

# China / Hong Kong Company Update

## China Life Insurance

Bloomberg: 2628 HK EQUITY | 601628 CH Equity | Reuters: 2628.HK | 601628.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Nov 2023

### H: BUY

Last Traded Price (H) (31 Oct 2023): HK\$10.60 (HSI : 17,112)  
Price Target 12-mth (H): HK\$16.00 (50.9% upside) (Prev HK\$18.00)

### A: HOLD

Last Traded Price (A) (31 Oct 2023): RMB33.60 (CSI300 Index : 3,573)  
Price Target 12-mth (A): RMB27.68 (17.6% downside) (Prev RMB31.69)

#### Analysts

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#### What's New

- China Life unveils new individual agency channel reforms ("Seed Program") on Corporate Day
- Seed Program to be positive on long-term quality growth of the agency channel, which has been long-awaited by the market
- Given stricter regulatory rules on insurance sales, we expect VNB y-o-y growth to be a positive single-digit % in FY24/25F
- Revise down FY24F VNB assumption by 6%, lower H-share TP to HK\$16 on weaker VNB growth prospects, but maintain BUY as most negatives have already been priced in; Also cut A-share TP to Rmb27.68, and maintain HOLD

### Riding on stronger agent sales team

#### Investment Thesis

**Newly initiated life agent reforms to accelerate China Life's agency channel transformation.** The newly introduced life agent reforms unveiled on Corporate Day offers promising prospects for China Life's shift towards high-quality growth in its agency channel. Management expects both the existing agent sales team and the pilot sales team to run in parallel over the next two years. We expect its existing sales team to maintain their sales patterns with a stabilised headcount and improved productivity. Coupled with a stronger position in the bancassurance channel, new business growth should be resilient in FY23F-25F.

**Expect VNB growth to reach 12%/4%/7% in FY23/24F/25F.** China Life has done well in 9M23, benefiting from the last-minute sales effect from the lowering of assumed interest rates. Even though its renewal premium will continue to decline in FY23F, given its product transition, the faster growth in new business will likely offset the decline. Given premium sales likely to be impacted by stricter regulatory rules, we expect its VNB y-o-y growth to be at a positive single-digit percentage in FY24/25F.

**Stricter rules on insurance sales short-term pain but long-term gain.** National Administration of Financial Regulation (NAFR) recently released several rules to regulate insurance sales practices, mainly in the bancassurance channel and open-year sales ("開門紅"). We believe 1) the stricter rules are likely to cool down China Life's premium sales in the short term; 2) the cut in commission fees paid to banks is likely to mitigate aggressive competition and potential expense-loss risk; and 3) growth should be driven by open-year sales, as the insurer has adjusted premium collection methods and open-year sales campaign is proceeding as usual.

**Lower TP to HK\$16; maintain BUY.** We expect net profit under IFRS9/17 to be Rmb36.7bn/47.8bn/52.7bn in FY23F/24F/25F, respectively. We lower our FY24F VNB assumption by 6%, mainly due to the stricter rules governing insurance sales and expect VNB to achieve single-digit y-o-y growth in 24F/25F. Hence, we lower the H-share TP to HK\$16 on weaker VNB growth prospects, based on 0.28x FY24F P/EV (previously: 0.33x), but maintain BUY as most negatives have already been priced in. We also maintain HOLD on the A-share and cut TP to Rmb27.68 from Rmb31.69.

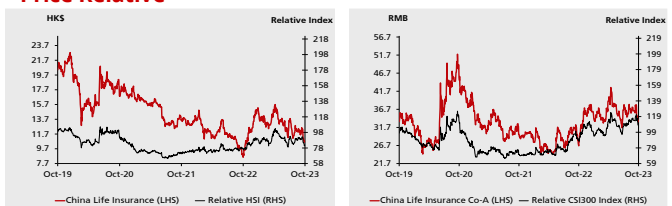
#### Key Risks

Intensifying market competition, declining interest rate trends as well as China's slower-than-expected economic growth are key risks.

#### At A Glance

Issued Capital - H shares (m shs)	7,441
- Non H shrs (m shs)	20,825
H shs as a % of Total	26
Total Mkt Cap (HK\$/US\$m)	827,130 / 105,715
Major Shareholders (%)	
China Life Insurance (Group) Company	92.8
Major H Shareholders (As % of H shares)	Nil
H Shares-Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	48.7
GICS Industry: Financials / Insurance	

#### Price Relative



#### Forecasts and Valuation (H Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Ins. service result	N/A	46,654	49,031	51,247
Net investment result	N/A	(1,035)	11,345	15,599
Net Profit	32,082	36,653	47,829	52,660
EPS (RMB)	1.14	1.30	1.69	1.86
EPS (HK\$)	1.21	1.39	1.81	1.99
EPS Gth (%)	(38.8)	14.2	30.5	10.1
PE (X)	8.7	7.6	5.9	5.3
DPS (HK\$)	0.52	0.56	0.62	0.68
Net Div Yield (%)	4.9	5.3	5.8	6.4
BV Per Share (HK\$)	13.85	13.89	14.77	15.73
P/Book Value (X)	0.8	0.8	0.7	0.7
P/EV (X)	0.2	0.2	0.2	0.2
ROAE (%)	7.6	10.0	12.6	13.1

Earnings Rev (%)	(20)	(3)	New
Consensus EPS (RMB)	1.27	1.80	1.88
Other Broker Recs:	B:23	S:2	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## China Life Insurance

### WHAT'S NEW

#### Riding on stronger agent sales team

##### China Life's Corporate Day 2023

China Life held its Corporate Day during its 20th listing anniversary, providing a comprehensive presentation of the individual life insurance sales team reforms and senior care ecosystem development. Regarding the reforms of the individual life insurance sales team (the "Seed Program"), a comprehensive introduction was given on the top-level design of the new sales team, its mid-term targets, and the path to implementation. Management also discussed the philosophy, development direction, and mid-term goals of the senior care ecosystem. Below are our takeaways from the company's Corporate Day on Oct 31 2023.

#### 1. Development of the new individual life insurance sales team

- **Methods for building sales team**

Over the past three years, individual life insurance sales have faced challenges due to the impact of the pandemic, resulting in declining income, the streamlining of agent teams, and difficulties in recruiting new agents. To address the pressure faced by the agency channel, China Life has designed an approach to build a new individual life agent team ("Seed Program") and officially announced this during its Corporate Day.

This approach focuses on multiple aspects to address the contradictions between the development of the new sales team and the current agency channel management methodology, including 1) simplifying management levels (from three levels to two levels), 2) raising recruitment standards (shifting from agent-led recruitment to standardised company-level recruitment), 3) extending the time for commission distribution to agents (from the current less than 5 years to 8-10 years), 4) assessing agent performance in a longer cycle (such as one year), etc. These measures are aimed at attracting high-quality candidates with strong backgrounds to join the agent sales team, providing a feasible path for agents to plan for their long-term career path.

- **The mid-term target**

The insurer plans to make a two-year effort to create three to five successful sales teams as examples in first tier cities. Upon the successful pilot by 2025, the methodology will be applied nationwide. The target for pilot cities is to achieve per capita productivity of more than double that of the current first tier cities. If this is accomplished, agents' incomes will be significantly higher than the local average wage, ensuring the healthy and long-term development of the sales teams.

- **Our view**

1) We think the Seed Program aligns with current consumer needs for insurance products and services, which will accelerate the transformation of China Life's agency channel and help drive the insurer's value of new business (VNB) growth in the long term by successful implementation. 2) Its peers took action to construct new agent sales teams years ago – for example, Ping An's life agent reform plan was implemented in 2018 and CPIC's "Changhang Partner Program" in 2021. China Life can incorporate the experiences of its peers in its own sales team reforms to help mitigate any negative impacts on the existing sales teams and ensure a smooth transition. 3) Measures such as streamlining management levels, raising recruitment standards, and transitioning to a long-term commission payment structure are likely to align agents' interests with the insurer's interests, improve agent productivity, and drive healthy and resilient growth in the sales teams in the long term. 4) We believe that China Life's pilot run for the Seed Program has the potential to achieve its mid-term target ahead of schedule. This involves building high-quality sales teams of 2k-3k people in three to five first tier cities, and the contribution to VNB growth is expected to become pronounced after nationwide implementation.

#### 2. Senior care ecosystem development

- **Plan's overview**

China Life's senior care ecosystem focuses on urban-centric senior care centres, along with senior care centres in suburban areas, community-based and home-based senior care centres, and senior care when travelling (城心養老、城郊養老、社區養老、居家養老、旅居養老). Currently, China Life has initiated senior care projects in 13 cities, with plans to expand coverage to 30 cities by 2025. China Life will also enhance its service content, improve service standards, enrich its insurance product offerings, and increase cross-selling opportunities in the end.

- **Our view**

We believe that 1) the development of the senior care ecosystem aligns with the current direction of the Chinese Government's policies; 2) however, the profitability of the senior care centres remains uncertain, given the temporary absence of explosive growth in senior care demand, capital-intensive nature of senior care centre projects, and the complexity of supply chain management of healthcare services; and 3) the synergy between the senior care ecosystem and the core business of insurance sales needs further observation.

## China Life Insurance

### Our first forecast under IFRS 9/17

China Life has already released its 3Q23 results under the new accounting rules IFRS 9 and IFRS 17. Due to the impact on investment performance, the insurer's net profit decreased by 36% y-o-y to Rmb35.5bn in 9M23, missing expectations. VNB decreased by est.7% y-o-y in 3Q23, mainly due to the lowering of assumed interest rates from 3.5% to 3.0% and the stricter regulatory oversight of bancassurance channel sales.

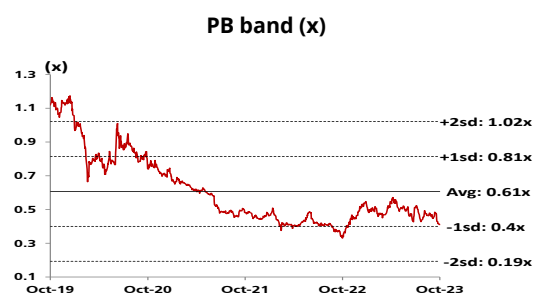
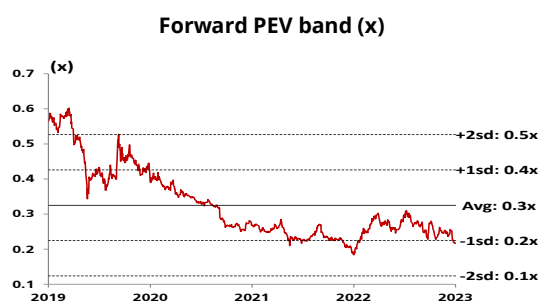
We are publishing our forecasts for the first time based on the IFRS 9/17 standard. We expect a net profit of Rmb36.7bn for FY23F, with y-o-y growth of 30.5%/10.1% for FY24F/25F, respectively. The steady growth of the insurance service results is expected to be offset by weak investment performance in the short term in FY23F and we expect the investment results to return to normal in FY24F/25F. We slightly revise up our VNB forecast for 2023 by 1.9% and revise down our 2024 VNB by 6%, to reflect 1) better-than-expected sales growth prompted up by the lowering of the assumed interest rate from 3.5% to 3% in 1H23 and 2) stricter regulatory restrictions to cool down insurance sales in 2H23 and onward. The VNB for 2023/24/25 is expected to be Rmb40.4bn/41.8bn/44.9bn, respectively.

Due to the weaker investment performance that is likely to sustain in the short term and weaker VNB growth in FY24F, along with rolling it over to FY24F, we revise down our H-share TP from HK\$18 to HK\$16 based on 0.28 FY24F P/EV (previously: 0.33x), but maintain a BUY rating as most negatives have already been priced in. We also maintain a HOLD rating for China Life's A-shares, with the TP revised down from Rmb31.69 to Rmb27.68.

### Company Background

China Life Insurance (China Life), formerly the domestic life insurance arm of PICC, was established in June 2003. It was listed on the HKEX and SHEX in December 2003 and January 2007, respectively. China Life focuses on providing life insurance products and has the largest market share in China. In FY22, its total assets and liabilities were Rmb5,3tn and Rmb4.8tn, respectively.

### Historical PEV and PB band



Source: Bloomberg Finance L.P. DBS HK

## China Life Insurance

### Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Gross written premium growth	1.0	(0.5)	2.6	2.3	3.5
Agency growth	(40.5)	(18.5)	(1.0)	0.0	2.0
Agency productivity growth	12.5	46.3	20.0	2.0	4.0
VNB margin	25.5	19.5	20.0	19.9	20.0
Net investment return	4.3	4.0	3.4	3.5	3.6
Total investment return	4.3	4.0	3.2	3.6	3.7
EV growth	12.2	2.3	6.6	8.0	8.2
Solvency ratio	262.4	206.8	187.8	176.8	167.4
CSM amortization rate	N/A	N/A	5.2	5.2	5.2
New business CSM (in Rmb m)	N/A	N/A	36,350	37,660	40,383
CSM closing balance (in Rmb m)	N/A	783,473	804,673	826,756	851,047

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Insurance revenue	N/A	N/A	151,712	158,851	167,722
Insurance service expenses	N/A	N/A	(103,329)	(108,009)	(114,563)
Net expenses from reins. contract held	N/A	N/A	(1,729)	(1,811)	(1,912)
<b>Insurance service result</b>	<b>N/A</b>	<b>N/A</b>	<b>46,654</b>	<b>49,031</b>	<b>51,247</b>
Investment return	N/A	N/A	154,991	189,088	210,744
Net finance expenses	N/A	N/A	(154,486)	(176,133)	(193,390)
Other movements	N/A	N/A	(1,540)	(1,610)	(1,755)
<b>Net investment result</b>	<b>N/A</b>	<b>N/A</b>	<b>(1,035)</b>	<b>11,345</b>	<b>15,599</b>
Other revenues	N/A	N/A	4,000	3,500	3,500
Other expenses	N/A	N/A	(16,938)	(18,010)	(18,948)
Share of profit of associated and JVs	10,328	484	11,303	11,529	11,793
Profit before tax	50,495	24,047	43,984	57,394	63,192
Income tax expense	1,917	9,467	(6,598)	(8,609)	(9,479)
Minority interest	(1,491)	(1,432)	(733)	(957)	(1,053)
<b>Net income attributable to shareholders</b>	<b>50,921</b>	<b>32,082</b>	<b>36,653</b>	<b>47,829</b>	<b>52,660</b>

Source: Company, DBS HK

## China Life Insurance

### Balance Sheet(RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Total Investment	4,458,448	5,010,068	5,533,983	6,064,814	6,632,252
Property, plant and equipment	54,398	54,559	60,015	66,016	72,618
Other assets	378,239	(54,559)	(60,015)	(66,016)	(72,618)
<b>Total assets</b>	<b>4,891,085</b>	<b>5,010,068</b>	<b>5,533,983</b>	<b>6,064,814</b>	<b>6,632,252</b>
Insurance contract liabilities	3,419,899	4,266,947	4,788,819	5,295,637	5,836,543
Other Liabilities	670,934	368,148	368,148	368,148	368,148
<b>Total liabilities</b>	<b>4,404,427</b>	<b>4,635,095</b>	<b>5,156,967</b>	<b>5,663,785</b>	<b>6,204,691</b>
Shareholder's equity	478,585	366,021	367,245	390,267	415,707
Minority interest	8,073	8,952	9,771	10,763	11,854
<b>Total equity</b>	<b>486,658</b>	<b>374,973</b>	<b>377,016</b>	<b>401,029</b>	<b>427,561</b>

Source: Company, DBS HK

### Key Financials & Ratios

FY Dec	2021A	2022A	2023F	2024F	2025F
<b>Du Pont analysis (%)</b>					
Net profit / insurance revenue	N/A	N/A	24.2	30.1	31.4
Insurance revenue / total asset	N/A	N/A	2.7	2.6	2.5
Total asset / total equity	10.1	13.4	14.7	15.1	15.5
Return on equity	11.0	7.6	10.0	12.6	13.1
<b>Embedded value(RMB m)</b>					
Book value	478,585	366,021	367,245	390,267	415,707
Adjusted items	195,732	316,673	316,673	316,673	316,673
Adjusted book value	674,317	682,694	683,918	706,940	732,380
Value-in-force	528,691	547,825	627,577	709,221	799,320
Group embedded value	1,203,008	1,230,520	1,311,494	1,416,161	1,531,700
<b>Per share analysis(RMB)</b>					
EPS	1.85	1.14	1.30	1.69	1.86
BPS	16.93	12.95	12.99	13.81	14.71
DPS	0.65	0.49	0.52	0.58	0.64
EVPS	42.56	43.54	46.40	50.10	54.19
<b>Capital Strength (%)</b>					
Leverage ratio	10	13	15	15	16
Solvency ratio	262.4	206.8	187.8	176.8	167.4

Source: Company, DBS HK

**China Life Insurance**

**H Share - Target Price & Ratings 12-mth History**



S.No.	Date	Closing Price	Target Price	Rating
1	6-Jan-23	HK\$13.94	HK\$18.50	BUY
2	31-Mar-23	HK\$12.42	HK\$18.00	BUY

Source: DBS HK

Analyst: Ken Shih  
Iris GAO

**A Share - Target Price & Ratings 12-mth History**



S.No.	Date	Closing Price	Target Price	Rating
1	6-Jan-23	RMB37.93	RMB16.23	SELL
2	31-Mar-23	RMB32.89	RMB31.69	HOLD

Source: DBS HK

Analyst: Ken Shih  
Iris GAO

## China Life Insurance

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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**China Life Insurance**

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