

China Life (601628 CH)

Revitalization efforts on track

SUMMARY. During our visit last week, China Life impressed us with detailed measures and recent achievements of its revitalization plan regarding two major tasks this year - sales force development and investment yield improvement. Premium growth has been largely in line and NBV growth outlook is positive. We are optimistic about business recovery of the Company and initiate its A-share with BUY rating. Target price is RMB33.10.

- **Positive NBV and margin outlook.** 1) Although GWP growth lost steam in Mar (-6.3% YoY) and Apr (-30.8% YoY) primarily due to last year's high base and decline of renewal premiums, FYP restored double-digit growth in May, according to the Company. 2) NBV margin improvement is likely to continue thanks to higher share of longer-duration and protection-type products. The Company recorded stellar NBV growth of 28.3% in 1Q19. We forecast NBV to increase 14.1% during the whole year.
- **Agent reform- to integrate bancassurance sales force in 2H19.** China Life was the only lifer among major peers that achieved agent headcount growth in 1Q19. Exclusive individual agents reached 1.537 million and total sales force 1.89 million at the end of 1Q19, compared to 1.44 million/1.78 million at YE2018. In 2H19, the Company plans to consolidate its bancassurance sales force, among which ~90% are selling similar products as exclusive individual agents. China Life will also continue to promote differentiated sales to match customer needs, strengthen footing in higher-tier cities while maintaining leading position in lower-tier ones and optimize incentive packages for agents.
- **Beef up equity investment performance.** The Company is determined to address weak spots in equity investment, which used to cause large swings in net profit. Measures include 1) implementing market-based employment and valuation system, 2) strictly monitoring third-party entrustment, 3) increasing the percentage of long-term equity investment.
- **Initiate BUY with TP at RMB33.10.** Given clear roadmap and solid steps of the Company's reform plan, we suggest investors to accumulate and bet on business improvement. We initiate A-share of the Company based on H-share TP plus 50% premium (close to 1-year historical avg. A/H premium). The A-share stock is currently trading at 0.93x FY19E P/EV (vs. peers' average of 0.90x). Our TP corresponds to 1.06x/0.97x FY19/20E P/EV.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
GWP (RMB mn)	511,966	535,826	585,110	643,924	705,432
YoY growth (%)	18.9	4.7	9.2	10.1	9.6
Total income (RMB mn)	643,355	627,419	750,211	822,316	898,645
Net profit (RMB mn)	32,253	11,395	34,700	40,884	45,026
EPS (RMB)	1.13	0.39	1.20	1.42	1.56
YoY Growth (%)	71.2	-65.2	205.5	18.0	10.3
P/B (x)	1.54	1.56	1.36	1.26	1.18
P/EV (x)	0.67	0.62	0.56	0.51	0.47
Yield (%)	2.3	0.9	2.8	3.3	3.6
ROEV (%)	13.7	9.9	11.4	11.2	11.1

Source: Company data, CMBIS estimates

BUY (Initiation)

Target Price	RMB33.10
Up/Downside	+14.0%
Current Price	RMB29.03

China Insurance Sector

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Stock Data

Mkt Cap (RMB mn)	735,324
Avg 3 mths t/o (RMB mn)	426.76
52w High/Low (RMB)	33.00/ 19.78
Total Issued Shares (mn)	1,500 (A) 7,441 (H)

Source: Bloomberg

Shareholding Structure

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

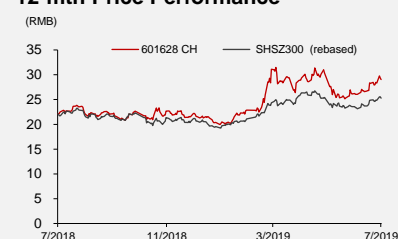
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	12.4%	3.6%
3-mth	1.6%	2.4%
6-mth	47.1%	11.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

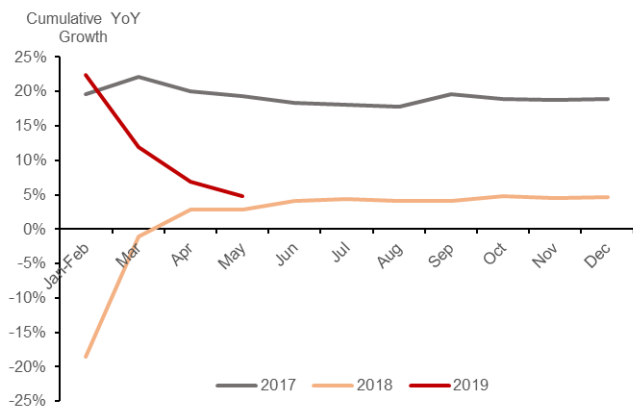
Auditor: Ernst & Young

Related Reports

1. "Coordinated scale and value growth" – 24 Apr 2019
2. "Anticipating NBV recovery in 2019" – 29 Mar 2019
3. "Steadfast reform focusing on value creation" – 25 Feb 2019

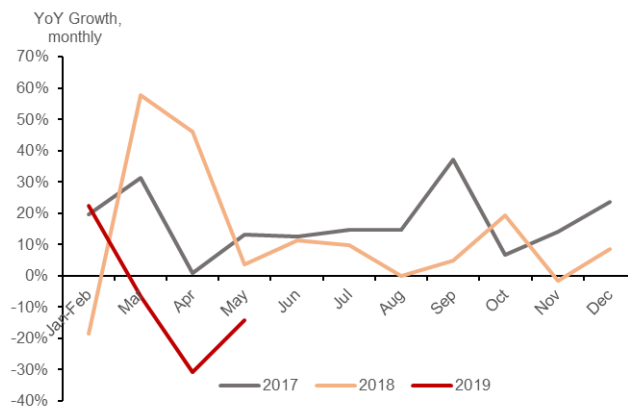
Focus Charts

Figure 1: GWP growth, cumulative YoY



Source: Company data, CMBIS

Figure 2: GWP declined 6.3%/30.8% in Mar/Apr



Source: Company data, CMBIS

Figure 3: P/EV



Source: Company data, CMBIS

Figure 4: A/H premium



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premium	511,966	535,826	585,110	643,924	705,432
Net premiums earned	506,910	532,023	579,172	637,294	698,229
Investment income	128,952	87,298	162,196	175,290	189,755
Other operating income	7,493	8,098	8,843	9,732	10,661
Total income	643,355	627,419	750,211	822,316	898,645
Insurance claims and reserves	(466,043)	(479,219)	(532,160)	(578,491)	(631,813)
Policyholder dividends	(21,871)	(19,646)	(36,501)	(39,448)	(42,703)
Other operating expenses	(120,913)	(122,378)	(141,063)	(155,493)	(169,707)
Total expenses	(608,827)	(621,243)	(709,724)	(773,432)	(844,223)
Associates and JVs	7,143	7,745	7,977	8,217	8,463
Pre-tax profit	41,671	13,921	48,464	57,100	62,885
Income tax	(8,919)	(1,985)	(12,116)	(14,275)	(15,721)
Less: Minority interests	499	541	1,647	1,941	2,138
Net profit	32,253	11,395	34,700	40,884	45,026

Key ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Growth (%)					
GWP growth	18.9	4.7	9.2	10.1	9.6
Total income growth	19.0	(2.5)	19.6	9.6	9.3
Net profit growth	68.6	(64.7)	204.5	17.8	10.1
EV growth	12.6	8.3	10.8	9.5	9.4
Net investment yield	4.9	4.6	4.4	4.4	4.4
Total investment yield	5.2	3.3	5.3	5.3	5.3
Investment assets growth	12.2	12.7	9.4	8.1	8.3
Underwriting (%)					
FYRP growth	20.4	(7.7)	11.7	8.8	6.7
Agent FYRP growth	21.1	(12.2)	10.0	7.0	5.0
Agent FYRP/FYRP	79.8	75.9	74.8	73.5	72.3
Renewal growth	28.9	26.6	11.1	11.6	11.3
Renewal/overall GWP	56.3	68.1	69.2	70.2	71.3
NBV growth	21.9	(17.6)	14.1	8.9	6.9
NBV margin (Agent, APE)	47.3	42.2	44.0	44.4	44.9
NBV margin (Bancassurance, APE)	23.2	24.3	24.5	24.5	24.5

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Investment assets	2,753,124	3,104,014	3,394,519	3,670,880	3,977,321
other assets	144,467	150,389	191,388	214,476	235,654
Total assets	2,897,591	3,254,403	3,585,907	3,885,356	4,212,975
Insurance liabilities	2,025,133	2,216,031	2,438,247	2,674,621	2,924,659
Other liabilities	547,148	715,082	777,246	812,927	861,423
Total liabilities	2,572,281	2,931,113	3,215,493	3,487,549	3,786,082
Shareholders' equity	320,933	318,371	364,778	391,755	420,398
Minority interest	4,377	4,919	5,636	6,053	6,495
Total equity	325,310	323,290	370,414	397,808	426,893

Returns (%)

ROEV	13.7	9.9	11.4	11.2	11.1
ROE	10.3	3.6	10.2	10.8	11.1

Solvency (%)

Core solvency ratio	277.6	250.6	281.5	280.5	284.6
Comprehensive solvency ratio	277.7	250.6	292.0	290.1	293.7

Per share

EPS (RMB)	1.13	0.39	1.20	1.42	1.56
DPS (RMB)	0.40	0.16	0.49	0.57	0.63
EVPS (RMB)	25.97	28.13	31.16	34.13	37.33
BVPS (RMB)	11.35	11.26	12.91	13.86	14.87

Source: Company data, CMBIS estimates

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