

Key Data

H-share price (HK\$)	20.30
Target price (HK\$)	NA
Upside potential (%)	NA
52Wk H/L(HK\$)	24.7 / 17.0
Issued shares:	
H-shares (mn)	7,441
A-shares (mn)	20,823
H-share mkt cap (HK\$mn)	151,052
30-day avg vol (HK\$mn)	677.6
Major shareholder (%):	
China Life Group	68.4
JPMorgan Chase	4.9

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 2011 (%)

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

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(4.0)	(5.3)
3-mth	11.2	10.9
6-mth	(15.2)	(2.0)

Source: Bloomberg

*Relative to MSCI China

1 year price performance



Source: Bloomberg

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China Life (2628 HK) – Unrated

Life & health industry

Most positive life result so far (1H12 result review)

China Life just released its 1H12 results, with better-than-expected EV, VNB and net profits. We view this as the most positive life result so far in 1H12. This also signals a prominent turnaround of China Life in 2H12, in our opinion. Currently, the stock is trading at 1.43x 2012E PEV and 6.6x 2012E VNB as per consensus. China Life has been outperforming both Ping An and China Pacific since early Jun. On the back of a strong result, we believe it can sustain the outperformance against peers. As a major index play (about 3.0% weighting in MSCI China and 2.5% of HSI), we believe China Life can outperform the overall market in near term.

Major positive surprise on EV. Group EV came in at Rmb334.3bn, 8.0% better than street consensus of Rmb309.7bn and up 14.8% HoH, due to better bond prices. Such growth exceeded 9.9% HoH by Ping An and 7.3% HoH by China Pacific in the same half.

Better margin expansion than major peers. VNB went up 2.5% YoY despite a 26% YoY decline of FYP and 18% YoY drop of APE. NBM improvement is eye-catching, up 4.2ppt HoH to 38.0% in 1H12 (down 4.3ppt by Ping An and up 2.1ppt by China Pacific).

Consensus beating profits despite heavy impairments Net profits recorded Rmb9.7bn, ahead of Bloomberg consensus of Rmb8.9bn and down 25.7% YoY. In 1H12, China Life made impairments of Rmb7.0bn on funds and Rmb8.1bn on direct equity investments.

Healthy solvency position with room for more sub-debts. Solvency remained healthy at 230.6% post sub-debt issuance of Rmb28bn in 1H12. More importantly, China Life has room to further issue sub-debts of Rmb50bn, in accord to the 50% NAV limit set by CIRC.

Risk factors: Better/worse-than-expected investments and underwriting performance, looser/tighter-than-expected industry regulations

Valuation

FY ended Dec 31	2008	2009	2010	2011
Revenue (Rmb mn)	300,385	339,290	385,838	370,899
Chg (YoY)		13.0	13.7	(3.9)
Net profit (Rmb mn)	19,137	32,881	33,626	18,331
Chg (YoY)		71.8	2.3	(45.5)
EPS (HK\$)	0.77	1.32	1.42	0.79
PER (x)	26.4	15.4	14.3	25.7
BPS (HK\$)	7.0	8.5	8.8	8.3
P/B (x)	2.9	2.4	2.3	2.5
EVPS (HK\$)	9.6	11.5	12.6	12.6
PEV (x)	2.1	1.8	1.6	1.6
VNB (HK\$)	0.56	0.71	0.84	0.87
VNB (x)	19.1	12.4	9.2	8.8

Source: Company, Bloomberg, ABCI Securities



1H12 result review

Major positive surprise on EV. Group EV came in at Rmb334.3bn, **8.0%** better than street consensus of Rmb309.7bn and up 14.8% HoH. Such growth exceeded 9.9% HoH by Ping An and 7.3% HoH by China Pacific in the same half. Per the management, rise of bond prices and increase in debenture bond holdings were the key reasons for the good growth in EV during 1H12. Meanwhile, group book value went up 11.5% HoH to Rmb213.5bn. AFS reserves rose by Rmb11.7bn, or 6% of end-2011 shareholders' equity, on the back of higher valuation of bond portfolio.

Margin expansion superseded volume fall. Value of new business (VNB) was reported at Rmb12.5bn, overshot street consensus of Rmb12.3bn by 1.4% and up 2.5% YoY. This is primarily because of the expanding new business margins (APE basis, up from 33.9% in 2011 to 38.0% in 1H12), despite a 26% YoY decline in FYP. NBM was higher mainly due to higher portion of long term regular FYP sales (68% regular FYP > 5 years, versus 45% in 1H11) and success of Kang Ning Critical Illness product launched in Apr 2012. We believe the margin story will sustain for China Life in 2H12.

Better margin expansion than major peers. As revealed in 1H12 results, China Life reported better-than-peers margin expansion. VNB went up 2.5% YoY despite a 26% YoY decline of FYP and 18% YoY drop of APE. NBM improvement is eye-catching, up 4.2ppt HoH to 38.0% in 1H12. This is compared to a HoH drop in NBM by Ping An and 2.1ppt HoH increase by China Pacific. China Life has never outperformed major peers in margin expansion over the past two years.

Consensus beating profits despite heavy impairments Net profits recorded Rmb9.7bn, ahead of Bloomberg consensus of Rmb8.9bn and down 25.7% YoY. This is led by lower investment income at Rmb22.4bn, down 28.6% YoY. China Life made impairments of Rmb7.0bn on funds and Rmb8.1bn on direct equity investments during the half. Such losses dragged the overall profitability of China Life. Also, we are glad to see no further unrealized losses on equity investments recorded on profit and loss in the current period.

Average investment results. Investment results were average on the surface. Gross investment yield was 2.8% for the half (versus 3.9% of China Pacific and 3.7% of Ping An). Net investment yield was 4.5% during the same period (weaker than 4.9% of China Pacific and parallel with 4.5% of Ping An). But we view the impairments of Rmb15.1bn on equity investments a removal of future drag to investment results. Also, as reported in comprehensive income, China Life recorded unrealized gains of Rmb11.7bn on AFS bonds. Such gains helped to offset the heavy impairments booked in the half.

Healthy solvency position with room for more sub-debts. Solvency remained healthy at 230.6% post sub-debt issuance of Rmb28bn in 1H12. This is higher than 170.1% announced in 2011 and 164.2% in 1H11. More importantly, China Life has room to further issue sub-debts of Rmb50bn, in accord to the 50% NAV limit set by CIRC.



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, 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, 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, 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)
Persistency 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, ABCI Securities

China Life: Embedded Value (EV) Movement Analysis

	2008	2009	2010	2011	1H11	1H12
	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn
Embedded Value						
Adjusted net worth	137,816	159,948	144,655	110,266	125,829	136,286
Value of in-force	122,898	149,387	183,008	215,608	202,352	232,639
Cost of solvency margin	(20,626)	(24,106)	(29,564)	(33,020)	(31,688)	(34,598)
Embedded value	240,088	285,229	298,099	292,854	296,493	334,326
Vnb (long term)	13,924	17,713	19,839	20,199	12,186	12,494
EV Movement Analysis						
Opening Embedded Value	252,568	240,088	285,229	298,099	298,099	292,854
Expected return						
- SHF's	9,250	7,580	8,797	7,956	4,772	4,944
- In-force	11,072	13,519	16,433	19,825	8,915	9,234
Value of New Business (VNB)	13,924	17,713	19,839	20,199	12,186	12,494
Inv't R Var + Mkt Val Adj	(28,754)	15,307	(11,234)	(40,839)	(20,304)	19,429
Capital Raising & Dividends	(11,873)	(6,500)	(19,785)	(11,306)	(11,306)	(6,501)
OpEx Var, Model Chg & Others	(6,099)	(2,478)	(1,180)	(1,080)	4,131	1,872
Closing Embedded Value	240,088	285,229	298,099	292,854	296,493	334,326
EVPS (HK\$)	9.64	11.45	12.57	12.67	12.80	14.55
VNB (HK\$)		0.71	0.84	0.87		
EV Contributions 1						
Expected Return on Beg EV	8.0%	8.8%	8.8%	9.3%	9.2%	9.7%
IRV + MVA Contribution to Beg EV	-11.4%	6.4%	-3.9%	-13.7%	-13.6%	13.3%
VNB Contribution to Beg EV	5.5%	7.4%	7.0%	6.8%	8.2%	8.5%
VNB Contribution to Beg VIF	13.8%	14.4%	13.3%	11.0%		
EVPS (HK\$) Growth	0.6%	18.8%	9.7%	0.8%		
EV Contributions 2						
Beginning EV	105.2%	84.2%	95.7%	101.8%	100.5%	87.6%
Expected return						
- SHF's	3.9%	2.7%	3.0%	2.7%	1.6%	1.5%
- In-force	4.6%	4.7%	5.5%	6.8%	3.0%	2.8%
Inv't R Var + Mkt Val Adj	-12.0%	5.4%	-3.8%	-13.9%	-6.8%	5.8%
Value of New Business (VNB)	5.8%	6.2%	6.7%	6.9%	4.1%	3.7%
Capital Raising & Dividends	-4.9%	-2.3%	-6.6%	-3.9%	-3.8%	-1.9%
OpEx Var, Model Chg & Others	-2.5%	-0.9%	-0.4%	-0.4%	1.4%	0.6%
Ending EV	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, ABCI Securities



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