

China Life (H) ----- Maintain NEUTRAL

Strong May headline sales, upgrading due to strong markets

EPS: ▲ TP: ▲

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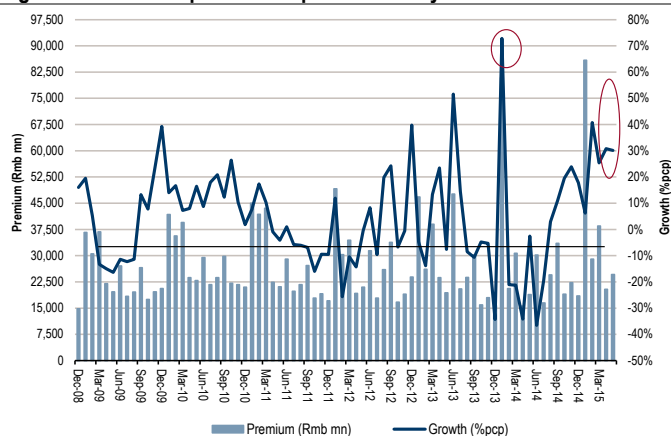
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- China Life released May-15 premiums of Rmb24.6 bn, up 30.2% YoY and up 19% in 2015 YTD, relative to 30.4% in 2Q15, 16% in 1Q15 and +1.4% in 2014. We have upgraded our target price to HK\$40 (from HK\$38.5) following the strong equity markets (earnings up 14% in 2015E, largely unchanged thereafter).
- We highlight that this is an extension of strong open-year sales (where it sold a 4% guarantee product) and is likely boosted by stronger bancassurance sales and shorter-term savings products ("Xin Ru Yi"). We also highlight that surrenders reached a new high in 1Q15 due to the first anniversary of high cash value products sold in the bank channel last year.
- Catalysts: Monthly premium release, equity market performance and 1H15 result (expect strong operating momentum).
- China Life is now trading at 1.6x P/EV (12-month forward) and ~12x value of new business, which is the highest among peers, despite its lower growth profile (which has continued into 2015). We also upgraded A share target price to Rmb32 (from Rmb31).

May 2015 premiums up 30.2%

China Life released May 2015 premiums of Rmb24.6 bn, up 30.2% YoY and +19% in 2015 YTD.

Figure 1: China Life premiums up 30.2% in May 2015



Source: Company data, Credit Suisse estimates

We highlight that this is an extension of the strong open-year sales, mainly driven by shorter-term savings products ("Xin Ru Yi") and the low base for the same month last year.

Figure 2: China Life premiums up 30.2% in May 2015

LIFE	Apr-15 2Q15 1Q15 4Q14 3Q14					CAGR, 12-mth rolling (% p.a.)		
	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.	1Y	3Y	5Y
China Life	30.2%	30.4%	16.0%	20.6%	20.6%	7.2%	5.9%	3.0%
Ping An	16.6%	13.4%	12.1%	11.6%	11.7%	11.8%	12.0%	
China Pacific	10.6%	-1.1%	-1.5%	-0.2%	-4.5%	1.8%	4.5%	
New China Life	-6.6%	7.5%	-24.6%	-6.6%	-5.6%	4.3%	5.9%	
PICC Life	76.0%	16.9%	-50.7%	-40.4%	-16.3%	8.3%	6.2%	
China Taiping	10.8%	26.6%	55.3%	4.3%	20.4%	30.5%	20.9%	
- in-force APE	14.7%	10.7%	48.9%	28.4%	34.8%	28.5%	29.0%	
Life market	21.8%	19.3%	10.6%	11.7%	10.1%	10.3%	9.9%	

Source: Company data, Credit Suisse estimates

The key medium-term issue for us is for China Life to de-emphasise its reliance on low-margin bancassurance sales and reduce its market share focus, with some signs that this is changing.

Bbg/RIC	2628 HK / 2628.HK	Price (11 Jun 15, HK\$)	35.50		
Rating (prev. rating)	N (N)	TP (prev. TP HK\$)	40.00 (38.50)		
Shares outstanding (mn)	28,265	Est. pot. % chg. to TP	13		
Daily trad vol - 6m avg (mn)	46.6	52-wk range (HK\$)	40.0 - 20.3		
Daily trad val - 6m avg (US\$ mn)	205.1	Mkt cap (HK\$/US\$ bn)	1,245.8 / 160.7		
Free float (%)	31.6	Performance	1M 3M 12M		
Major shareholders	China Life Group	Absolute (%)	(5.1) 13.6 64.0		
		Relative (%)	(1.0) (1.1) 38.6		
Year	12/13A	12/14A	12/15E	12/16E	12/17E
Life GWP (Rmb bn)	326.3	331.0	357.3	378.7	414.3
P&C GWP (Rmb bn)	—	—	—	—	—
Net profit (Rmb bn)	24.8	32.2	57.5	56.4	60.2
EPS (Rmb)	0.88	1.14	2.04	2.00	2.13
- Change from prev. EPS (%)	n.a.	n.a.	13.8	0.5	0.5
- Consensus EPS (Rmb)	n.a.	n.a.	1.56	1.83	1.98
EPS growth (%)	123.9	30.1	78.6	(1.9)	6.7
P/E (x)	32.4	24.9	14.0	14.2	13.3
NTA per share (Rmb)	7.8	10.1	11.6	13.1	14.7
EV per share (Rmb)	12.1	16.1	19.9	22.6	25.7
Dividend yield (%)	1.1	1.4	1.6	1.7	1.8
EV/EBITDA (x)	39.7	27.9	16.5	17.1	16.1
P/B (x)	3.6	2.8	2.4	2.2	1.9
ROE (%)	11.2	12.8	18.8	16.1	15.3
P&C combined ratio (%)	—	—	—	—	—

Note 1: ORD/ADR=5.00. Note 2: China Life Insurance Co Ltd is an insurance company. The company operates its businesses through individual insurance business, group insurance business and short term insurance business, which provides individual life insurance & group life insurance.

Figure 3: Valuation metrics—11 June 2015

Company	Ticker	CS Rating	Price		TP (%)	Up/dn (%)	Mkt cap US\$m	ADT US\$m	PE(x)	EPSg	12-month forward			P/EV(x)	VNB(x)*	EVg T+1	VNBg T+1
			Local	Target							Chg	ROE(%)	P/BV(x)				
China Life (H)	2628.HK	NTRL	35.50	40.00	4%	13%	34,076	157	14.2x	16%	2.4x	17%	1.6x	11.8x	23%	16%	
Ping An (H)	2318.HK	OPFM	111.80	145.00	0%	30%	45,134	255	13.6x	8%	2.2x	16%	1.3x	6.3x	19%	36%	
China Pacific (H)	2601.HK	OPFM	40.85	55.00	0%	35%	14,845	56	16.5x	22%	2.2x	14%	1.3x	5.3x	19%	24%	
New China Life (H)	1336.HK	OPFM	48.95	60.00	0%	23%	6,511	37	11.8x	14%	1.8x	16%	1.1x	2.9x	24%	18%	
China Taiping	0966.HK	OPFM	29.35	42.00	5%	43%	12,577	30	18.7x	4%	1.6x	9%	1.3x	3.9x	8%	27%	
PICC Group	1339.HK	OPFM	5.03	5.30	0%	5%	4,597	27	10.7x	14%	1.5x	14%	0.9x	-10.6x	14%	-5%	
PICC P&C	2328.HK	OPFM	18.22	21.50	2%	18%	10,803	38	11.3x	3%	2.0x	18%	na	na	na	na	
China Life (A)	601628.SS	UPFM	37.74	32.00	3%	-15%	126,624	324	18.9x	16%	3.8x	16%	2.1x	15.6x	23%	16%	
Ping An (A)	601318.SS	OPFM	90.26	115.00	0%	27%	85,408	1130	13.7x	8%	2.7x	16%	1.3x	6.4x	19%	36%	
China Pacific (A)	601601.SS	OPFM	34.79	44.00	0%	26%	34,803	293	17.6x	22%	2.9x	13%	1.3x	5.7x	19%	24%	
New China Life (A)	601336.SS	UPFM	66.74	48.00	0%	-28%	22,456	181	20.2x	14%	3.8x	15%	2.4x	29.9x	24%	18%	
							397,835	2,529	16.2x	13%	3.0x	16%	1.6x	10.5x	20%	23%	

Note: VNB multiples adjust for P&C division at 1.7x book value and bank at 0.9x book value. Source: Reuters, company data, Credit Suisse estimates

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Companies Mentioned (Price as of 11-Jun-2015)

China Life (2628.HK, HK\$35.5, NEUTRAL, TP HK\$40.0)
China Life (601628.SS, Rmb37.74, UNDERPERFORM, TP Rmb32.0)
China Pacific (2601.HK, HK\$40.85)
China Pacific (601601.SS, Rmb34.79)
China Taiping (0966.HK, HK\$29.35)
New China Life (1336.HK, HK\$48.95)
New China Life (601336.SS, Rmb66.74)
PICC Group (1339.HK, HK\$5.03)
PICC P&C (2328.HK, HK\$18.22)
Ping An (2318.HK, HK\$111.8)
Ping An (601318.SS, Rmb90.26)

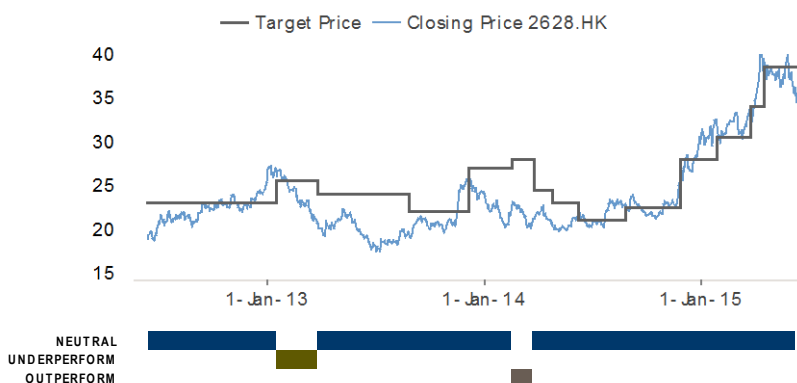
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3-Year Price and Rating History for China Life (2628.HK)

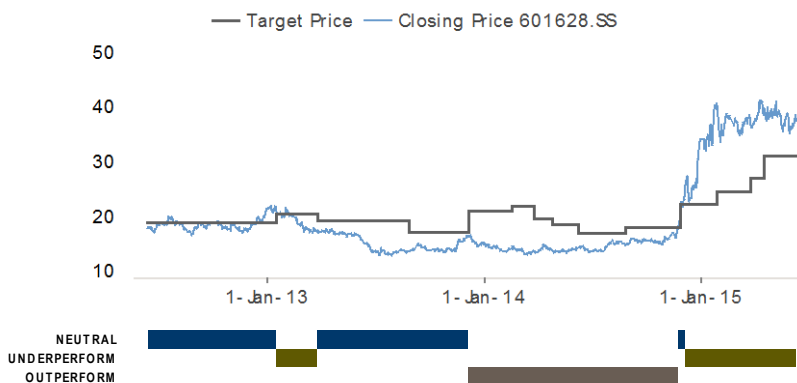
2628.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
14-Jun-12	18.88	23.00	N
16-Jan-13	26.70	25.50	U
27-Mar-13	20.70	24.00	N
28-Aug-13	19.16	22.00	
06-Dec-13	25.35	27.00	
17-Feb-14	22.85	28.00	O
26-Mar-14	21.20	24.50	N
25-Apr-14	20.45	23.00	
08-Jun-14	21.30	21.00	
27-Aug-14	22.65	22.50	
27-Nov-14	27.00	28.00	
27-Jan-15	31.90	30.50	
25-Mar-15	32.65	34.00	
17-Apr-15	38.65	38.50	



* Asterisk signifies initiation or assumption of coverage.

3-Year Price and Rating History for China Life (601628.SS)

601628.SS	Closing Price	Target Price	
Date	(Rmb)	(Rmb)	Rating
14-Jun-12	17.81	18.90	N
16-Jan-13	21.15	20.50	U
27-Mar-13	17.37	19.25	N
28-Aug-13	13.63	17.00	
06-Dec-13	16.27	21.00	O
17-Feb-14	14.49	21.90	
26-Mar-14	13.53	19.50	
25-Apr-14	13.83	18.50	
08-Jun-14	14.18	16.90	
27-Aug-14	14.79	17.85	
27-Nov-14	21.98	22.15	N
08-Dec-14	27.28	22.15	U
27-Jan-15	40.63	24.50	
25-Mar-15	36.26	27.00	
17-Apr-15	39.45	31.00	



* Asterisk signifies initiation or assumption of coverage.

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Price Target: (12 months) for China Life (2628.HK)

Method: We have a target price of HK\$40 for China Life. This is based on calculation of appraisal value which uses embedded value and 12x value of new business. We use a discount rate of 11.5% and investment yield of 5.5%.

Risk: Risks to our HK\$40 target price for China Life include sensitivity to assumptions about product mix, new business margins and investment returns. Key risks also include a sharp slowdown of the China economy.

Price Target: (12 months) for China Life (601628.SS)

Method: We have a target price of Rmb31.00 for China Life. This is based on calculation of appraisal value which uses embedded value and 12x value of new business. We use a discount rate of 11.5% and investment yield of 5.5%.

Risk: Risks to our Rmb31.00 target price for China Life include sensitivity to assumptions about product mix, new business margins and investment returns. Key risks also include a sharp slowdown of the China economy.

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