

China Life (2628 HK)

Focus on agency upgrade

China Life reported 19% YoY decline of VNB for 1H21, largely in line with our estimates. The net earnings grew 34% YoY to RMB41bn in 1H21, tracking over 70% of FY21E consensus. VNB margin on FYP basis dropped by 3ppt YoY in 1H21 due to lower contribution from long-term first-year regular pay premiums, while total FYP declined by 8%. On the bright side, agent productivity on FYP basis increased by 11% YoY, while productivity on VNB basis improved by 4% YoY to RMB3.8k per agent per month. China Life-H is trading at 0.6x P/BV FY21E and 0.3x P/EV FY21E. We think the slowdown in new business is already fully priced in. Looking forwards, we expect China Life to gradually upgrade its agency force and improve productivity. Maintain Buy on China Life-H.

- Focus on agency force upgrade.** Agent headcount shrank to 1.15mn at end-1H21, down 10% QoQ or down 32% YoY. That said, the management pointed out that the turnover was mainly from low-productivity agents or new agents, while the number of high-productivity agents kept growing. The insurer has launched a new round of agency reform since the beginning of this year, focusing on quality and productivity.
- Decline in persistency is temporary.** The 8ppt YoY decline in 14-month persistency ratio was owing to temporary pressures on customers' cash flow amid pandemic situations. The management guided for a quick recovery in near term. The insurer also linked agent income and manager KPIs with policy persistency, and tracks the metric on weekly basis.
- Expect limited impact from C-ROSS 2.0.** During the analyst briefing, the management suggested that the core solvency and comprehensive solvency margin of China Life will remain largely stable when shifting to the upcoming C-ROSS 2.0 (China Risk Oriented Solvency System 2.0), according to several test runs.
- Digitization and tech empowerment.** China Life enhanced its risk management capabilities via AI models based on a billion magnitude knowledge graph database. The digitization also improves claim settlement efficiency and enable smart customer services.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
GWP (RMB mn)	567,086	612,265	632,725	660,392	691,485
YoY growth (%)	5.8	8.0	3.3	4.4	4.7
Total income (RMB mn)	729,474	804,961	814,776	857,656	901,959
Net profit (RMB mn)	58,287	50,268	55,598	63,438	70,516
EPS (RMB)	2.1	1.8	1.9	2.2	2.5
YoY Growth (%)	421.2	(13.7)	9.4	14.3	11.3
Consensus EPS (RMB)	N.A.	1.8	2.0	2.2	2.5
P/B (x)	0.8	0.7	0.6	0.6	0.5
P/EV (x)	0.3	0.3	0.3	0.2	0.2
Yield (%)	6.8	6.0	6.6	7.5	8.4
ROEV (%)	16.9	12.9	7.0	7.3	7.4

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$18.29**
 Up/Downside **+41.3%**
 Current Price **HK\$12.94**

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	841,282
Avg 3 mths t/o (HK\$ mn)	524.82
52w High/Low (HK\$)	19.60/12.56
Total Issued Shares (mn)	7,441 (H)
	20,824 (A)

Source: Bloomberg

Shareholding Structure

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

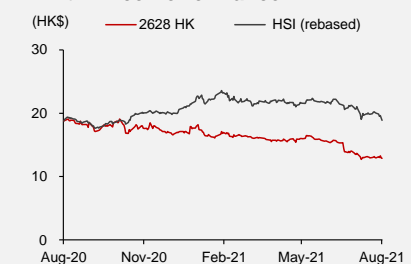
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.0%	2.1%
3-mth	-19.3%	-8.8%
6-mth	-23.8%	-7.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

"Transfer of Coverage; 1H21 preview: Worst case already priced in" – 27 Jul 2021

Figure 1: PICC Group: 1H21 Results Summary

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
Net profit attribute to shareholders	30,535	40,975	34.2%	13,445	12,386	-7.9%	28,589	12,386
Reserve catch-up	(12,656)	(13,288)	N.A.	(7,325)	(5,958)	N.A.	(7,330)	(5,958)
VNB	36,889	29,867	-19.0%					
VNB margin (FYP)	25.2%	22.3%	(2.9) ppt					
VNB margin (FYP APE)	37.1%	34.7%	(2.4) ppt					
EV	1,015,856	1,142,811	12.5%					
Residual margin	821,199	850,680	3.6%					
Net investment yield (%)	4.3	4.3	0.0 ppt					
Total investment yield (%)	5.3	5.7	0.4 ppt					
Comprehensive investment yield (%)	5.4	5.6	0.2 ppt					
Total investment assets	3,781,024	4,457,269	17.9%					
Total investment income	96,134	117,638	22.4%					
Surrender rate (%)	0.61	0.67	0.1 ppt	0.35	0.31	(0.0) ppt	0.38	0.31
Persistency (%)								
14-month	89.6	81.2	(8.4) ppt					
26-month	83.3	81.6	(1.7) ppt					
Number of agents (millions)	1.69	1.15	-32%					
Agent productivity (FYP basis/month/agent)	9,356	10,392	11%					
Agent productivity (VNB basis/month/agent)	3,689	3,820	4%					
FYP	146,214	133,914	-8%	36,764	31,465	-14%	102,449	31,465
FYRP	94,170	80,674	-14%	18,114	12,398	-32%	68,276	12,398
10 yrs+ FYRP	39,502	28,940	-27%	14,133	9,284	-34%	19,656	9,284
Single	52,044	53,240	2%	18,650	19,067	2%	34,173	19,067
Renewal	281,153	308,385	10%	82,827	86,942	5%	221,443	86,942
Total premium income	427,367	442,299	3%	119,591	118,407	-1%	323,892	118,407
FYP APE	99,374	85,998	-13%	19,979	14,305	-28%	71,693	14,305
FYP by distribution								
Agent	92,712	78,816	-15%					
Bancassurance	12,078	12,180	1%					
Group & Others	41,424	42,918	4%					
FYP by products								
Life	89,668	74,339	-17%					
Health	47,875	50,829	6%					
Accident	8,671	8,746	1%					

Source: Company data, CMBIS

Financial Summary

Income

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Gross written premium	567,086	612,265	632,725	660,392	691,485
Net premiums earned	560,278	604,666	626,121	653,344	684,044
Investment income	161,001	190,980	179,029	194,265	207,394
Other operating income	8,195	9,315	9,626	10,047	10,520
Total income	729,474	804,961	814,776	857,656	901,959
Insurance claims and reserves	(509,467)	(580,801)	(574,610)	(598,798)	(626,193)
Policyholder dividends	(22,375)	(28,279)	(26,509)	(28,765)	(29,432)
Other operating expenses	(145,848)	(149,059)	(154,130)	(160,821)	(168,249)
Total expenses	(677,690)	(758,139)	(755,250)	(788,385)	(823,873)
Associates and JVs	8,011	7,666	7,336	7,020	6,718
Pre-tax profit	59,795	54,488	66,862	76,291	84,803
Income tax	(781)	(3,103)	(10,029)	(11,444)	(12,720)
Less: Minority interests	727	1,117	1,235	1,410	1,567
Net profit	58,287	50,268	55,598	63,438	70,516

Key ratios

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Growth (%)					
GWP growth	5.8%	8.0%	3.3%	4.4%	4.7%
Total income growth	16.3%	10.3%	1.2%	5.3%	5.2%
Net profit growth	411.5%	-13.8%	10.6%	14.1%	11.2%
EV growth	18.5%	13.8%	7.3%	7.6%	7.6%
Net investment yield	4.6%	4.3%	4.2%	4.1%	4.1%
Total investment yield	5.2%	5.3%	4.5%	4.5%	4.4%
Investment assets growth	15.1%	14.6%	10.4%	7.8%	6.8%
Underwriting (%)					
FYRP growth	4.8%	5.5%	-4.7%	9.2%	8.0%
Agent FYRP growth	21.1%	3.7%	-7.0%	9.0%	8.0%
Agent FYRP/FYRP	87.7%	86.3%	84.1%	84.0%	84.0%
Renewal growth	5.8%	8.4%	5.1%	3.0%	3.7%
Renewal/overall GWP	68.0%	68.3%	69.5%	68.6%	68.0%
NBV growth	18.6%	-0.6%	-8.5%	8.7%	6.2%
NBV margin (Agent, APE)	41.4%	37.0%	38.4%	38.4%	37.9%

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Investment assets	3,573,154	4,095,454	4,521,823	4,875,435	5,207,347
other assets	150,488	153,880	171,427	316,103	501,222
Total assets	3,726,734	4,252,410	4,693,251	5,191,538	5,708,569
Insurance liabilities	2,552,736	2,973,225	3,341,127	3,742,082	4,152,273
Other liabilities	764,656	822,254	856,324	909,194	965,630
Total liabilities	3,317,392	3,795,479	4,197,451	4,651,277	5,117,903
Shareholders' equity	403,764	450,051	492,451	542,140	597,287
Minority interest	5,578	6,880	7,609	8,376	9,228
Total equity	409,342	456,931	500,060	550,516	606,516

Returns (%)

RoEV	16.9%	12.9%	7.0%	7.3%	7.4%
ROE	16.1%	11.8%	11.8%	12.3%	12.4%

Solvency (%)

Core solvency ratio	267%	260%	257%	258%	258%
Comprehensive solvency ratio	277%	269%	265%	266%	265%

Per share

EPS (RMB)	2.05	1.77	1.94	2.21	2.46
DPS (RMB)	0.73	0.64	0.71	0.81	0.90
EVPS (RMB)	33.33	37.93	40.70	43.78	47.13
BVPS (RMB)	14.29	15.92	17.42	19.18	21.13

Source: Company data, CMBIS estimates

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