

ZhongAn Online (6060 HK)

Narrowing underwriting loss

Zhong An's reported net profit of RMB 490mn, surging 418% YoY to RMB 490mn thanks to narrowing underwriting loss and steady investment performance. Outlook on the Company's tech business and health ecosystem upgrade also remained optimistic.

- **Health and lifestyle consumption drove premium growth in 1H20.** Overall GWP increased 14.7% YoY in 1H20. Health and lifestyle consumption experienced 115.6%/40.4% YoY growth on back of increasing awareness of health protection and penetration of online consumption. Travel, consumer finance and auto ecosystem experienced various extents of decline because of COVID-19 and the Company's own strategy to cut loss-making business.
- **Narrowing underwriting loss** by ~RMB 230mn vs. 1H19 was the primary reason for net profit growth. Overall combined ratio improved 4.8ppt YoY to 103.5%, among which loss ratio improved 7.3ppt. Expense ratio worsened a bit as a larger share of sales (16% of overall GWP, or 1/3 of Personal Clinic Policy) was conducted through self platforms, which involve higher initial costs. Product structure change contributed to narrowing underwriting loss. Within each ecosystem, combined ratios were also trending favorably. For example, loss ratio of health and consumer finance decreased significantly because the Company cut group health insurance business, and tightened risk criteria for consumer finance underwriting.
- **Technology business to benefit from accelerating digitization.** Tech export recorded revenue of RMB 120mn, +26.2% YoY and net loss of RMB 107mn, narrowing 34% YoY. In 1H20, the Company has also set up ZA Bank, ZA Insure and established partnerships with global players. In post-pandemic era, we believe Zhong An's technology business is likely to speed up with the digitization of the insurance industry.
- **Health ecosystem** to embrace "insurance + medical services" business model. The upgraded Personal Clinic Policy covers out-patients and emergency patients and provides 24-hour medical consultation via ZA Internet Hospital, drug delivery and other health management services. Such new models are likely to engage more customers for the Company.
- **Raise TP.** We revise up earnings metrics to reflect better underwriting performance than previously estimated. We also lift valuation multiple and raise TP to HK\$ 49.92 based on 4.0x FY20E P/B. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	11,256	14,630	16,205	19,675	23,286
YoY change (%)	89.0	30.0	10.8	21.4	18.3
Net profit (RMB mn)	(1,744)	(454)	1,070	1,392	1,632
EPS (RMB)	(1.19)	(0.31)	0.73	0.95	1.11
YoY growth (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Consensus EPS (RMB)	N.A.	N.A.	0.10	0.49	0.92
P/B (x)	1.87	1.86	3.20	2.92	2.66
P/E (x)	(33)	(127)	54	41	35
ROE (%)	-10.7	-3.0	6.9	8.2	8.8
ROA (%)	-7.3	-1.6	3.2	3.5	3.6
Combined ratio (%)	120.9	113.3	101.4	97.5	95.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$49.92
(Previous TP)	HK\$32.13)
Up/Downside	+37.9%
Current Price	HK\$43.75

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	64,304
Avg 3 mths t/o (HK\$ mn)	310.36
52w High/Low (HK\$)	55.75/17.52
Total Issued Shares (mn)	1,470
Source: Bloomberg	

Shareholding Structure

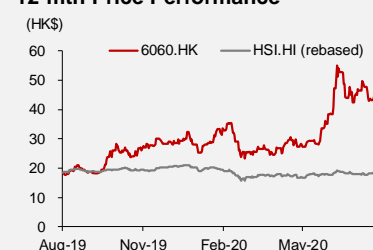
Ant Financial	13.54%
Tencent Computer System	10.21%
Ping An Insurance	10.21%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	3.4%	0.2%
3-mth	54.3%	41.6%
6-mth	39.1%	45.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. "Towards a profit-oriented and lean model" – 2 Mar 2020
2. "Concerns still outweigh positive catalysts" – 27 Mar 2019
3. "Open Day Takeaways – Technology serves the new generation" – 14 Sep 2018
4. "Underwriting pressure outweigh tech business opportunities" – 28 Aug 2018

Figure 1: 1H20 results summary

(in RMB mn)	1H20	1H19	YoY	2H19	HoH
P/L					
Gross written premium	6,767	5,897	15%	8,733	-23%
Net premiums earned	7,442	5,913	26%	6,888	8%
Investment income	824	822	0%	1,123	-27%
Other operating income	319	164	95%	213	50%
Total income	8,586	6,900	24%	8,224	4%
Insurance claims	(4,214)	(3,777)	12%	(4,847)	-13%
Handling charges & commissions	(375)	(437)	-14%	(473)	-21%
Other operating expenses	(3,671)	(2,655)	38%	(3,501)	5%
Total expenses	(8,259)	(6,870)	20%	(8,821)	-6%
Associates and JVs	8	(14)	-157%	(30)	-127%
Pre-tax profit	334	15	2076%	(626)	-153%
Income tax	48	19	157%	(47)	-203%
Less: Minority interests	(108)	(60)	79%	(124)	-13%
Net profit	490	95	419%	(549)	-189%
B/S					
Investment assets	23,533	19,150	23%	18,993	24%
Total assets	0	27,323	-100%	30,908	-100%
Insurance liabilities	7,522	5,381	40%	7,543	0%
Total liabilities	9,819	10,774	-9%	14,402	-32%
Shareholders' equity	15,581	15,589	0%	14,912	4%
Key metrics					
Expense ratio	56.6%	63.9%	-7.3 ppt	70.4%	-13.8 ppt
Loss ratio	46.9%	44.4%	2.5 ppt	47.1%	-0.2 ppt
Combined ratio	103.5%	108.3%	-4.8 ppt	117.5%	-14 ppt

Source: Company data, CMBIS

Figure 2: Forecast revisions

YE 31 Dec, RMB mn	2019A	New estimates			old estimates			Diff. new vs. old		
		2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
P&L										
Gross written premiums	14,630	16,205	19,675	23,286	17,863	21,165	24,587	-9.3%	-7.0%	-5.3%
Net premiums earned	12,801	16,185	18,226	21,543	15,750	18,701	21,665	2.8%	-2.5%	-0.6%
Investment income	1,946	2,036	2,074	2,160	1,535	1,236	1,303	32.6%	67.8%	65.8%
Insurance claims	(8,625)	(8,860)	(9,732)	(11,523)	(10,164)	(11,810)	(13,537)	-12.8%	-17.6%	-14.9%
Handling fees, commissions	(910)	(938)	(1,163)	(1,377)	(1,299)	(1,537)	(1,782)	-27.8%	-24.3%	-22.8%
G&A and others	(6,156)	(7,428)	(8,118)	(9,376)	(6,620)	(7,655)	(8,613)	12.2%	6.0%	8.9%
Net profit	(454)	1,070	1,392	1,632	(126)	(55)	405	N/A	N/A	N/A
B/S										
Total assets	30,908	36,756	42,170	48,221	32,598	36,263	40,864	12.8%	16.3%	18.0%
Total liabilities	14,402	18,694	22,436	26,546	16,908	20,576	24,695	10.6%	9.0%	7.5%
Shareholders' funds	14,912	16,127	17,619	19,352	14,830	14,826	15,282	8.7%	18.8%	26.6%
Key metrics										
Loss ratio	67.4%	54.7%	53.4%	53.5%	64.5%	63.2%	62.5%	-9.8 ppt	-9.8 ppt	-9 ppt
Expense ratio	45.9%	46.7%	44.1%	42.1%	39.9%	38.5%	36.9%	6.7 ppt	5.5 ppt	5.2 ppt
Combined ratio	113.3%	101.4%	97.5%	95.6%	104.5%	101.7%	99.4%	-3.1 ppt	-4.2 ppt	-3.8 ppt

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Gross written premium	11,256	14,630	16,205	19,675	23,286
Net premiums earned	8,800	12,801	16,185	18,226	21,543
Investment income	621	1,946	2,036	2,074	2,160
Other operating income	189	377	521	685	886
Total income	9,610	15,124	18,742	20,985	24,589
Insurance claims	(5,268)	(8,625)	(8,860)	(9,732)	(11,523)
Handling charges & commissions	(1,075)	(910)	(938)	(1,163)	(1,377)
Other operating expenses	(5,084)	(6,156)	(7,428)	(8,118)	(9,376)
Total expenses	(11,427)	(15,691)	(17,225)	(19,013)	(22,276)
Associates and JVs	7	(44)	0	0	0
Pre-tax profit	(1,810)	(611)	1,517	1,972	2,313
Income tax	13	(28)	(11)	(15)	(17)
Less: Minority interests	53	185	(435)	(566)	(663)
Net profit	(1,744)	(454)	1,070	1,392	1,632

Key ratios

YE 31 Dec Growth (%)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP growth	89.0	30.0	10.8	21.4	18.3
Total income growth	72.1	57.4	23.9	12.0	17.2
Net profit growth	N/A	N/A	N/A	30.0	17.3
Investment assets growth	(8.4)	7.5	27.4	14.3	14.0
Investment yield (%)					
Net investment yield	4.2	4.8	4.4	4.2	4.2
Total investment yield	2.6	9.3	8.1	7.5	6.8
Underwriting (%)					
Expense ratio	61.0%	45.9%	46.7%	44.1%	42.1%
Loss ratio	59.9%	67.4%	54.7%	53.4%	53.5%
Combined ratio	120.9%	113.3%	101.4%	97.5%	95.6%
Technology segment					
Tech revenue (RMB mn)	104	293	403	564	761
Tech revenue growth (%)	115.4	181.4	37.5	40.0	35.0
Tech net profit (RMB mn)	(340)	(334)	(275)	(197)	(76)

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Investment assets	17,665	18,993	24,203	27,666	31,540
other assets	4,747	6,513	12,553	14,503	16,681
Total assets	26,341	30,908	36,756	42,170	48,221
Insurance liabilities	5,327	7,543	7,918	9,741	11,932
Other liabilities	4,539	6,859	10,776	12,695	14,614
Total liabilities	9,866	14,402	18,694	22,436	26,546
Shareholders' equity	15,432	14,912	16,127	17,619	19,352
Minority interest	1,043	1,594	1,935	2,114	2,322
Total equity	16,475	16,506	18,062	19,734	21,675

Returns (%)					
ROA	(7.3)	(1.6)	3.2	3.5	3.6
ROE	(10.7)	(3.0)	6.9	8.2	8.8
Solvency (%)					
Core solvency ratio	600	502	502	487	473
Comprehensive solvency ratio	600	502	502	487	473
Per share (RMB)					
EPS	(1.19)	(0.31)	0.73	0.95	1.11
DPS	0	0	0	0	0
BVPS	11.2	11.2	12.3	13.4	14.7

Source: Company data, CMBIS estimates

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