

Company Report

China Life (2628 HK)

Regular FYP up 1.5% YoY; Maintain BUY

- 1Q18 life regular FYP posted positive growth, up 1.5% YoY
- 1Q18 net profit increased 121% YoY, in line with profit alert
- Maintain BUY

Regular FYP up 1.5% YoY in 1Q18

1) 1Q18 shareholders' net profit totalled RMB13.6bn, up 120.7% YoY, in-line with the profit alert earlier. Comprehensive income was RMB14.4bn. ROE (not annualized) came in at 4.2%. The significant increase in net profit was partly attributable to the changes in the discount rate assumption of reserves of the traditional insurance contracts, in-line with our view on the sector; 2) regular FYP grew by 1.5% YoY, while single premium sharply dropped 84.6% YoY, meaning improved premium structure and improved NBM. We like China Life's improved premium structure in 1Q18. We also think the company's NBV performance in 1Q18 should be acceptable as there is positive growth in regular FYP. Furthermore, the company may continue to benefit from the turnaround of 750D-MA for the 10Y government bond as the line is still rising.

Management guidance

1) The company earlier indicated that the key strategy for 2018 will be to continue strengthening the sales of protection products; and 2) the company owns the largest exclusive agent force in the industry (as of 2017-end), hence having competitive advantage in selling long-term protection products.

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. 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; 2) we like the company's enhanced product mix (higher NBM on FYP) and positive growth in regular FYP in 1Q18; and 3) as a pure life company, it may benefit from the rising 750D-MA for the 10Y government bond (the 750D-MA generally went down in 2017 and negatively impacted its 2017 operating profit by ~21%). Key catalyst: better-than-expected NBV growth in 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)	14.7	27.1	15.9	13.0	11.4
P/B (x)	1.6	1.7	1.6	1.4	1.3
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%

Source: Company data, CMS (HK) estimates

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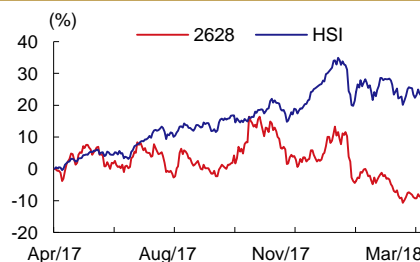
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WHAT'S NEW

BUY

Previous	BUY
Price	HK\$21.80
12-month Target Price (Potential up/downside)	HK\$36.4(+67%)
Previous	HK\$36.4

Price Performance



Source: Bigdata

%	1m	6m	12m
2628 HK	(2.7)	(13.9)	(3.5)
HSI	1.1	8.8	26.9

Sector: Insurance

Hang Seng Index	30351
HSCEI	12245

Key Data

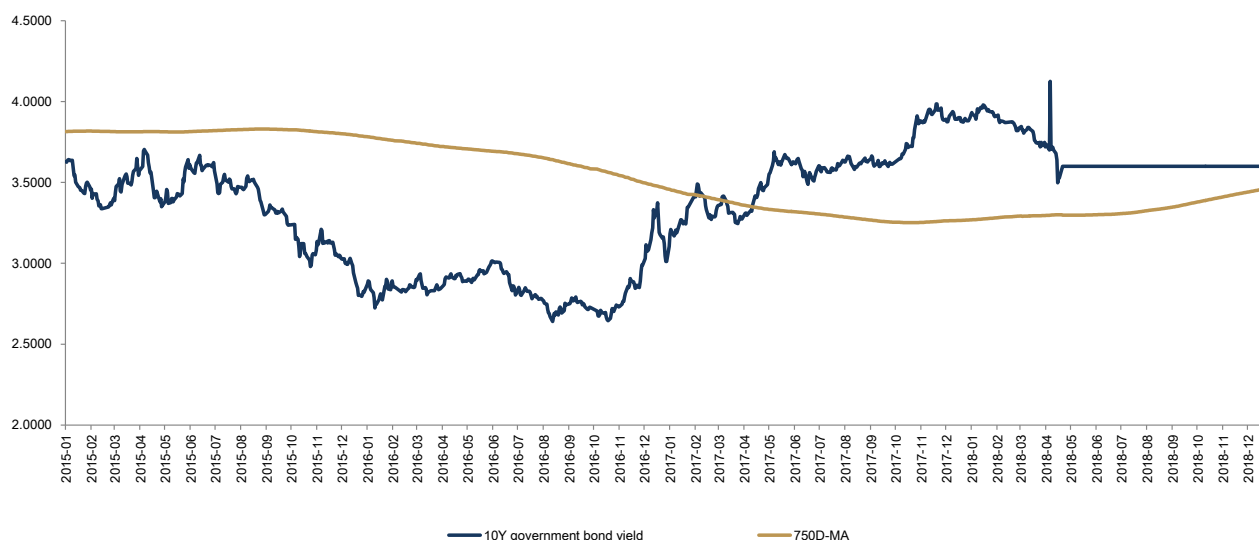
52-week range (HK\$)	21.1-28.2
Market cap (HK\$ mn)	162590
Avg. daily volume (mn)	50.38
BVPS (HK\$)	11.35

Shareholding Structure

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

Source: Bloomberg

750D-MA for 10Y government bond yield



Source: WIND, CMS (HK); Note: Assuming yield=3.6000% for the rest of year 2018

Life insurance performance

(RMBmn)	China Life (2628 HK)	Ping An (2318 HK)	NCI (1336 HK)
Shareholders' net profit YoY-growth (1Q18 vs 1Q17)	121%	12%	42%
ROE (1Q18)	4.2%	5.3%	4.0%
Shareholders' comprehensive income YoY-growth (1Q18 vs 1Q17)	161%	-15%	-28%
Agency channel performance			
Life agent headcount growth (1Q18 vs 2017)	n.a.	-2%	n.a.
Agency Channel regular FYP YoY-growth (1Q18 vs 1Q17)	n.a.	n.a.	-50%
Life per-agent NBV productivity per year* (2017, RMB)	33,695	43,857	32,874
Life NBV YoY-growth (1Q18 vs 1Q17)	n.a.	-8%	n.a.
1Q18 net investment yield (annualized)	n.a.	3.70%	n.a.
1Q18 total investment yield (annualized)	3.94%	3.70%	4.30%

Source: Company data, CMS (HK) ;

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

Valuation

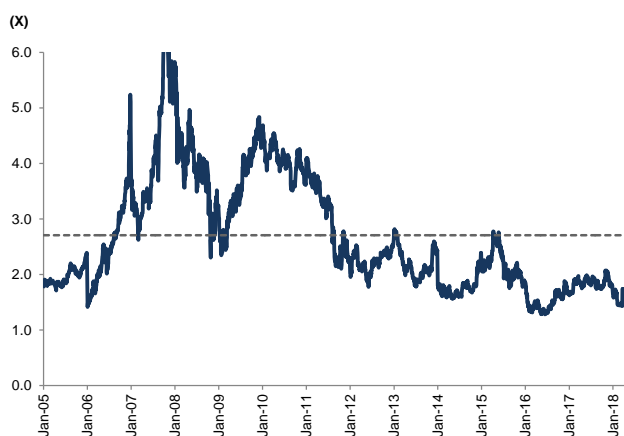
Peers comparison

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	21.80	Buy	36.4	15.9	13.3	1.5	1.4	10%	11%	0.7	0.6
Ping An	2318 HK	81.65	Buy	113.4	16.1	14.0	2.7	2.2	18%	17%	1.5	1.3
China Pacific	2601 HK	34.60	Buy	60.9	17.0	12.5	1.8	1.7	11%	14%	0.9	0.7
New China Life	1336 HK	35.80	Buy	62.7	18.6	10.7	1.4	1.2	10%	12%	0.6	0.5
China Taiping *	966 HK	25.65	NR	n.a.	12.0	10.1	1.2	1.1	11%	12%	n.a.	n.a.
PICC Group *	1339 HK	3.55	NR	n.a.	6.6	6.2	0.8	0.7	11%	12%	n.a.	n.a.
PICC P&C *	2328 HK	13.32	NR	n.a.	7.0	6.4	1.0	0.9	16%	15%	n.a.	n.a.
China Re *	1508 HK	1.67	NR	n.a.	9.0	7.9	0.7	0.7	8%	9%	n.a.	n.a.
AIA *	1299 HK	68.85	NR	n.a.	18.7	16.6	2.3	2.1	13%	13%	n.a.	n.a.
Average					13.7	11.1	1.6	1.4	12%	13%	1.0	0.8
Global Peers *												
CHINA LIFE	2823 TT	32.00	NR	NR	11.6	11.1	1.2	1.2	11%	10%	n.a.	n.a.
GREAT-WEST LIFEC	GWO CN	33.82	NR	NR	11.3	10.3	1.6	1.5	15%	15%	n.a.	n.a.
MUENCHENER RUE-R	MUV2 GR	196.50	NR	NR	11.9	10.7	1.0	1.0	9%	10%	n.a.	n.a.
HANNOVER RUECK S	HNR1 GR	115.40	NR	NR	13.2	11.7	1.5	1.5	12%	13%	n.a.	n.a.
CNP ASSURANCES	CNP FP	21.24	NR	NR	10.9	10.3	0.8	0.8	8%	8%	n.a.	n.a.
METLIFE INC	MET US	47.61	NR	NR	9.7	8.7	0.9	0.8	10%	10%	n.a.	n.a.
PRUDENTIAL PLC	PRU LN	1862.50	NR	NR	12.7	11.4	2.7	2.5	20%	21%	n.a.	n.a.
AFLAC INC	AFL US	45.17	NR	NR	11.5	11.0	1.4	1.3	12%	12%	n.a.	n.a.
MANULIFE FIN	MFC CN	24.40	NR	NR	9.5	8.7	1.2	1.1	12%	13%	n.a.	n.a.
ALLIANZ SE-VINK	ALV GR	192.60	NR	NR	11.1	10.6	1.2	1.2	11%	11%	n.a.	n.a.
SAMSUNG LIFE INS	032830 KS	117000.00	NR	NR	13.5	12.6	0.7	0.7	5%	5%	n.a.	n.a.
AEGON NV	AGN NA	6.11	NR	NR	9.3	8.8	0.6	0.6	7%	7%	n.a.	n.a.
Average					11.4	10.5	1.2	1.2	11%	11%	n.a.	n.a.

Source: Company data, CMS (HK) estimates; Price as of April 25, 2018

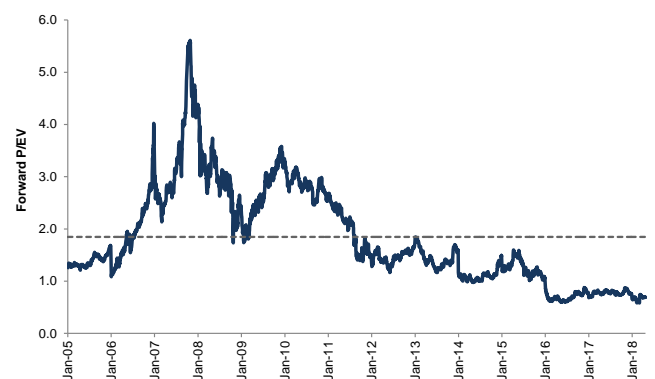
Historical Forward P/B and P/EV charts

Figure 1: Historical forward P/B of China Life



Source: Company data, CMS (HK)

Figure 2: Historical forward P/EV of China Life



Source: Bloomberg, CMS (HK)

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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