

# ZhongAn Online (6060 HK)

## Disciplined development bodes well for future

Zhong An's 2019 annual results were satisfactory, incurring net loss of RMB 454mn (vs. CMBIS estimate of RMB 546mn). As the Company sought to pursue a lean and quality-oriented business model, underwriting loss narrowed, investment income beefed up and technology business offered more visibility. We think disciplined control of business quality and deepened cooperation with Ant Financial bode well for future performance. Upgrade to BUY.

- Underwriting quality solidified.** Combined ratio declined 7.6ppt YoY to 113.3%, slightly beating our estimate at 114%, whereas underwriting loss narrowed 7.4% YoY to RMB 1.7bn. This achievement was underpinned by, 1) product optimization - health and lifestyle consumption drove premium growth, up 68%/131% YoY, respectively. The Company has become more selective in underwriting business and trimmed group health insurance, travel insurance as well as consumer finance business; 2) channel optimization - premium income from proprietary platforms rose to RMB1.1bn, five times its amount in 2018, bringing expense ratio down by 15.1ppt to 45.9%.
- Investment income surged.** Total investment yield rose to 9.3% in 2019, thanks primarily to 1) realized gains of RMB 712mn (vs. loss of RMB 68.6mn in 2018), and 2) an increase in dividend income from investment fund and wealth management products.
- More visibility in technology business,** which recorded revenue of RMB 270mn, up 140% YoY and outpacing cost, thereby narrowing net loss to RMB 334mn. Overseas market expansion also proved successful by entering into cooperation with leading insurers and O2O platforms in Japan and Southeast Asian countries.
- Result negatives.** 1) Loss ratio hiked in the consumer finance ecosystem to 97%, and may stay high in 2020 due to economic slowdown although the Company has reduced exposure (outstanding loan balance decline 22% YoY and 14% HoH). 2) Net loss enlarged in 2H19 with respect to both underwriting and technology business. 3) Investment gains in 2019 were exceptionally good and may not be replicated when interest rate goes down.
- Upgrade to BUY.** Better-than-anticipated 2019 results cleared some of our concerns over the Company's financial performance in the years to follow. We revise up earnings metrics. However, we adjust valuation multiple and derive TP based on 2.8x FY20E P/B due to market volatilities. TP is slightly trimmed to HK\$32.13. Recent plunge offers good opportunity to accumulate.

### Earnings Summary

(YE Dec 31)	FY18A	FY19A	FY20E	FY21E	FY22E
GWP (RMB mn)	11,256	14,630	17,863	21,165	24,587
YoY change (%)	89.0	30.0	22.1	18.5	16.2
Net profit (RMB mn)	(1,744)	(454)	(126)	(55)	405
EPS (RMB)	(1.19)	(0.31)	(0.09)	(0.04)	0.28
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
Consensus EPS (RMB)	(0.99)	(0.31)	0.11	0.49	1.12
P/B (x)	1.87	1.86	1.96	1.96	1.90
ROE (%)	-10.7	-3.0	-0.8	-0.4	2.7
ROA (%)	-7.3	-1.6	-0.4	-0.2	1.1
Combined ratio (%)	120.9	113.3	104.5	101.7	99.4

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Up)**

<b>Target Price</b>	<b>HK\$32.13</b>
(Previous TP)	HK\$34.21)
<b>Up/Downside</b>	<b>+37.9%</b>
<b>Current Price</b>	<b>HK\$23.30</b>

### China Insurance Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	34,247
Avg 3 mths t/o (HK\$ mn)	185
52w High/Low (HK\$)	36.7/ 16.56
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	-30.2%	-12.2%
3-mth	-18.0%	5.5%
6-mth	22.4%	47.9%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

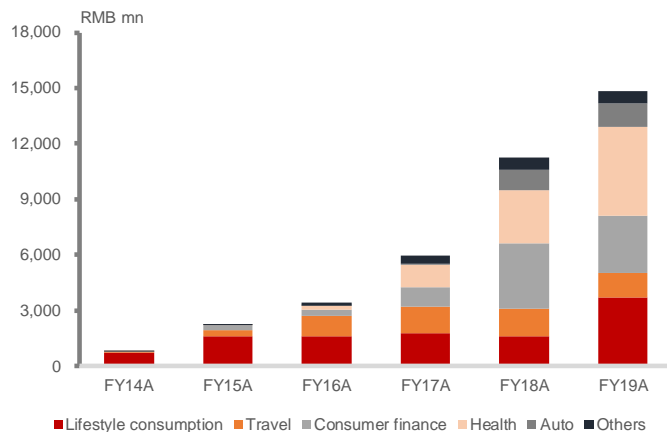
#### Related Reports

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

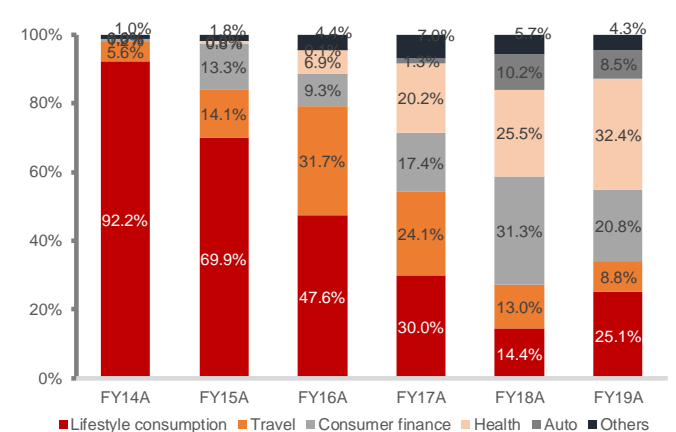
**Figure 1: ZhongAn's 2019 results summary**

(in RMB mn)	FY18	FY19	YoY	vs. CMBI est.	1H19	2H19	QoQ	2H18	YoY
<b>P/L</b>									
Gross written premium	11,256	14,630	30.0%	0.0%	5,897	8,733	48.1%	6,108	43.0%
Net premiums earned	8,800	12,801	45.5%	-3.8%	5,913	6,888	16.5%	5,180	33.0%
Investment income	621	1,946	213.5%	-6.2%	822	1,123	36.6%	265	324.4%
Other operating income	189	377	98.9%	40.6%	164	213	30.1%	98	116.7%
Total income	9,610	15,124	57.4%	-3.4%	6,900	8,224	19.2%	5,543	48.4%
Insurance claims	(5,268)	(8,625)	63.7%	-1.7%	(3,777)	(4,847)	28.3%	(3,308)	46.6%
Handling charges & commissions	(1,075)	(910)	-15.3%	-30.9%	(437)	(473)	8.1%	(549)	-13.9%
Other operating expenses	(5,084)	(6,156)	21.1%	0.7%	(2,655)	(3,501)	31.8%	(2,827)	23.9%
<b>Total expenses</b>	<b>(11,427)</b>	<b>(15,691)</b>	<b>37.3%</b>	<b>-3.2%</b>	<b>(6,870)</b>	<b>(8,821)</b>	<b>28.4%</b>	<b>(6,683)</b>	<b>32.0%</b>
Associates and JVs	7	(44)			(14)	(30)	107.9%	(0)	
Pre-tax profit	(1,810)	(611)			15	(626)	-4175.5%	(1,140)	
Income tax	13	(28)			19	(47)	-348.6%	10	
Less: Minority interests	53	185			(60)	(124)	105.3%	(42)	
<b>Net profit</b>	<b>(1,744)</b>	<b>(454)</b>	<b>N/A</b>		<b>95</b>	<b>(549)</b>	<b>-680.3%</b>	<b>(1,088)</b>	
<b>B/S</b>									
Investment assets	17,665	18,993	7.5%		19,150	18,993	-0.8%	17,665	7.5%
Total assets	26,341	30,908	17.3%		27,323	30,908	13.1%	26,341	17.3%
Insurance liabilities	5,327	7,543	41.6%		5,381	7,543	40.2%	5,327	41.6%
Total liabilities	9,866	14,402	46.0%		10,774	14,402	33.7%	9,866	46.0%
Shareholders' equity	15,432	14,912	-3.4%		15,589	14,912	-4.3%	15,432	-3.4%
<b>Key metrics</b>									
Expense ratio	61.0%	45.9%	-15.1ppt	-2.1ppt	63.9%	70.3%		63.8%	
Loss ratio	59.9%	67.4%	7.5ppt	1.5ppt	44.4%	41.4%		54.8%	
Combined ratio	120.9%	113.3%	-7.6ppt	-0.7ppt	108.3%	111.7%		118.7%	
Net investment yield	4.2%	4.8%	0.6ppt	0.3ppt	n/a	n/a		n/a	
Total investment yield	2.6%	9.3%	6.7ppt	-0.2ppt	n/a	n/a		n/a	

Source: Company data, CMBIS estimates

**Figure 2: Premium by ecosystem**

Source: Company data, CMBIS

**Figure 3: Premium breakdown by ecosystem**

Source: Company data, CMBIS

## Financial Summary

Income statement						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Gross written premium	11,256	14,630	17,863	21,165	24,587	<b>Growth (%)</b>					
Net premiums earned	8,800	12,801	15,750	18,701	21,665	GWP growth	89.0	30.0	22.1	18.5	16.2
Investment income	621	1,946	1,535	1,236	1,303	Total income growth	72.1	57.4	18.4	16.9	17.1
Other operating income	189	377	618	988	1,538	Net profit growth	N/A	N/A	N/A	N/A	N/A
<b>Total income</b>	<b>9,610</b>	<b>15,124</b>	<b>17,904</b>	<b>20,924</b>	<b>24,506</b>	Investment assets growth	(8.4)	7.5	14.2	12.8	13.9
Insurance claims	(5,268)	(8,625)	(10,164)	(11,810)	(13,537)	<b>Investment yield (%)</b>					
Handling charges & commissions	(1,075)	(910)	(1,299)	(1,537)	(1,782)	Net investment yield	4.2	4.8	4.4	4.2	4.2
Other operating expenses	(5,084)	(6,156)	(6,620)	(7,655)	(8,613)	Total investment yield	2.6	9.3	6.2	4.8	4.4
<b>Total expenses</b>	<b>(11,427)</b>	<b>(15,691)</b>	<b>(18,083)</b>	<b>(21,002)</b>	<b>(23,932)</b>	<b>Underwriting (%)</b>					
Associates and JVs	7	(44)	0	0	0	Expense ratio	61.0%	45.9%	39.9%	38.5%	36.9%
Pre-tax profit	(1,810)	(611)	(179)	(78)	574	Loss ratio	59.9%	67.4%	64.5%	63.2%	62.5%
Income tax	13	(28)	1	1	(4)	Combined ratio	120.9%	113.3%	104.5%	101.7%	99.4%
Less: Minority interests	53	185	51	22	(165)	<b>Technology segment</b>					
<b>Net profit</b>	<b>(1,744)</b>	<b>(454)</b>	<b>(126)</b>	<b>(55)</b>	<b>405</b>	Tech revenue (RMB mn)	104	293	563	931	1,479
						Tech revenue growth (%)	115.4	181.4	92.2	65.3	58.9
						Tech net profit (RMB mn)	(340)	(334)	(263)	(140)	125
						<b>Returns (%)</b>					
						ROA	(7.3)	(1.6)	(0.4)	(0.2)	1.1
						ROE	(10.7)	(3.0)	(0.8)	(0.4)	2.7
						<b>Solvency (%)</b>					
						Core solvency ratio	600	502	495	459	425
						Comprehensive solvency ratio	600	502	495	459	425
						<b>Per share (RMB)</b>					
						EPS	(1.19)	(0.31)	(0.09)	(0.04)	0.28
						DPS	0	0	0	0	0
						BVPS	11.2	11.2	10.7	10.7	11.0

Source: Company data, CMBIS estimates

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