



HONG KONG

1336 HK Outperform

Price (at 09:02, 09 Mar 2015 GMT) HK\$40.15

Valuation HK\$ 54.32
- Actuarial appraisal valuation

12-month target HK\$ 50.00

Upside/Downside % +24.5

12-month TSR % +25.3

Volatility Index Medium

GICS sector Insurance

Market cap HK\$m 125,268

Market cap US\$m 15,784

Free float % 32

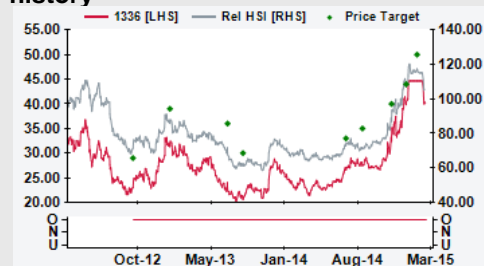
30-day avg turnover US\$m 19.2

Number shares on issue m 3,120

Investment fundamentals

Year end 31 Dec		2013A	2014E	2015E	2016E
Life Prem	bn	104.1	119.8	129.6	138.7
Life Total Rev	bn	128.2	150.3	166.8	182.4
PBT	bn	5.0	10.2	10.9	12.6
Reported profit	bn	4.4	8.0	8.2	9.4
EPS adj	Rmb	1.42	2.56	2.44	2.75
PER adj	x	22.9	12.7	13.3	11.8
DPS	Rmb	0.15	0.26	0.25	0.27
Dividend yield	%	0.5	0.8	0.8	0.8
Total SH Funds	bn	39.3	49.8	66.3	75.8
BV/S	Rmb	12.60	15.96	19.31	22.10
ROE	%	11.8	17.9	14.1	13.3
ROA	%	0.8	1.3	1.2	1.1
P/BV	x	2.6	2.0	1.7	1.5
Tot Embedded Val	bn	64.4	84.2	104.5	116.8

1336 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

(all figures in Rmb unless noted, TP in HKD)

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9 March 2015

Macquarie Capital Securities Limited

New China Life Insurance

Good entry point

Event

- The stock lost 10% of its value since its trading halt ceased on March 2 after the company's failure to introduce a strategic investor. We think some investors may take this as an opportunity to take profit since the stock has gained 74% in the past 12M (vs ~40% for the sector and 6.45% for HSI). We believe the stock dip provides a good entry point and suggest investors buy on weakness before the upcoming FY14 results. We believe NCI's investment case remains solid supported by improving fundamentals and a cheap valuation.

Impact

- No news is not bad news.** The stock suspended trading on Jan 19 due to negotiations to introduce a strategic investor with an Internet background. Some media sources further named the investor as Alibaba. We believe the deal was a surprise and the stock price hadn't reflected it before the trading suspension. We are supporter of the company's efforts to introduce active shareholders, which we believe is helpful with its corporate governance. We think the market would welcome a deal considering the potential opportunities in online businesses. But we don't think the failure of the deal has any negative impact either. We believe there are still plenty of cooperation opportunities between insurance and internet industries for NCI to explore in the future.
- Fundamentals continue to improve.** We expect 80% EPS growth for FY14 due to strong investment yield. We expect 15% VNB growth for FY14 (vs. 1.5% in FY13) supported by improvement in agency businesses. We think NCI's ~15% VNB target in FY15 is achievable as the company continues to improve agent quality and product mix ([Healthy VNB guidance, Jan 9, 2015](#)). We also believe the whole insurance sector is attractive at the current valuation. We identified a number of compelling long-term investment themes in our recent note [Not just a play on A shares \(Feb 11, 2015\)](#).
- Capital raising not urgent.** We don't think capital is an urgent issue as its solvency ratio was at 200+% by FY14, according to the company. However, the management could leverage current market sentiment and raise capital for long-term growth as Ping An, PICC P&C, and Taiping did in 2H14 ([Capital raising season Nov 13, 2014](#)). We allow for RMB8bn capital raising in FY15 in our forecasts which is likely to result in ~10% earnings dilution.

Earnings and target price revision

- No changes.

Price catalyst

- 12-month price target: HK\$50.00 based on an Actuarial appraisal valuation methodology.
- Catalyst: FY14 results on Mar 25 (Wed) after market.

Action and recommendation

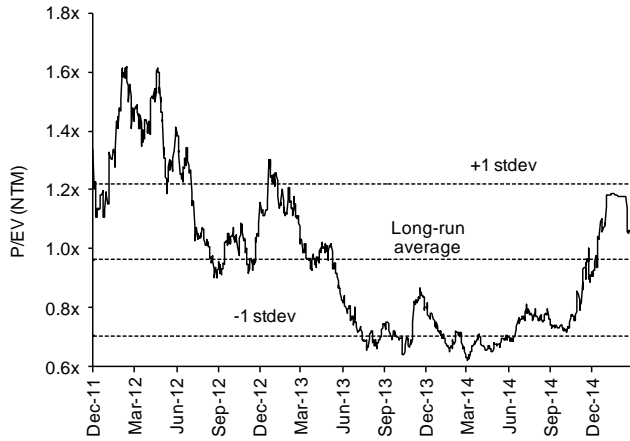
- Maintain Outperform.** Trading at 1.07x P/EV (vs. ~1.5x P/EV of big names), the stock is the cheapest among the China insurance sector (Fig 3). We believe the stock provides investors with more upside than other stocks supported by cheaper valuation and healthy fundamentals.

Fig 1 NCI: Financial summary

P&L (RMB m)						BALANCE SHEET (RMB m)					
	FY12A	FY13A	FY14E	FY15E	FY16E		FY12A	FY13A	FY14E	FY15E	FY16E
Year ending:	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Year ending:	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
GWP & Policy fees	98,081	104,073	119,785	129,554	138,733	Cash & deposits	197,636	182,423	205,738	243,452	280,977
NEP	97,951	103,615	119,100	128,873	138,004	Fixed income	248,760	325,584	378,975	448,445	517,567
Investment income	19,874	23,305	29,215	34,732	40,758	Equity	32,085	32,185	34,032	40,271	46,478
Capital gains/losses	(6,315)	1,069	1,668	2,812	3,272	Other investments	2,343	10,998	12,461	14,746	17,019
Other income	189	228	338	389	416	Reinsurance assets	3,282	2,954	3,380	3,996	4,608
Total revenues	111,699	128,217	150,320	166,806	182,450	Intangibles	102	1,512	1,512	1,512	1,512
Insurance claims	(25,067)	(37,787)	(47,990)	(34,025)	(39,285)	Other assets	9,485	10,193	11,339	13,023	14,577
Increase in life reserves	(64,831)	(65,954)	(69,983)	(97,239)	(104,088)	Total assets	493,693	565,849	647,438	765,445	882,737
Invmt contract benefits	(660)	(869)	(2,662)	(1,414)	(1,695)	P/H liabilities	381,260	452,814	519,066	619,160	725,354
Expenses	(17,108)	(17,042)	(18,557)	(22,598)	(24,199)	Repurchased assets	55,437	52,211	52,117	52,117	52,117
Total benefits & expenses	(107,666)	(121,652)	(139,192)	(155,277)	(169,268)	Borrowings	15,000	15,000	19,000	19,000	19,000
Share of associates	1	364	364	364	364	Other liabilities	6,118	6,506	7,458	8,896	10,422
Finance costs	(1,746)	(1,970)	(1,314)	(969)	(969)	Total liabilities	457,815	526,531	597,641	699,173	806,892
PBT	2,288	4,959	10,179	10,925	12,577	NET ASSETS	35,878	39,318	49,797	66,272	75,845
Income tax	646	(535)	(2,188)	(2,731)	(3,144)	Share capital	3,120	3,120	3,120	3,432	3,432
Minority interests	(1)	(2)	(1)	-	-	Reserves&retained earnings	32,750	36,192	46,672	62,835	72,408
NPAT	2,933	4,422	7,990	8,194	9,433	Equity attributable to SHs	35,870	39,312	49,792	66,267	75,840
EPS (RMB)	0.94	1.42	2.56	2.46	2.75	Non-controlling interests	8	6	5	5	5
- growth on pcp	-24.2%	51.1%	80.4%	-3.9%	11.6%	Total equity	35,878	39,318	49,797	66,272	75,845
DPS declared (RMB)	0.32	0.15	0.26	0.25	0.27	Shares o/s (closing, mn)	3,120	3,120	3,120	3,432	3,432
Payout ratio	34.1%	10.6%	10.0%	10.0%	10.0%	Shares o/s (wdt avg, mn)	3,119	3,120	3,120	3,328	3,432
EV ANALYSIS (RMB m)	FY12A	FY13A	FY14E	FY15E	FY16E	SOLVENCY (RMB m)	FY12A	FY13A	FY14E	FY15E	FY16E
Year ending:	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Year ending:	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Opening EV	48,991	56,870	64,407	84,225	104,482	Available capital	35,764	34,782	47,423	60,319	66,254
Expected return on EV	4,841	5,740	6,640	9,101	11,596	Capital requirement	18,574	20,502	23,586	28,101	32,891
Value of new business	4,475	4,236	4,850	5,536	6,239	Solvency margin ratio	193%	170%	201%	215%	201%
Operating experience	670	(501)	(727)	(1,820)	(4,638)	PREMIUM (RMB m)	FY12A	FY13A	FY14E	FY15E	FY16E
Chg in op. assumptions	(550)	(1,174)	-	-	-	Year ending:	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
EV operating profit	9,436	8,301	10,764	12,817	13,197	Agency	42,993	47,489	55,533	63,348	71,919
Investment experience	(103)	(217)	9,202	-	-	Bancassurance	53,260	54,700	62,418	64,117	64,536
Other variances	(233)	(547)	320	-	-	Group	1,466	1,451	1,451	1,523	1,600
Total EV profit	9,100	7,537	20,286	12,817	13,197	Total GWP	97,719	103,640	119,402	128,988	138,054
Shareholder dividend	(1,221)	-	(468)	7,441	(845)	- growth on YoY	3.1%	6.1%	15.1%	8.2%	7.1%
Impact of FX	-	-	-	-	-	New business					
Closing EV (reported basis)	56,870	64,407	84,225	104,482	116,834	Agency	9,066	7,228	9,931	11,410	12,765
Adjustments	(1,951)	(786)	(1,028)	(1,275)	(1,426)	Bancassurance	7,125	5,186	6,243	6,684	6,948
EV (adjusted basis)	54,919	63,621	83,197	103,207	115,408	Others	136	138	138	144	152
VNB	4,172	4,236	4,850	5,536	6,239	Total new APE	16,327	12,551	16,312	18,239	19,864
Adjustments	(1,004)	(550)	(630)	(719)	(810)	- growth on YoY	-16.2%	-23.1%	30.0%	11.8%	8.9%
VNB (adjusted basis)	3,168	3,686	4,220	4,817	5,429	KEY METRICS	FY12A	FY13A	FY14E	FY15E	FY16E
Operating ROEV	19.3%	14.6%	16.7%	15.2%	12.6%	Year ending:	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Reported ROEV	18.6%	13.3%	31.5%	15.2%	12.6%	Invmt income yield	4.7%	4.5%	4.9%	5.0%	5.1%
VNB margin	25.6%	33.7%	29.7%	30.4%	31.4%	Gross invmt return	3.2%	4.8%	5.3%	5.5%	5.5%
- agency	38.6%	51.9%	46.8%	46.6%	47.1%	Claims & benefits ratio	81.1%	81.6%	80.3%	79.5%	79.5%
- bancassurance	9.7%	10.5%	3.9%	3.9%	3.9%	Acquisition cost ratio	6.3%	5.0%	5.3%	6.2%	6.0%
- others	-12.5%	-44.3%	-32.7%	-32.7%	-32.7%	Admin cost ratio	9.0%	8.3%	7.1%	7.4%	7.2%
VNB growth	-4.3%	1.5%	14.5%	14.1%	12.7%	PBT margin	2.0%	3.9%	6.8%	6.5%	6.9%
- agency	3.4%	7.2%	23.9%	14.4%	13.1%	Effective tax rate	-28.2%	10.8%	21.5%	25.0%	25.0%
- bancassurance	-30.8%	-21.1%	-54.8%	7.2%	4.0%	PBT as % reserves	0.7%	1.3%	2.2%	2.1%	2.0%
- others	-22.7%	258.8%	na	na	na	ROA	0.7%	0.8%	1.3%	1.2%	1.1%
INTERIMS (RMB m)	1H13A	2H13A	1H14A	2H14E	1H15E	Subdebt / equity	47.9%	41.8%	48.3%	38.2%	28.7%
6M ending:	Jun-13	Dec-13	Jun-14	Dec-14	Jun-15	Dupont:					
GWP	51,628	52,445	66,927	52,858	72,154	NPAT margin	2.6%	3.4%	5.3%	4.9%	5.2%
NEP	51,225	52,390	66,519	52,581	71,775	GWP / Assets	19.9%	18.4%	18.5%	16.9%	15.7%
Investment income	11,104	12,201	13,646	15,569	16,643	Leverage (A / E)	13.8x	14.4x	13.0x	11.6x	11.6x
Capital gains/losses	(473)	1,542	(140)	1,808	1,348	Reported ROE	8.6%	11.8%	18.1%	13.8%	13.4%
Other income	87	141	179	159	216	Per share data (RMB):					
Total revenues	61,943	66,274	80,204	70,116	89,982	BVPS	11.5	12.6	16.0	19.3	22.1
Insurance claims	(18,012)	(19,775)	(26,929)	(21,061)	(15,796)	NTAPS	11.5	12.1	15.5	18.9	21.7
Increase in life reserves	(31,959)	(33,995)	(38,226)	(31,757)	(55,751)	EVPS	17.6	20.4	26.7	30.1	33.6
Invmt contract benefits	(344)	(525)	(510)	(2,152)	(672)	Valuation at current price HK\$40.15:					
Expenses	(8,084)	(8,958)	(9,413)	(9,144)	(12,266)	P / E	34.7x	22.1x	12.3x	13.1x	11.7x
Total benefits & expenses	(58,399)	(63,253)	(75,078)	(64,114)	(84,485)	Dividend yield	1.0%	0.5%	0.8%	0.8%	0.9%
Share of associates	(12)	376	269	95	182	P / B	2.8x	2.5x	2.0x	1.67x	1.5x
Finance costs	(1,036)	(934)	(872)	(442)	(485)	P / NTA	2.8x	2.6x	2.0x	1.7x	1.5x
PBT	2,496	2,463	4,523	5,656	5,194	P / EV	1.9x	1.5x	1.2x	1.07x	1.0x
Income tax	(308)	(227)	(774)	(1,414)	(1,299)	VNB multiple	14.7x	9.3x	3.6x	1.6x	-0.9x
Minority interests	(1)	(1)	(1)	-	-						
NPAT	2,187	2,235	3,748	4,242	3,896						
EPS (RMB)	0.70	0.72	1.20	1.36	1.19						
- growth on pcp	14.8%	117.2%	71.4%	89.8%	-0.9%						
DPS declared (RMB)	-	0.15	-	0.26	-						

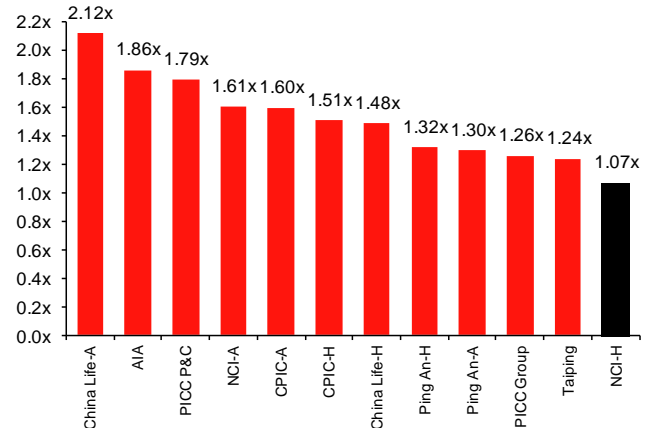
Source: Company data, Macquarie Research, Mar 2015

Fig 2 Historical forward P/EV of NCI-H



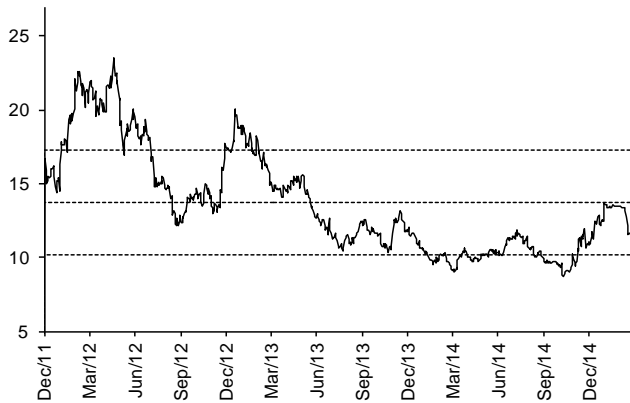
Source: Bloomberg, Macquarie Research, Mar 2015

Fig 3 Still the cheapest insurance stock (FY15 P/EV)



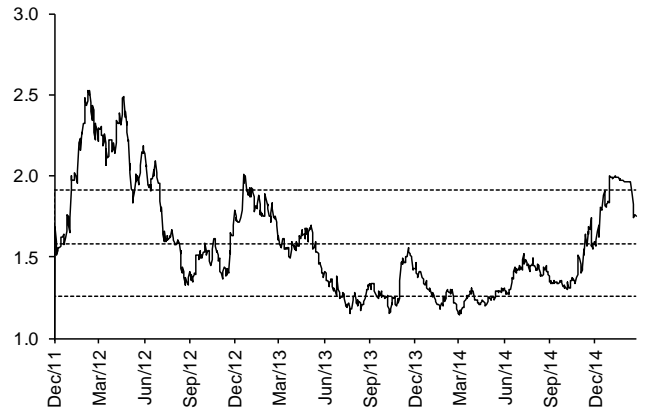
Source: Company data, Macquarie Research, Mar 2015

Fig 4 Historical forward PER of NCI



Source: FactSet, Macquarie Research, Mar 2015

Fig 5 Historical forward P/B of NCI



Source: FactSet, Macquarie Research, Mar 2015

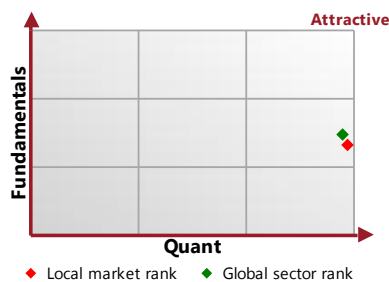
Macquarie Quant View

The quant model currently holds a strong positive view on New China Life Insurance. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Profitability, indicating this stock is not efficiently converting its investments to earnings as proxied by ratios such as ROE, ROA etc.

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Global rank in Insurance

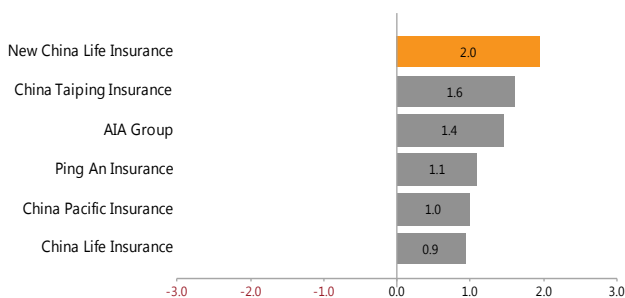
% of BUY recommendations 57% (13/23)
Number of Price Target downgrades 0
Number of Price Target upgrades 4



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.
 Two rankings: Local market (China) and Global sector (Insurance)

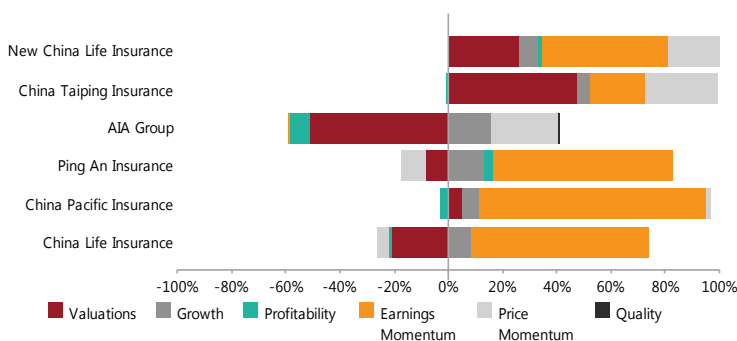
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



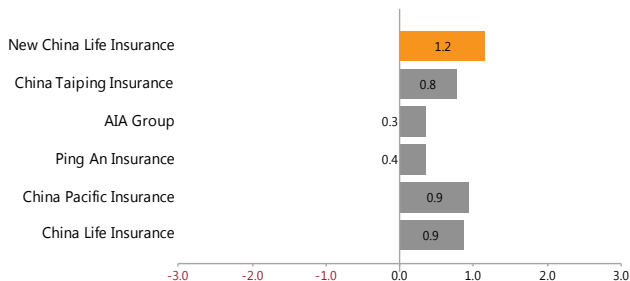
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



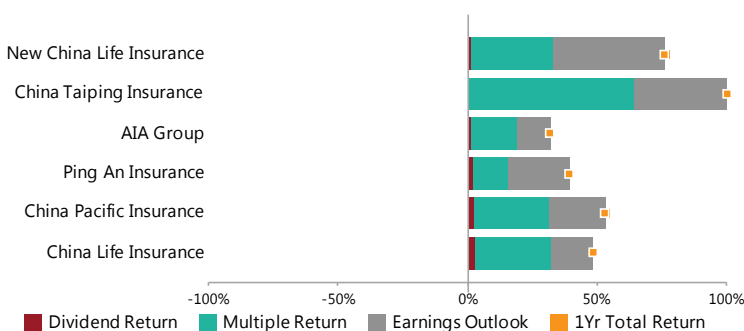
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



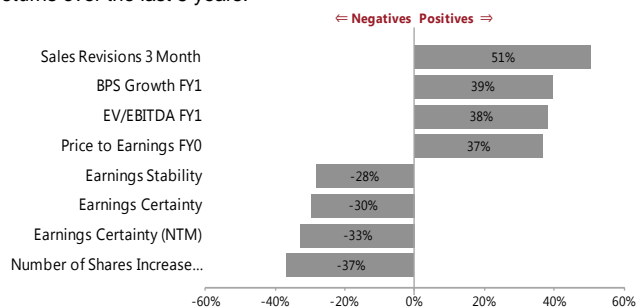
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



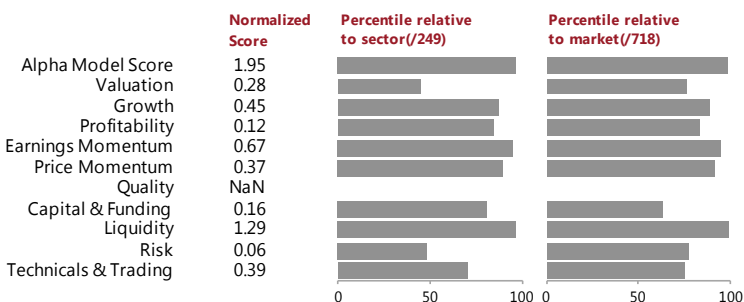
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



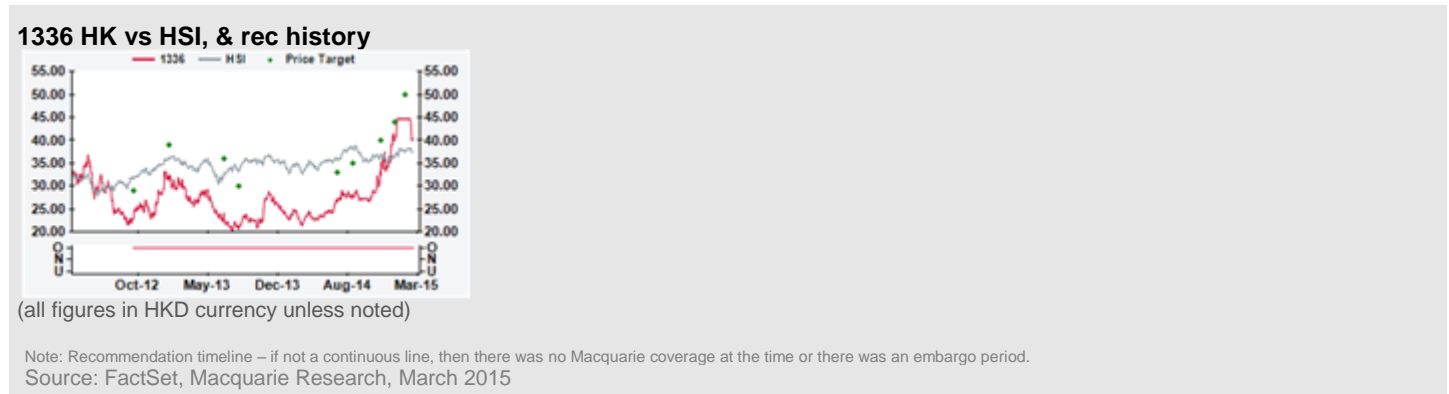
Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Important disclosures:

<p>Recommendation definitions</p> <p>Macquarie - Australia/New Zealand Outperform – return >3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return >3% below benchmark return</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p>Macquarie – Asia/Europe Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie First South - South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie - USA Outperform (Buy) – return >5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell) – return >5% below Russell 3000 index return</p>	<p>Volatility index definition*</p> <p>This is calculated from the volatility of historical price movements.</p> <p>Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low-medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to Asia/Australian/NZ/Canada stocks only</p> <p>Recommendations – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>Financial definitions</p> <p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / epowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>
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Recommendation proportions – For quarter ending 31 December 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.80%	58.06%	45.07%	44.42%	60.54%	46.81%	(for US coverage by MCUSA, 5.29% of stocks followed are investment banking clients)
Neutral	31.80%	27.37%	30.99%	50.10%	35.37%	33.51%	(for US coverage by MCUSA, 3.08% of stocks followed are investment banking clients)
Underperform	16.39%	14.57%	23.94%	5.48%	4.08%	19.68%	(for US coverage by MCUSA, 0.44% of stocks followed are investment banking clients)



12-month target price methodology

1336 HK: HK\$50.00 based on a Actuarial appraisal valuation methodology

Company-specific disclosures:
1336 HK: Macquarie Capital Securities Limited makes a market in the securities of New China Life Insurance Co Ltd.
 Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Date	Stock Code (BVG code)	Recommendation	Target Price
11-Feb-2015	1336 HK	Outperform	HK\$50.00
09-Jan-2015	1336 HK	Outperform	HK\$44.00
25-Nov-2014	1336 HK	Outperform	HK\$40.00
28-Aug-2014	1336 HK	Outperform	HK\$35.00
09-Jul-2014	1336 HK	Outperform	HK\$33.00
28-Aug-2013	1336 HK	Outperform	HK\$30.00
12-Jul-2013	1336 HK	Outperform	HK\$36.00
17-Jan-2013	1336 HK	Outperform	HK\$39.00
26-Sep-2012	1336 HK	Outperform	HK\$29.00

Target price risk disclosures:
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