

Company Report

China Life (2628 HK)

1Q18 net profit to grow by 110-130% YoY; Maintain BUY

■ 1Q18 net profit to rise by 110-130% YoY on reserve assumption changes

■ In-line with our earlier view on the sector

■ Maintain BUY on valuation & benefit from the 750D-MA

1Q18 net profit to increase by 110-130% YoY

China Life (2628 HK, Buy) released positive profit warning that its 1Q18 recurring net profit may increase by 110% to 130% YoY. The estimated increase in 1Q18 net profit is mainly attributable to the changes in the discount rate assumption of reserves of the traditional insurance contracts. China Life will release its formal 1Q18 results on April 26.

In-line with our earlier view on the sector

The 750D-MA for the 10Y government bond generally went down in 2017 and negatively impacted 2017 operating profit by 21%, 19%, 49%, and 30% for China Life, Ping An, NCI, and CPIC, respectively. However, there was a turnaround of the 750D-MA since 4Q17. Assuming China's 10Y government bond yield to remain at 3.5215% for the rest of year 2018, the 750D-MA will rise continuously in 2018. This will reduce the required reserve fund and release the accounting profit for major life insurance players. We maintain 'Overweight' rating on China life insurance sector. China insurance sector is trading at 1.6x P/B, and it has underperformed HSI by 1.3% in 12 months.

Valuation and risk

The stock is trading at ~0.6x 18E P/EV. Our TP (currently HK\$36.4) and 2018 financial forecasts are under review. Though its NBV growth may slow down in 2018, we maintain 'Buy' for China Life, given that: 1) the company is trading at only ~0.6x 18E P/EV, a large discount to its average P/EV over the past five years of ~1.05x; and 2) as a pure life company, it greatly benefits from the turnaround 750D-MA for the 10Y government bond. Key catalyst: better-than-expected NBV growth in 1Q18 and 1H18. Key downside risks: adverse capital market, lower-than-expected NBV growth.

Financials

Year ended 31 Mar (RMB mn)	2015	2016	2017	2018E	2019E
GWP and policy fees	363,971	430,498	511,966	573,290	656,746
Total revenues	507,449	540,781	643,355	708,345	806,838
Shareholders' net profit	34,699	19,127	32,253	38,053	43,283
EPS (RMB)	1.22	0.66	1.13	1.35	1.53
P/E (x)	14.6	27.0	15.8	13.1	11.5
P/B (x)	1.6	1.7	1.6	1.3	1.2
ROE (%)	11.6	6.2	10.3	10.7	11.0
NBV margin on FYP	18.3%	23.8%	26.8%	32.1%	34.8%

Sources: Company data, CMS (HK) estimates

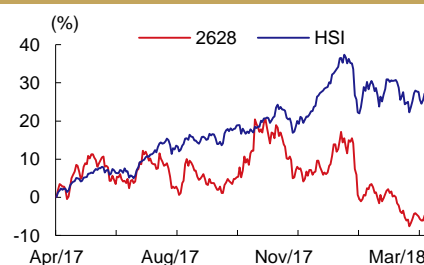
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WHAT'S NEW

BUY

Previous	BUY
Price	HK\$21.75
12-month Target Price (Potential up/downside)	HK\$36.40(+67%)
Previous	HK\$36.4

Price Performance



Source: Bigdata

%	1m	6m	12m
2628 HK	(5.8)	(10.1)	(3.3)
HSI	(3.6)	6.8	26.4

Sector: Insurance

Hang Seng Index	30418
HSCEI	12054

Key Data

52-week range (HK\$)	21.1-28.2
Market cap (HK\$ mn)	161846
Avg. daily volume (mn)	50.59
BVPS (HK\$)	11.35

Shareholding Structure

China Life insurance Group	68.37%
BlackRock, Inc.	6.76%
No. of shares outstanding (mn)	28,265
Free float (mn)	7,441

Sources: Bloomberg

750D-MA for 10Y government bond yield;



Source: WIND, CMS (HK); Note: Assuming yield=3.5215% for the rest of year 2018

Life insurance performance

	China Life (2628 HK)	Ping An (2318 HK)	NCI (1336 HK)	CPIC (2601 HK)
Net profit YoY-growth (2017 vs 2016)	69%	48% *	9%	22%
ROE (2017)	10%	21%	9%	11%
Life NBV YoY-growth (2017 vs 2016)	22%	33%	15%	40%
Life EV YoY-growth (2017 vs 2016)	13%	38%	17%	18%
Life NBM on FYP (2017)	27%	39%	38%	38%
Life agent headcount growth (2017 vs 2016)	6%	25%	6%	34%
Life per-agent NBV productivity per year** (2017, RMB)	33,695	43,857	32,874	n.a.
Impact of actuarial assumption changes on 2017 overall operating profit	-21%	-19%	-49%	-30%

Sources: Company data, CMS (HK)

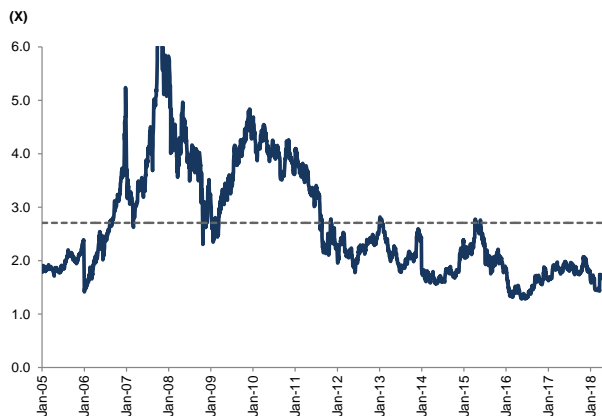
*: recurring net profit

** : measured by individual channel NBV/individual channel agent headcount

Valuation

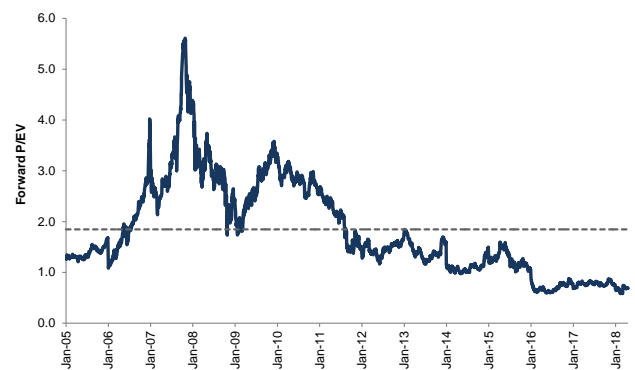
Historical Forward P/B and P/EV charts

Figure 1: Historical forward P/B of China Life



Sources: Company data, CMS (HK)

Figure 2: Historical forward P/EV of China Life



Sources: Bloomberg, CMS (HK)

Peers comparison

Company	Ticker	Price Local ccy	Rating	TP (HK\$)	P/E		P/B		ROE		P/EV (Group)	
					2018E	2019E	2018E	2019E	2018E	2019E	2017	2018E
HK Peers												
China Life	2628 HK	21.75	Buy	36.4	13.1	11.5	1.3	1.2	11%	11%	0.7	0.6
Ping An	2318 HK	81.50	Buy	113.4	13.8	11.8	2.2	1.9	17%	17%	1.6	1.3
China Pacific	2601 HK	34.05	Buy	60.9	12.2	10.9	1.6	1.4	14%	14%	0.9	0.7
New China Life	1336 HK	34.90	Buy	62.7	10.3	8.7	1.2	1.0	12%	13%	0.6	0.5
China Taiping *	966 HK	24.75	NR	n.a.	11.5	9.7	1.2	1.0	11%	12%	n.a.	n.a.
PICC Group *	1339 HK	3.63	NR	n.a.	6.8	6.4	0.8	0.7	11%	12%	n.a.	n.a.
PICC P&C *	2328 HK	13.80	NR	n.a.	7.2	6.6	1.1	0.9	16%	15%	n.a.	n.a.
China Re *	1508 HK	1.63	NR	n.a.	8.8	7.6	0.7	0.7	8%	9%	n.a.	n.a.
AIA *	1299 HK	68.10	NR	n.a.	18.4	16.3	2.3	2.1	13%	14%	n.a.	n.a.
Average					13.6	11.0	1.6	1.4	12%	13%	1.0	0.8
Global Peers *												
CHINA LIFE	2823 TT	31.35	NR	NR	11.3	10.9	1.2	1.2	11%	10%	n.a.	n.a.
GREAT-WEST LIFEC	GWO CN	33.46	NR	NR	11.2	10.1	1.6	1.4	15%	15%	n.a.	n.a.
MUENCHENER RUE-R	MUV2 GR	195.90	NR	NR	11.9	10.7	1.0	1.0	9%	9%	n.a.	n.a.
HANNOVER RUECK S	HNR1 GR	115.70	NR	NR	13.2	11.7	1.5	1.5	12%	13%	n.a.	n.a.
CNP ASSURANCES	CNP FP	21.26	NR	NR	10.9	10.3	0.8	0.8	8%	8%	n.a.	n.a.
METLIFE INC	MET US	47.49	NR	NR	9.7	8.8	0.9	0.9	10%	10%	n.a.	n.a.
PRUDENTIAL PLC	PRU LN	1875.00	NR	NR	12.8	11.5	2.7	2.5	20%	21%	n.a.	n.a.
AFLAC INC	AFL US	45.28	NR	NR	11.6	11.0	1.4	1.3	12%	12%	n.a.	n.a.
MANULIFE FIN	MFC CN	23.99	NR	NR	9.4	8.5	1.2	1.0	12%	12%	n.a.	n.a.
ALLIANZ SE-VINK	ALV GR	193.12	NR	NR	11.2	10.6	1.2	1.2	11%	11%	n.a.	n.a.
SAMSUNG LIFE INS	032830 KS	111500.00	NR	NR	13.2	12.3	0.6	0.6	5%	5%	n.a.	n.a.
AEGON NV	AGN NA	6.00	NR	NR	9.2	8.6	0.6	0.6	7%	7%	n.a.	n.a.
Average					11.3	10.4	1.2	1.2	11%	11%	n.a.	n.a.

Sources: Company data, CMS (HK) estimates; Price as of April 20, 2018

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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