Company Note
May 18, 2020

Samsung Life Insurance (032830.KS)

BUY
TP KRW60,000

1Q underwriting profit modest

Analyst Kim Jin-sang
+822-3787-2435 jskim@hmsec.com

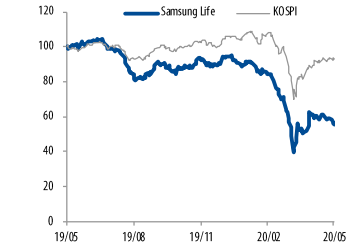
Share price (KRW, May 15)	45,200
Upside (%)	32.7
Market cap (KRW bn)	9,040
Shares outstanding ('000)	200,000
Paid-in capital(KRW bn)/ Face value (KRW)	100/500
52-week high/low (KRW)	84,300/31,900
60-day avg. daily T/O (KRW bn)	34
Foreign ownership (%)	12.83
Major shareholders (%)	Lee Gun-hee and seven others 47.03

Price performance	1M	3M	6M
Absolute (%)	-8.4	-33.5	-39.6
Relative (%p)	-11.7	-22.6	-32.2

*K-IFRS, consolidated

(KRW)	20F EPS	21F EPS	TP
Previous	5,989	6,554	60,000
Revised	5,429	5,858	60,000
Consensus	5,201	5,361	71,917
Difference (%)	4.4	9.3	-16.6

12-month price performance



Source: FnGuide, Hyundai Motor Securities

Investment highlights

- Samsung Life Insurance reported KRW230bn in 1Q20 net income, below the consensus of KRW300.1bn, due to losses stemming from the instability of the financial market, notably stock market plunges in March. Without the one-off events, net income would have met consensus expectations.
- Underwriting profit came to KRW401bn in 1Q20, the highest since 4Q17. The mortality margin may weaken somewhat in 2H20 on a rise in insurance claims, but continued growth in the expense margin should easily propel the 2020 underwriting profit above the guidance of KRW1.4tn.
- The loss ratio in 1Q20 stood at 84.7% (-0.3%p YoY, flat QoQ). Given the decline in the monthly loss ratio, we expect the loss ratio in 2Q20 to improve to the high-70% level. We estimate net income to rise to KRW370bn in 2Q20 when the income from variable insurances is expected to turn to profit.
- In 1Q20, the new business margin slid 1.6% YoY to 45.9% due to changes in the product mix and economic assumptions. We believe it will reclaim the 50% level in 2H20 on an increased portion of accident & health insurances.
- If interest rates and the stock market index remain at current levels, the policy reserve for variable insurances is unlikely to expand further. For this year, we estimate a 7% increase in underwriting profit. A potential rise in the negative interest margin caused by interest rate cuts can be offset by disposing of available-for-sale assets. In all, we expect 2020 net income to climb 11% YoY.
- Earnings momentum remains solid, backed by steady underwriting profit and a well-managed interest margin. We expect the insurer to maintain a favorable investor policy on the back of its industry-high capital strength (RBC ratio of 325%). We reiterate BUY and our target price of KRW60,000.

Major issues and earnings outlook

- Although there were three more business days in 1Q20 vs. a year earlier, the mortality margin expanded by 4% as fewer people used medical care amid the coronavirus pandemic. An improving persistency ratio and management efficiency helped boost the expense margin by 20% YoY. With the loss ratio in April down to 76%, underwriting profit should remain high in 2Q20 as well.
- Despite 8.8% YoY growth in protection-type new business APE, the value of new business fell 1.1% YoY due to a decline in the new business margin. This is attributable to a downward adjustment of NIER by 0.1%p and a sharp increase in whole life insurances ahead of a scheduled interest rate cut. Given the increasing portion of high-margin accident & health insurances in protection-type products from 2Q20, the new business margin is expected to normalize to the mid-50% level.
- Due to declining interest rates, the negative spread has widened to -95bps. The company plans to reduce the negative interest margin burden through assumed interest rate cuts and guarantee fee adjustments. To manage the interest margin, it will probably use available-for-sale assets including real estate holdings and bonds. Meanwhile, 1Q20 saw a 5.1% YoY increase in investment assets, on a parent basis.

Share price outlook and valuation

- For our target price, we applied 0.3x target P/B to 2020F BPS (sustainable ROE 5.0%, COE 16.5%).

Earnings forecasts and valuations

	Direct premium (KRW bn)	Operating profit (KRW bn)	Consolidated net profit (KRW bn)	Growth (%YoY)	BPS (KRW)	EPS (KRW)	P/B (x)	P/E (x)	ROAE (%)	ROAA (%)	Div. yield (%)
2018	16,475	933	1,664	39.3	160,947	8,322	0.28	5.4	5.7	0.58	5.9
2019	16,591	-47	977	-41.3	198,619	4,887	0.23	9.2	3.0	0.32	5.9
2020F	16,819	131	1,086	11.1	205,609	5,429	0.22	8.3	3.0	0.33	5.5
2021F	17,498	323	1,172	7.9	209,219	5,858	0.22	7.7	3.1	0.33	6.2
2022F	23,312	1,642	1,227	2,583	3,421	5.1	8.1	0.6	5.5	7.6	7.6

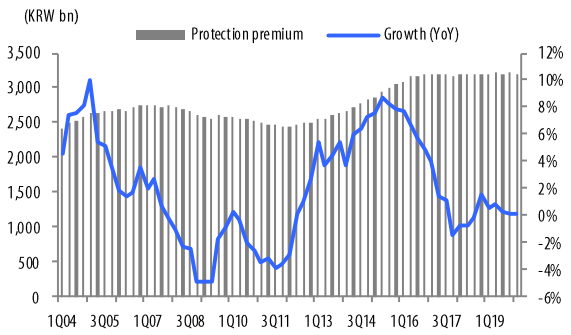
Note: K-IFRS, consolidated

Fig 1. Earnings review (KRW bn)

(KRW bn)	1Q19	2Q19	3Q19	4Q19	1Q20P	% YoY	% QoQ
Underwriting net revenue	-702	-419	-456	-361	-312	N/A	N/A
Underwriting revenue	4,073	4,149	4,170	4,198	4,349	6.8	3.6
Underwriting expense	4,776	4,568	4,626	4,559	4,661	-2.4	2.2
Net investment income	2,119	2,103	2,094	1,578	2,752	29.9	74.4
Increase in insurance reserve	1,216	1,618	1,647	1,522	2,456	102.0	61.4
Operating profit	200	66	-8	-305	-16	N/A	N/A
Non-operating profit	409	377	357	331	340	-17.0	2.7
Pre-tax profit	609	443	349	25	324	-46.8	1174.5
Net profit	469	324	239	18	257	-45.3	1295.8
Cons. net profit	447	309	220	1	230	-48.6	38216.7
APE trends by product	0	0	0	0	0	-	-
Total APE	676	664	627	608	692	2.4	13.8
Protection type	476	484	467	477	518	8.8	8.6
Annuities type	142	122	96	83	104	-26.6	25.3
Savings type	58	58	64	48	70	20.1	45.8
Key indicators (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net investment yield	3.3	3.5	3.5	2.6	4.9	1.6	2.3
Investment spread (bps)	-102	-93	-91	-92	-95	7	-3
Yield on interest-bearings assets	3.4	3.5	3.4	3.4	3.3	-0.1	-0.1
Cost on insurance liabilities	4.4	4.4	4.3	4.3	4.3	-0.1	0.0
Expense ratio	7.8	7.9	7.7	7.6	7.7	-0.1	0.1
Risk loss ratio	85.0	85.4	88.4	84.7	84.7	-0.3	0.0
RBC ratio	338	352	363	340	325	-13.3	-15.0

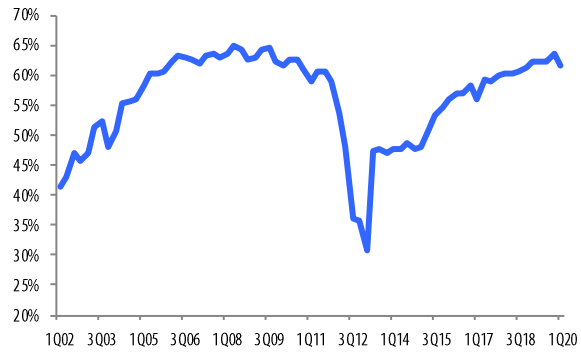
Note: One-offs during 1Q20 include a KRW350bn loss from a guarantee for variable insurances, KRW86bn impairment loss from securities, KRW68bn loss from beneficiary certificates, KRW173bn gain from disposal of buildings, and KRW220bn gain from a bond disposal.
Source: Company data, Hyundai Motor Securities

Fig 2. Protection-type premiums and growth



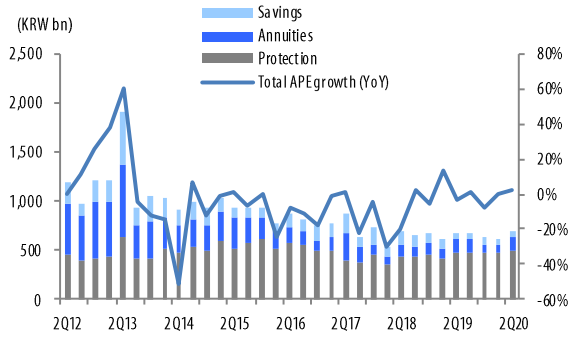
Source: Company data, Hyundai Motor Securities

Fig 3. Protection-type premiums as % of total premiums



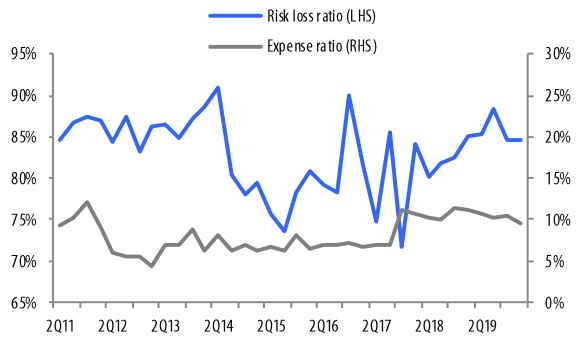
Source: Company data, Hyundai Motor Securities

Fig 4. Quarterly APE trend



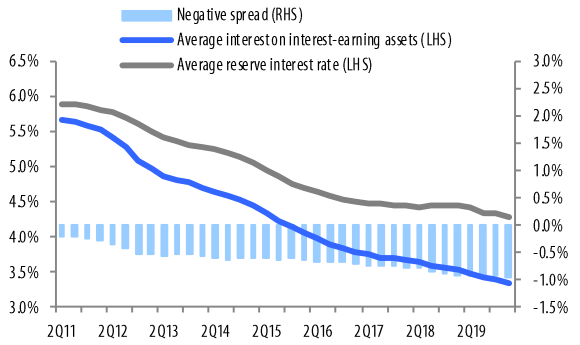
Source: Company data, Hyundai Motor Securities

Fig 5. Risk loss ratio and expense ratio



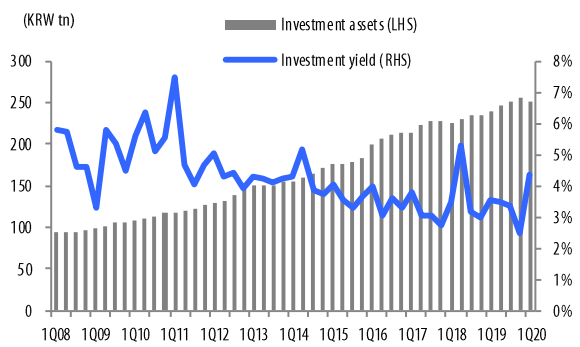
Source: Company data, Hyundai Motor Securities

Fig 6. Quarterly investment spread



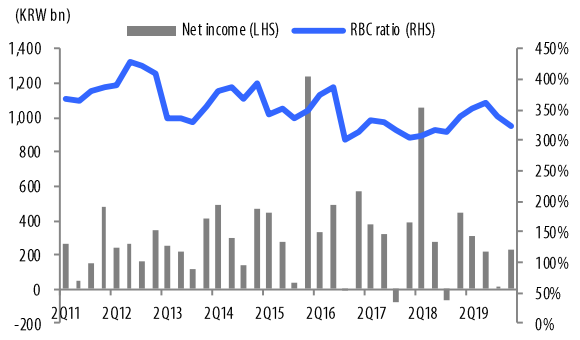
Source: Company data, Hyundai Motor Securities

Fig 7. Quarterly investment assets and yield



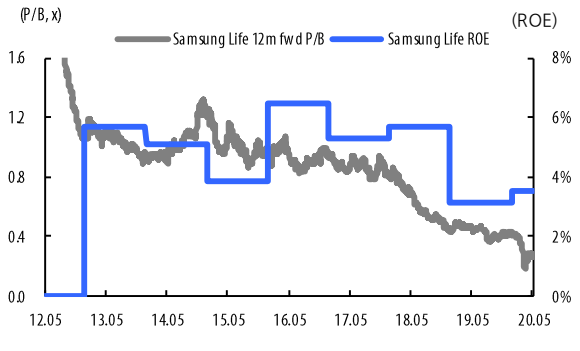
Source: Company data, Hyundai Motor Securities

Fig 8. Quarterly net income and RBC ratio



Source: Company data, Hyundai Motor Securities

Fig 9. ROE vs. P/B



Source: Company data, Hyundai Motor Securities

Income statement

(KRW bn)	CY18	CY19	CY20F	CY21F	CY22F
Underwriting net revenue	-1,214	-1,938	-1,555	-1,455	-1,421
Underwriting revenue	16,475	16,591	16,819	17,498	18,108
Underwriting expense	17,689	18,529	18,374	18,953	19,529
Net investment income	8,595	7,895	8,738	9,128	9,277
Increase in insurance	6,448	6,004	7,052	7,350	7,919
Operating profit	933	-47	131	323	529
Non-operating profit	1,433	1,474	1,405	1,407	1,408
Pretax profit	2,366	1,427	1,537	1,730	1,938
Income tax	632	375	370	476	543
Net profit	1,734	1,052	1,166	1,254	1,395
Minority interest	69	74	80	83	85
Cons. net profit	1,664	977	1,086	1,172	1,310
Growth					
Underwriting net revenue					
Net investment income	23.2	-8.1	10.7	4.5	1.6
Increase in insurance reserve	-15.3	-6.9	17.5	4.2	7.7
Operating profit	180.7	N/A	N/A	146.5	63.9
Cons. net profit	39.3	-41.3	11.1	7.9	11.8

Products

(%)	CY18	CY19	CY20F	CY21F	CY22F
Premium breakdown					
Protection type	42.3	44.7	44.4	44.3	44.5
Savings type	21.1	26.6	27.4	27.6	27.4
Annuity type	30.3	28.6	28.2	28.1	28.1
Premium growth					
Protection type	0.0	0.4	0.2	1.5	2.8
Savings type	-8.0	19.9	3.6	2.5	1.8
Annuity type	-6.6	-10.3	-0.7	1.5	2.0
APE breakdown					
Protection type	65.8	73.9	74.2	74.3	74.3
Annuity type	18.0	8.9	8.8	8.6	8.6
Savings type	16.2	17.2	17.1	17.1	17.1
APE growth by product					
Total APE growth	-4.5	-2.8	1.7	1.9	1.4
Protection type	12.0	9.3	2.0	2.1	1.4
Annuity type	-15.5	-52.1	0.4	0.7	1.2
Savings type	-34.2	3.0	1.1	1.9	1.4

Key indicators-1

(%)	CY18	CY19	CY20F	CY21F	CY22F
Net investment yield	3.7	3.2	3.3	3.2	3.0
Investment spread	-0.87	-0.90	-0.91	-0.92	-0.92
Yield on interest bearings	3.6	3.5	3.3	3.2	3.1
Cost on insurance liabilities	4.4	4.4	4.2	4.1	4.0
Expense ratio**	10.6	10.6	11.0	10.9	10.7
Risk loss ratio	82.1	85.9	85.8	83.3	80.9
RBC ratio	314	340	319	311	304

Note: K-IFRS, consolidated; **based on management expense, may differ from the company data

Balance sheet

(KRW bn)	CY18	CY19	CY20F	CY21F	CY22F
Investment assets	236,195	255,458	276,037	297,694	320,672
Cash & equivalents	4,745	6,537	4,972	5,174	5,384
Equities	24,998	33,357	30,897	32,152	33,457
Bonds	121,712	132,064	147,410	159,562	172,715
Loans	70,190	68,891	75,060	81,247	87,944
Real estate	8,584	7,652	8,345	9,032	9,777
Others	5,966	6,957	9,353	10,527	11,395
Non-earnings assets	7,298	7,509	8,034	7,894	7,765
Separate account	45,934	49,795	53,899	58,340	63,148
Total assets	289,428	312,762	337,970	363,928	391,585
Insurance reserve	173,943	180,493	187,672	195,021	202,940
Policyholders equity	8,209	11,528	10,503	10,930	11,374
Separate account liab.	46,977	53,144	52,228	54,348	56,555
Other liabilities	29,794	30,281	48,963	64,291	80,658
Total liabilities	258,922	275,446	299,365	324,591	351,527
Paid-in capital	100	100	100	100	100
Capital surplus	125	125	125	125	125
Retained earnings	15,548	16,049	16,659	17,331	18,081
Capital adjustment	-2,117	-2,117	-2,117	-2,117	-2,117
AOCI	15,246	21,509	22,155	21,047	21,468
Minority interest	1,603	1,649	1,682	1,766	1,784
Shareholders' equity	30,505	37,316	38,605	39,337	40,058
Growth					
Investment assets	3.3	8.2	8.1	7.8	7.7
Total assets	2.4	8.1	8.1	7.7	7.6
Insurance reserve	4.2	3.8	4.0	3.9	4.1
Shareholders' equity	-2.1	22.3	3.5	1.9	1.8

AUM breakdown

	CY18	CY19	CY20F	CY21F	CY22F
Cash & equivalents	2	3	2	2	2
Equities	11	13	11	11	10
Bonds	52	52	53	54	54
Loans	30	27	27	27	27
Real estate	4	3	3	3	3
Others	3	3	3	4	4

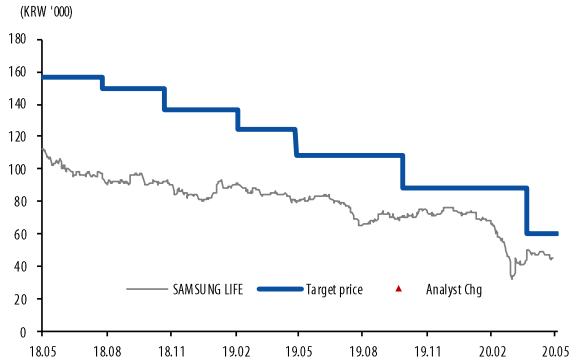
Key indicators-2

	CY18	CY19	CY20F	CY21F	CY22F
BPS (tang.) (KRW)	160,947	198,619	205,609	209,219	213,137
EPS (KRW)	8,322	4,887	5,429	5,858	6,550
DPS (KRW)	2,650	2,650	2,500	2,800	3,200
Valuation					
P/B (x)	0.28	0.23	0.24	0.24	0.24
P/E (x)	5.43	9.25	8.33	7.72	6.90
P/EV (x)	0.28	0.27	0.25	0.24	0.23
Div. yield (%)	5.9	5.9	5.5	6.2	7.1
ROAA (%)	0.28	0.23	0.33	0.33	0.35
ROAE (%)	5.43	9.25	3.0	3.1	3.5

Investment rating and target price history

Date	Rating	TP	Difference (%)	
			Average	High/Low
2018.02.23	BUY	157,000	-31.23	-18.79
2018.08.13	BUY	150,000	-38.41	-35.13
2018.11.09	BUY	137,000	-36.65	-31.97
2019.02.22	BUY	125,000	-31.92	-28.40
2019.05.16	BUY	108,000	-29.89	-21.94
2019.10.15	BUY	88,000	-25.95	-12.95
2020.04.10	BUY	60,000	-20.80	-17.67
2020.05.18	BUY	60,000		

Two-year price chart



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Hyundai Motor Securities offers three sector investment ratings based on six-month forward fundamentals and share price outlook.

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- BUY: Excess return of +15p or more
- MARKETPERFORM (M.PERFORM): Excess return of between -15p and +15p
- SELL: Excess return of -15p or less

Stock ratings distribution (2019.04.01-2020.03.31)

Rating	Count	% of rating category
BUY	142	89.9
MARKETPERFORM	16	10.1
SELL	0	0

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