



Company Report

China Life (2628 HK) – Buy Life & Health Insurance Industry 2013E TP: HK\$31.89 (from HK\$26.45 previously)

Key data

H-share price (HK\$)	26.00
Target price (HK\$)	31.89
Upside potential (%)	22.70
52Wk H/L(HK\$)	27.25/ 17.0
Issued shares:	
H-shares (mn)	7,441
A-shares (mn)	20,823
H-share mkt cap (HK\$m)	733,055
30-day avg vol (HK\$m)	772.6
Major shareholders (%):	
China Life Group	68.4
JPMorgan Chase	4.9

Source: Company & Bloomberg

Revenue breakdown in 2011 (%)

Net earned premiums (NEP)	85.8
Investment income	13.4
Other income	0.8

*Based on 2011 results

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	10.4	5.0
3-mth	11.8	(1.6)
6-mth	25.6	1.1

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Report Date: 14 January 2013

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Continuous recovery of a giant

China Life marched down the road of recovery till end-2012, with a reversal of its premium downtrend. Also we expect the insurer to maintain high margins due to the robust sales of its new critical illness product. Furthermore, its EV is the most sensitive to A-share market recovery. Accordingly, we maintain our BUY rating on China Life and upgrade our TP to HK\$31.89 (HK\$26.45 previously).

Continuous recovery in underwriting. China Life ceased the downtrend of premiums towards year-end. Its premium growth remained flattish YoY in 11M12, compared to the year low of a 8.6% YoY decline. On the other hand, its new critical illness product 'Kang Ning CI' continued its good performance. In our opinion, this will lead to further margin expansion for China Life in 2013. Per our estimates, China Life will enjoy a NBM of 37% and VNB growth of 9.0% YoY in this year.

EV sensitive to investment upturn. 10% change in equity values will lead to 5.4% change in China Life's EV in 1H12. This is high compared to major peers. With our bullish outlook on A-share markets, we expect China Life to report a gross yield of 4.55% in 2013 (3.48% in 2012).

Anchor index stock. China Life is an anchor index stock in MSCI China and Hang Seng Index. With a continuous fund inflow to Hong Kong stock market, China Life will be the key beneficiary.

Maintain BUY; upgrade TP to HK\$31.89. We derive an appraisal value of Rmb711,768 mn for 2013E, also adopting it as TP, or HK\$31.89/ share (previously HK\$26.45). The implied valuation of our TP is 1.74x 2013E PEV and 13.6x 2013E VNB. This represents 22.7% upside potential from the current share price. As such, we maintain our BUY recommendation on China Life, and render it as our top pick in the sector.

Risk factors: worse-than-expected underwriting and investment performance, tighter-than-expected regulations

Results and valuation

FY ended Dec 31	2010	2011	2012E	2013E	2014E
Revenue (Rmb mn)	385,838	370,899	370,381	425,107	460,936
Chg (YoY)	13.7	(3.9)	(0.1)	14.8	8.4
Net profit (Rmb mn)	33,626	18,331	13,088	32,220	36,286
Chg (YoY)	2.3	(45.5)	(28.6)	146.2	12.6
EPS (HK\$)	1.42	0.79	0.58	1.44	1.65
PER (x)	15.8	28.4	45.1	18.0	15.7
BPS (HK\$)	8.8	8.3	9.3	10.5	11.8
P/B (x)	2.5	2.7	2.8	2.5	2.2
EVPS (HK\$)	12.6	12.6	15.6	18.3	21.6
PEV (x)	1.8	1.8	1.7	1.4	1.2
VNB (HK\$)	0.8	0.9	0.9	1.0	1.1
VNB (x)	11.8	11.2	11.3	7.7	4.1

Source: Company data, ABCI Securities estimates



China Life: 1H12 profit & loss

	2009	2010	2011	1H10	2H10	1H11	2H11	1H12	HoH	YoY
	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn	Chg (%)	Chg (%)
GWP & Policy fees	275,970	318,229	318,252	183,614	134,615	195,490	122,762	185,438	51.1	(5.1)
(-) Premiums to Reinsurers	158	177	232	90	87	124	108	151	39.8	21.8
NWP & Policy fees	275,812	318,052	318,020	183,524	134,528	195,366	122,654	185,287	51.1	(5.2)
Chg. in Unearned Premium Res.	735	(36)	256	(65)	29	517	(261)	548	(310.0)	6.0
NEP & policy fees	275,077	318,088	318,276	183,589	134,499	194,849	123,427	184,739	49.7	(5.2)
Investment income	61,583	64,993	49,851	30,612	34,381	31,315	18,536	22,366	20.7	(28.6)
Other income	2,630	2,757	2,772	1,190	1,567	1,302	1,470	1,495	1.7	14.8
Total revenue	339,290	385,838	370,899	215,391	170,447	227,466	143,433	208,600	45.4	(8.3)
Claims, Surrenders, Annuities /										
Maturities	(99,295)	(95,151)	(111,169)	(48,029)	(47,122)	(70,044)	(41,125)	(71,648)	74.2	2.3
Div. & Int. to PH & Net Inc. in PH Res.	(154,372)	(199,655)	(187,704)	(122,543)	(77,112)	(117,091)	(70,613)	(100,229)	41.9	(14.4)
Ttl. Claims / PH Benefits	(253,667)	(294,806)	(298,873)	(170,572)	(124,234)	(187,135)	(111,738)	(171,877)	53.8	(8.2)
U/W & Policy Acq. Expense	(22,936)	(27,256)	(27,434)	(13,962)	(13,294)	(15,343)	(12,091)	(14,569)	20.5	(5.0)
General & Administrative Expense	(18,719)	(20,285)	(21,549)	(8,405)	(11,880)	(9,030)	(12,519)	(9,813)	(21.6)	8.7
Other Expense	(2,927)	(4,254)	(4,743)	(1,919)	(2,335)	(2,200)	(2,543)	(2,850)	12.1	29.5
Total Expenses	(44,582)	(51,795)	(53,726)	(24,286)	(27,509)	(26,573)	(27,153)	(27,232)	0.3	2.5
Net profit before Tax	41,041	39,237	18,300	20,533	18,704	13,758	4,542	9,491	109.0	(31.0)
Associate / JV - Profits / Losses	704	1,771	2,213	1,070	701	1,169	1,044	1,521	45.7	30.1
Tax Expense	(8,709)	(7,197)	(2,022)	(3,488)	(3,709)	(1,853)	(169)	(1,271)	652.1	(31.4)
Net profit after Tax	33,036	33,811	18,491	18,115	15,696	13,074	5,417	9,741	79.8	(25.5)
Minority interest	(155)	(185)	(160)	(81)	(104)	(110)	(50)	(106)	112.0	(3.6)
NP to China Life Shareholders	32,881	33,626	18,331	18,034	15,592	12,964	5,367	9,635	79.5	(25.7)

Source: Company data, ABCI Securities

China Life: Embedded Value (EV), Value of New Business (VNB) & New Business Margins (NBM)

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
ANAV	136,286	110,266	125,829	144,655	137,661	159,948	24	8
VIF	232,639	215,608	202,352	183,008	167,352	149,387	8	15
Solvency Cost	(34,598)	(33,020)	(31,688)	(29,564)	(26,572)	(24,106)	5	9
EV	334,326	292,854	296,493	298,099	278,441	285,229	14	13
EVPS (HK\$)	14.55	12.67	12.77	12.57	11.23	11.50	15	14
APE	32,842	59,646	39,888	65,968	37,134	51,374	66	(18)
VNB	12,494	20,199	12,186	19,839	11,548	17,713	56	3
NBM (APE Basis %)	38.0	33.9	30.6	30.1	31.1	34.5	4.2	7.5
FYP	81,824	163,523	111,103	190,252	111,576	156,156	56	(26)
VNB	12,494	20,199	12,186	19,839	11,548	17,713	56	3
NBM (FYP Basis %)	15.3	12.4	11.0	10.4	10.3	11.3	2.9	4.3
VNB (HK\$)	0.54	0.87	0.52	0.84	0.47	0.71	56	4

Source: Company data, ABCI Securities

China Life: Investment & Yields

(%)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Cash Equivalents	5.3	3.7	5.5	3.6	3.6	3.1	1.6	(0.1)
Deposits	37.7	34.8	34.3	33.1	33.9	29.4	2.8	3.3
Bonds	42.4	44.6	43.2	45.5	48.5	49.7	(2.2)	(0.9)
Equities	9.9	12.1	13.4	14.7	11.2	15.3	(2.2)	(3.5)
Others	4.8	4.7	3.6	3.2	2.9	2.5	0.0	1.2
Total Inv'ts (RMB bn)	1,662	1,495	1,454	1,336	1,243	1,172	11	14
Net Investment Yield (%)	4.5	4.3	4.3	3.9	4.1	3.7	0.2	0.1
Total Investment Yield (%)	2.8	3.5	4.5	5.2	5.0	5.8	(0.7)	(1.7)

Source: Company data, ABCI Securities



China Life: Operating data

(Rmb mn)	1H12	2011	1H11	2010	1H10	2009	% HoH	% YoY
Gross premiums	185,438	318,252	195,490	318,088	183,614	275,970	51	(5)
Individual	176,499	302,012	186,858	302,753	175,520	261,715	53	(6)
Group	316	438	298	468	283	190	126	6
Short-term	8,623	15,802	8,334	14,867	7,811	14,065	15	3
FYP Regular	27,399	48,104	31,974	52,159	28,863	39,711	70	(14)
% of FYP Ind. Regular	76.1	68.1	70.1	70.2	72.0	74.6	8.0	6.0
# of agents	682,000	685,000	662,000	706,000	736,000	770,000	(0)	3
FYP Regular per agent (Rmb)	40,174	70,225	48,299	73,880	39,216	51,573	(43)	(17)
Individual FYP	72,885	147,286	102,472	174,808	103,486	142,960	(51)	(29)
Individual FYP per agent (Rmb)	106,870	215,016	154,792	247,603	140,606	185,662	(50)	(31)
Persistence 13 mo (%)	92.5	92.5	92.5	93.0	94.0	93.7	0.0	(0.0)
Solvency (%)	230.6	170.1	164.2	212.0	217.2	303.6	60.4	66.4

Source: Company data, ABCI Securities

China Life - share price & valuation

		2004	2005	2006	2007	2008	2009	2010	2011	2012E
Share Price (HK\$)	Hi	6.55	6.90	27.20	52.00	39.85	41.00	39.35	32.65	25.30
	Lo	3.85	4.85	7.05	19.26	16.70	19.90	29.70	17.24	17.06
	Av	4.99	5.61	12.92	31.97	28.08	30.64	34.32	24.95	20.81
PEV(X)	Hi	2.06 x	1.67 x	4.22 x	5.43 x	4.13 x	3.58 x	3.13 x	2.59 x	1.62 x
	Lo	1.21 x	1.17 x	1.09 x	2.01 x	1.73 x	1.74 x	2.36 x	1.37 x	1.09 x
	Av	1.57 x	1.36 x	2.01 x	3.34 x	2.91 x	2.67 x	2.73 x	1.98 x	1.33 x
EVPS YoY Growth (%)		30%	56%	49%	1%	19%	10%	0%	24%	
VNB(X)	Hi	14.67 x	10.21 x	55.99 x	92.84 x	54.03 x	41.54 x	32.02 x	23.03 x	10.54 x
	Lo	2.92 x	2.65 x	1.65 x	21.19 x	12.62 x	11.87 x	20.48 x	5.32 x	1.56 x
	Av	7.87 x	5.44 x	17.48 x	49.00 x	32.97 x	26.97 x	26.00 x	14.18 x	5.65 x
VNB YoY Growth (%)		18%	37%	23%	22%	27%	18%	4%	5%	

Source: Bloomberg, Company data, ABCI Securities



China Life: Embedded Value

(Rmb mn)	2009	2010	2011	2012E	2013E	1H12
Embedded value						
Adjusted net worth	159,948	144,655	110,266	131,853	165,256	136,286
Value of in-force	149,387	183,008	215,608	255,748	278,972	232,639
Cost of solvency margin	(24,106)	(29,564)	(33,020)	(32,614)	(35,340)	(34,598)
Embedded value	285,229	298,099	292,854	354,986	408,888	334,326
Vnb (long term)	17,713	19,839	20,199	20,852	22,334	12,494
Multiplier	10	9	9	14	14	
New business value (long term)	175,344	179,381	187,849	287,595	302,879	
Appraisal value	460,573	477,480	480,703	642,582	711,768	
EV movement analysis						
Opening embedded value	240,088	285,229	298,099	292,854	354,986	292,854
Expected return						
- SHF's	7,580	8,797	7,650	6,065	7,252	4,944
- In-force	13,519	16,433	20,131	23,717	28,132	9,234
Value of new business (VNB)	17,713	19,839	20,199	20,852	22,334	12,494
Inv't r var + Mkt val adj	15,307	(11,234)	(40,839)	15,000	8,000	19,429
Capital raising & dividends	(6,500)	(19,785)	(11,306)	(6,501)	(6,816)	(6,501)
OpEx var, model chg & others	(2,478)	(1,180)	(1,080)	3,000	(5,000)	1,872
Closing embedded value	285,229	298,099	292,854	354,986	408,888	334,326
EVPS (HK\$)	11.45	12.57	12.61	15.62	18.32	14.55
AVPS (HK\$)	18.49	20.13	20.71	28.28	31.89	
PEV implied	1.61	1.60	1.64	1.81	1.74	
VNB (HK\$)	0.71	0.84	0.87	0.92	1.00	
VNB implied (x)	9.90	9.04	9.30	13.79	13.56	
EV contributions 1 (%)						
Expected return on beg EV	9%	9%	9%	10%	10%	10%
IRV + MVA contribution to beg EV	6%	-4%	-14%	5%	2%	13%
VNB contribution to beg EV	7%	7%	7%	7%	6%	9%
VNB contribution to beg VIF	14%	13%	11%	10%	9%	
EVPS (HK\$) growth	19%	10%	0%	24%	17%	
EV contributions 2 (%)						
Beginning EV	84%	96%	102%	82%	87%	88%
Expected return						
- SHF's	3%	3%	3%	2%	2%	1%
- In-force	5%	6%	7%	7%	7%	3%
Inv't r var + mkt val adj	5%	-4%	-14%	4%	2%	6%
Value of new business (VNB)	6%	7%	7%	6%	5%	4%
Capital raising & dividends	-2%	-7%	-4%	-2%	-2%	-2%
OpEx var, model chg & others	-1%	0%	0%	1%	-1%	1%
Ending EV	100%	100%	100%	100%	100%	100%

Source: Company data, ABCI Securities estimates



China Life Financial Statements

Profit & loss (Rmb mn)						Operating ratios (%)					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
GWP & policy fees	318,229	318,252	314,338	340,616	367,865	Gross written premium growth	15.3%	0.0%	-1.2%	8.4%	8.0%
(-) Premiums to reinsurers	177	232	280	443	478	Net earned premium growth	15.6%	0.1%	-2.3%	8.4%	8.0%
NWP & policy fees	318,052	318,020	314,058	340,173	367,387	Claims/benefits - of NEP	25.1%	34.3%	36.5%	31.5%	31.5%
Chg. in unearned premium res.	(36)	(256)	3,169	3,297	3,561	Div to PH & net inc. in PH res. of NEP	62.8%	57.1%	57.8%	60.5%	60.5%
NEP & policy fees	318,088	318,276	310,889	336,876	363,827	Ttl. claim/PH benefits to NEP	87.9%	91.3%	94.3%	92.0%	92.0%
Investment income	64,993	49,851	56,454	85,040	93,759	Claims/benefits - of total revenue	20.7%	29.4%	30.7%	25.0%	24.9%
Other income	2,757	2,772	3,039	3,190	3,350	Net inc. in PH res. - of total revenue	51.7%	49.0%	48.5%	47.9%	47.8%
Total revenue	385,838	370,899	370,381	425,107	460,936	Ttl. claim/PH benefits to total revenue	72.5%	78.4%	79.2%	72.9%	72.6%
Claims, surrenders, annuities/maturities	(95,151)	(117,294)	(120,846)	(124,644)	(134,616)	Commission cost ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Div. & int. to PH & net inc. in PH res.	(199,655)	(181,579)	(179,703)	(203,810)	(220,115)	General & admin. cost ratio	6.4%	6.8%	8.0%	6.8%	6.8%
Ttl. claims/PH benefits	(294,806)	(298,873)	(300,550)	(328,455)	(354,731)	Other exp. & stat. levy ratio	1.3%	1.5%	1.8%	1.6%	1.6%
Commission expenses	0	0	0	0	0	Operating expense ratio	7.7%	8.3%	9.8%	8.4%	8.4%
U/W & policy acq. expense	(27,256)	(27,434)	(26,553)	(30,640)	(33,092)	Gross investment yield	5.2%	3.5%	3.5%	4.5%	4.4%
General & administrative expense	(20,285)	(21,549)	(24,951)	(22,887)	(24,718)	Solvency ratio	212.0%	170.1%	211.7%	198.9%	189.8%
Other expense	(4,254)	(4,743)	(5,625)	(5,380)	(5,810)						
Total expenses	(51,795)	(53,726)	(57,130)	(58,907)	(63,620)						
Net profit before tax	39,237	18,300	12,702	37,745	42,585						
Associate/JV - Profits/losses	1,771	2,213	2,669	2,936	3,230	Balance sheet (Rmb mn)					
Tax expense	(7,197)	(2,022)	(2,143)	(8,136)	(9,163)		2010	2011	2012E	2013E	2014E
Net profit after tax	33,811	18,491	13,228	32,545	36,652	Cash	47,854	55,985	92,799	105,929	120,241
Minority interest	(185)	(160)	(141)	(325)	(367)	Investments	1,288,391	1,438,984	1,653,224	1,887,132	2,142,097
NP to China Life shareholders	33,626	18,331	13,088	32,220	36,286	Receivables	7,274	8,253	15,974	17,611	19,416
						Deferred acquisition costs	0	0	0	0	0
						Fixed assets	18,946	20,231	20,321	20,321	20,321
						Other assets	48,114	60,454	72,010	72,010	72,010
						Total assets	1,410,579	1,583,907	1,854,327	2,103,003	2,374,084
Financial summary						Policyholder benefits	1,070,963	1,245,741	1,426,145	1,645,115	1,881,602
	2010	2011	2012E	2013E	2014E	Policyholder deposits	70,171	69,797	68,051	71,420	75,059
EPS (HK\$)	1.42	0.79	0.58	1.44	1.65	Unearned premiums	1,880	3,719	5,363	8,660	12,221
<i>EPS growth (%)</i>	7.4%	-44.3%	-27.1%	150.6%	14.5%	Claim reserves	0	0	0	0	0
PER (x)	15.8	28.4	45.1	18.0	15.7	Payables	8,275	3,719	2,879	3,174	3,500
PBV (x)	2.55	2.72	2.79	2.49	2.20	Repo	22,660	13,000	42,529	42,529	42,529
PEV (x)	1.78	1.78	1.66	1.42	1.20	Borrowings	0	29,990	57,982	57,982	57,982
VNB multiple (x)	11.75	11.25	11.31	7.68	4.06	Statutory insurance fund	194	146	192	192	192
Dividend per share (HK\$)	0.48	0.28	0.30	0.30	0.30	Other liabilities	25,961	24,407	37,312	38,328	39,442
Yield (%)	2.9%	1.7%	1.8%	1.8%	1.8%	Total liabilities	1,200,104	1,390,519	1,640,454	1,867,401	2,112,526
Payout ratio (%)	33.6%	35.5%	52.1%	20.8%	18.2%	Net assets	210,475	193,388	213,873	235,602	261,558
Return on equity (%)	15.9%	9.1%	6.4%	14.3%	14.6%	Minority interests	1,765	1,858	1,948	2,273	2,640
Return on assets (%)	2.6%	1.2%	0.8%	1.6%	1.6%	Net equity to shareholders	208,710	191,530	211,926	233,329	258,919
Tax rate (%)	17.6%	9.9%	13.9%	20.0%	20.0%						

Source: Company data, ABCI Securities estimates



Disclosures

Analyst Certification

I, Chan Wing Fu (Francis Chan), being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

Disclosures of Interests

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