

ZhongAn (6060 HK)

1H22 UW margin further improved

Zhong An reported 1H22 combined ratio of 99.2%, with 0.2ppt YoY improvement. The insurer's underwriting profit grew 63% YoY to RMB81mn. And the net losses from technology export business substantially narrowed to RMB16mn in 1H22 from RMB137mn in 1H21, as the number of new contracted customers increased to 57 from 44 in 1H21. Revenue from the virtual banking unit grew 107% YoY, as the company remained the largest virtual bank in HK. Group net earnings was dragged by 1) a RMB212mn decline in investment return amid market volatilities and 2) RMB313mn FX losses. As the premium income base in 2H21 was low due to tightened regulatory measures, we expect the top-line growth momentum to pick up in 2H22, along with further improvement of underwriting margin. Maintain BUY.

- **Underwriting margin continued to improve as the contribution from proprietary channels expanded.** Zhong An's underwriting remained profitable in 1H22, as the expense ratio decreased 7pts YoY, among which channel fees ratio declined by 6.5pts YoY. The distribution efficiency improved as the premium income contribution of proprietary channels expanded 6pts YoY to 22% in 1H22. The ticket size in proprietary channels increased 15% YoY, while the number of paying customers grew 30% YoY, reflecting strengthening capabilities in direct sales.
- **Solid growth from health, digital lifestyle and auto segment.** Premium income growth from health ecosystem grew 10.3% YoY in 1H22, with 5% YoY increase in ARPU and higher top-up/renewal ratio, indicating improving customer stickiness. Premium income from digital lifestyle grew 14% YoY, mainly thanks to an 18.6x YoY increase of shipping return premiums from live-commerce biz. Auto premium income saw a rebound of +41% YoY.
- **Technology export: overseas business continued to grow.** While technology export revenue from domestic business shrank due to COVID restriction in 1H22, the scale and quality of overseas business both improved. The proportion of recurring income increased to 49% of overseas revenue in 1H22 from 34% in 2021.
- **Valuation.** Zhong An is trading at 1.3x P/S FY22E and 1.4x P/B FY22E. We believe the improving profitability of both insurance and technology business as well as a recovery in growth momentum will support share price performance.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit (RMB mn)	288	795	232	700	1,273
EPS (Reported)(RMB)	0.4	0.8	0.2	0.7	1.3
YoY growth (%)	na	110.3	(69.3)	201.8	81.7
Consensus EPS (RMB)	1.50	2.00	2.00	2.30	2.60
Premium income (RMB mn)	16,215	18,885	20,952	24,289	28,255
Premium income growth (%)	26.7	16.5	10.9	15.9	16.3
Combined ratio (%)	102.5	99.6	98.9	98.8	97.9
P/B (x)	1.6	1.5	1.4	1.3	1.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	3.6%	7.2%	2.1%	6.1%	10.2%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$29.39
(Previous TP HK\$29.39)
Up/Downside 34.5%
Current Price HK\$21.85

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Stock Data

Mkt Cap (HK\$ mn)	31,027.0
Avg 3 mths t/o (HK\$ mn)	23.3
52w High/Low (HK\$)	38.20/18.42
Total Issued Shares (mn)	1420.0

Source: FactSet

Shareholding Structure

Ant Group	13.5%
Tencent Computer System	10.2%

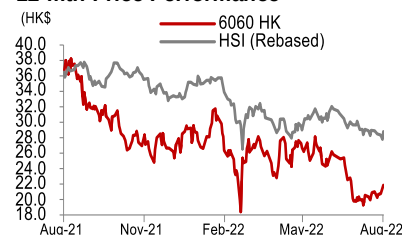
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.6%	13.9%
3-mth	-17.4%	-16.6%
6-mth	-17.1%	-1.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PwC

Zhong An Insurance: 1H22 result highlights

(RMBmn)	1H21	1H22	YoY chg	2H20	2H21	YoY chg	1H20	1H21	YoY chg
Net profit attribute to shareholders	755	(622)	-182.3%	63	409	546.7%	491	755	54.0%
Insurance	1,029	(305)	-129.7%	371	757	104.1%	622	1,029	65.4%
Technology	(137)	(16)	-88.0%	(261)	(247)	-5.3%	(107)	(137)	28.7%
Bank	(207)	(213)	2.9%	(190)	(257)	35.1%	(111)	(207)	85.5%
Others	(84)	(123)	46.0%	(84)	(133)	57.7%	(55)	(84)	53.4%
Revenue from Technology export	266	234	-12.1%	245	254	3.5%	120	266	122.1%
Combined ratio (%)	99.4	99.2	(0.2) ppt	101.7	99.8	(1.9) ppt	103.5	99.4	(4.1) ppt
Expense ratio (%)	50.0	43.0	(7.0) ppt	49.7	35.8	(13.9) ppt	46.9	50.0	3.1 ppt
Loss ratio (%)	49.4	56.2	6.8 ppt	52.0	63.9	12.0 ppt	56.6	49.4	(7.2) ppt
Net investment yield (%)	1.2	1.2	-				1.9	1.2	(0.7) ppt
Total investment yield (%)	3.2	0.9	(2.3) ppt	4.1	5.3	1.2 ppt	3.6	3.2	(0.4) ppt
Comprehensive investment yield (%)	4.9	3.1	(1.8) ppt	5.3	5.1	(0.2) ppt	7.7	4.9	(2.8) ppt
Total investment assets	38,908	48,203	23.9%	36,452	46,435	27.4%	28,471	38,908	36.7%
Total investment income	944	732	-22.5%	659	1,124	70.5%	868	944	8.7%
Premium income breakdown by ecosystems									
Health	3,926	4,330	10.3%	3,555	3,760	5.8%	3,049	3,926	28.7%
Digital lifestyle	3,345	3,819	14.2%	4,102	3,948	-3.8%	2,197	3,345	52.3%
Consumer finance	2,193	1,833	-16.4%	1,411	2,254	59.7%	751	2,193	192.1%
Auto	378	533	41.1%	871	569	-34.7%	457	378	-17.4%
Total	9,841	10,515	6.8%	9,939	10,530	5.9%	6,766	9,841	45.4%
Loss ratio by ecosystems									
Health	37.1	50.3	13.2 ppt	38.9	62.1	23.3 ppt	45.1	37.1	(8.0) ppt
Digital lifestyle	62.1	66.2	4.1 ppt	61.6	72.2	10.6 ppt	62.7	62.1	(0.6) ppt
Consumer finance	38.9	48.8	9.9 ppt	54.4	50.7	(3.6) ppt	69.8	38.9	(30.9) ppt
Auto	71.5	54.1	(17.4) ppt	61.2	64.6	3.4 ppt	50.2	71.5	21.3 ppt
Channel fees as a percentage of net written premiums%									
Health	27.9	14.1	(13.8) ppt	25.5	7.8	(17.7) ppt	28.4	27.9	(0.5) ppt
Digital lifestyle	35.4	33.6	(1.8) ppt	33.9	29.3	(4.6) ppt	30.1	35.4	5.3 ppt
Consumer finance	16.2	14.8	(1.4) ppt	11.0	22.7	11.7 ppt	9.4	16.2	6.8 ppt
Auto	13.8	11.7	(2.1) ppt	21.1	12.5	(8.7) ppt	25.4	13.8	(11.6) ppt

Source: Company data, CMBIGM estimates.

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Total income	15,124	18,493	21,940	22,658	26,445	30,757
Premiums written (gross)	14,630	16,709	20,480	22,371	25,803	29,882
Premiums earned (net)	12,801	16,215	18,885	20,952	24,289	28,255
Investment income	1,776	1,527	2,068	1,095	1,047	1,047
Realized gains (losses)	170	(26)	127	(241)	0	0
Other operating income	377	776	861	852	1,109	1,455
Losses	(15,691)	(18,313)	(21,074)	(22,403)	(25,678)	(29,364)
Selling	(8,625)	(8,774)	(10,935)	(11,994)	(13,655)	(15,572)
Underwriting & commissions	(910)	(1,407)	(1,771)	(1,360)	(1,526)	(1,728)
Other operating expense	(6,156)	(8,132)	(8,368)	(9,049)	(10,496)	(12,064)
Pretax income	(567)	180	867	254	767	1,394
Income taxes	(28)	108	(72)	(22)	(67)	(121)
Minority interest	(185)	(299)	(407)	(125)	(377)	(685)
Net income	(595)	288	795	232	700	1,273
Net income available to common	(410)	587	1,202	357	1,078	1,958

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	2,915	8,418	4,301	3,209	3,209	3,209
Investments	594	624	629	469	469	469
Total fixed income securities investment	13,688	21,597	25,640	18,632	18,632	18,632
Total equity securities investment	6,221	6,120	11,813	8,813	8,813	8,813
Real estate assets	455	344	240	92	40	(17)
Premium balance receivables	3,838	4,819	5,297	7,910	3,474	(1,432)
Investment in unconsolidated subs.	613	315	560	418	418	418
Deferred tax assets	0	0	0	0	0	0
Intangible assets	489	481	477	713	313	(129)
Goodwill	4	3	3	5	2	(1)
Other assets	2,091	2,950	2,813	4,200	1,845	(760)
Total assets	30,908	45,673	51,772	44,460	37,214	29,201
Liabilities & shareholders' equity						
Insurance policy liabilities	7,543	8,547	9,304	986	(8,805)	(20,639)
ST debt & curr. portion LT debt	4,050	4,094	5,548	5,548	5,548	5,548
Long-term debt	398	6,786	6,645	6,686	6,735	6,793
Provision for risks & charges	0	0	0	0	0	0
Deferred tax liabilities	0	0	62	74	89	107
Other liabilities	2,411	8,853	11,082	11,463	12,756	14,308
Total liabilities	14,402	28,280	32,642	24,757	16,324	6,118
Total common equity	14,912	15,705	16,748	17,250	18,289	20,209
Common stock/ordinary capital	1,470	1,470	1,470	1,470	1,470	1,470
Retained earnings	(3,135)	(2,581)	(1,458)	(1,059)	18	1,976
Equity reserves	16,576	16,817	16,737	16,839	16,801	16,763
Total shareholders' equity	14,912	15,705	16,748	17,250	18,289	20,209
Minority interest	1,594	1,688	2,382	2,453	2,601	2,874
Total equity	16,506	17,393	19,130	19,703	20,890	23,083
Total liabilities & shareholders' equity	30,908	45,673	51,772	44,460	37,214	29,201

PER SHARE DATA	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
DPS	0.00	0.00	0.00	0.00	0.00	0.00
EPS (Reported)	na	0.38	0.79	0.24	0.73	1.33
Diluted EPS	na	0.17	0.52	0.16	0.48	0.87
Consensus EPS	na	1.50	2.00	2.00	2.30	2.60
No. of shares basic	1,470	1,470	1,470	1,470	1,470	1,470
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Return on equity (ROE)	(4.2%)	1.7%	4.7%	1.4%	3.9%	6.6%
Return on asset (ROA)	(2.2%)	0.7%	1.6%	0.5%	1.7%	3.8%
Combined ratio	113.3%	102.5%	99.6%	98.9%	98.8%	97.9%
Loss ratio	67.4%	54.1%	57.6%	57.2%	56.2%	55.1%
Expense ratio	45.9%	48.4%	42.0%	41.6%	42.6%	42.8%
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	na	83.8	41.9	78.7	26.1	14.4
PE (diluted)	na	182.5	64.4	121.0	40.1	22.1
P/B	2.1	3.0	2.9	1.6	1.5	1.4
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
Div payout (%)	na	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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