

# ZhongAn (6060 HK)

## FY22 preview: 2H22 UW margin improvement

Zhong An will report FY22 results on 21 March (Tue) after market close. We expect to see HoH improvement of combined ratio in 2H22 as well as narrowed losses from virtual banking and technology export business. Over the weekend, Zhong An issued a profit alert, stating that the company will report a net loss of RMB1.3bn-1.5bn for FY22. The net loss was primarily due to a reduction in investment income amounted to RMB1bn-1.2bn resulted from a change in accounting policy, as the strong revenue and asset growth of virtual banking and technology business in FY22 triggered the early adoption of IFRS 9. Excluding the impact of IFRS 9 adoption, however, Zhong An would have actually recorded approx. RMB0.3bn net profit in 2H22, in our view. We believe the underwriting (UW) margin further improved HoH in 2H22 compared to 1H22, and expect FY22 combined ratio to be 98.6%. We estimate that net losses from virtual banking business and technology business will further narrow HoH in 2H22, as the economies of scale emerging with strong revenue growth. Reiterate BUY.

- **Strong growth of virtual banking and technology export triggered early adoption of IFRS 9.** With the strong growth of virtual banking and technology export business, the insurance-related liabilities of Zhong An fell below 80% of its total liabilities in 2022. Therefore, Zhong An is no longer qualified for the temporary exemption of HKFRS 9 (HK version of IFRS 9), and had to adopted IFRS 9 in FY22, one year ahead to the adoption of IFRS 17. The early adoption of IFRS 9 ended up in higher volatility in investment income through P&L, and led to a negative impact of RMB1bn-1.2bn on net profits gained in FY22.
- **Insurance: Expect further improvements on UW margin.** We estimate the combined ratio will further improve by around 1ppt HoH in 2H22, and the UW margin reached 98.6% in FY22, due to continual decreases on expense ratio on back of favourable shifts in channel mix and the economies of scale. Looking into FY23, we expect the premium growth will pick up to over 20% YoY, driven by a recovery of digital lifestyle and consumer finance segments. The UW margin is likely to continuously improve in FY23, as the expense ratio trends down.
- **Valuation.** Zhong An is trading at 1.6x P/B FY23E and 1.0x P/S FY23E. We expect the margins across three major business lines to further improve in FY23E-FY24E, and virtual banking and technology business to turn profitable in FY24E. Given improved profitability enhanced by robust revenue growth, we believe the fundamental changes will support further share price performance.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit (RMB mn)	554	1,165	(1,421)	1,127	1,928
EPS (Reported)(RMB)	0.38	0.79	(0.97)	0.77	1.31
Consensus EPS (RMB)	n.a	0.79	(0.32)	0.76	1.10
Premium income (RMB mn)	16,215	18,885	22,130	26,946	33,003
Premium income growth (%)	26.7	16.5	17.2	21.8	22.5
Combined ratio (%)	102.5	99.6	98.6	98.3	98.2
P/B (x)	1.7	1.6	1.7	1.6	1.4
P/S (x)	1.6	1.4	1.3	1.0	0.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	3.6	7.2	(8.8)	7.0	11.0

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** **HK\$33.82**  
 (Previous TP) HK\$33.82  
**Up/Downside** **46.7%**  
**Current Price** **HK\$23.05**

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### Stock Data

Mkt Cap (HK\$ mn)	30,246.0
Avg 3 mths t/o (HK\$ mn)	22.9
52w High/Low (HK\$)	30.55/14.48
Total Issued Shares (mn)	1420.0

Source: FactSet

### Shareholding Structure

Ant Group	13.5%
Tencent Computer System	10.2%

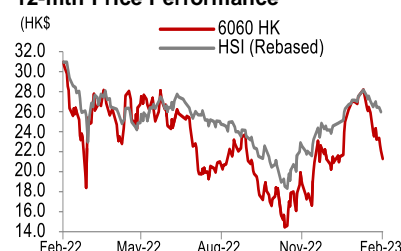
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-20.8%	-17.5%
3-mth	13.5%	-1.1%
6-mth	2.2%	-1.8%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Auditor: PwC**

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Total income</b>	<b>15,124</b>	<b>18,493</b>	<b>21,940</b>	<b>22,877</b>	<b>29,018</b>	<b>35,423</b>
Premiums written (gross)	14,630	16,709	20,480	23,650	28,614	34,861
Premiums earned (net)	12,801	16,215	18,885	22,130	26,946	33,003
Investment income	1,776	1,527	2,068	954	964	964
Realized gains (losses)	170	(26)	127	(1,058)	0	0
Other operating income	377	776	861	852	1,109	1,455
<b>Losses</b>	<b>(15,691)</b>	<b>(18,313)</b>	<b>(21,074)</b>	<b>(23,889)</b>	<b>(28,216)</b>	<b>(34,050)</b>
Selling	(8,625)	(8,774)	(10,935)	(12,731)	(15,210)	(18,551)
Underwriting & commissions	(910)	(1,407)	(1,771)	(1,451)	(1,719)	(2,066)
Other operating expense	(6,156)	(8,132)	(8,368)	(9,706)	(11,286)	(13,433)
<b>Pretax income</b>	<b>(611)</b>	<b>147</b>	<b>829</b>	<b>(1,012)</b>	<b>802</b>	<b>1,373</b>
Income taxes	(28)	108	(72)	88	(70)	(119)
<b>Minority interest</b>	<b>185</b>	<b>299</b>	<b>407</b>	<b>(497)</b>	<b>394</b>	<b>675</b>
<b>Net income</b>	<b>(454)</b>	<b>554</b>	<b>1,165</b>	<b>(1,421)</b>	<b>1,127</b>	<b>1,928</b>
<b>Net income available to common</b>	<b>(270)</b>	<b>853</b>	<b>1,572</b>	<b>(1,918)</b>	<b>1,521</b>	<b>2,602</b>

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Assets</b>						
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	75	18	(50)
Premium balance receivables	3,838	4,819	5,297	6,472	1,564	(4,305)
Investment in unconsolidated subs.	613	315	560	418	418	418
Deferred tax assets	0	0	0	0	0	0
Intangible assets	489	481	477	583	141	(388)
Goodwill	4	3	3	4	1	(3)
Other assets	2,091	2,950	2,813	3,436	830	(2,286)
<b>Total assets</b>	<b>30,908</b>	<b>45,673</b>	<b>51,772</b>	<b>42,110</b>	<b>34,094</b>	<b>24,507</b>
<b>Liabilities &amp; shareholders' equity</b>						
<b>Insurance policy liabilities</b>	<b>7,543</b>	<b>8,547</b>	<b>9,304</b>	<b>667</b>	<b>(9,951)</b>	<b>(23,324)</b>
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
<b>Total liabilities</b>	<b>14,402</b>	<b>28,280</b>	<b>32,642</b>	<b>24,438</b>	<b>15,178</b>	<b>3,433</b>
<b>Total common equity</b>	<b>14,912</b>	<b>15,705</b>	<b>16,748</b>	<b>15,472</b>	<b>16,561</b>	<b>18,451</b>
Common stock/ordinary capital	1,470	1,470	1,470	1,470	1,470	1,470
Retained earnings	(3,135)	(2,581)	(1,458)	(2,837)	(1,710)	218
Equity reserves	16,576	16,817	16,737	16,839	16,801	16,763
<b>Total shareholders' equity</b>	<b>14,912</b>	<b>15,705</b>	<b>16,748</b>	<b>15,472</b>	<b>16,561</b>	<b>18,451</b>
<b>Minority interest</b>	<b>1,594</b>	<b>1,688</b>	<b>2,382</b>	<b>2,200</b>	<b>2,355</b>	<b>2,624</b>
<b>Total equity</b>	<b>16,506</b>	<b>17,393</b>	<b>19,130</b>	<b>17,672</b>	<b>18,916</b>	<b>21,075</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>30,908</b>	<b>45,673</b>	<b>51,772</b>	<b>42,110</b>	<b>34,094</b>	<b>24,507</b>

PER SHARE DATA	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
DPS	0.00	0.00	0.00	0.00	0.00	0.00
EPS (Reported)	na	0.38	0.79	(0.97)	0.77	1.31
Diluted EPS	na	0.17	0.52	(0.63)	0.50	0.85
No. of shares basic	1,470	1,470	1,470	1,470	1,470	1,470
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Return on equity (ROE)	(3.0%)	3.6%	7.2%	-8.8%	7.0%	11.0%
Return on asset (ROA)	(1.6%)	1.4%	2.4%	-3.0%	3.0%	6.6%
Combined ratio	113.3%	102.5%	99.6%	98.6%	98.3%	98.2%
Loss ratio	67.4%	54.1%	57.6%	57.5%	56.4%	56.2%
Expense ratio	45.9%	48.4%	42.0%	41.1%	41.9%	42.0%
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
P/B	1.8	1.7	1.6	1.7	1.6	1.4
P/S	2.0	1.6	1.4	1.3	1.0	0.8
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
Div payout (%)	0.0	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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