

Analyst: Paul Sham
CHINA LIFE INSURANCE COMPANY LIMITED (中國人壽)

Sector	: Insurance
HKSE Code	: 02628
Market Price	: HK\$32.3 (26/03/2015)
Shares Issued	: 7,441.2m (H shares)
Mkt. Cap.	: HK\$240,351m (H shares)
52 weeks Hi/ Lo	: HK\$34.0 / HK\$19.72
HSI / HSCEI	: 24,497.08 / 11,919.69 (26/03/2015)
Main Business	: Life insurance businesses

Chairman : Mr. Yang Mingsheng

Executive Director & President : Mr. Lin Dairen

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2014
Final Results Highlights

	FY2014	FY2013	
	<u>RMB million</u>	<u>RMB million</u>	<u>Change</u>
Gross written premiums	331,010	326,290	+1.4%
Net earned premiums	330,105	324,813	+1.6%
Net investment income (recurring)	93,548	82,816	+13.0%
Net realized/unrealized gain/(loss) from investments	12,928	5,930	+118.0%
Other revenues	4,185	4,324	-3.2%
Total revenues	440,766	417,883	+5.5%
Total policy benefits & expenses	(404,275)	(391,557)	+3.2%
Share of results of associates	3,911	3,125	+25.2%
Profit before taxation	40,402	29,451	+37.2%
Profit attributable to shareholders	32,211	24,765	+30.1%
Basic EPS (RMB)	1.14	0.88	+29.5%
Final DPS (RMB)	0.40	0.30	+33.3%
Total DPS (RMB)	0.40	0.30	+33.3%

- China Life reported FY14 net profit of RMB32,211m, up 30.1% y-o-y. The increase in earnings was largely anticipated as China Life issued positive profit alert in late January. The sharp rise in net profit was mainly attributable to the strong investment income amid the bull run of domestic stock markets in late 2014. Key positives in the results included agency headcount increase, strong balance sheet and steady growth in value of new business (VNB).
- Basic EPS was RMB1.14, up from FY13's RMB0.88. Given the sharp rise in earnings, China Life increased its dividend per share to RMB0.40, up 33.3% y-o-y. Payout ratio was largely stable at 35.1%, compared with 34.1% in FY13.
- China Life reported embedded value of RMB454,906m at end-2014, up 32.9% y-o-y, mainly due to favourable financial market conditions. VNB grew by 9.2% y-o-y to RMB23,253m, driven by value creation from agency products. Solvency ratio trended higher to 294% from 226% at end-2014, on the back of strong investment gains.
- Even though China Life maintained its leading position in life insurance market, its market share continued to decline, from 30.4% in 2013 to 26.1% in 2014. However, the size of sales team bottomed out by expanding 13.8% in 2014, the first time since 2010, with the total number of agents up 90,000 to 743,000.

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**Business Review**

- Breakdown of first-year premiums by distribution channel:

	FY2014		FY2013		Change
	RMB million		RMB million		
Agency Channel - first-year premium	34,455		31,815		+8.3%
<i>Single</i>	335		413		-18.9%
<i>First-year regular</i>	34,120		31,402		+8.7%
Group insurance Channel - first-year premium	2,989		4,720		-36.7%
<i>Single</i>	2,878		4,561		-36.9%
<i>First-year regular</i>	111		159		-30.2%
Bancassurance Channel - first-year premium	77,881		78,178		-0.4%
<i>Single</i>	65,918		69,695		-5.4%
<i>First-year regular</i>	11,963		8,483		+41.0%
Other Channel - first-year premium	1,262		280		+350.7%
<i>Single</i>	889		18		+4838.9%
<i>First-year regular</i>	373		262		+42.4%
Total first-year premium	116,587		114,993		+1.4%
Value of one year's sales by channel					
Exclusive Individual Agent Channel	21,740	93.5%	19,639	92.2%	+10.7%
Group Insurance Channel	464	2.0%	532	2.5%	-12.8%
Bancassurance Channel	1,048	4.5%	1,129	5.3%	-7.2%
Total	23,253	100.0%	21,300	100.0%	+9.2%
New business margin	19.9%		18.5%		

- Growth of first-year premium was muted, up only 1.4% y-o-y in FY14 to RMB116,587m, as the 8.3% y-o-y increase in agency premium was largely offset by a 36.7% y-o-y decline in group life products. Nevertheless, in terms of value creation, China Life recorded an encouraging growth of 9.2% y-o-y, following an unexciting low single-digit increase in the past few years. The overall new business margin improved to 19.9% in FY14 from 18.5% a year ago, suggesting that China Life focused on more lucrative products with longer payment duration. In respect of VNB contribution by distribution channel, agency accounted for 93.5% of 2014 VNB (from 92.2% in 2013), bancassurance accounted for 4.5% (from 5.3%) and Group accounted for 2.0% (from 2.5%).
- Investment income was the key driver to lift China Life's FY14 earnings. The net investment income increased by 13.0% y-o-y to RMB93,548m, attributable to the enlarged investment portfolio. Net realized/unrealized gain/(loss) from investments surged 118% y-o-y to RMB12,928m as its equity securities benefited from the strong A-share market in 2H14. Meanwhile, debt securities also saw strong mark-to-market gains as bond yields fell following the interest rate cut in late 2014.

Outlook & Prospects

- Agency business showed more evident improvement** Compared with its main rivals such as Ping An and CPIC, the lack of concrete transformation progress (from bancassurance to agency products) was once the major weakness of China Life's operation. Nevertheless, the progress which China Life made in 2014 suggests China Life may have successfully transformed into a value-led insurer. First, China Life's VNB shrugged off the low single-digit growth in the past few years and grew at a much faster rate of 9.2% y-o-y in 2014. Second, China Life eventually was able to grow its agency force again in 2014, up 14% y-o-y, the first time since 2010. Third, Management has set aside an increased budget for agency development of RMB1bn in 2015 (+100% from RMB500m in 2014), which showed its commitment to improve the quantity and quality of agency force. We believe this "lower-volume, higher-value" strategy might weigh on China Life's top-line premium growth, but should improve the sustainability of VNB growth in the long run.



- **Solvency should not be a concern** China Life's solvency margin stood at 294% in FY14, up from 226% at end-2013. The capital adequacy position suggested a minimal need for China Life to raise capital in the near term. In addition, given China Life's current balance of sub-debt of RMB68 billion or 24% of its net assets (vs 50%, the maximum sub-debt level allowed by CIRC for each insurer), China Life can further issue sub-debt of around RMB76 billion, which could improve its solvency ratio by an additional 94% in due course.
- **Lacking cross-selling model** Since the Chinese insurance industry broadens its product offerings, there is greater opportunity for cross-selling such as telemarketing sales of P&C products and credit cards to life customers, offering banking services to existing customers and upselling bancassurance customers with higher-margin individual life protection products. Unlike Ping An which has its own banking platform to cross-sell products, the monotonous business model puts China Life at a disadvantage to capture all these opportunities. This partly explains why China Life continued losing market share in the recent years.
- **Valuation** China Life is currently trading at 1.65x FY14 P/EV, a premium to CPIC's 1.52x and Ping An's 1.41x. Despite China Life showed some signs of agency business turnaround in FY14, its earnings and share price performance were largely hinged on the external financial market conditions, instead of its business fundamentals. Without non-life business such as property & casualty insurance, banking and securities operations to diversify the business risks, China Life will continue to be a high-beta play in the PRC insurance sector. We prefer Ping An in the life insurance sector for its better agency distribution channel, diversified income source and better risk-adjusted valuation.

Recommendation: *Prefer Ping An*

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