

# ZhongAn (6060 HK)

## Better profits achieved across 3 business lines

Zhong An recorded a combined ratio of 98.5% in FY22 with an improvement of 1.1pts YoY, translating to an increase of 1.9 pts YoY or 1.3pts HoH in 2H22. The insurer's underwriting (UW) profit grew 338% YoY to RMB329mn, with premium income +16.1% YoY at year end. The outperformed UW margin was driven by lower loss and channel fee ratios under technology-driven cost efficiency from both health and digital lifestyle ecosystems. Revenues from technology export rose 13.8% YoY, further narrowing the total net loss. ZA bank delivered robust revenue growth reported as 106% YoY, sustaining the top-branding virtual bank position in HK. The Group's net earnings dragged by 1) RMB1.316bn reduction in investment income as a result of the accounting policy shift towards HKFRS 9 ([CMBI report](#)), 2) RMB1.14bn investment income decrease given last year capital market volatilities, and 3) RMB556mn FX losses on USD-denominated bond payables. In 2M23, we saw a pick-up in premiums growth given the post pandemic recovery, which supports our view on the insurer with improved UW margins on back of advanced technology-driven cross-ecosystem synergies. We expect to see an inflection point of profitability for technology export and ZA Bank business in FY24E. Reiterate BUY.

- **UW margin improved, driven by outperformance in health and digital lifestyle ecosystems.** The loss ratios of health and digital lifestyle business declined by 2.8pts YoY and 3pts YoY respectively, leading to a 2.4pts reduction in overall loss ratio in FY22. The channel fee ratios of these two segments decreased 2.5pts YoY and 1.9pts YoY respectively, given 7pts increase in premium income of proprietary channels contributing to a quarter of total by end FY22. Among which, premiums per customer rose 49% YoY to RMB755, and the account of multi-policy customers increased to 46% in FY22, up from 24% in FY21 reflecting enhanced capabilities in direct sales.
- **Technology Export & Virtual Banking: robust revenue growth with enhanced profitability.** Technology export and virtual banking sustained robust revenue growth in FY22, narrowing the net loss of each by RMB165mn and RMB37mn respectively. Looking forward, we are positive on continued growth within these two segments given 1) more promising recurring income contribution from technology export, and 2) ZA banks' better NIM and expanding balance sheet.
- **Valuation.** Zhong An is now trading at 1.0x FY23E P/S and 1.6x FY23E P/B against a 5.7% ROE expected. We expect to see margin improvements across three major segments in FY23E-FY25E, alongside profit turnarounds of ZA bank and technology business to be seen by FY24E. The solid growth driven by product mix innovations and technology integration will serve as a fundamental booster for the Company's long-term share price performance.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit (RMB mn)	554	1,165	(1,356)	909	1,592
EPS (Reported)(RMB)	0.38	0.79	na	0.62	1.08
Consensus EPS (RMB)	n.a	n.a	0.75	1.08	1.08
Premium income (RMB mn)	16,215	18,885	22,266	26,166	31,399
Premium income growth (%)	26.7	16.5	17.9	17.5	20.0
Combined ratio (%)	102.5	99.6	98.5	98.4	98.0
P/B (x)	1.7	1.5	1.7	1.6	1.5
P/S (x)	1.6	1.3	1.3	1.0	0.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	3.6	7.2	(8.5)	5.7	9.2

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** HK\$33.82  
 (Previous TP HK\$33.82)  
**Up/Downside** 47.0%  
**Current Price** HK\$23.00

### China Insurance

#### Gigi CHEN, CFA

(852) 3916 3739

gigichen@cmbi.com.hk

#### Nika MA

(852) 3900 0805

nikama@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	32,660.0
Avg 3 mths t/o (HK\$ mn)	24.1
52w High/Low (HK\$)	28.20/14.48
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	1.3%	8.0%
3-mth	13.3%	12.7%
6-mth	10.3%	5.6%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Auditor: PwC

### Recent report:

1. ZhongAn (6060 HK) - FY22 preview: 2H22 UW margin improvement ([link](#))

## Focus table

### ZhongAn (6060 HK) – FY22 major metrics

(RMBmn)	2021	2022	YoY chg	2H21	2H22	YoY chg	1H21	1H22	YoY chg
Net profit attribute to shareholders	1,165	(1,356)	-216.4%	409	(734)	-279.4%	755	(622)	-182.3%
Insurance	1,786	(771)	-143.2%	757	(466)	-161.6%	1,029	(305)	-129.7%
Technology	(385)	(220)	-42.9%	(247)	(203)	-17.9%	(137)	(16)	-88.0%
Bank	(464)	(426)	-8.0%	(257)	(214)	-16.8%	(207)	(213)	2.9%
Others	(217)	(196)	-9.8%	(133)	(73)	-45.3%	(84)	(123)	46.0%
Revenue from Technology export	520	592	13.8%	254	358	41.1%	266	234	-12.1%
Combined ratio (%)	99.6	98.5	(1.1) ppt	99.8	97.9	(1.9) ppt	99.4	99.2	(0.2) ppt
Expense ratio (%)	42.0	43.3	1.3 ppt	35.8	43.6	7.8 ppt	50.0	43.0	(7.0) ppt
Loss ratio (%)	57.6	55.2	(2.4) ppt	63.9	54.3	(9.6) ppt	49.4	56.2	6.8 ppt
Net investment yield (%)	2.5	3.2	0.7 ppt				1.2	1.2	-
Total investment yield (%)	6.7	(1.0)	(7.7) ppt	5.3	7.4	2.2 ppt	3.2	0.9	(2.3) ppt
Comprehensive investment yield (%)	4.9	6.6	1.7 ppt	5.1	7.4	2.4 ppt	4.9	3.1	(1.8) ppt
Total investment assets	46,435	7,032	-84.9%	46,435	7,032	-84.9%	38,908	48,203	23.9%
Total investment income	2,068	1,760	-14.9%	1,124	1,028	-8.5%	944	732	-22.5%
<b>Premium income breakdown by ecosystems:</b>									
Health	7,686	8,980	16.8%	3,760	4,650	23.7%	3,926	4,330	10.3%
Digital lifestyle	7,292	8,980	23.1%	3,948	5,160	30.7%	3,345	3,819	14.2%
Consumer finance	4,447	4,530	1.9%	2,254	2,698	19.7%	2,193	1,833	-16.4%
Auto	946	1,267	33.9%	569	734	29.1%	378	533	41.1%
Total	20,371	23,651	16.1%	10,530	13,136	24.7%	9,841	10,515	6.8%
<b>Loss ratio by ecosystems:</b>									
Health	51.3	48.5	(2.8) ppt	62.1	46.8	(15.3) ppt	37.1	50.3	13.2 ppt
Digital lifestyle	67.6	64.6	(3.0) ppt	72.2	63.4	(8.8) ppt	62.1	66.2	4.1 ppt
Consumer finance	46.0	48.0	2.0 ppt	50.7	47.3	(3.4) ppt	38.9	48.8	9.9 ppt
Auto	68.0	55.8	(12.2) ppt	64.6	57.3	(7.3) ppt	71.5	54.1	(17.4) ppt
<b>Channel fees as a percentage of net written premiums%:</b>									
Health	28.8	26.3	(2.5) ppt	29.8	38.4	8.7 ppt	27.9	14.1	(13.8) ppt
Digital lifestyle	32.1	30.2	(1.9) ppt	29.3	27.6	(1.7) ppt	35.4	33.6	(1.8) ppt
Consumer finance	23.3	20.9	(2.4) ppt	29.3	25.0	(4.3) ppt	16.2	14.8	(1.4) ppt
Auto	13.0	12.4	(0.6) ppt	12.5	12.9	0.4 ppt	13.8	11.7	(2.1) ppt

Source: Company data, CMBIGM

## 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>23,352</b>	<b>28,805</b>	<b>34,748</b>
Premiums written (gross)	14,630	16,709	20,480	24,005	28,241	33,890
Premiums earned (net)	12,801	16,215	18,885	22,266	26,166	31,399
Investment income	1,776	1,527	2,068	1,760	1,505	1,868
Realized gains (losses)	170	(26)	127	(1,803)	0	0
Other operating income	377	776	861	1,129	1,134	1,481
<b>Losses</b>	<b>(15,691)</b>	<b>(18,313)</b>	<b>(21,074)</b>	<b>(25,352)</b>	<b>(27,453)</b>	<b>(32,380)</b>
Selling	(8,625)	(8,774)	(10,935)	(12,440)	(14,037)	(16,815)
Underwriting & commissions	(910)	(1,407)	(1,771)	(2,000)	(1,766)	(2,056)
Other operating expense	(6,156)	(8,132)	(8,368)	(10,913)	(11,650)	(13,509)
<b>Pretax income</b>	<b>(611)</b>	<b>147</b>	<b>829</b>	<b>(2,016)</b>	<b>1,352</b>	<b>2,368</b>
Income taxes	(28)	108	(72)	383	(257)	(450)
<b>Minority interest</b>	<b>185</b>	<b>299</b>	<b>407</b>	<b>277</b>	<b>(186)</b>	<b>(325)</b>
<b>Net income</b>	<b>(454)</b>	<b>554</b>	<b>1,165</b>	<b>(1,356)</b>	<b>909</b>	<b>1,592</b>
<b>Net income available to common</b>	<b>(270)</b>	<b>853</b>	<b>1,572</b>	<b>(1,079)</b>	<b>724</b>	<b>1,267</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	3,526	3,576	3,576
Investments	594	624	629	648	657	657
Total fixed income securities investment	13,688	21,597	25,640	4,505	4,569	4,569
Total equity securities investment	6,221	6,120	11,813	21,863	22,175	22,175
Real estate assets	455	344	240	434	33	9
Premium balance receivables	3,838	4,819	5,297	6,393	3,513	968
Investment in unconsolidated subs.	613	315	560	554	562	562
Deferred tax assets	0	0	0	373	0	0
Intangible assets	489	481	477	662	364	100
Goodwill	4	3	3	0	0	0
Other assets	2,091	2,950	2,813	15,599	8,571	2,361
<b>Total assets</b>	<b>30,908</b>	<b>45,673</b>	<b>51,772</b>	<b>54,557</b>	<b>44,019</b>	<b>34,978</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>10,582</b>	<b>772</b>	<b>(11,265)</b>
ST debt & curr. portion LT debt	4,050	4,094	5,548	6,992	6,992	6,992
Long-term debt	398	6,786	6,645	7,179	7,254	7,344
Provision for risks & charges	0	0	0	0	0	0
Deferred tax liabilities	0	0	62	0	0	0
Other liabilities	2,411	8,853	11,082	12,777	10,513	11,616
<b>Total liabilities</b>	<b>14,402</b>	<b>28,280</b>	<b>32,642</b>	<b>37,531</b>	<b>25,531</b>	<b>14,687</b>
<b>Total common equity</b>	<b>14,912</b>	<b>15,705</b>	<b>16,748</b>	<b>15,214</b>	<b>16,520</b>	<b>18,130</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)	(2,728)	(1,863)	(271)
Equity reserves	16,576	16,817	16,737	16,472	16,913	16,931
<b>Total shareholders' equity</b>	<b>14,912</b>	<b>15,705</b>	<b>16,748</b>	<b>15,214</b>	<b>16,520</b>	<b>18,130</b>
<b>Minority interest</b>	<b>1,594</b>	<b>1,688</b>	<b>2,382</b>	<b>1,813</b>	<b>1,968</b>	<b>2,160</b>
<b>Total equity</b>	<b>16,506</b>	<b>17,393</b>	<b>19,130</b>	<b>17,027</b>	<b>18,488</b>	<b>20,291</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>30,908</b>	<b>45,673</b>	<b>51,772</b>	<b>54,557</b>	<b>44,019</b>	<b>34,978</b>

PER SHARE DATA	2019A	2020A	2021A	2022A	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	na	0.62	1.08
Consensus EPS	na	na	na	na	0.75	1.08
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%	(8.5%)	5.7%	9.2%
Combined ratio	113.3%	102.5%	99.6%	98.5%	98.4%	98.0%
Loss ratio	67.4%	54.1%	57.6%	55.2%	53.6%	53.6%
Expense ratio	45.9%	48.4%	42.0%	43.3%	44.8%	44.4%
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
P/E	na	53.4	25.4	na	32.5	18.6
P/B	1.8	1.7	1.5	1.7	1.6	1.5
P/S	2.0	1.6	1.3	1.3	1.0	0.9
Div yield (%)	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.

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.