

Analyst: Paul Sham
CHINA LIFE INSURANCE COMPANY LIMITED (中國人壽)

Sector	: Insurance	Chairman	: Mr. Yang Chao
HKSE Code	: 2628	Executive Director & Vice President	: Mr. Wan Feng
Market Price	: HK\$27.40 (26/03/2008)		
Shares Issued	: 7,441.2m (H shares)		
Mkt. Cap.	: HK\$203,888.2m (H shares)		
52 weeks Hi/ Lo	: HK\$53.80 / HK\$21.70		
HSI / HSCEI	: 22,617.01 / 11,860.22 (26/03/2008)		
Main Business	: Life insurance businesses		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	FY2007	FY2006	Change
	RMB million	RMB million	
Gross written premiums and policy fees	111,886	99,417	+12.5%
Net earned premiums	111,404	98,847	+12.7%
Net investment income (recurring)	44,020	24,942	+76.5%
Net realized/unrealized gain/(loss) from investments	34,228	21,639	+58.2%
Other revenues	1,720	1,883	-8.7%
Total policy benefits & expenses	(146,390)	(121,706)	+20.3%
Profit before taxation	45,391	25,605	+77.3%
Taxation	(6,331)	(5,554)	+14.0%
Profit attributable to shareholders	38,879	19,956	+94.8%
Basic EPS (RMB)	1.38	0.75	+84.0%
Final DPS (RMB)	0.42	0.14	+200.0%
Total DPS (RMB)	0.42	0.14	+200.0%

- China Life Insurance (China Life) recorded a 94.8% y-o-y rise in FY07 earnings to RMB38,879m, 4% higher than market forecast of RMB37,411m. The main reason for the better-than-expected results was stellar investment performance and sharp fall in tax rate, partially offset by sharp rise in investment benefit payouts and operating expenses.
- Strong investment income (reaching RMB78,248m) was the key driver for the strong bottom line of China Life, although the negative is that there is RMB18,843m in unrealised gains. China Life's total gross written premiums & policy fees rose unexcitingly at 12.5% y-o-y to RMB111,886m.
- China Life's total expenses increased 20.3% y-o-y to RMB146,390m in FY07. Insurance benefits and claims increased 19.2% y-o-y to RMB132,722m in FY07, largely attributable to an increase in dividends paid to policyholders. Administrative expenses increased 26.3% y-o-y to RMB11,798m as a result of the company's increased business and diversified operations.
- The effective tax rate fell from 21.7% in FY06 to 13.9% in FY07. The drop in tax rate was due to the effect on change in statutory tax rate and the strong investment income which was not taxable.
- China Life remained the No.1 life insurer in the Mainland, commanding a market share of 39.7% in FY07 (FY06: 45.3%) vs. the No.2 Ping An Life's 16.0%.
- Basic EPS was RMB1.38. A final DPS of RMB0.42 was proposed, representing a payout ratio of 30.4% for FY07 (FY2005: 18.7%).

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- China Life's latest embedded value and the value of one-year's new business increased by 38.8% y-o-y and 14.9% y-o-y, to RMB252,568m and RMB12,047m respectively.

Business Review

- Breakdown of gross written premiums & policy fees and deposits by business segments:

(RMB million)	FY2007	FY2006	Change
<i>Single written premiums</i>	1,273	1,175	+8.3%
<i>Regular written premiums</i>	24,207	21,484	+12.7%
First-year written premiums	25,480	22,659	+12.4%
Renewal written premiums	65,940	57,427	+14.8%
Individual life gross written premiums	91,420	80,086	+14.2%
<i>Single deposits</i>	56,644	53,658	+5.6%
<i>Regular deposits</i>	3,538	2,902	+21.9%
First-year deposits	60,182	56,560	+6.4%
Renewal deposits	11,887	13,795	-13.8%
Individual life deposits	72,069	70,355	+2.4%
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<i>Single written premiums</i>	705	1,030	-31.6%
<i>Regular written premiums</i>	149	85	+75.3%
First-year written premiums	854	1,115	-23.4%
Renewal written premiums	22	29	-24.1%
Group life gross written premiums	876	1,144	-23.4%
<i>Single deposits</i>	22,061	21,072	+4.7%
<i>Regular deposits</i>	82	6	+1266.7%
First-year deposits	22,143	21,078	+5.1%
Renewal deposits	15	8	+87.5%
Group life deposits	22,158	21,086	+5.1%
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Accident insurance	5,495	5,148	+6.7%
Short-term health insurance	6,404	5,942	+7.8%
Accident & short-term health insurance	11,899	11,090	+7.3%
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Policy fee	7,691	7,097	+8.4%
Total gross written premiums and policy fees	111,886	99,417	+12.5%

- Individual life insurance business** saw a 14.2% increase in gross written premiums in FY07 which grew faster than other segments. First-year premiums rose 12.4%. In terms of product mix, regular premiums made up almost all of individual life first-year premiums. Management indicated that it will continue to focus on long-term regular business.
- Group life insurance business** recorded a 23.4% drop in gross written premiums in FY07, with first-year premiums down also 23.4%. Single-premium product sales, which were down 31.6% and accounted for 82.6% of first-year premiums, continued to dominate the new-business sales in the group life segment.
- Accident & short-term health insurance business** registered a modest 7.3% increase in premium income.

Investment portfolio	31/12/2007		31/12/2006		Change
	(RMB million)		(RMB million)		
Debt securities	443,181	52.1%	357,898	52.1%	+23.8%
Term deposits	168,594	19.8%	175,476	25.5%	-3.9%
Equity investments	195,147	23.0%	95,493	13.9%	+104.4%
Cash & cash equivalents	25,317	3.0%	50,213	7.3%	-49.6%
Others	17,970	2.1%	7,724	1.1%	+132.7%
Total investments	850,209	100.0%	686,804	100.0%	+23.8%

- **Net investment income** rose by 76.5% y-o-y to RMB44,020m. The yield on investments rose to 5.76% for FY07, from 4.27% for FY06. In 2007, the company redeployed more of its liquid funds into long-term debt investments so as to maintain the proportion of fixed-maturity investments at 52.1%. Owing to the buoyant stock markets, the portion of equity investment expanded to 23.0% of the investment portfolio, compared with 2006's 13.9%.

Outlook & Prospects

- **Strong investment income unlikely to repeat in 2008** We think the latest operating results show that China Life is trending down in its premium growth, which is the main profit component for the company. The 94.8% increase in net profits was mainly driven by investment income. Such strong investment income is likely to decline in 2008 as the A-share market has slumped for almost 30% since Jan 2008. As a result, China Life may not be able to continue to deliver significant bottom line growth in 2008.
- **Undiversified revenue mix** China Life's premium growth has clearly slowed down significantly, with its gross written premiums and policy fees growth dropping from 22.7% y-o-y in FY06 to only 12.5% in FY07. While China Life continues to strengthen its sales channels, we still see disappointing growth in premiums. Unlike Ping An's diversified income source from insurance, banking and asset management, China Life's main source of revenue still comes from individual life policies. Its group life and accident & health's contribution only comes up to 18% of total premium and deposit revenue in FY07. We consider the reliance on individual life to be a potential long-term weakness for the company.
- **Mixed picture of market environment** The bull-run in Chinese equities has taken its toll on insurance premiums in 2007. People have been cashing in on their policies or trimming the premiums to invest in the stock markets. This could explain why the growth of insurance business was slow in 2007. With the tumbling A-share market in 1Q08, people should start reconsider the lower-risk insurance products. On the negative side, the continuous interest rate hikes pushed the one-year deposit rate to 4.14%, making insurance products become less attractive.
- **Undemanding valuation with long-term growth prospect** The counter is currently trading at 19.8x 2007 P/E and 3.07x 2007 P/EV. Given its stronger rural franchise and brand name, China Life should be an appropriate long-term core holding in the fast-growing China economy and remains our top pick in China's insurance sector. We therefore recommend a "Long-term Hold" rating for the counter.

Recommendation: Long-term Hold



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