

China Life (2628 HK)

4Q net profit could decline despite better capital market

BUY (Maintain)

China Life released prelim. earnings alert. The company expects net profit to grow 122%-144% YoY (or at RMB56.2-66.4bn) under IFRS and 100%-120% YoY (or at RMB 51.2-61.4bn) under China Accounting Standards (ASBE) in FY24, easing from the increase of 174% in year-to-3Q24. 4Q bottom-line could range from a net loss of RMB 2.16bn to a gain of RMB 8.08bn, implying at most 0.8% YoY increase vs RMB8.02bn in 4Q23. We attribute this more-than-doubled net profit primarily to the equity market rally in 3Q, which surged the insurer's total investment income by +152.4% YoY in 9M24. Given better capital market as CSI300 down 2% in 4Q24 (vs 4Q23: -7%) and 10yr CGB yield down below 1.7% by end-FY24 (vs FY23: 2.56%), **we think this potential 4Q net profit decline could result from investment volatilities, as the insurer continues fine-tuning its strategic asset allocation (SAA) structure** by increasing HDY stocks under FVOCI, and balancing equity exposure to FVTPL and FVOCI, in our view. By 1H24, core equities (incl. stocks and equity funds) under FVTPL and stocks under FVOCI made up 11.2%/0.6% of total investment assets. Considering investment fluctuations, we revise FY24E/25E/26E EPS forecasts to RMB 3.85/2.68/2.81 (vs previous: 4.45/2.58/2.61, implying changes as of -14%/4%/8%). **We expect FY24/25E NBV to grow by 19.2%/9.2%, with TP unchanged at HK\$20.0. Maintain BUY.**

■ **4Q net profit could decline YoY due to investment volatilities.** The insurer's FY24 net profit ranges at RMB102.4bn-112.6bn, implying 122%-144% earnings growth (or at RMB56.2-66.4bn) based on IFRS; and 100%-120% YoY increase (or at RMB 51.2-61.4bn) based on ASBE. Net profit in year-to-3Q24 edged up 174% YoY to RMB104.5bn, thanks to the beta-driven equity market rally that boosted the net fair value gains by 80.1x/73.3x YoY to RMB 147.7bn/99.9bn in 9M/3Q24. **We stated in our last report ([link](#)) that such soaring investment income may not be sustainable, and the insurer should have addressed more on steady growth of net investment income over the long run.** 4Q bottom-line results from a net loss of RMB2.16bn to a net gain of RMB 8.08bn, suggesting at most 0.8% YoY increase (vs 4Q23: RMB 8.02bn). We attribute this potential 4Q net profit decline to investment volatilities given 1) higher-than-most listed peers' exposure to FVTPL core equities, comprising 11.2% of total investment assets by 1H24 (second highest after NCI: 16.3%); and 2) the majority of bond investments (83%) were assigned to FVOCI, which might lag on seizing the fair value gains from a bullish bond market amid descending interest rates in 2H24 (10YR CNGB yield down more than 80bps to <1.7% by end-FY24), in our view.

■ **Expect resilient NBV growth by 19%/9% in FY24/FY25E.** Total premium grew 4.7% YoY to RMB 671.7bn in FY24, with quarterly premium increases by 3.2%/6.3%/9.3%/1.1% YoY in 1Q/2Q/3Q/4Q24. We expect to see resilient NBV growth by 19%/9% YoY in FY24/25, bolstered by continued margin expansion.

■ **Valuation:** The stock is trading at 0.24x FY25E P/EV and 0.67x FY25E P/BV with annualized ROE at 21% in FY24E, as we estimate. On dividends front, we project China Life will increase DPS but may not be as much as earnings growth as net fair value gains are unsustainable to transfer into direct S/H gains. Considering investment fluctuations, **we adjust FY24/25/26E EPS forecasts to RMB3.85/2.68/2.81 (previous RMB4.45/2.58/2.61, implying changes of -14%/4%/8%).** Maintain BUY, with TP at HK\$20.0, indicating 0.4x FY25E P/EV.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	68,112	47,547	99,578	100,814	104,799
EPS (Reported)(RMB)	2.36	1.63	3.85	2.68	2.81
Consensus EPS (RMB)	n.a	n.a	3.88	2.73	2.92
P/B (x)	1.0	0.8	0.7	0.7	0.7
P/Embedded value (x)	0.3	0.3	0.3	0.2	0.2
Dividend yield (%)	3.6	3.2	8.6	6.0	6.3
ROE (%)	17.3	9.7	21.1	13.5	13.8

Source: Company data, Bloomberg, CMBIGM estimates | Note: (1) stock price quoted by market close on 24 Jan 2025; (2) dividends peg to net profit attributable to shareholder with assumed 30% payout.

Target Price HK\$20.00
Up/Downside 38.1%
Current Price HK\$14.48

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Stock Data

Mkt Cap (HK\$ mn)	1,448.0
Avg 3 mths t/o (HK\$ mn)	815.9
52w High/Low (HK\$)	20.55/8.77
Total Issued Shares (mn)	100.0

Source: FactSet

Shareholding Structure

Citigroup Inc.	6.0%
BlackRock, Inc.	5.9%

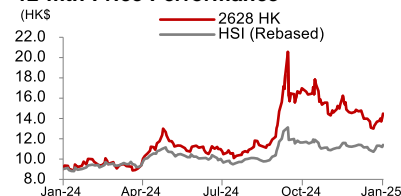
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.6%	-2.4%
3-mth	-13.9%	-12.1%
6-mth	35.1%	16.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

Related reports:

- China Life (2628 HK) - 3Q NPAT boosted by net fair value gains; expect resilient full-year NBV upswing, 5 Nov, 2024 ([link](#))
- China Life (2628 HK) - Strong lift in banca NBV margin; investment income may continue to rebound in 2H24M, Sep 2, 2024 ([link](#))
- China Life (2628 HK) - Highest VNB growth in years; net profit decline narrowed on track, May 2, 2024 ([link](#))
- China Life (2628 HK) - 4Q net loss markedly narrowed; VNB grew in low-teens despite revised EV assumptions, Apr 8, 2024 ([link](#))
- China Life (2628 HK) - 3Q NP dragged by investment setbacks; first-in-sector steady agent scale props up 2024 NBV, Oct 31, 2023 ([link](#))
- China Life (2628 HK) - Outpaced VNB growth in 1H23; short-term NP pushback not affect value growth, Aug 25, 2023 ([link](#))

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Insurance revenue		182,578	212,445	240,632	246,018	252,587
Insurance service expenses		(131,614)	(150,353)	(178,243)	(182,148)	(186,923)
Net expenses from reinsurance contracts held		2,155	(288)	(292)	(778)	(1,290)
Insurance service results		53,119	61,804	62,098	63,092	64,374
Net finance (expenses)/income from insurance contracts		(148,700)	(127,923)	(218,211)	(106,943)	(120,813)
Net finance (expenses)/income from reinsurance contracts		583	616	336	0	0
Interest income		0	122,994	123,806	129,913	145,444
Net investment income		175,360	(9,375)	166,391	7,505	9,869
Credit impairment losses		(3,150)	1,217	316	348	382
Net investment results		24,093	(12,471)	72,638	30,823	34,883
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	132,376	90,814	95,347
Income taxes		(1,948)	2,971	(21,519)	(13,622)	(14,302)
Net profit		68,112	47,547	110,857	77,192	81,045
Net profit attributable to shareholders		66,680	46,181	108,683	75,678	79,455

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	27,716	31,371	35,421
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	44,285	63,773	295,184
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	6,527,432	7,322,717	8,354,254
LIABILITIES						
Insurance contract liabilities	3,809,716	4,266,947	4,859,175	5,656,592	6,402,544	7,229,191
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	5,965,589	6,743,109	7,760,029
EQUITIES						
Share capital	28,265	28,265	28,265	28,265	28,265	28,265
Reserves	156,677	99,033	145,933	150,321	118,578	75,604
Retained profits	203,478	238,723	302,895	372,587	421,313	478,064
Total shareholders' equity	388,420	366,021	477,093	551,173	568,156	581,933
Non-controlling interests	8,073	8,952	9,941	10,670	11,452	12,292
Total equity	396,493	374,973	487,034	561,843	579,608	594,225
Total liabilities & equity	4,665,367	5,010,068	5,802,086	6,527,432	7,322,717	8,354,254

PER SHARE DATA	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
DPS	0.65	0.49	0.43	1.15	0.80	0.84
EPS (Reported)	1.80	2.36	1.63	3.85	2.68	2.81
Consensus EPS	n.a	n.a	n.a	3.88	2.73	2.92
Group embedded value/share	42.6	43.5	44.6	51.4	55.2	59.5
VNB/share	1.58	1.27	1.45	1.56	1.70	1.84
No. of shares outstanding (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%	21.1%	13.5%	13.8%
VNB margin (FYP APE basis)	n.a	17.8%	17.5%	21.3%	21.9%	22.4%
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/Embedded value (x)	0.3	0.3	0.3	0.3	0.2	0.2
P/B (x)	0.8	1.0	0.8	0.7	0.7	0.7
Dividend yield (%)	4.8	3.6	3.2	8.6*	6.0	6.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets. | Note: (1) stock price by market close on 24 Jan, 2025; (2) dividends peg to the insurer's net profit attributable to shareholders with assumed 30% payout ratio.

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