



Company Report

New China Life (1336 HK) – Hold

Life & Health Insurance Industry

2013E target price: HK\$34.30 (from HK\$24.85 previously)

Key data

H-share price (HK\$)	31.45
Target price (HK\$)	34.30
Upside potential (%)	9.1
52Wk H/L(HK\$)	36.9 / 22.3
Issued shares:	
H-shares (mn)	1,034
A-shares (mn)	2,083
H-share mkt cap (HK\$m)	102,528
30-day avg vol (HK\$m)	101.4
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	15.2	11.4
3-mth	23.3	12.1
6-mth	9.3	(10.3)

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

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Rallying only on A-share market rebound

Recently, New China Life outperformed its peers and benchmark indices, only due to its big EV increment led by A-share market rebound. The company is the only insurer reporting a decelerating premium growth towards end-2012. Also, it reported the lowest NBM among peers in 1H12. Other than being cheap, we see minimal merits for the insurer. Based on these, we maintain HOLD on New China Life. But we upgrade its TP to HK\$34.30 (HK\$24.85 previously) due to better investment assumptions.

Only life insurer with a decelerating premium growth. Its premium growth decelerated to 3.9% YoY in 11M12, compared to the year high of a 20.0% YoY. Such trend is the worst among peers. New China Life lacks new products with competitiveness. Per our estimates, New China Life will report a NBM of 23.0% and VNB growth of 4.6% YoY in this year.

With the lowest NBM with no proper reason. New China Life reported its NBM at 23.3% in 1H12. It has improved by only 0.9ppt HoH. Also, its NBM is the lowest among peers. It is inconceivable as the insurer has shifted sales focus to 10-years plus duration products during 2012. NBM should have advanced further on lengthening product duration.

Rising only on A-share market rally. Per our analysis, New China Life's EV rose by 10.6% due to the recent 17.7% rally of A-share markets. In our opinion, this is the only reason for its recent outperformance.

Trading at a low valuation still. New China Life is trading at 1.07x 2013E PEV, cheaper than 1.25x of sector average. Therefore, we remain Neutral on its share price outlook, despite its weak fundamentals.

Maintain HOLD; upgrade TP to HK\$34.30. We derive an appraisal value of Rmb84,510 mn for 2013E, also adopting it as TP, or HK\$34.30 / share (HK\$24.85 previously). The implied valuation of our TP is 1.17x 2013E PEV and 2.7x 2013E VNB. This represents 9.1% upside potential from the current share price. We maintain HOLD 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	121,366	140,699	158,647
Chg (YoY)	39.0	5.7	11.7	15.9	12.8
Net profit (Rmb mn)	2,249	2,799	3,615	4,578	5,064
Chg (YoY)	(15.5)	24.5	29.1	26.6	10.6
EPS (HK\$)	2.23	1.51	1.44	1.86	2.09
PER (x)	11.1	16.4	21.8	16.9	15.1
BPS (HK\$)	6.5	12.3	14.9	17.3	19.8
P/B (x)	3.8	2.0	2.1	1.8	1.6
EVPS (HK\$)	27.9	19.1	24.2	29.4	35.3
PEV (x)	0.9	1.3	1.3	1.1	0.9
VNB (HK\$)	4.71	1.70	1.74	1.82	1.94
VNB (x)	(0.6)	3.4	4.2	1.1	(2.0)

Source: Company data, ABCI Securities estimates



New 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	65,422	91,956	95,151	53,675	38,281	50,843	44,308	56,114	27	10
(-) Premiums to Reinsurers	(30)	(32)	(584)	(18)	(14)	(238)	(346)	(40)	(88)	(83)
NWP & Policy fees	65,452	91,988	95,735	53,693	38,295	51,081	44,654	56,154	26	10
Chg. in Unearned Premium Res.	(72)	(128)	(71)	(165)	37	(193)	122	(227)	(286)	18
NEP & policy fees	65,380	91,860	95,664	53,528	38,332	50,888	44,776	55,927	25	10
Investment income	8,362	10,521	12,754	4,114	6,407	6,813	5,941	7,303	23	7
Other income	164	328	192	118	210	101	91	83	(9)	(18)
Total revenue	73,906	102,709	108,610	57,760	44,949	57,802	50,808	63,313	25	10
Claims & Life insurance benefits	(10,763)	(13,250)	(21,178)	(5,908)	(7,342)	(9,896)	(11,282)	(12,046)	7	22
Div. & Int. to PH & Net Inc. in PH Res.	(46,961)	(71,133)	(66,608)	(43,333)	(27,800)	(37,966)	(28,642)	(40,494)	41	7
Ttl. Claims / PH Benefits	(57,724)	(84,383)	(87,786)	(49,241)	(35,142)	(47,862)	(39,924)	(52,540)	32	10
U/W & Policy Acq. Expense	(5,623)	(7,252)	(7,317)	(3,884)	(3,368)	(3,689)	(3,628)	(3,825)	5	4
General & Administrative Expense	(7,206)	(8,410)	(9,229)	(3,925)	(4,485)	(3,998)	(5,231)	(4,517)	(14)	13
Other Expense	(509)	(147)	(199)	194	(341)	108	(307)	(135)	(56)	(225)
Total Expenses	(13,338)	(15,809)	(16,745)	(7,615)	(8,194)	(7,579)	(9,166)	(8,477)	(8)	12
Net profit before Tax	2,844	2,517	4,079	904	1,613	2,361	1,718	2,296	34	(3)
Associate P&L and Finance Cost	(193)	(262)	(804)	(62)	(200)	(311)	(493)	(788)	60	153
Tax Expense	10	(5)	(475)	(265)	260	(275)	(200)	397	(299)	(244)
Net profit after Tax	2,661	2,250	2,800	577	1,673	1,775	1,025	1,905	86	7
Minority interest	(1)	(1)	(1)	0	(1)	0	(1)	(1)	0	0
NP to New China Life Shareholders	2,660	2,249	2,799	577	1,672	1,775	1,024	1,904	86	7

Source: Company data, ABCI Securities

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

(Rmb mn)	1H12	2011	1H11	2010	2009	% HoH	% YoY
ANAV	26,348	21,966	17,673	6,400		20	49
VIF	40,257	36,818	33,798	29,866		9	19
Solvency Cost	(10,456)	(9,793)	(9,149)	(8,181)		7	14
EV	56,150	48,991	42,322	28,085		15	33
EVPS (HK\$)	22.16	19.22	19.70	27.85		15	12
APE	10,040	19,494	11,302	25,297	20,466	23	(11)
VNB	2,338	4,360	4,710	4,741		18	(1)
NBM (APE Basis %)	23.29	22.37	41.67	18.74		0.92	2.30
FYP	22,523	42,863	24,112	55,966	44,769	20	(7)
VNB	2,338	4,360	4,710	4,741		18	(1)
NBM (FYP Basis %)	10.38	10.17	19.53	8.47		0.21	0.54
VNB (HK\$)	0.92	1.71	2.19	4.70		52	(16)

Source: Company data, ABCI Securities

New China Life: Investment & Yields

(%)	1H12	2011	1H11	2010	2009	% HoH	% YoY
Cash Equivalents	6.8	5.6	5.8	9.3	6.4	1.2	1.0
Deposits	36.0	32.9	30.2	18.9	9.6	3.1	5.8
Bonds	46.8	50.9	52.3	56.2	70.2	(4.1)	(5.5)
Equities	7.4	7.8	9.2	13.3	11.7	(0.4)	(1.8)
Others	3.0	2.8	2.5	2.3	2.1	0.2	0.5
Total Inv'ts (RMB bn)	453	374	335	293	197	21.1	35.4
Net Investment Yield (%)	4.40	4.10	4.00	3.80	3.90	0.30	0.40
Total Investment Yield (%)	3.60	3.80	4.40	4.30	4.60	(0.20)	(0.80)

Source: Company data, ABCI Securities



New China Life: Operating data

(Rmb mn)	1H12	2011	1H11	2010	2009	% HoH	% YoY
Gross premiums	55,950	94,797	50,662	91,679	65,040	27	10
Individual Agency	23,030	35,871	18,791	28,688	20,248	35	23
Banc.	31,393	56,692	30,731	61,690	43,962	21	2
Wealth Management	622	932	368	221		10	69
Group	905	1,302	772	1,080	830	71	17
FYP Regular	8,653	16,897	9,879	21,889	17,766	23	(12)
% of FYP Ind. Regular	38.4	39.4	41.0	39.1	39.7	(1.0)	(2.6)
# of agents	207,000	200,000	204,380	198,771	226,776	3	1
FYP Regular per agent (Rmb)	41,802	44,390	24,009	47,924	29,637	(6)	74
Individual FYP	5,851	9,758	5,374	10,416	7,299	(40)	9
Individual FYP per agent (Rmb)	28,266	48,790	26,294	52,402	32,186	(42)	7
Persistence 13 mo (%)	90.6	91.5	92.4	91.7	89.4	(0.9)	(1.8)
Solvency (%)	159	156.0	106.1	35.0	36.2	2.8	52.7

Source: Company data, ABCI Securities

New China Life - share price & valuation

		NEW CHINA LIFE	
		2011	2012E
Share Price (HK\$)	Hi	28.10	36.28
	Lo	23.41	21.55
	Av	24.90	29.04
PEV(X)	Hi	1.47 x	1.50 x
	Lo	1.22 x	0.89 x
	Av	1.30 x	1.20 x
EVPS YoY Growth (%)		-31%	26%
VNB(X)	Hi	5.26 x	6.97 x
	Lo	2.51 x	(1.51x)
	Av	3.38 x	2.80 x
VNB YoY Growth (%)		-64%	2%

Source: Bloomberg, Company data, ABCI Securities



New China Life: Embedded Value

(Rmb mn)	2010	2011	2012E	2013E	1H12
Embedded value					
Adjusted net worth	6,400	21,966	28,081	34,159	26,348
Value of in-force	29,866	36,818	43,330	50,289	40,257
Cost of solvency margin	(8,181)	(9,793)	(10,772)	(12,065)	(10,456)
Embedded value	28,085	48,991	60,638	72,383	56,149
Vnb (long term)	4,741	4,360	4,352	4,472	2,419
Multiplier	(2)	(1)	3	3	
New business value (long term)	(9,515)	(5,297)	12,460	12,127	
Appraisal value	18,570	43,694	73,099	84,510	
EV movement analysis					
Opening embedded value	20,333	28,383	49,290	60,638	48,991
Expected return					
- SHF's	300	333	1,142	1,460	535
- In-force	2,654	3,525	4,234	4,983	1,895
Value of new business (VNB)	5,095	4,681	4,672	4,802	2,419
Inv't r var + Mkt val adj	(203)	(11,894)	3,000	1,500	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	60,638	72,383	56,149
EVPS (HK\$)	27.89	19.14	24.18	29.38	22.16
AVPS (HK\$)	18.44	17.07	29.15	34.30	
PEV implied	0.66	0.89	1.21	1.17	
VNB (HK\$)	4.71	1.70	1.74	1.82	
VNB implied (x)	(2.01)	(1.21)	2.86	2.71	
EV contributions 1 (%)					
Expected return on beg EV		14%	11%	11%	5%
IRV + MVA contribution to beg EV		-42%	6%	2%	5%
VNB contribution to beg EV		17%	10%	8%	5%
VNB contribution to beg VIF		16%	13%	11%	6%
EVPS (HK\$) growth		-31%	26%	22%	
EV contributions 2 (%)					
Beginning EV	72%	58%	81%	84%	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%	5%	2%	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



Disclosures

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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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