

ZhongAn (6060 HK)

Tech export out of the red; ZA Bank on track for breakeven

BUY (Maintain)

ZhongAn reported an earnings beat in FY24. Net profit was more than doubled to RMB 603mn (+105% YoY) in FY24, 39%/31% higher than our estimate/Bloomberg consensus if excl. the one-off income for disposal of Zhong An International at RMB 3.78bn in FY23. We see this attributable to 1) steady profit growth of insurance (+6.2% YoY) underpinned by strong investments; 2) tech export turnaround to RMB 78mn (vs FY23: a net loss of RMB 468mn); and 3) ZA Bank's trimmed net loss to HK\$ 232mn, down HK\$167mn YoY. In FY24, CoR climbed 1.7pct YoY to 96.9%, as loss/expense ratio was up 1.5pct/0.2pct to 58.3%/38.6%. We estimate 2H24 CoR at 95.7%, +1.6pct YoY/-2.4pct HoH. Looking ahead, as tech segment and ZA Bank gain profit, we expect ZhongAn to capitalize on the domestic AI tide, and be able to deepen the moat of its Insur-Tech offerings, which in return should support a long-awaited re-rating. **We expect ZA Bank to turn a profit in FY25, and see this breakeven as the next major catalyst for valuation upside.** We change our valuation method from P/B-ROE to SOTP for anticipated contributions from a rapidly-growing tech export and banking segment. Maintain BUY, with new TP at HK\$16.0, corresponding to 1.0x FY25E P/B and 23.0x FY25E P/E.

■ **Technology export turned out of the red.** In FY24, total revenue of tech export amounted to RMB 956mn, +15.3% YoY, whilst net profit arrived at RMB 77.6mn (vs FY23:-468mn), implying a net margin of 8.1%. To break down, we see the turnaround boosted by 1) elevated share of gains from associates and JVs at RMB 52.4mn (vs FY23: -RMB 119.6mn), and 2) a rise of net investment income (+246%) and other income (+45%) in FY24. As ZhongAn conducted tech export biz through ZhongAn Technology, ZhongAn InfoTech and Peak3, among which ZhongAn InfoTech and Peak 3 are accounted as the Group's JVs, which explains the surging gains from new biz expansions in both domestic and global markets. Looking ahead, we think the segment will continue riding on the wave of IFRS17 transitions in China, which should boost sales of ZhongAn's end-to-end solutions. Overseas expansion to EMEA markets is as well expected. As economies of scale accumulate, **we expect the tech export segment to grow its profit at a 40% CAGR in the next three years, enhancing the earnings diversification.**

■ **Expect ZA Bank to break even in FY25E.** ZA Bank's net loss narrowed to HK\$ 232mn in FY24 (vs FY23: -HK\$399mn), implying a net loss ratio of -42%, improved 69pct YoY. Total revenue was HK\$ 548mn, +52.6% YoY, driven by an 86.6% net interest income increase thanks to 1) an improved NIM to 2.41% (+0.47pct YoY), and 2) an increased loan balance to HK\$5.78bn (+7.9%). As the only licensed Asian bank to provide fund, US stock, and crypto asset trading to retail investors, we think the bank's edges in client base expansion (0.8mn by FY24), steady asset scale-up (+60.3% YoY), sufficient capital (CAR stable at 23.1%) and optimized cost-to-income ratio (-71pct YoY) will **drive the breakeven to a slim profit of HK\$0.8mn (CMBI est) in FY25E.** Looking ahead, we think the bank's revenue could stay relatively solid amid the interest rate cut cycle, based on a stable deposit structure inclined to longer-duration time deposits (65%) than savings (<3 mths).

■ **Valuation.** The stock is trading at FY25E 0.84x P/B and 20x P/E. We expect greater certainty on earnings and profit could help drive the valuation rebound, and ZA Bank's breakeven as next major catalyst. We adopt the SOTP method to derive our new TP at HK\$16.0, implying FY25E 1.0x P/B and 23x P/E. BUY.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Net profit (RMB mn)	3,845	603	932	1,087	1,286
EPS (Reported)(RMB)	2.77	0.41	0.63	0.74	0.87
Consensus EPS (RMB)	n.a	n.a	0.59	0.63	0.82
Combined ratio (%)	94.9	96.8	97.2	97.3	97.3
P/B (x)	0.9	0.9	0.8	0.8	0.8
ROE (%)	22.8	2.9	4.4	4.9	5.5

Source: Company data, Bloomberg, CMBIGM estimates

Target Price	HK\$16.00
(Previous TP)	HK\$22.00)
Up/Downside	18.5%
Current Price	HK\$13.50

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Stock Data

Mkt Cap (HK\$ mn)	19,842.0
Avg 3 mths t/o (HK\$ mn)	180.9
52w High/Low (HK\$)	20.60/9.41
Total Issued Shares (mn)	1,470.0

Source: FactSet

Shareholding Structure

Ant Group Co., Ltd.	10.7%
Tencent Holdings Limited	8.1%

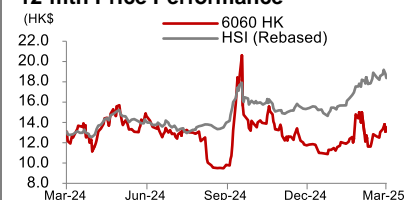
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.0%	-10.8%
3-mth	15.0%	-4.3%
6-mth	36.8%	5.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

1. ZhongAn (6060 HK) - Digital lifestyle leading growth; ZA Bank and technology export breakeven on track, 28 Mar 2024 ([link](#))
2. ZhongAn (6060 HK) - Strong investment and UW profits drive 1H23 earnings turnaround, Aug 28, 2023 ([link](#))

Insurance eyes on Digital Lifestyle and Health growth. Total insurance revenue grew 15.3% YoY to RMB 31.7bn in FY24, among which Auto/Digital Lifestyle/Health/Consumer Finance was +28.4%/+26.8%/+13.2%/-13.2% YoY. Combined ratio rose 1.7pct to 96.9%, with loss/expense ratios up 1.5pct/0.2pct to 58.3%/38.6% in FY24. To highlight: 1) Health CoR surged 8.5pct to 95.7%, with loss/expense ratio up 4.8pct/3.7pct YoY to 39.0%/56.7%. The deteriorated loss ratio was due to a product mix change, and higher contributions from renewed policies; 2) Consume finance CoR dropped 6.3pct YoY to 90.1%, implying 2H CoR at 80.3% (-20.9 pct YoY), thanks to a proactive scale-down of loan business; and 3) Auto GWP increase (+29.8%) outpaced the industry average (+5.4%), with NEV premiums up 188.4% YoY, making up 12% of total auto GWP in FY24. **Looking into FY25E, we expect underwriting profit (UWP) to turn to a positive increase on top of a low base.**

Key risks: prolonged low interest rates; enlarged equity market volatilities; deteriorated underwriting CoR, and lower-than-expected tech export and banking segment profits, etc.

Valuation

Sum-of-the-part approach

We adjust the valuation method from P/B-ROE based on Gordon Growth Model to sum-of-the-part, given the breakeven of tech export segment and projected turnaround of ZA Bank in the coming year. Aside from domestic P&C insurance ecosystems, we believe the Insur-Tech forerunner could capitalize on the domestic AI tide and benefit from potential valuation upside. Our new price target lands at HK\$16.0, factoring in projected solid growth of 1) domestic P&C insurance (0.9x P/B), referring to a 20% discount to PICC P&C's current trading multiple at 1.1x P/B; 2) 15.0x P/E on Technology export, referring to the tech peers average, which we project the segment profit to rapidly expand, based on strong domestic demands for the IFRS17 transition, and accumulated economies of scale to unleash an operating leverage; and 3) 1.12x P/B on ZA Bank based on P/B-ROE, as we expect the digital bank to turn a slim profit in FY25E (CMBI est. HK\$ 0.8mn) and grow sequentially over next three years ([Figure 1](#)).

We raise our FY25-27E EPS to RMB0.63/0.74/0.87, factoring in profit contributions from technology and banking segments. Our new price target is HK\$16.0 (previous: HK\$22.0), implying 1.0x FY25E P/B and 23x FY25E P/E (vs now: 0.8x P/B and 20x P/E), with 18.5% upside, which we consider to be fair.

Figure 1: Sum-of-the-part for ZhongAn

(HK\$bn, %)	FY24	FY25E	FY26E	FY27E
Insurance				
Book Value (RMB bn)	19.6	20.2	20.6	21.2
P/B (x)		0.9x	0.9x	0.9x
Fair value (HK\$ bn)		19.7	20.2	20.8
Technology				
Net profit (RMB bn)	0.08	0.14	0.19	0.26
P/E (x)		15.0x	15.0x	15.0x
Fair value (HK\$ bn)		2.3	3.2	4.2
Banking				
Book Value (RMB mn)	0.82	0.82	0.87	0.98
P/B(x)		1.12x	1.12x	1.12x
Fair value (HK\$ mn)		0.9	1.0	1.1
Others (HK\$ bn)	(0.7)	(0.3)	(0.0)	0.2
Total valuation (HK\$ bn)		22.7	24.3	26.3
No. of shares outstanding (mn)		1,470	1,470	1,470
Price per share (HK\$)		15.5	16.7	18.1

12mth forward TP (HK\$)	16.0
Implied P/E (x)	23.2x
Implied P/B (x)	1.0x
Upside (%)	18.5%

Source: Company data, CMBIGM estimates

Key metrics

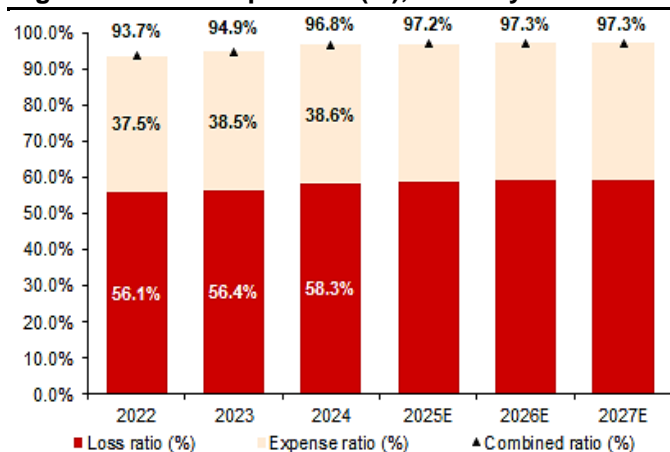
FY24	Underwriting COR	Loss ratio	Expense ratio	CoR YoY chg.
Digital lifestyle	96.8%	68.0%	31.7%	2.0%
Consumer finance	99.7%	62.1%	28.0%	0.2%
Health	90.1%	39.0%	56.7%	-6.3%
Auto	95.7%	67.5%	26.7%	8.5%
Total	96.9%	58.3%	38.6%	1.7%

Source: Company data, CMBIGM

Semi-annual COR %	1H22	2H22	1H23	2H23	1H24	2H24
Digital lifestyle	99.8%	99.3%	99.8%	99.3%	99.9%	99.5%
Consumer finance	90.3%	89.6%	90.7%	101.2%	99.1%	80.3%
Health	96.3%	81.8%	92.5%	82.6%	95.7%	95.7%
Auto	97.9%	97.0%	98.2%	92.8%	94.2%	94.2%
Total	96.5%	92.1%	95.8%	94.7%	98.1%	95.7%

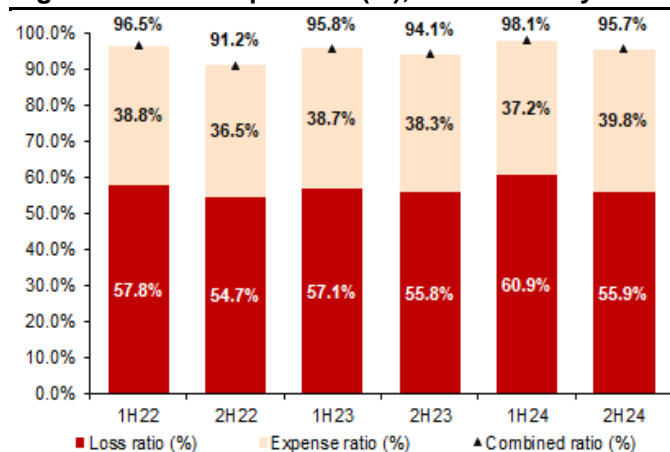
Source: Company data, CMBIGM

Figure 2: CoR composition (%), annually



Source: Company data, CMBIGM estimates

Figure 3: CoR composition (%), semi-annually



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Insurance revenue	22,189	27,535	31,744	36,666	41,901	47,520
Insurance service expenses	(20,673)	(26,089)	(30,690)	(35,578)	(40,688)	(46,167)
Net expenses from reinsurance contracts held	(99)	(109)	(14)	(17)	(20)	(23)
Insurance service results	1,417	1,337	1,040	1,070	1,193	1,330
Net finance (expenses)/income from insurance contracts	(145)	(52)	(52)	(60)	(68)	(77)
Net finance (expenses)/income from reinsurance contracts	(10)	8	2	0	0	0
Net investment income	1,688	4,136	437	1,231	1,307	1,406
Other gains/(losses) from changes in fair value	(1,803)	768	1,024	13	0	0
Net investment results	(115)	4,904	1,460	1,244	1,307	1,406
Other income	1,129	1,135	1,032	1,142	1,253	1,377
Other expenses	(2,966)	(2,670)	(1,952)	(2,023)	(2,116)	(2,215)
Foreign exchange gains/losses	(549)	(95)	(99)	(99)	(99)	(99)
Other results	(2,814)	(2,094)	(1,466)	(1,404)	(1,365)	(1,320)
Profit before tax	(1,683)	4,010	854	1,008	1,183	1,407
Income taxes	298	(165)	(251)	(76)	(96)	(121)
Net profit	(1,384)	3,845	603	932	1,087	1,286
Net profit attributable to shareholders	(1,112)	4,078	603	932	1,087	1,286

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions	648	348	332	(927)	(2,373)	(4,365)
Intangible assets	662	527	619	619	619	619
Investments in associates and joint ventures	554	5,297	5,591	5,591	5,591	5,591
Property	434	377	798	798	798	798
Reinsurance contract assets	595	762	710	726	756	800
At amortized cost:	1,431	1,452	1,051	1,105	1,162	1,222
At fair value through profit or loss:	21,863	22,252	20,706	21,930	23,224	24,593
Loans and advances to customers	4,367	0	0	0	0	0
Other assets	1,702	2,104	2,692	2,720	2,749	2,780
Cash and cash equivalents	3,526	1,576	1,467	2,592	3,888	5,710
Total assets	47,649	42,864	45,285	47,072	48,961	50,957
LIABILITIES						
Insurance contract liabilities	4,029	3,335	5,000	5,500	6,050	6,655
Borrowings	6,805	6,900	6,993	7,133	7,275	7,421
Obligations under repurchase agreements	6,992	8,491	7,931	8,724	9,597	10,557
Current tax liabilities	0	27	18	18	18	18
Lease liabilities	374	287	123	135	149	164
Other liabilities	11,819	3,750	4,024	3,704	2,928	1,913
Total liabilities	30,034	22,790	24,358	25,213	26,016	26,726
EQUITIES						
Share capital	1,470	1,470	1,470	1,470	1,470	1,470
Reserves	16,473	16,732	16,996	16,996	16,996	16,996
Retained profits	(2,176)	1,871	2,461	3,393	4,479	5,765
Total shareholders' equity	15,766	20,073	20,926	21,858	22,945	24,231
Non-controlling interests	1,849	0	0	0	0	0
Total equity	17,615	20,073	20,926	21,858	22,945	24,231
Total liabilities & equity	47,649	42,864	45,285	47,072	48,961	50,957

PER SHARE DATA	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
EPS (Reported)	(0.76)	2.77	0.41	0.63	0.74	0.87
Consensus EPS	n.a	n.a	n.a	0.59	0.63	0.82
No. of shares basic	1,470	1,470	1,470	1,470	1,470	1,470
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Return on equity (ROE)	n.a	22.8%	2.9%	4.4%	4.9%	5.5%
Combined ratio	93.7%	94.9%	96.8%	97.2%	97.3%	97.3%
Loss ratio	56.1%	56.4%	58.3%	59.0%	59.3%	59.5%
Expense ratio	37.5%	38.5%	38.6%	38.2%	37.9%	37.8%
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/B (x)	1.2	0.9	0.9	0.8	0.8	0.8

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

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