

ZhongAn (6060 HK)

Strong investment and UW profits drive 1H23 earnings turnaround

Zhong An came out with a net profit turnaround at RMB2.21mn in 1H23 from a restated net loss of RMB6.36mn compared to the last first-half, thanks to an increase in total investment income. Such rise was driven by RMB573mn net gain on fair value changes in onshore insurance funds and a continuously improving CoR, further down to 95.8% with claim and expense ratios both declined (-0.6pct/-0.1pct) year-over-year. This result was aligned to the earnings alert the company released a week ago informing its 1H23 earnings were no less than RMB200mn. After certain adjustments under IFRS 17, the insurer's underwriting profits grew 47.6% YoY to RMB535.6mn, with premium income and insurance revenue up by 37.5%/23.9% YoY to RMB14.46bn/RMB12.68bn respectively within the period. To break down, all the insurer's ecosystems realized strong growth in written premiums and remained resilient in terms of UW profits in 1H23. Among which, some highlights can be addressed that, for instance, the digital lifestyle, consumer finance and auto segments each grew GWP by 52.8%/52.0%/54.3% YoY, led by strong recovery in travelling, e-commerce shopping and motor activity rate. Given a solid base on premiums growth and investment performance amid market volatilities in 1H23, we expect the insurer will face less pressure in second half, and thus able to focus more on bottom-line improvement for quality growth.

■ **Domestic P&C insurance gained RMB723mn in investment income, implying +557.3% YoY increase.** After the one-off expense for shifting to HKFRS 9, the insurer benefited from the periodic recovery in 1H23 by actively allocating into domestic bond markets, from where it gained most of the spreads given a continued downward-sloping yield of CN 10-yr Treasury bond. The new accounting standard entailed with more fair value changes to be recorded into P/L net profit and thus increased the volatilities in bottom-line. In 1H23, the insurer realized RMB723mn in total investment income from its domestic P&C insurance subsidiary including RMB573mn net gain on fair value changes of financial assets versus a net loss of RMB165mn in 1H22.

■ **Enhanced technology export with rapidly growing proprietary income.** Aside from insurance segment, as a leading InsurTech player, Zhong An deepened its technology export in 1H23 by delivering the written premiums to RMB 267mn from RMB 219mn, representing a YoY increase of 22%. From which, domestic export rose by 35.5% in 1H23 to RMB150 mn for mounting enterprise demands, and overseas export was up by 8.0%. What is more, the proprietary channels continued to gain traction. As of 1H23, the channel contribution to total premiums amounted to RMB4.4bn (~30.6%), which implied 90.6% YoY increase. Premiums per user rallied by 52.7% to RMB 712.

■ **Valuation:** Zhong An (H) is now trading at 1.1x FY23 E P/S and 1.7x FY23 E P/B. We believe the resilient premiums growth in 1H eases the pressure in 2H so that the insurer can focus on unprofitable segments, like ZA bank. Reiterate BUY, with TP unchanged at HK\$33.82.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit (RMB mn)	1,165	(1,356)	1,029	1,445	1,807
EPS (Reported)(RMB)	0.79	na	0.70	0.98	1.23
Consensus EPS (RMB)	na	na	0.71	0.96	1.23
Premium income (RMB mn)	18,885	22,266	26,952	31,158	36,121
Premium income growth (%)	16.5	17.9	21.0	15.6	15.9
Combined ratio (%)	99.6	98.5	97.9	97.5	97.3
P/B (x)	1.7	1.9	1.7	1.6	1.6
P/S (x)	1.5	1.4	1.1	0.9	0.8
ROE (%)	7.2	(8.5)	6.5	8.3	9.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$33.82**
(Previous TP) HK\$33.82
Up/Downside **43.3%**
Current Price **HK\$23.60**

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Stock Data

Mkt Cap (HK\$ mn)	33,512.0
Avg 3 mths t/o (HK\$ mn)	48.5
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	-4.8%	4.5%
3-mth	3.3%	5.7%
6-mth	4.7%	14.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Total income	18,493	21,940	23,352	29,379	34,082	39,514
Premiums written (gross)	16,709	20,480	24,005	29,052	33,569	38,897
Premiums earned (net)	16,215	18,885	22,266	26,952	31,158	36,121
Investment income	1,527	2,068	1,760	1,293	1,444	1,444
Realized gains (losses)	(26)	127	(1,803)	0	0	0
Other operating income	776	861	1,129	1,134	1,481	1,949
Losses	(18,313)	(21,074)	(25,352)	(27,850)	(31,934)	(36,828)
Selling	(8,774)	(10,935)	(12,440)	(14,427)	(16,669)	(19,291)
Underwriting & commissions	(1,407)	(1,771)	(2,000)	(1,693)	(1,906)	(2,153)
Other operating expense	(8,132)	(8,368)	(10,913)	(11,729)	(13,359)	(15,384)
Pretax income	147	829	(2,016)	1,529	2,148	2,686
Income taxes	108	(72)	383	(291)	(408)	(511)
Minority interest	299	407	277	(210)	(295)	(369)
Net income	554	1,165	(1,356)	1,029	1,445	1,807

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Assets						
Cash & short-term investments	8,418	4,301	3,526	3,576	3,576	3,576
Investments	624	629	648	657	657	657
Total fixed income securities investment	21,597	25,640	4,505	4,569	4,569	4,569
Total equity securities investment	6,120	11,813	21,863	22,175	22,175	22,175
Real estate assets	344	240	434	61	71	84
Premium balance receivables	4,819	5,297	6,393	6,517	7,634	8,975
Investment in unconsolidated subs.	315	560	554	562	562	562
Deferred tax assets	0	0	373	0	0	0
Intangible assets	481	477	662	675	790	929
Goodwill	3	3	0	0	0	0
Other assets	2,950	2,813	15,599	15,902	18,627	21,899
Total assets	45,673	51,772	54,557	54,695	58,662	63,426
Liabilities & shareholders' equity						
Insurance policy liabilities	8,547	9,304	10,582	11,314	12,451	13,742
ST debt & curr. portion LT debt	4,094	5,548	6,992	6,992	6,992	6,992
Long-term debt	6,786	6,645	7,179	7,254	7,344	7,451
Provision for risks & charges	0	0	0	0	0	0
Deferred tax liabilities	0	62	0	0	0	0
Other liabilities	8,853	11,082	12,777	10,513	11,616	12,939
Total liabilities	28,280	32,642	37,531	36,073	38,403	41,124
Total common equity	15,705	16,748	15,214	16,639	18,102	19,927
Common stock/ordinary capital	1,470	1,470	1,470	1,470	1,470	1,470
Retained earnings	(2,581)	(1,458)	(2,728)	(1,744)	(299)	1,508
Equity reserves	16,817	16,737	16,472	16,913	16,931	16,949
Total shareholders' equity	15,705	16,748	15,214	16,639	18,102	19,927
Minority interest	1,688	2,382	1,813	1,983	2,157	2,374
Total equity	17,393	19,130	17,027	18,622	20,259	22,302
Total liabilities & shareholders' equity	45,673	51,772	54,557	54,695	58,662	63,426

PER SHARE DATA	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
EPS (Reported)	0.38	0.79	na	0.70	0.98	1.23
Diluted EPS	0.38	0.79	na	0.70	0.98	1.23
Consensus EPS	na	na	na	0.71	0.96	1.23
No. of shares basic	1,470	1,470	1,470	1,470	1,470	1,470
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Return on equity (ROE)	3.6%	7.2%	(8.5%)	6.5%	8.3%	9.5%
Return on asset (ROA)	1.4%	2.4%	(-2.6%)	1.9%	2.5%	3.0%
Combined ratio	102.5%	99.6%	98.5%	97.9%	97.5%	97.3%
Loss ratio	54.1%	57.6%	55.2%	53.5%	53.5%	53.4%
Expense ratio	48.4%	42.0%	43.3%	44.4%	44.0%	43.9%
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	58.2	27.7	na	31.3	22.3	17.8
PE (diluted)	58.2	27.7	na	31.3	22.3	17.8
P/B	1.9	1.7	1.9	1.7	1.6	1.6
P/S	1.7	1.5	1.4	1.1	0.9	0.8

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

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