

Analyst: Vincent Leung

Main Board H-share Listing – Research

中國人壽保險股份有限公司

China Life Insurance Company Limited [Stock Code: 2628]

Joint Global Coordinators, Joint Bookrunners, Joint Sponsors and Joint Lead Managers : CICC, Citigroup, CSFB, Deutsche Bank

Sector : Insurance

Business : Provision of life insurance products in the PRC

<p>Total share offer: 6,470,588,000 shares (25% of the enlarged share capital)</p> <p>HK Public Offering: 323,529,000 shares (5%) Int'l Offering: 6,147,059,000 shares (95%)</p> <ul style="list-style-type: none"> - 5,588,235,000 new shares - 558,824,000 sale shares <p>Greenshoe: 970,587,000 shares</p> <p><i>Note: 1 ADS = 40 H shares</i></p>	<p><u>Business of China Life Insurance</u></p> <p>China Life Insurance (China Life), formed after restructuring of China Life Insurance (Group) Company ("CLIC"), is the leading life-insurance company in the PRC. In 2002, China Life alone commands some 44.7% of the market share whilst the combined market shares of China Life and CLIC reached 56.6%.</p> <p>The Company has leading positions in its respective businesses, including individual life insurance (ranked 1st; 51% market share), group insurance (2nd; 18%), accident insurance (1st; 69%) and health insurance (2nd; 34%), in the PRC.</p> <p>China Life was incorporated in June 2003 as part of the restructuring plan approved by the State Council and the China Insurance Regulatory Commission (CIRC). Under the restructuring plan, CLIC has transferred all insurance policies issued on or after 10th June 1999 (*about 44.6 million policies), together with the applicable reinsurance contracts, cash, specified investment assets and various other assets as well as all management personnel and employees to the Company – China Life. CLIC has also undertaken not to compete with the Company, directly or indirectly, in any life, accident and health insurance as well as other business in the PRC.</p> <p>Insurance policies issued prior to 10th June 1999 (*about 68.6 million policies), as well as the trademarks in the "China Life" name and "ball logo", are retained by CLIC. Substantial losses have been incurred on these policies as their average investment returns generated are lower than their guaranteed rates, and CLIC does not meet the minimum solvency requirement set by the CIRC. CLIC has entered into a policy management agreement with China Life to administer these policies on a cost-plus basis.</p>
<p>Price: HK\$2.95 – HK\$3.61 per share H-share Market Cap. : HK\$19,088.23 million – HK\$23,358.82 million</p> <p>Estimated FY2003 P/B: 1.44x-1.64x Prospective FY2003 P/E: 15.29x – 18.71x (pro forma fully diluted)</p> <p>Adjusted NTA per share: HK\$1.46 (before over-allotment option is exercised)</p> <p>Staffing: 66,886</p>	
<p>Book opens: 1st December, 2003 Book closes: 11th December, 2003</p> <p>IPO commences: 8th December, 2003 IPO closes: 11th December, 2003</p> <p>Receiving bank: Bank of China (Hong Kong) Bank of East Asia HSBC</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Trading of ADSs on NYSE: 17th December, 2003 Listing date: 18th December, 2003</p>	

*- as of 30th June 2003

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Major Shareholders after Listing (Note)

(Assuming the over-allotment option is not exercised)

China Life Insurance (Group) Company

75%

Note: The following corporate investors, through their respective indirect wholly-owned subsidiaries, have agreed to subscribe, at the offering price for the International Offering (HK\$2.98-HK\$3.65 per share), an aggregated of US\$500 million worth of H shares or ADSs. These investors are subject to a 12-month lock-up period.

	Investment Amount	*% of issued share capital
Cheung Kong (Holdings) Limited (Stock code: 0001)	Not more than US\$100 million	0.91%
Hutchison Whampoa Limited (Stock code: 0013)	Not more than US\$100 million	0.91%
Henderson Development Limited (a private company owned by a unit trust, of which the issued share capital of the trustee is owned by Dr. Lee Shau Kee)	Not more than US\$200 million	1.81%
Chow Tai Fook Enterprises Limited	Not more than US\$100 million	0.91%

*- assuming an International IPO Price of HK\$3.315 per H share, being the midpoint of the proposed International IPO Price range of HK\$2.98-HK\$3.65

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$18,418 million.

(Assuming the over-allotment option is not exercised and an issue price of HK\$3.28, being the midpoint of the proposed range of issue prices of HK\$2.95 and HK\$3.61 per offer share)

- All of the net proceeds from the offering will be applied to increase the Company's level of paid-in capital and further strengthening of its solvency level. All these proceeds will be invested in accordance with relevant PRC regulations and the Company's investment policies.

Financial Highlights

Unaudited Pro Forma Consolidated Financial Data

(The unaudited pro forma consolidated financial data for the year ended 31st December 2002, for the 6 months ended 30th June 2003 and as of 30th June 2003 has been prepared in accordance with HK GAAP and gives effect to the restructuring as if it had occurred at the start of the corresponding period.)

	6 months ended 30th June 2003 RMB million	Year ended 31st December 2002 RMB million
Revenues		
Individual life	20,370	37,662
Group life	267	477
Accident and health	4,766	8,938
Gross written premiums and policy fees net of business tax	25,403	47,077
Less: Premium ceded to reinsurers	(690)	(1,865)
Net written premiums and policy fees	24,713	45,212
Net change in unearned premium reserves	17	(464)
Net premiums earned and policy fees	24,730	44,748
Net investment income	3,038	4,346
Net realized and unrealized gain/(loss) on investments	590	(420)
Policy administration fees and other income	964	2,066
Total revenues	29,322	50,740
Total benefits, claims and expenses	(24,763)	(44,282)
Net profit/(loss)	3,128	4,524
Total assets	252,759	Not avail.
Including: Investment assets	212,772	Not avail.
Actual solvency capital	29,195	Not avail.
Minimal solvency capital	10,435	Not avail.
Solvency margin	280%	Not avail.
Net Margin	10.7%	8.9%

Historical Consolidated Financial Data

(The historical consolidated financial data for the 3 years ended 31st December 2003 and the 6 months ended 30th June 2003 presents the financial results of the predecessor company, CLIC, prior to the restructuring, which was effected on 30th September 2003.)

	6 months ended 30 th June 2003 RMB million	Years ended 31 st December 2002 RMB million	2001 RMB million	2000 RMB million
Revenues				
<i>Individual life</i>	30,956	58,902	47,571	36,814
<i>Group life</i>	369	749	1,350	495
<i>Accident and health</i>	4,766	9,118	7,948	7,405
Gross written premiums and policy fees net of business tax	36,091	68,769	56,869	44,714
<i>Less: Premium ceded to reinsurers</i>	<i>(690)</i>	<i>(1,869)</i>	<i>(1,655)</i>	<i>(1501)</i>
Net written premiums and policy fees	35,401	66,900	55,214	43,213
Net change in unearned premium reserves	17	(476)	(248)	(314)
Net premiums earned and policy fees	35,418	66,424	54,966	42,899
Net investment income	5,070	8,347	6,276	4,374
Net realized and unrealized gain/(loss) on investments	971	(801)	(328)	(275)
Policy administration fees and other income	122	338	293	827
Total revenues	41,581	74,308	61,207	48,375
Total benefits, claims and expenses	(42,306)	(76,542)	(64,504)	(55,310)
Net loss	(714)	(2,250)	(3,295)	(6,990)
Dividend	-	-	-	-
Loss per share – basic	<u>(RMB0.04)</u>	<u>(RMB0.11)</u>	<u>(RMB0.16)</u>	<u>(RMB0.35)</u>
Total assets	387,938	313,770	228,108	162,377
<i>Including: Investment assets</i>	335,840	266,463	188,869	129,998

Strengths

- ✓ The PRC life-insurance market is at its fast-growth stage, with a 51% CAGR in total life-insurance premiums during 2000-2002. The momentum is expected to continue in view of its low penetration and the robust economic growth in the PRC.
- ✓ The Company is the largest life insurer in the PRC with a 44.7% market share of the nation's life-insurance market (or 56.6% if counting CLIC together) in terms of total premiums in 2002. Among the PRC's 31 provinces, autonomous regions and municipalities, it was the market leader in 29 provinces in 2002. It also has the broadest customer base nationwide with over 38 million individual and group life-insurance policies, annuity contracts and long-term health-insurance policies in force as of 30th June 2003.
- ✓ The Company has the largest nationwide distribution network in the PRC, with some 650,000 exclusive agents operating in about 8,000 field offices for selling individual products and approximately 10,000 direct sales representatives working in over 4,800 branch offices for group products.
- ✓ The Company will be the 1st pure China play on the Hong Kong bourse with exposure to the huge PRC life-insurance market.
- ✓ There is no direct comparable available in the market relating to China's life-insurance sector. Given its dominance in the PRC life-insurance market, China Life's valuation at a prospective FY2003 P/E range of 15.29x-18.71x and an estimated price-to-book range of 1.44x-1.64x looks reasonable when compared with the averages of the US peers (FY2003E P/E: 13.1x; price-to-book: 1.5x), European peers (FY2003E P/E: 17.5x; price-to-book: 1.7x) and Asian peers (FY2003E P/E: 26.3x; price-to-book: 2.3x).

Weaknesses

- × Competition in the PRC life-insurance industry is intensifying, coming not only from domestic life insurers but also non-life insurance companies (From 1st January 2003, property and casualty insurance companies are permitted to sell short-term accident and health insurance products after obtaining regulatory approval.) and foreign-invested life insurers. In fact, the Company is losing its market shares and leading positions in the important cities of Beijing and Shanghai to Ping An Insurance and China Pacific Insurance, partly due to their introduction of investment-linked products.
- × The investment channels available to the PRC insurance companies are limited as their use of funds is restricted to a limited range of PRC financial instruments only. Thus, volatility in the PRC financial market may have significant impact on the Company's bottom line.
- × China Life's parent, CLIC, has incurred substantial losses on the policies (issued prior to 10th June 1999) it retained in the restructuring process. If CLIC is unable to satisfy its obligations to policyholders, it may seek to increase the level of dividends China Life pays, sell China Life's shares it owns or take other action, which may have a material adverse effect on the value of China Life's shares. However, in connection with the restructuring, CLIC has established, together with the Ministry of Finance (MOF), a special-purpose fund for paying claims under the non-transferred policies. In the event that there is any deficiency in the special-fund to meet with any payment obligation from these policies, the MOF will provide support through special fund injection.

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