



Company Report

New China Life (1336 HK) – Hold Life & Health Insurance Industry

Key data

H-share price (HK\$)	24.20
Target price (HK\$)	24.85
Upside potential (%)	2.7
52Wk H/L(HK\$)	36.9 / 22.6
Issued shares:	
H-shares (mn)	1,034
A-shares (mn)	2,083
H-share mkt cap (HK\$m)	75,431
30-day avg vol (HK\$m)	60.6
Major shareholder (%):	
Central Huijin	31.2
Baosteel Group	15.1

Source: Company & Bloomberg

Revenue breakdown in 2011 (%)

Net earned premiums (NEP)	88.1
Investment income	11.7
Other income	0.2

*Based on 2011 results

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(2.6)	(5.7)
3-mth	(0.2)	(8.1)
6-mth	(30.0)	(31.3)

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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Sizable impairment (3Q12 results review)

New China Life reported net profits of Rmb420mn, down 15.2% YoY, in 3Q12. This is better than China Life's and China Pacific's. However, we do not have high regards to such results. New China Life reported a sizable impairment of Rmb2.8bn, equivalent to 8.0% of shareholder's funds. Also, its shareholder's funds dropped by 1.3% from 1H12, compared to 0.6% down by China Life and 0.4% down by China Pacific. As such, we are cautious on NCI's outlook.

Heavy impairment losses despite limited equity exposure. Impairment losses on investments reached Rmb2.8bn in 3Q12 and Rmb4.8bn in 9M12, due to a 6.3% decline in A-share markets and about 1.5% drop in bond prices in the quarter. Such impairment is sizable relative to its shareholders' funds. In 1H12, equity investments contributed only 7.4% of NCI's portfolio. Therefore, we consider such a big impairment unreasonable and mysterious.

Declining shareholders' funds. The company reported other comprehensive income of Rmb120mn in 3Q12, reflecting a gain in AFS reserves of a similar magnitude. However, NCI's shareholders' funds declined by 1.3% from 1H12, compared to 0.6% down by China Life and 0.4% down by China Pacific. This is partly due to a sizable impairment of Rmb2.8bn, equivalent to 8.0% of shareholders' funds. We are concerned with this development.

IFRS profit forecast unchanged. With a minimal YoY decline in quarterly profits, we keep our IFRS profit forecast at Rmb3.4bn in 2012E and at Rmb4.3bn in 2013E.

Maintain HOLD and TP at HK\$24.85. We maintain an appraisal value of Rmb62,016 mn for 2013E, and adopt it as TP, or HK\$24.85/ share. The implied valuation of our TP is 0.90x 2013E PEV and (1.5)x 2013E VNB. This represents 2.7% upside potential from the current share price. As such, we maintain our Hold recommendation on New China Life.

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

Results and valuation

FY ended Dec 31	2010	2011	2012E	2013E	2014E
Revenue (Rmb mn)	102,709	108,610	123,043	137,935	153,513
Chg (% YoY)	39.0	5.7	13.3	12.1	11.3
Net profit (Rmb mn)	2,249	2,799	3,435	4,266	5,145
Chg (% YoY)	(15.5)	24.5	22.7	24.2	20.6
EPS (HK\$)	2.23	1.51	1.35	1.71	2.18
PER (x)	10.9	16.0	17.9	14.2	11.1
BPS (HK\$)	6.5	12.3	14.7	16.8	20.2
P/B (x)	3.7	2.0	1.6	1.4	1.2
EVPS (HK\$)	27.9	19.1	23.9	27.6	33.5
PEV (x)	0.9	1.3	1.1	0.9	0.8
VNB (HK\$)	4.71	1.70	1.83	1.83	1.90
VNB (x)	(0.5)	3.8	1.0	(1.1)	(4.1)

Source: Company data, ABCI Securities estimates



New China Life: 3Q12/ 9M12 profit & loss

(RMB mn)	3Q12 CAS	3Q11 CAS	% YoY Chg	9M12 CAS	9M11 CAS	% YoY Chg
GWP	21,876	23,699	-7.7%	77,826	74,361	4.7%
Premiums to Reinsurers	(26)	145	-117.9%	14	383	-96.3%
NWP	21,850	23,844	-8.4%	77,840	74,744	4.1%
Chg. In Unearned Premium Reserves	8	20	-60.0%	(219)	(173)	26.6%
NEP	21,858	23,864	-8.4%	77,621	74,571	4.1%
Investment Income	4,799	3,791	26.6%	13,845	11,181	23.8%
Net Fair Value Gains / Losses	(223)	(970)	-77.0%	77	(1,504)	-105.1%
Other Income	147	121	21.5%	389	370	5.1%
Total Revenue	26,581	26,806	-0.8%	91,932	84,618	8.6%
Surrenders & Claims	(5,912)	(5,821)	1.6%	(17,959)	(15,691)	14.5%
Increase in Insurance Liabilities	(13,030)	(15,675)	-16.9%	(53,159)	(53,321)	-0.3%
Policyholders Dividends (Participating)						
Underwriting & Policy Acq. Costs	(1,486)	(1,759)	-15.5%	(5,282)	(5,426)	-2.7%
G&A Exp.	(2,332)	(2,265)	3.0%	(6,849)	(6,263)	9.4%
Other Expenses (incl. Impairment losses & Biz Tax)	(3,429)	(742)	362.1%	(6,726)	(1,300)	417.4%
Total Benefits, Claims & Expenses	(26,189)	(26,262)	-0.3%	(89,975)	(82,001)	9.7%
Non Operating Profit / Loss	(19)	(38)	-50.0%	(76)	(61)	24.6%
Profit Before Tax	373	506	-26.3%	1,881	2,556	-26.4%
Tax Expenses	47	(11)	-527.3%	444	(286)	-255.2%
Net Profit	420	495	-15.2%	2,325	2,270	2.4%
Total Other Comprehensive Income / Loss	120	(2,103)	-105.7%	2,066	(3,974)	-152.0%
Total Comprehensive Income / Loss (Net Profit + Other Comp. Income / Loss)	540	(1,608)	-133.6%	4,391	(1,704)	-357.7%
Operating Ratios			% YoY Chg			% YoY Chg
NEP as % of Total Income	82%	89%	-6.8%	84%	88%	-3.7%
Total Inv't Income as % of Total Income	17%	11%	6.7%	15%	11%	3.7%
Surrenders & Claims as % of NEP	-27%	-24%	-2.7%	-23%	-21%	-2.1%
Increase in Insurance Liabilities as % of NEP	-60%	-66%	6.1%	-68%	-72%	3.0%
Policyholders Dividends (Participating) as % of NEP	0%	0%	0.0%	0%	0%	0.0%
Underwriting & Policy Acq. Costs as % of NEP	-7%	-7%	0.6%	-7%	-7%	0.5%
G&A Exp. as % of Total Income	-9%	-8%	-0.3%	-7%	-7%	0.0%
Total Other Comp Inc / Loss as % of Net Profit	29%	-425%	453.4%	89%	-175%	263.9%

Source: Company, ABCI Securities

New China Life: 9M12 investment asset mix

(RMB mn)	9M12	2011	% 9M Chg
Cash and bank deposits	26,940	12,986	107.5%
Trading Securities	5,667	5,310	6.7%
Securities purchased for Repo	-	19	-100.0%
Policy loans	3,297	2,055	60.4%
Term Deposits	171,772	131,047	31.1%
AFS Fin. Assets	84,361	72,876	15.8%
HTM Securities	160,511	141,090	13.8%
Long Term Equity	710	709	0.1%
Investment Prop & Others	467	993	-53.0%
Total Inv't Assets	453,725	367,085	23.6%
Gross Inv't Yield	2.97%	3.80%	-0.8%

Source: Company, ABCI Securities

New China Life: 9M12 balance sheet snapshot

(RMB mn)	9M12	2011	% 9M Chg
Total Assets	481,358	386,771	24.5%
Total Liabilities	446,876	355,458	25.7%
Shareholders' Equity	34,482	31,313	10.1%

Source: Company, ABCI Securities



New China Life: Embedded Value

(Rmb mn)	2010	2011	2012E	2013E	1H12
Embedded value					
Adjusted net worth	6,400	21,966	27,501	29,766	26,348
Value of in-force	29,866	36,818	44,004	51,231	40,257
Cost of solvency margin	(8,181)	(9,793)	(10,968)	(12,065)	(10,456)
Embedded value	28,085	48,991	60,536	68,933	56,149
Vnb (long term)	4,741	4,360	4,630	4,570	2,419
Multiplier	(2)	(1)	(2)	(2)	
New business value (long term)	(9,515)	(5,297)	(7,802)	(6,917)	
Appraisal value	18,570	43,694	52,734	62,016	
EV movement analysis					
Opening embedded value	20,333	28,383	49,290	60,536	48,991
Expected return					
- SHF's	300	333	1,142	1,430	535
- In-force	2,654	3,525	4,234	5,060	1,895
Value of new business (VNB)	5,095	4,681	4,971	4,906	2,419
Inv't r var + Mkt val adj	(203)	(11,894)	2,600	(2,000)	2,539
Capital raising & dividends	-	25,621	(500)	-	(221)
OpEx var, model chg & others	204	(1,359)	(1,200)	(1,000)	(9)
Closing embedded value	28,383	49,290	60,536	68,933	56,149
EVPS (HK\$)	27.89	19.14	23.87	27.62	22.16
AVPS (HK\$)	18.44	17.07	20.79	24.85	
PEV implied	0.66	0.89	0.87	0.90	
VNB (HK\$)	4.71	1.70	1.83	1.83	
VNB implied (x)	(2.01)	(1.21)	(1.69)	(1.51)	
EV contributions 1 (%)					
Expected return on beg EV		14%	11%	11%	5%
IRV + MVA contribution to beg EV		-42%	5%	-3%	5%
VNB contribution to beg EV		17%	10%	8%	5%
VNB contribution to beg VIF		16%	14%	11%	6%
EVPS (HK\$) growth		-31%	25%	16%	
EV contributions 2 (%)					
Beginning EV	72%	58%	81%	88%	87%
Expected return					
- SHF's	1%	1%	2%	2%	
- In-force	9%	7%	7%	7%	4%
Inv't r var + mkt val adj	-1%	-24%	4%	-3%	5%
Value of new business (VNB)	18%	9%	8%	7%	4%
Capital raising & dividends	0%	52%	-1%	0%	0%
OpEx var, model chg & others	1%	-3%	-2%	-1%	0%
Ending EV	100%	100%	100%	100%	100%

Source: Company data, ABCI Securities estimates



New China Life Financial Statements

Profit & loss (Rmb mn)						Operating ratios (%)					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
GWP & policy fees	91,956	95,151	106,569	117,226	128,949	Gross written premium growth	40.6%	3.5%	12.0%	10.0%	10.0%
(-) Premiums to reinsurers	32	584	213	234	258	Net earned premium growth	40.5%	4.1%	11.5%	10.0%	10.0%
NWP & policy fees	91,988	95,735	106,782	117,460	129,207	Claims/benefits - % of NEP	90.9%	91.1%	92.8%	93.5%	94.5%
Chg. in unearned premium res.	(128)	(71)	(107)	(117)	(129)	Div to PH & net inc. in PH res. % of NEP	0.8%	0.7%	1.0%	1.0%	1.0%
NEP & policy fees	91,860	95,664	106,675	117,343	129,077	Ttl. claim/PH benefits to NEP	91.8%	91.7%	93.8%	94.5%	95.5%
Investment income	10,521	12,754	16,194	20,411	24,245	Claims/benefits - % of total revenue	81.4%	80.2%	80.5%	79.5%	79.5%
Other income	328	192	173	181	191	Net inc. in PH res. - % of total revenue	0.8%	0.6%	0.9%	0.9%	0.8%
Total revenue	102,709	108,610	123,043	137,935	153,513	Ttl. claim/PH benefits to total revenue	82.2%	80.8%	81.3%	80.4%	80.3%
Insurance benefits & claims	(83,611)	(87,151)	(98,995)	(109,716)	(121,978)	Commission cost ratio	7.9%	7.6%	7.0%	7.2%	7.2%
Investment contract benefits	(772)	(635)	(1,067)	(1,173)	(1,291)	General & admin. cost ratio	9.2%	9.6%	8.5%	8.5%	8.5%
Total Claims / PH Benefits	(84,383)	(87,786)	(100,062)	(110,889)	(123,269)	Other exp. & stat. levy ratio	0.2%	0.2%	0.2%	0.2%	0.2%
Commission and brokerage expenses	(7,252)	(7,317)	(7,467)	(8,449)	(9,294)	Operating expense ratio	17.2%	17.5%	15.7%	15.9%	15.9%
Administrative expenses	(8,410)	(9,229)	(9,067)	(9,974)	(10,972)	New investment yield	3.8%	4.1%	4.3%	4.2%	4.1%
Other expenses	(147)	(199)	(213)	(235)	(258)	Gross investment yield	4.3%	3.8%	3.8%	3.9%	3.9%
Total Operating Expenses	(15,809)	(16,745)	(16,748)	(18,658)	(20,523)	Solvency ratio	35.0%	155.9%	179.9%	162.8%	149.6%
Finance Expenses	(263)	(806)	(2,417)	(2,701)	(2,860)						
Associate / JV - Profits / Losses	1	2	2	2	2						
Net profit before tax	2,255	3,275	3,818	5,690	6,863	Balance sheet (Rmb mn)					
Tax expense	(5)	(475)	(382)	(1,422)	(1,716)		2010	2011	2012E	2013E	2014E
Net profit after tax	2,250	2,800	3,436	4,267	5,147	Cash	27,368	21,095	28,624	39,867	46,896
Minority interest	1	1	1	2	2	Investments	265,498	352,861	448,436	529,666	623,052
NP to NCI shareholders	2,249	2,799	3,435	4,266	5,145	PP&E / Investment Properties	3,435	4,735	4,972	5,220	5,481
						Reinsurance Assets	4,535	4,202	4,415	4,650	4,907
						Premium Receivables	979	1,395	1,443	1,617	1,778
						Other assets	2,751	2,483	3,889	3,722	6,735
						Total Assets	304,566	386,771	491,779	584,742	688,851
Financial summary						Long-term insurance contracts liabilities	233,821	292,818	379,762	472,239	571,755
	2010	2011	2012E	2013E	2014E	Short-term insurance contracts liabilities	804	996	1,114	1,225	1,347
EPS (HK\$)	2.23	1.51	1.35	1.71	2.18	Investment contracts	19,912	19,001	20,068	21,241	22,532
<i>EPS growth (%)</i>	-11.7%	-32.2%	-10.4%	26.2%	27.4%	Borrowings (Sub-debt)	0	5,073	15,214	17,000	18,000
PER (x)	10.9	16.0	17.9	14.2	11.1	Financial assets under repo agreement	24,712	32,481	33,089	25,361	21,449
PBV (x)	3.71	1.97	1.65	1.44	1.20	Unearned premiums	390	504	522	584	643
PEV (x)	0.92	1.34	1.07	0.93	0.77	Other Liabilities	18,354	4,585	4,763	5,076	5,462
VNB multiple (x)	(0.48)	3.82	0.98	(1.07)	(4.13)	Total liabilities	297,993	355,458	454,530	542,726	641,187
Dividend per share (HK\$)	0.00	0.00	0.00	0.00	0.00	Net assets	6,573	31,313	37,249	42,016	47,663
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	Minority interests	6	7	9	11	13
Payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	Net equity to shareholders	6,567	31,306	37,240	42,005	47,650
Return on equity (%)	41.6%	14.8%	10.0%	10.8%	11.5%						
Return on assets (%)	0.9%	0.8%	0.8%	0.8%	0.8%						
Tax rate (%)	0.2%	14.5%	10.0%	25.0%	25.0%						

Source: Company data, ABCI Securities estimates



Disclosures

Analyst Certification

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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.

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