

China Life (2628 HK)

1Q22 VNB momentum better-than-peers

China Life reported 14.3% YoY decline of VNB for 1Q22, largely in line with our estimates ([link](#)), outperforming major peers based on our estimates. Net profit decreased by 46.9% YoY to RMB15.2bn, tracking 29% of our FY22 forecast. The earnings decline was primarily due to a 30% YoY decrease in investment income on the back of dim A share market performance in 1Q22 (SHCOMP Index down 10% in 1Q22 vs flattish in 1Q21) and high base of capital gains from bond trading in 1Q21. Total FYP declined by 1.5% YoY, while the FYP contribution of 10-year+ regular pay products remained stable at 19%. On the bright side, agent productivity and agent income both improved on a YoY basis, and the agent headcount start to gradually stabilize. China Life-H is trading at 0.5x P/BV FY22E and 0.2x P/EV FY22E. We think the slowdown in new business is already fully priced in. Looking forwards, we expect to see sequential improvements in new business momentum starting from mid-2022. Maintain Buy on China Life-H.

- Agency headcount to gradually stabilize.** Agent headcount slid to 0.78mn at end-1Q22, down only 5% QoQ. We notice the decline of agent number is narrowing in 1Q22, comparing to the double digit QoQ decline in 1Q21-4Q21. In near term, we think the life insurer might still see some volatility in agent headcount and agent income due to pressure from pandemic outbreaks. We expect the scale of the agency force to stabilize around mid-2022, which will underpin a turnaround in new business growth.
- Outperform major peers in new business momentum.** Based on our estimates, we think China Life's VNB momentum in 1Q22 outperformed major listed peers. And the management are also confident to deliver better-than-peers new business growth in FY22.
- Sound capital position under C-ROSS 2.0.** China Life shifted its solvency reporting to C-ROSS 2.0 (China Risk Oriented Solvency System 2.0) in 1Q22. Under the new solvency regime, the insurer's core solvency and comprehensive solvency margin stood at 176% and 248%, respectively, at end-1Q22, safely above the regulatory requirement (50% for core, 100% for comprehensive solvency). We believe China Life's solvency position is at the higher end among listed peers, and expect the sound capital position to sustain with continuous surplus generation.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
GWP (RMB mn)	612,265	618,327	621,357	633,597	650,163
YoY growth (%)	8.0	1.0	0.5	2.0	2.6
Total income (RMB mn)	805,049	824,930	805,610	860,555	896,377
Net profit (RMB mn)	50,257	50,921	51,697	59,737	69,690
EPS (RMB)	1.8	1.8	1.8	2.1	2.4
YoY Growth (%)	(13.7)	1.7	0.0	15.6	16.8
Consensus EPS (RMB)	1.8	1.1	2.0	2.3	2.6
P/B (x)	0.6	0.5	0.5	0.5	0.5
P/EV (x)	0.2	0.2	0.2	0.2	0.2
Yield (%)	6.9	7.0	7.1	8.2	9.6
ROEV (%)	16.8	13.9	10.6	10.9	11.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$18.18
Up/Downside	+63.2%
Current Price	HK\$11.14

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	698,496
Avg 3 mths t/o (HK\$ mn)	456.97
52w High/Low (HK\$)	16.64/10.86
Total Issued Shares (mn)	7,441 (H)
	20,824 (A)

Source: Bloomberg

Shareholding Structure

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

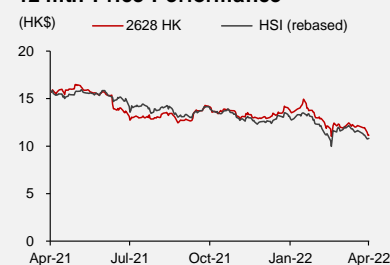
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.2%	-0.3%
3-mth	-19.7%	-2.1%
6-mth	-21.4%	2.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- China Financials Weekly – 26 Apr 2022 ([link](#))
- China Insurance FY21 results preview – 11 Mar 2022 ([link](#))
- China Insurance Year Ahead – 10 Dec 2021 ([link](#))
- China Life – Focus on agency upgrade – 27 Aug 2021 ([link](#))

Figure 1: China Life: 1Q22 Results Summary

(RMBmn)	1Q21	1Q22	YoY chg
Net profit attribute to shareholders	28,585	15,178	-46.9%
VNB			-14.3%
Net investment yield (%)	4.1	4.0	(0.1) ppt
Total investment yield (%)	6.4	3.9	(2.6) ppt
Total investment assets	4,282,189	4,717,681	10.2%
Total investment income	65,112	44,558	-31.6%
Surrender rate (%)	0.38	0.28	(0.1) ppt
# of agents (mn)	1.28	0.78	-39%
FYP	102,449	100,895	-2%
FYRP	68,276	65,366	-4%
10 yrs+ FYRP	19,656	19,106	-3%
Single	34,173	35,529	4%
Renewal	221,443	214,116	-3%
Total premium income	323,892	315,011	-3%
FYP APE	71,693	68,919	-4%

Source: Company data, CMBIGM

Financial Summary

Income

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Gross written premium	612,265	618,327	621,357	633,597	650,163
Net premiums earned	604,666	611,251	614,598	626,521	642,827
Investment income	190,980	203,674	180,958	223,782	243,030
Other operating income	9,403	10,005	10,054	10,252	10,520
Total income	805,049	824,930	805,610	860,555	896,377
Insurance claims reserves	(580,801)	(618,754)	(590,532)	(632,141)	(652,116)
Policyholder dividends	(28,279)	(26,511)	(25,334)	(28,064)	(30,486)
Other operating expenses	(149,159)	(139,498)	(149,324)	(152,499)	(156,624)
Total expenses	(758,239)	(784,763)	(765,190)	(812,704)	(839,226)
Associates and JVs	7,666	10,328	10,844	11,387	11,956
Pre-tax profit	54,476	50,495	51,265	59,237	69,107
Income tax	(3,103)	1,917	1,946	2,249	2,624
Less: Minority interests	1,116	1,491	1,514	1,749	2,041
Net profit	50,257	50,921	51,697	59,737	69,690

Key ratios

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Growth (%)					
GWP growth	8.0%	1.0%	0.5%	2.0%	2.6%
Total income growth	10.4%	2.5%	(2.3%)	6.8%	4.2%
Net profit growth	(13.8%)	1.3%	1.5%	15.6%	16.7%
EV growth	13.8%	12.2%	9.0%	9.4%	9.5%
Net investment yield	4.3%	4.4%	3.5%	4.1%	4.1%
Total investment yield	5.3%	5.0%	4.1%	4.7%	4.7%
Investment assets growth	14.6%	15.2%	5.5%	6.9%	9.7%
Underwriting (%)					
FYRP growth	5.5%	(14.7%)	3.3%	5.5%	5.5%
Agent FYRP growth	3.7%	(17.4%)	3.0%	5.0%	5.0%
Agent FYRP/FYRP	86.3%	83.6%	83.3%	82.9%	82.5%
Renewal growth	8.4%	5.8%	0.0%	1.3%	2.2%
Renewal/overall GWP	68.3%	71.6%	71.2%	70.8%	70.5%
NBV growth	(0.6%)	(23.3%)	(9.5%)	10.4%	5.4%
NBV margin (Agent, APE)	43.3%	38.1%	33.4%	32.9%	32.9%
Returns (%)					
RoEV	16.8%	13.9%	10.6%	10.9%	11.0%
ROE	11.8%	11.0%	10.6%	11.7%	12.9%
Solvency (%)					
Core solvency ratio	260%	263%	257%	253%	249%
Comprehensive solvency ratio	269%	271%	265%	260%	255%
Per share					
EPS (RMB)	1.8	1.8	1.8	2.1	2.4
DPS (RMB)	0.6	0.6	0.7	0.8	0.9
EVPS (RMB)	37.9	42.6	46.4	50.8	55.6
BVPS (RMB)	15.9	16.9	17.6	18.5	19.7

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Investment assets	4,095,491	4,716,401	4,976,422	5,321,838	5,838,167
Other assets	153,899	172,166	361,693	509,368	499,656
Total assets	4,252,466	4,891,085	5,338,115	5,831,205	6,337,822
Insurance liabilities	2,973,225	3,419,899	3,817,745	4,242,054	4,669,878
Other liabilities	822,304	984,528	1,013,955	1,055,323	1,099,882
Total liabilities	3,795,529	4,404,427	4,831,700	5,297,377	5,769,761
Shareholders' equity	450,056	478,585	497,312	523,495	556,306
Minority interest	6,881	8,073	7,684	8,088	8,595
Total equity	456,937	486,658	504,995	531,584	564,902

Source: Company data, CMBIGM estimates

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