

# China Life (2628 HK)

## 1Q18 result: profit surge and mild agent FYRP decline

- ❖ **FYRP up 1.5% in 1Q18 thanks to bancassurance channel transition.** For the whole life insurance industry in China, 2018 kicked off to a very difficult start with lackluster growth in new business. China Life reported 1.5% yoy growth in first-year regular premiums to Rmb61.2bn in 1Q18. Such growth was mostly driven by the bancassurance channel. According to our estimate, individual agent channel is likely to have witnessed FYRP decline of ~5% in 1Q18, which is relatively modest compared to peers (Ping An FYP -16.6%, CPIC FYRP from agent -30.4%, NCI FYRP from agent -49.5%).
- ❖ **Turnaround in Mar due to the introduction of new product.** GWP decreased by ~20% in Jan-Feb but the decline narrowed quickly to 1.1% in 1Q18. In Mar 2018, the Company achieved GWP of Rmb88.8bn, representing yoy growth of 57.7%, boost mainly by "Sheng Shi Zhen Pin" (盛世臻品) annuity product. NBV margin of this product is likely to be below average, but the dragging impact will be limited since the product is sold only on a temporary basis.
- ❖ **We forecast nearly flat NBV trend in 2018.** On the positive side, NBV will be strengthened by (1) the transition of bancassurance channel towards regular premium business (single premiums were cut by Rmb51.3bn from a year earlier to Rmb9.4bn in 1Q18); and (2) the Company has linked agent compensation with value creation this year to encourage the sales of high margin products. On the negative side, however, worse-than-expected FYRP growth in 1Q18 has eclipsed the prospect of NBV for the whole year. We adjust our forecast for FY18E NBV forecast from Rmb67.4bn to Rmb61.2bn, representing yoy growth of 1.8%.
- ❖ **Profit surged due to RDR assumption changes.** Changes in assumptions, in particular risk discount rate assumption, led to an increase in pre-tax profit by Rmb2.7bn in 1Q18 whereas last year assumption changes reduced pre-tax profit by Rmb13.3bn. Since the 750d m.a. bond yield curve has bottomed out, we believe assumption changes will contribute positively to profit in 2018.
- ❖ **Less aggressive alternative asset allocation.** The Company will increase allocation in government bonds with long maturities in 2018. Investment in alternative assets will be much less aggressive as a result of asset management regulations. In 1Q18, ~Rmb20bn new money was invested in alternative assets, compared to ~Rmb200bn last year.
- ❖ **Remain one of our insurance top picks.** In spite of industry headwinds in 1Q, fundamentals remain intact for China Life and the overall life insurance industry. The Company's agent team management and technology initiatives bode well for future development. We adjust TP to HK\$28.98 to reflect weaker NBV forecast. TP corresponds to 0.81x/0.73x FY18/19E P/EV. Maintain BUY.

### Earnings summary

(YE Dec 31)	FY16A	FY17A	FY18E	FY19E	FY20E
GWP (Rmb mn)	430,498	511,966	539,545	603,743	673,011
Total income (Rmb mn)	540,781	643,355	671,597	747,108	828,842
Net profit (Rmb mn)	19,127	32,253	39,669	42,810	45,907
EPS (Rmb)	0.66	1.13	1.37	1.48	1.59
EPS CHG (%)	-45.9%	71.2%	21.4%	8.1%	7.4%
PER (x)	27.55	16.09	13.26	12.26	11.41
PBR (x)	1.69	1.60	1.49	1.36	1.25
PEV (x)	0.79	0.70	0.63	0.57	0.51
Yield (%)	1.3%	2.2%	2.7%	2.9%	3.1%
RoEV (%)	18.6%	13.7%	12.6%	12.6%	12.6%

Source: Company, CMBIS estimate

## BUY (Maintain)

Target Price	HK\$28.98
(Previous TP)	HK\$31.57
Up/downside	+30.40%
Current Price	HK\$22.45

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### China Insurance Sector

Mkt. Cap. (HK\$m)	820,410
Avg. 3mths t/o (HK\$m)	1,028
52W High/Low (HK\$)	28.2/21.1
Total Issued Shares (mn)	28,265

Source: Bloomberg

### Shareholding Structure

China Life Insurance (Group)	68.37%
Free float	31.63%

Source: Bloomberg

### Share performance

	Absolute	Relative
1-mth	2.6%	2.1%
3-mth	-10.9%	-9.1%
6-mth	-18.4%	-22.2%

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

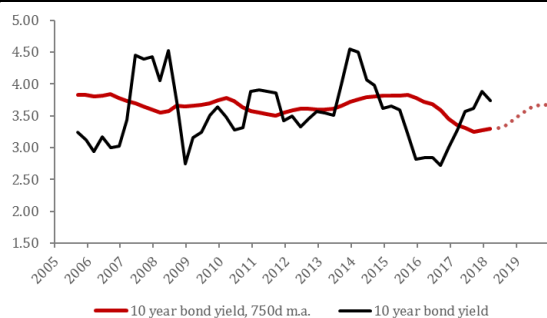
Auditor: Ernst & Young

Web-site: [www.e-chinalife.com](http://www.e-chinalife.com)

**Figure 1: 1Q results review**

Rmb mn	1Q18	1Q17	Yoy
<b>P&amp;L</b>			
Premium income	243,420	246,208	-1.1%
Premiums earned	235,657	240,152	-1.9%
Investment income	28,173	28,217	-0.2%
Fair value gains (losses)	-735	1,926	-138.2%
<b>Operating income</b>	<b>264,892</b>	<b>271,728</b>	<b>-2.5%</b>
Surrenders	-88,145	-57,548	53.2%
Claims expense	-57,819	-81,446	-29.0%
Increase in insurance contracts reserve	-64,879	-87,763	-26.1%
Policyholder dividends	-5,151	-3,950	30.4%
Underwriting and policy acquisition costs	-18,635	-21,763	-14.4%
<b>Operating expenses</b>	<b>-246,924</b>	<b>-264,172</b>	<b>-6.5%</b>
Net profit before income tax	17,968	7,545	138.1%
<b>Net profit attributable to equity holders</b>	<b>13,518</b>	<b>6,149</b>	<b>119.8%</b>
Basic EPS (Rmb)	0.48	0.21	128.6%
<b>Gross investment yield</b>	<b>3.94%</b>	<b>4.53%</b>	<b>-0.59ppt</b>
Rmb mn	31-Mar-18	YE2017	Change
<b>B/S</b>			
Investment assets	2,659,494	2,591,652	2.6%
<b>Total Assets</b>	<b>2,986,319</b>	<b>2,897,591</b>	<b>3.1%</b>
Insurance contracts liabilities	2,096,710	2,025,133	3.5%
<b>Total liabilities</b>	<b>2,646,478</b>	<b>2,572,281</b>	<b>2.9%</b>
<b>Equity attributable to equity holders</b>	<b>335,339</b>	<b>320,933</b>	<b>4.5%</b>

Source: Company, CMBIS

**Figure 2: 750d m.a. bond yield has bottomed out**

Source: Company, CMBIS

**Figure 3: Valuation summary**

RoEV 2018E	12.6%
RoEV 2019E	12.6%
RoEV 2020E	12.6%
3-year avg RoEV	12.6%
Terminal growth rate	2.0%
Risk discount rate	15.0%
Fair P/EV (x)	0.81
2018E EV/share (Rmb)	28.84
Dec-18 Target price (Rmb)	23.47
<b>Dec-18 Target price (HK\$)</b>	<b>28.98</b>
TP implied 2018E P/EV (x)	0.81
TP implied 2019E P/EV (x)	0.73

Source: Company, CMBIS

## Financial statements

### Income statement

YE Dec 31 (Rmb mn)	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Gross written premiums</b>	<b>430,498</b>	<b>511,966</b>	<b>539,545</b>	<b>603,743</b>	<b>673,011</b>
Premium ceded and net changes in unearned premiums	(4,268)	(5,056)	(4,518)	(5,820)	(6,435)
Net premiums earned	426,230	506,910	535,027	597,923	666,576
Investment income	108,091	128,952	128,673	140,348	152,417
Other operating income	6,460	7,493	7,897	8,836	9,850
<b>Total income</b>	<b>540,781</b>	<b>643,355</b>	<b>671,597</b>	<b>747,108</b>	<b>828,842</b>
Insurance benefits and claims expenses	(407,045)	(466,043)	(483,172)	(543,330)	(609,586)
Investment contract benefits	(5,316)	(8,076)	(8,901)	(9,123)	(9,237)
Policyholder dividends	(15,883)	(21,871)	(21,874)	(23,859)	(25,911)
General and administrative expense	(94,550)	(112,837)	(114,254)	(124,128)	(134,304)
<b>Total benefits, claims and expenses</b>	<b>(522,794)</b>	<b>(608,827)</b>	<b>(628,202)</b>	<b>(700,440)</b>	<b>(779,038)</b>
Share of profit from associates	5,855	7,143	7,857	8,643	9,507
Profit before tax	23,842	41,671	51,253	55,311	59,312
Income tax	(4,257)	(8,919)	(10,970)	(11,838)	(12,695)
Net profit for the year	19,585	32,752	40,283	43,472	46,617
Minority interest	(458)	(499)	(614)	(662)	(710)
<b>Net profit attributable to equity holders</b>	<b>19,127</b>	<b>32,253</b>	<b>39,669</b>	<b>42,810</b>	<b>45,907</b>

Source: Company, CMBIS estimates

### Balance sheet

YE Dec 31 (Rmb mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Bonds	1,119,388	1,188,606	1,291,375	1,399,911	1,512,555
Term deposits	538,325	449,400	488,256	529,292	571,882
Other fixed-maturity investment	262,412	456,283	495,734	537,399	580,641
Common stocks and funds	260,139	274,686	298,436	323,518	349,550
Other equity investments	161,244	134,842	146,501	158,814	171,593
Investment properties	1,191	3,064	3,954	4,611	5,645
Cash, cash equivalents and others	110,584	84,771	142,413	154,057	165,791
Investment assets	2,453,283	2,591,652	2,815,731	3,052,384	3,297,995
Non-investment assets	243,668	305,939	307,941	311,878	342,745
<b>Total assets</b>	<b>2,696,951</b>	<b>2,897,591</b>	<b>3,123,672</b>	<b>3,364,262</b>	<b>3,640,740</b>
Insurance contract liabilities	1,847,986	2,025,133	2,213,253	2,433,265	2,686,065
Investment contract liabilities	195,706	232,500	239,475	244,265	245,486
Policyholder dividends payable	87,725	83,910	85,588	83,021	78,870
Subordinated debt and borrowings	54,168	18,794	15,439	-	-
Insurance payables and premiums received in advance	74,290	63,325	64,407	68,632	75,896
Tax and other liabilities	129,428	148,619	155,023	153,179	138,912
<b>Total liabilities</b>	<b>2,389,303</b>	<b>2,572,281</b>	<b>2,773,184</b>	<b>2,982,362</b>	<b>3,225,228</b>
Minority interest	4,027	4,377	4,716	5,138	5,591
<b>Shareholders' equity</b>	<b>303,621</b>	<b>320,933</b>	<b>345,772</b>	<b>376,762</b>	<b>409,921</b>

Source: Company, CMBIS estimates

## Key ratios

YE Dec 31	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Growth rates, yoy</b>					
Total income	6.6%	19.0%	4.4%	11.2%	10.9%
Net profit attributable to equity holders	-44.9%	68.6%	23.0%	7.9%	7.2%
GWP	18.3%	18.9%	5.4%	11.9%	11.5%
FYP	19.3%	5.9%	-23.8%	-1.1%	4.4%
Individual FYP	55.9%	21.1%	3.7%	5.3%	5.0%
Bancassurance FYP	-1.5%	-6.0%	-55.5%	-17.0%	3.5%
APE	45.2%	18.0%	1.8%	5.4%	6.0%
Agent number	52.7%	5.6%	3.0%	2.0%	1.0%
Total investment assets	7.2%	5.6%	8.6%	8.4%	8.0%
<b>FYP mix</b>					
Individual agent	44.8%	51.3%	69.7%	74.2%	74.7%
Bancassurance	51.4%	45.7%	26.7%	22.4%	22.2%
Group and others	3.7%	3.1%	3.6%	3.4%	3.1%
<b>Capital strength (under C-Ross)</b>					
Core solvency ratio	280.3%	277.6%	258.3%	257.4%	258.3%
Comprehensive solvency ratio	297.2%	277.7%	272.0%	270.0%	269.9%
<b>NBV and EV</b>					
New business value (Rmb mn)	49,311	60,116	61,174	65,571	69,240
NBV growth	56.4%	21.9%	1.8%	7.2%	5.6%
NBV margin on APE basis	43.2%	46.9%	48.4%	48.3%	49.0%
Embedded value (Rmb mn)	652,057	734,172	815,071	903,744	1,002,638
RoEV	18.6%	13.7%	12.6%	12.6%	12.6%
Net investment yield	4.6%	4.9%	4.6%	4.6%	4.6%
Total investment yield	4.6%	5.2%	4.8%	4.8%	4.8%
<b>Per share data</b>					
EPS (Rmb)	0.66	1.13	1.37	1.48	1.59
BVPS (Rmb)	10.74	11.35	12.23	13.33	14.50
EVPS (Rmb)	23.07	25.97	28.84	31.97	35.47
DPS (Rmb)	0.24	0.40	0.49	0.53	0.57

Source: Company, CMBIS estimates

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