

Company Report

China Life (2628 HK)

Undervalued in long-term view

■ 3Q18 net profit dropped by 25.5% YoY, due to high base in 3Q17 and volatile capital market in 3Q18

■ Number of individual channel agents was stable in 3Q

■ Undervalued in long-term view, Maintain BUY, TP and financial forecasts under review

3Q18 net profit affected by the capital market

1) Due to volatile capital market, 3Q18 net investment yield came in at 4.60% and total investment yield came in at 3.32%, (vs. 4.99% and 5.12% in 3Q17) respectively. As a result, net profit dropped by 25.5% YoY and total comprehensive income dropped by 18.1% YoY in 3Q18. ROE (not annualized) came in at 6.2% in 3Q18; 2) As discussed in earlier reports, assumption changes (e.g. discount rate assumptions) positively impacted on operating profit by ~20% in 3Q18; 3) Overall underwriting business was stable in 3Q. GWP rose by 4.1% YoY in 3Q18, vs. 4.1% YoY in 1H18. Total FYP dropped by ~26% YoY in 3Q18, partly due to the decrease in low-margin single premiums. Number of individual channel agents resumed growth, up by ~1% QoQ in 3Q. In summary, the company's overall underwriting performance was stable in 3Q except its net profit was affected by the volatile capital market in 3Q18.

Management guidance

1) The company indicated the average agents on a monthly basis for the sale of protection-oriented products increased by 49.7% YoY, with the quality of the sales force improved; and 2) the company will stick to the general guideline of "prioritizing value, strengthening sales force, optimizing business structure, achieving stable growth and safeguarding against risks".

Valuation and risks

The stock is trading at ~0.5x 18E P/EV or ~1.1x 18E P/B. Our TP and financial forecasts are under review. The company's overall underwriting performance was stable in 3Q except its net profit was affected by the volatile capital market. We expect the company to record negative growth in NBV in 2018. However, the stock is undervalued in long-term view. It is trading at the low end of its historical P/EV and P/B ranges. Hence, we maintain BUY rating in long-term view on its low valuation. Key catalyst: improved NBV growth in 2H18. Key downside risks: adverse capital market, lower-than-expected NBV growth.

Financials

Year ended 31 Dec (RMBmn)	2016	2017	2018E	2019E	2020E
Total revenues	540,781	643,355	671,126	770,566	879,539
Shareholders' net profit	19,127	32,253	42,729	51,587	58,580
EPS (Rmb)	0.66	1.13	1.51	1.83	2.07
BVPS (Rmb)	10.74	11.35	12.87	14.69	16.76
P/E (x)	24.1	14.1	9.6	8.0	7.0
P/B (x)	1.5	1.4	1.1	1.0	0.9
P/EV (x)	0.6	0.6	0.5	0.4	0.4
ROE (%)	6.2	10.3	12.5	13.2	13.2

Sources: Company data, CMS (HK) estimates *based on 25 Oct 2018 closing price.

Felix LUO, PhD

+852 3189 6288

felixluo@cmschina.com.hk

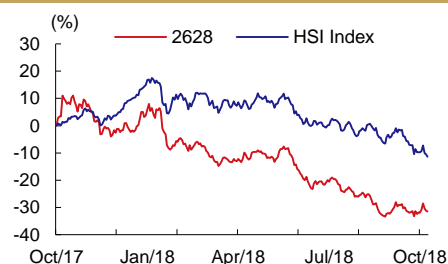
WHAT'S NEW

n.a.

BUY

Previous	BUY
Price	HK\$17.1
12-month Target Price (Potential up/downside)	HK\$32.90 (+92%)
Previous	HK\$32.9

Price Performance



Source: Bigdata

%	1m	6m	12m
2628 HK	(4.1)	(19.0)	(30.9)
HSI	(8.2)	(17.6)	(10.3)

Sector: Insurance

Hang Seng Index	24994
HSCEI	10226

Key Data

52-week range (HK\$)	16.42-28.2
Market cap (HK\$ mn)	127244
Avg. daily volume (mn)	48.2

Shareholding Structure

China Life Insurance (Group) Co.	68.37%
BlackRock, Inc.	7.84%
JPMorgan Chase & Co.	5.67%
No. of shares outstanding (mn)	7441
Free float	69.0%

Sources: Bloomberg

Focus charts

Figure 1: 1H18 performance review

	Ping An** (2318 HK)	China Life (2628 HK)	CPIC (2601 HK)	NCI (1336 HK)
Shareholders' net profit (1H18, RMB mn)	58,095	16,423	8,254	5,799
Shareholders' net profit YoY-growth	33.8%	34.2%	26.8%	79.1%
ROE (1H18)	11.7%	5.1%	6.0%	9.0%
Shareholders' comprehensive income (1H18, RMB mn)	57,874	14,172	8,623	3,695
Shareholders' comprehensive income YoY-growth	8.9%	19.4%	41.5%	-9.0%
Agency channel performance				
Life agent headcount growth (1H18 vs 2017)	0.9%	-8.7%	2.3%	-4.0%
Agency Channel regular FYP YoY-growth (1H18 vs 1H17)	-10.5%	-2.7%	-22.8%	-33.7%
Life per-agent NBV productivity* (1H18, RMB)	24,883	15,950	18,426	17,455
Life NBV YoY-growth(1H18 vs 1H17)	0.2%	-23.7%	-17.5%	-8.9%
1H18 net investment yield (annualized)	4.20%	4.64%	4.50%	5.00%
1H18 total investment yield (annualized)	4.00%	3.70%	4.50%	4.80%

Sources: Company data, CMS (HK) *: measured by agent channel NBV/average agent channel headcount.

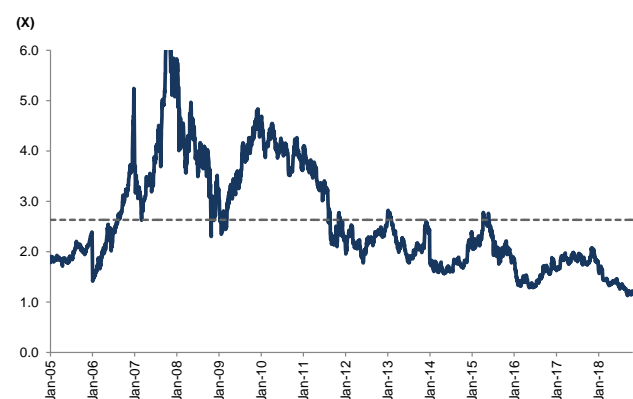
**: Ping An has adopted IFRS9 since 2018, its profits and investment yields are not directly comparable.

Figure 2: Key 3Q18 results of China Life

(RMB mn)	3Q18	3Q17	YoY	Comment
Total number of individual channel agents ('000)	1,455	1,441 *	QoQ 1%	number of agents for the sale of protection products rose significantly
Total GWP (Rmb bn)	469	450	4.1%	
Total FYP (Rmb bn)	152	204	-25.5%	largely due to the decrease in single premiums
Renewal GWP (Rmb bn)	316	246	28.7%	growth driven by renewal premiums
Impact of assumption changes on pre-tax profit	20%	n.a.	n.a.	Positive impact from assumption changes e.g. discount rate of reserves
Net profit	20,049	26,902	-25.5%	negative growth due to high base in 3Q17 and volatile capital market in 3Q18
Total comprehensive income	21,358	26,083	-18.1%	
Surrender Rate (%)	4.45	4.3 *		
Net investment yield	4.60%	4.99%		
Total investment yield	3.32%	5.12%		affected by the volatile capital market in 3Q18
ROE	6.18%	8.70%		

Sources: Company data, CMS (HK) *: as of end-1H18

Figure 3: Forward P/B of China Life



Sources: Company data, CMS (HK)

Figure 4: Forward P/EV of China Life



Sources: Company data, CMS (HK)

Peer valuation comparison

Figure 5: Peer valuation comparison

Company	Ticker	Rating	Price	TP (HK\$)	Mkt Cap	P/EV (Group)		P/E		P/B		ROE	
			Local ccy		(USD m)	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
HK Peers													
China Life	2628 HK	Buy	17.10	32.9	86,242	0.5	0.4	9.6	8.0	1.1	1.0	12.5%	13.2%
Ping An	2318 HK	Buy	75.40	109.0	175,602	1.2	1.0	12.1	10.2	2.2	1.8	19.4%	19.7%
China Pacific	2601 HK	Buy	30.20	54.6	44,165	0.7	0.6	11.8	10.0	1.5	1.3	13.4%	13.8%
New China Life	1336 HK	Buy	38.85	51.2	20,162	0.6	0.5	13.5	11.0	1.4	1.3	11.3%	12.3%
China Taiping *	966 HK	NR	26.70	n.a.	12,240	n.a.	n.a.	10.0	8.5	1.3	1.2	13.3%	14.1%
PICC Group *	1339 HK	NR	3.44	n.a.	18,615	n.a.	n.a.	7.4	6.7	0.9	0.8	11.6%	12.4%
PICC P&C *	2328 HK	NR	8.80	n.a.	24,967	n.a.	n.a.	7.8	6.9	1.2	1.0	15.3%	14.9%
China Re *	1508 HK	NR	1.43	n.a.	7,688	n.a.	n.a.	9.1	7.8	0.7	0.6	7.5%	8.7%
ZA Online *	6060 HK	NR	26.65	n.a.	4,996	n.a.	n.a.	n.a.	n.a.	2.2	2.2	-4.9%	-1.9%
AIA *	1299 HK	NR	59.35	n.a.	91,426	n.a.	n.a.	18.0	14.2	2.1	1.9	12.3%	14.0%
Average						0.7	0.6	11.0	9.3	1.5	1.3	11.2%	12.1%
Global Peers *													
CHINA LIFE	2823 TT	NR	27.90	NR	3,616	n.a.	n.a.	9.7	9.7	1.2	1.1	12.6%	12.1%
GREAT-WEST LIFEC	GWOC CN	NR	29.76	NR	22,549	n.a.	n.a.	9.8	9.1	1.4	1.3	14.6%	14.4%
MUENCHENER RUE-R	MUV2 GR	NR	185.60	NR	31,654	n.a.	n.a.	10.9	10.2	1.0	1.0	9.1%	9.6%
HANNOVER RUECK S	HNR1 GR	NR	116.60	NR	16,037	n.a.	n.a.	13.7	11.7	1.6	1.5	11.7%	13.2%
CNP ASSURANCES	CNP FP	NR	19.26	NR	15,082	n.a.	n.a.	9.9	9.5	0.7	0.7	7.7%	7.9%
METLIFE INC	MET US	NR	40.24	NR	40,032	n.a.	n.a.	7.7	7.3	0.9	0.8	10.5%	10.8%
PRUDENTIAL PLC	PRU LN	NR	1506.50	NR	50,367	n.a.	n.a.	10.0	9.1	2.2	2.1	22.7%	23.2%
AFLAC INC	AFL US	NR	42.70	NR	32,585	n.a.	n.a.	10.5	10.3	1.4	1.3	13.8%	14.1%
MANULIFE FIN	MFC CN	NR	20.17	NR	30,681	n.a.	n.a.	7.6	7.0	0.9	0.9	12.4%	12.5%
ALLIANZ SE-VINK	ALV GR	NR	182.66	NR	88,425	n.a.	n.a.	10.3	9.6	1.2	1.1	11.7%	12.0%
SAMSUNG LIFE INS	032830 KS	NR	92700.00	NR	16,310	n.a.	n.a.	8.4	11.5	0.6	0.5	6.7%	4.7%
AEGON NV	AGN NA	NR	5.26	NR	12,650	n.a.	n.a.	8.0	7.2	0.5	0.5	6.4%	7.5%
Average						n.a.	n.a.	9.7	9.4	1.1	1.1	11.6%	11.8%

Note: Based on 25 Oct 2018 closing price. *: estimates based on Bloomberg consensus
Sources: Bloomberg, Company data, CMS (HK) estimates

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

Analyst Disclosure

The analysts primarily responsible for the preparation of all or part of the research report contained herein hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

Regulatory Disclosure

Please refer to the important disclosures on our website <http://www.newone.com.hk/cmshk/en/disclosure.html> or <http://www.cmschina.com.hk/Research/Disclosure>.

Disclaimer

This document is prepared by China Merchants Securities (HK) Co., Limited ("CMS HK"). CMS HK is a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in futures), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571). This document is for information purpose only. Neither the information nor opinion expressed shall be construed, expressly or impliedly, as an advice, offer or solicitation of an offer, invitation, advertisement, inducement, recommendation or representation of any kind or form whatsoever to buy or sell any security, financial instrument or any investment or other specific product. The securities, instruments or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to participate in some or all of them. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. CMS HK is not registered as a broker-dealer in the United States and its products and services are not available to U.S. persons except as permitted under SEC Rule 15a-6.

The information and opinions, and associated estimates and forecasts, contained herein have been obtained from or are based on sources believed to be reliable. CMS HK, its holding or affiliated companies, or any of its or their directors, officers or employees ("CMS Group") do not represent or warrant, expressly or impliedly, that it is accurate, correct or complete and it should not be relied upon. CMS Group will not accept any responsibility or liability whatsoever for any use of or reliance upon this document or any of the content thereof. The contents and information in this document are only current as of the date of their publication and will be subject to change without prior notice. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realized. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Opinions expressed herein may differ or be contrary to those expressed by other business divisions or other members of CMS Group as a result of using different assumptions and/or criteria.

This document has been prepared without regard to the individual financial circumstances and investment objectives of the persons who receive it. Use of any information herein shall be at the sole discretion and risk of the user. Investors are advised to independently evaluate particular investments and strategies, take financial and/or tax advice as to the implications (including tax) of investing in any of the securities or products mentioned in this document, and make their own investment decisions without relying on this publication.

CMS Group may have a long or short position, make markets, act as principal or agent, or engage in transactions in securities of companies referred to in this document and may also perform or seek to perform investment banking services or provide advisory or other services for those companies. This document is for the use of intended recipients only and this document may not be reproduced, distributed or published in whole or in part for any purpose without the prior consent of CMS Group. CMS Group will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This document is for distribution only under such circumstances as may be permitted by applicable law. This document is not directed at you if CMS Group is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. In particular, this document is only made available to certain US persons to whom CMS Group is permitted to make available according to US securities laws, but cannot otherwise be made available, distributed or transmitted, whether directly or indirectly, into the US or to any US person. This document also cannot be distributed or transmitted, whether directly or indirectly, into Japan and Canada and not to the general public in the People's Republic of China (for the purpose of this document, excluding Hong Kong, Macau and Taiwan).

Important Disclosures for UK Persons

IN THE UNITED KINGDOM, THIS DOCUMENT IS FOR DISTRIBUTION ONLY TO PERSONS WHO: (I) ARE PERSONS FALLING WITHIN THE DEFINITION OF "INVESTMENT PROFESSIONALS" PURSUANT TO ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AS AMENDED, THE "FINANCIAL PROMOTION ORDER"); (II) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) ("HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS ETC") OF THE FINANCIAL PROMOTION ORDER; OR (III) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) MAY OTHERWISE LAWFULLY BE COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THIS DOCUMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS DOCUMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

FOR NON-INDEPENDENT RESEARCH COMMISSIONED OR PRODUCED BY PERSONS AUTHORISED IN THE UK BY THE FSA: THIS DOCUMENT DOES NOT PROVIDE AN IMPARTIAL OR OBJECTIVE ASSESSMENT OF THE SUBJECT MATTER AND DOES NOT CONSTITUTE INDEPENDENT "INVESTMENT RESEARCH" UNDER THE APPLICABLE RULES OF THE FINANCIAL SERVICES AUTHORITY IN THE UK. CONSEQUENTLY, THIS DOCUMENT HAS NOT BEEN PREPARED IN ACCORDANCE WITH LEGAL REQUIREMENTS DESIGNED TO PROMOTE THE INDEPENDENCE OF INVESTMENT RESEARCH AND IS NOT SUBJECT TO ANY PROHIBITION ON DEALING AHEAD OF THE DISSEMINATION OF INVESTMENT RESEARCH.

Hong Kong

China Merchants Securities (HK) Co., Ltd.

Address: 48/F, One Exchange Square, Central, Hong Kong

Tel: +852 3189 6888 Fax: +852 3101 0828