avg 3 mths t/o (HK\$ mn)	1,131.1
52w High/Low (HK\$)	20.55/8.33
Total Issued Shares (mn)	100.0

Source: FactSet

Shareholding Structure

BlackRock, Inc.	6.2%
Citigroup Inc.	6.0%

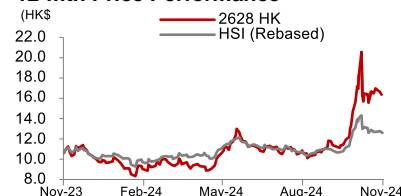
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.1%	8.3%
3-mth	52.0%	28.3%
6-mth	57.6%	36.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

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- China Life (2628 HK) - Outpaced VNB growth in 1H23; short-term NP pushback not affect value growth, Aug 25, 2023 ([link](#))

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	68,112	47,547	128,240	74,254	75,123
EPS (Reported)(RMB)	2.36	1.63	4.45	2.58	2.61
Consensus EPS (RMB)	n.a	n.a	3.54	2.32	2.36
P/B (x)	1.2	0.9	0.7	0.7	0.7
P/Embedded value (x)	0.3	0.3	0.3	0.3	0.3
Dividend yield (%)	3.3	2.9	8.9*	5.1	5.2
ROE (%)	17.3	9.7	24.1	12.5	12.1

Source: Company data, Bloomberg, CMBIGM estimates | Note: stock price data quoted by market close on 4/11/2024; 2) The company pegged dividend payout to net profit, which could significantly rise given the situation of 3Q investment income surge. We estimate the payout at 30% until further announcement.

Changes in key forecast

(RMB bn, %)	Current			Previous			Change (% , pct)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
EPS (RMB)	4.45	2.58	2.61	1.79	1.87	1.98	147.9%	38.0%	31.4%
Group NPAT	125.7	72.8	73.6	50.7	52.7	56.1	147.9%	38.0%	31.4%
NBV	43.2	46.7	50.1	42.7	45.7	49.2	1.2%	2.2%	1.9%
NBV margin (FYP basis)	21.4%	22.0%	22.3%	21.2%	21.4%	21.6%	0.2pct	0.6pct	0.7pct
Embedded value	1,457	1,550	1,662	1,376	1,422	1,470	5.9%	9.0%	13.0%
ROE	24.1%	12.5%	12.1%	10.5%	10.5%	10.8%	13.6pct	2.0pct	1.3pct

Source: CMBIGM estimates

Valuation based on P/EV-RoEV and P/B-ROE

We adopt P/B-ROE and P/EV-ROEV based on Gordon Growth Model, with incorporated 1H24 EV sensitivity analysis on changes related to risk discount rate (8%) and long-term investment return (4.5%), and **derive our new price target at HK\$20.0, an average of the two results, which implies 0.41x FY24E P/EV (previous: 0.3x), and 0.91x FY24E P/B (previous: 0.81x).**

Life Operating RoEV (fwd. 3-year avg.)	9.3%
Cost of equity (CAPM)	11.2%
Terminal growth (%)	2.0%
Long-term investment return	4.0%
No. of shares outstanding (mn)	28,265
CNY/HKD assumption	1.10

Valuation based on P/B-ROE

We adopt P/B-ROE method based on the Gordon Growth Model, to reflect potential bottom-line changes to net asset value (NAV), which rose 15%/19% QoQ/vs year-start to RMB566.7bn in 3Q24, driven by earnings surge (+17.67x YoY in 3Q) and a narrowed accumulated OCI decline, down 5.7% in 9M24 (vs 1H24: -13.4% YoY) under IFRS9&17.

We derive our FY24E fair value P/B(x) multiple on an avg. of forward 3-year ROE in FY24-26E at 16.2%, and FY25E fair value P/B(x) multiple on an avg. of forward 3-year ROE in FY25-27E at 12.1%, as FY24E ROE was boosted by a strong est. bottom-line thanks to the outperformance of 3Q investment results.

12m-forward fair value per share arrives at HK\$15.8 under the P/B-ROE approach.

(RMB bn, %)	FY24E	FY25E
Shareholders' equity (RMB bn)	568.2	592.5
BVPS (RMB)	20.10	20.96
Fair value P/B (x)	0.93x	0.66x
Cost of equity	11.2%	11.2%
ROE (forward 3-year)	16.2%	12.1%
Long-term growth	2.0%	2.0%
Group discount ratio	-40.0%	-40.0%
Fair value based on P/B-ROE (RMB bn)	528.5	391.5
Fair value per share (HK\$)	20.0	15.0
12m-forward fair value per share (HK\$)	15.8	

Source: CMBIGM estimates

Valuation based on P/EV-RoEV

We adopt P/EV-RoEV based on Gordon Growth Model, incorporated with 1H24 EV sensitivity analysis on changes related to actuarial assumptions of risk discount rate (8%) and long-term investment return (4.5%), to reflect potential investment impacts to embedded value.

We derive our FY24E fair value P/EV(x) multiple on an avg. of forward 3-year operating RoEV in FY24-26E at 9.3%, and FY25E fair value P/EV(x) multiple on an avg. of forward 3-year RoEV in FY25-27E at 9.0%. In our model, we expect the investment experience variance (IEV) to turn positive in FY24E.

12m-forward fair value per share arrives at HK\$24.0 under the P/EV-RoEV approach.

(RMB bn, %)	FY24E	FY25E
Embedded value, unadjusted	1,457	1,550
EVPS (RMB), unadjusted	51.57	54.85
Adjustment reflecting risk discount rate change*	(200.8)	(213.6)
Adjustment reflecting investment return change*	(7.1)	(7.5)
Embedded value, adjusted	1,250	1,329
EVPS (RMB), adjusted	44.21	47.02
Target P/EV (x)	0.48x	0.46x
Cost of equity	11.2%	11.2%
Operating RoEV (forward 3-yr avg)	9.3%	9.0%
Long-term growth	2.0%	2.0%
Group discount ratio	-40.0%	
Fair value based on P/EV-RoEV (RMB bn)	597.4	620.2
Fair value per share (HK\$)	23.2	24.1
12m-forward fair value per share (HK\$)	24.0	

Source: CMBIGM estimates | Note: 1) Adjustments for changes on risk discount rate and long-term investment return to EV and NBV were based on 1H24 reported EV sensitivity analysis. 2) RDR stands for risk discount rate, an actuarial assumption that the insurer implemented for new business value and value in-force of embedded value.

EV sensitivity (@RDR 8%, INV return 4.5%)	VIF	VNB	EV
Base case	617.8	32.3	1,405
@RDR +50bps, reported	587.4	30.7	1,374
@RDR +50bps (%)	-4.9%	-4.8%	-2.2%
@RDR -50bps, reported	650.6	33.9	1,437
@RDR -50bps (%)	5.3%	5.2%	2.3%
Adjustment for RDR chg. by +/-50bps to EV	-31.3%	-30.5%	-13.8%
@INV return +1000bps, reported	754.7	39.4	1,541
@INV return +100bps (%)	2.2%	2.2%	1.0%
@INV return -1000bps, reported	481.5	25.1	1,268
@INV return -100bps (%)	-2.2%	-2.2%	-1.0%
Adjustment for Investment return chg. by +/-100bps to EV	-1.1%	-1.1%	-0.5%

Source: Company data, CMBIGM estimates | Note: 1) RDR stands for risk discount rate, an actuarial assumption that the insurer implemented for new business value and value in-force of embedded value. 2) INV abbreviates for the actuarial assumption of long-term investment return, which was reported at 4.5% while we use 4.0% to reflect the downward-trending reinvestment yields.

New price target at HK\$20.0, as an average of two approaches, which implies 0.41x FY24E P/EV (previous: 0.3x), and 0.91x FY24E P/BV (previous: 0.81x).

Target price (HK\$), under two methods:	12M-forward	
Fair value per share (HK\$), based on P/B-RoE	15.8	
Fair value per share (HK\$), based on P/EV-RoEV	24.0	
Target price (HK\$)	20.0	
TP implied multiples(x):	FY24E	FY25E
Implied P/EV(x)	0.41x	0.39x
Implied P/BV (x)	0.91x	0.87x

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		182,578	212,445	240,572	245,835	252,152
Insurance service expenses		(131,614)	(150,353)	(178,200)	(182,017)	(186,606)
Net expenses from reinsurance contracts held		2,155	(288)	(292)	(778)	(1,288)
Insurance service results		53,119	61,804	62,080	63,041	64,258
Net finance (expenses)/income from insurance contracts		(148,700)	(127,923)	(272,696)	(96,831)	(100,680)
Net finance (expenses)/income from reinsurance contracts		583	616	336	0	0
Interest income		0	122,994	123,806	129,913	134,980
Net investment income		175,360	(9,375)	241,346	(5,742)	(6,105)
Credit impairment losses		(3,150)	1,217	316	348	382
Net investment results		24,093	(12,471)	93,107	27,688	28,577
Other income		8,944	10,603	12,563	13,191	13,850
Other expenses		(15,212)	(18,131)	(18,318)	(19,234)	(20,195)
Other results		(11,131)	(12,836)	(11,170)	(11,999)	(12,897)
Profit before tax		70,060	44,576	152,827	87,358	88,380
Income taxes		(1,948)	2,971	(24,586)	(13,104)	(13,257)
Net profit		68,112	47,547	128,240	74,254	75,123
Net profit attributable to shareholders		66,680	46,181	125,726	72,797	73,649

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions	542,403	524,100	433,014	529,026	595,157	663,257
Balances with central bank and statutory deposits	6,333	6,333	6,520	12,224	13,752	15,326
Investments in associates and joint ventures	258,933	262,488	258,760	261,348	263,961	266,601
Property	58,150	56,369	55,190	55,122	55,055	54,989
Investment property	13,374	13,193	12,753	13,318	14,983	16,697
Reinsurance contract assets	19,327	24,096	25,846	27,958	31,059	34,389
Financial investments:	3,599,689	3,878,185	4,798,898	5,461,473	6,144,188	6,847,228
At amortized cost:	0	0	211,349	200,551	225,621	251,437
At fair value through other comprehensive income:	0	0	2,882,174	3,324,235	3,739,783	4,167,702
At fair value through profit or loss:	0	0	1,705,375	1,936,688	2,178,785	2,428,089
Deferred tax assets	24,180	46,126	24,431	29,311	35,166	42,191
Other assets	82,519	71,584	37,369	110,587	24,815	126,605
Cash and cash equivalents	60,459	127,594	149,305	93,609	105,311	117,361
Total assets	4,665,367	5,010,068	5,802,086	6,593,977	7,283,448	8,184,643
LIABILITIES						
Insurance contract liabilities	3,809,716	4,266,947	4,859,175	5,706,094	6,338,904	7,018,491
Borrowings	19,222	12,774	12,857	12,460	12,075	11,703
Obligations under repurchase agreements	239,446	148,958	216,851	117,685	63,868	34,661
Deferred tax liabilities	999	272	0	0	0	0
Current tax liabilities	248	238	309	245	194	154
Bonds payable	34,994	34,997	36,166	0	0	0
Other liabilities	164,095	170,749	189,506	178,607	264,428	484,321
Total liabilities	4,268,874	4,635,095	5,315,052	6,015,091	6,679,469	7,549,329
EQUITIES						
Share capital	28,265	28,265	28,265	28,265	28,265	28,265
Reserves	156,677	99,033	145,933	150,321	133,899	112,585
Retained profits	203,478	238,723	302,895	389,630	430,362	482,172
Total shareholders' equity	388,420	366,021	477,093	568,215	592,526	623,022
Non-controlling interests	8,073	8,952	9,941	10,670	11,452	12,292
Total equity	396,493	374,973	487,034	578,885	603,978	635,314
Total liabilities & equity	4,665,367	5,010,068	5,802,086	6,593,977	7,283,448	8,184,643

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	0.65	0.49	0.43	1.33	0.77	0.78
EPS (Reported)	1.80	2.36	1.63	4.45	2.58	2.61
Consensus EPS	n.a	n.a	n.a	3.54	2.32	2.36
No. of shares basic	28,265	28,265	28,265	28,265	28,265	28,265
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Return on equity (ROE)	10.9%	17.3%	9.7%	24.1%	12.5%	12.1%
VNB margin (FYP basis)		17.8%	17.5%	21.4%	22.0%	22.3%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)	0.4	0.3	0.3	0.3	0.3	0.3
P/B (x)	0.9	1.2	0.9	0.7	0.7	0.7
Dividend yield (%)	4.3	3.3	2.9	8.9*	5.1	5.2

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: stock price data quoted by market end on 4/11/2024; 2) The company pegged dividend payout to net profit, which could significantly rise given the situation of 3Q investment income surge. We estimate the payout at 30% until further notice.

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