

China Life (2628 HK)

Profit beat; net asset turned to positive growth for improved asset-liability matching

1Q25 results beat on earnings and net assets. China Life's net profit jumped 39.5% YoY to RMB28.8bn, underpinned by more-than-doubled insurance service results (+124%) to RMB 25.9bn, thanks to improved insurance service expenses (ISE) down 33% YoY (vs FY/4Q24: +20%/+18%). The ISE cutback was due to 1) **better-off claims experience for medical and health insurance products**, and 2) **reduced ISE for VFA contracts, as the discount rate of VFA liability reserves was set on spot rate, which benefitted from a rising yield in 1Q25** (i.e. China 10YR govt. bond yield up by 14.4bps from prior year-end). Net assets recovered from a QoQ decline in 4Q24 (-10%) to rise 4.5% vs. year-start, **thanks to improved asset-liability matching, for which the A/L effective duration gap was further narrowed to 1.5yrs in 1Q25 (vs FY24: >2yrs)** through proactive in-force portfolio mgmt. NBV rose 4.8% like-for-like in 1Q25, lagging behind its peers (Ping An: +35%/CPIC: +39%/NCI: +68%/PICC Life: +32%) with increased short-term premiums (+19%) and reduced FYP (-4.5%), which could possibly weigh on margin, in our view. By FY24, FVOCI stocks amounted to RMB 112bn, mainly of high-yield stocks (HDY), and in 1Q25 OCI equities increased 23.4% vs. year-start, indicating a building position in steady growth and high-dividend stocks. Maintain BUY, with TP (unchanged) at HK\$20.0, implying FY25E 0.4x P/EV and 0.92x P/B.

■ **Net profit beat driven by ISE cutback.** 1Q25 net profit grew 39.5% YoY to RMB28.8bn, beating our expectation to make up 36% of our full-year bottom-line forecast. Insurance service results surged 124% YoY to RMB25.9bn (80% of pre-tax profit), driven by declined insurance service expenses (-32.8%) and stable insurance revenue (+0.8%). We found the ISE cutback a surprise, as major peers (i.e. Ping An) turned more prudent on the claims experience of medical and health insurance products. Another rationale lies in reduced VFA ISE, as the insurer's VFA liability reserves are discounted on spot rate, which benefited from a rising interest yield in 1Q25. **Looking ahead, we think the drop of ISE could be partially reversed in 2Q as yields fall (Apr: -18bps).** On investment, change in fair value resulted in a loss of RMB2.4bn (vs 1Q24: RMB29.5bn gain) due to drawback on FVTPL bonds (FY24: 8.5%) in our view.

■ **NBV grew modestly reflecting trends of transition.** NBV was up 4.8% like-for-like lagging behind peers, as the 1Q underwriting was mostly shore up by renewals (+9.7%) and short-term insurance premiums (+19.2%). FYP fell 4.5% YoY, which could be affected by the transition of product mix. Mgmt. mentioned in the call that in April, agency FYRP recovered to double-digit growth, and FYRP of floating-yield typed products accounted for 51.7% of total FYRP in 1Q25, marking a significant increase for continuous transformation. Agency scale remained largely stable at 59.6k, down 3.1% vs. prior year-end. We expect NBV to lift in mid-teens in FY25E, driven by enhanced margin.

■ **Valuation:** The stock is trading at 0.24x FY25E P/EV and 0.65x P/B with avg. 15% 3yr-forward ROE (CMBI est). We look positive on the insurer's asset-liability matching given its smallest A/L effective duration gap amid peers (vs Ping An: ~3yrs) and proactive in-force mgmt. transitioning to the participating-typed products with improved underwriting quality. Maintain BUY, with TP at HK\$20.0 (unchanged) based on P/B-ROE, implying 0.4x FY25E P/EV.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Net profit (RMB mn)	47,547	108,940	82,499	89,947	97,837
EPS (Reported)(RMB)	1.63	3.78	2.86	3.12	3.39
Consensus EPS (RMB)	n.a	n.a	2.78	2.93	3.27
P/B (x)	0.8	0.7	0.6	0.6	0.6
P/Embedded value (x)	0.3	0.3	0.2	0.2	0.2
Dividend yield (%)	3.3	4.9	6.5	7.1	7.7
ROE (%)	9.7	21.7	14.9	14.7	14.9

Source: Company data, Bloomberg, CMBIGM estimates| Note: stock price by market close on Apr 30.

BUY (Maintain)

Target Price HK\$20.00
Up/Downside 43.1%
Current Price HK\$13.98

China Insurance

Nika MA

(852) 3900 0805

nikama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	395,144.7
Avg 3 mths t/o (HK\$ mn)	1,125.0
52w High/Low (HK\$)	20.55/10.10
Total Issued Shares (mn)	28,265.0

Source: FactSet

Shareholding Structure

Citigroup Inc.	6.0%
BlackRock, Inc.	5.9%

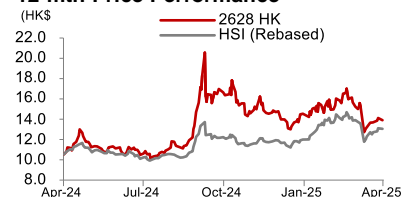
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.3%	-2.4%
3-mth	-2.8%	-10.7%
6-mth	-16.9%	-21.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

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Key risks: prolonged low interest rate; intensified interest yield and equity volatilities; worse-than-expected new business sales; deteriorated margins due to underperformed product mix transition, etc.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Insurance revenue	182,578	212,445	208,161	209,350	212,163	216,210
Insurance service expenses	(131,614)	(150,353)	(180,544)	(165,998)	(168,230)	(171,443)
Net expenses from reinsurance contracts held	2,155	(288)	378	(36)	(458)	(894)
Insurance service results	53,119	61,804	27,995	43,316	43,475	43,873
Net finance (expenses)/income from insurance contracts	(148,700)	(127,923)	(209,952)	(173,741)	(200,080)	(228,337)
Net finance (expenses)/income from reinsurance contracts	583	616	671	0	0	0
Interest income	0	122,994	120,958	131,051	150,890	172,199
Net investment income	175,360	(9,375)	176,461	95,246	109,702	125,179
Credit impairment losses	(3,150)	1,217	(1,404)	228	250	276
Net investment results	24,093	(12,471)	86,734	52,785	60,762	69,316
Other income	8,944	10,603	10,970	11,519	12,094	12,699
Other expenses	(15,212)	(18,131)	(18,363)	(19,281)	(20,245)	(21,257)
Other results	(11,131)	(12,836)	(11,593)	(10,663)	(10,154)	(9,942)
Profit before tax	70,060	44,576	115,213	97,058	105,820	115,102
Income taxes	(1,948)	2,971	(6,273)	(14,559)	(15,873)	(17,265)
Net profit	68,112	47,547	108,940	82,499	89,947	97,837
Net profit attributable to shareholders	66,680	46,181	106,935	80,849	88,148	95,880

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions	524,100	433,014	469,015	534,050	612,400	695,702
Balances with central bank and statutory deposits	6,333	6,520	6,591	5,729	6,570	7,463
Investments in associates and joint ventures	262,488	258,760	302,077	305,098	308,149	311,230
Property	56,369	55,190	55,587	56,041	56,508	56,988
Investment property	13,193	12,753	12,319	14,259	16,350	18,574
Reinsurance contract assets	24,096	25,846	30,738	35,607	41,111	47,346
Financial investments:	3,878,185	4,798,898	5,735,564	6,638,586	7,612,528	8,648,026
At amortized cost:	0	211,349	196,754	227,731	261,142	296,664
At fair value through other comprehensive income:	0	2,882,174	3,630,712	4,202,341	4,818,863	5,474,351
At fair value through profit or loss:	0	1,705,375	1,908,098	2,208,514	2,532,523	2,877,011
Deferred tax assets	46,126	24,431	40,026	65,576	107,435	176,013
Other assets	71,584	37,369	32,124	205,319	1,357,994	7,609,803
Cash and cash equivalents	127,594	149,305	85,505	98,967	113,487	128,924
Total assets	5,010,068	5,802,086	6,769,546	7,959,232	10,232,536	17,700,086
LIABILITIES						
Insurance contract liabilities	4,266,947	4,859,175	5,825,026	6,747,772	7,790,806	8,972,313
Borrowings	12,774	12,857	12,758	12,962	13,170	13,381
Obligations under repurchase agreements	148,958	216,851	151,564	105,933	74,040	51,749
Deferred tax liabilities	272	0	147	147	147	147
Current tax liabilities	238	309	237	176	131	97
Bonds payable	34,997	36,166	35,194	35,194	35,194	35,194
Other liabilities	170,749	189,506	223,212	467,257	1,676,567	7,941,314
Total liabilities	4,635,095	5,315,052	6,248,298	7,369,448	9,590,054	17,014,195
EQUITIES						
Share capital	28,265	28,265	28,265	28,265	28,265	28,265
Reserves	99,033	145,933	119,033	116,404	101,357	70,473
Retained profits	238,723	302,895	362,377	430,507	494,401	563,836
Total shareholders' equity	366,021	477,093	509,675	575,176	624,023	662,574
Non-controlling interests	8,952	9,941	11,573	14,613	18,452	23,300
Total equity	374,973	487,034	521,248	589,790	642,475	685,874
Total liabilities & equity	5,010,068	5,802,086	6,769,546	7,959,232	10,232,536	17,700,086

PER SHARE DATA	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
DPS	0.49	0.43	0.65	0.86	0.94	1.02
EPS (Reported)	2.36	1.63	3.78	2.86	3.12	3.39
Consensus EPS	n.a	n.a	n.a	2.78	2.93	3.27
Group embedded value/share (RMB)	43.54	44.60	49.57	55.39	61.64	68.78
VNB/share (RMB)	1.27	1.45	1.19	1.36	1.53	1.72
No. of shares basic	28,265	28,265	28,265	28,265	28,265	28,265
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Return on equity (ROE)	17.3%	9.7%	21.7%	14.9%	14.7%	14.9%
Return on Life embedded Value	3.8%	3.6%	12.6%	12.6%	12.8%	13.1%
VNB margin (FYP APE basis)	17.8%	17.5%	21.4%	21.9%	22.8%	23.7%
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/Embedded value (x)	0.3	0.3	0.3	0.2	0.2	0.2
P/B (x)	1.0	0.8	0.7	0.6	0.6	0.6
Dividend yield (%)	3.7	3.3	4.9	6.5	7.1	7.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets | Note: stock price was quoted by market close on 30/4/2025.

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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