

# ZhongAn (6060 HK)

## Digital lifestyle leading growth; ZA Bank and technology export breakeven on track

**BUY (Maintain)**

**Target Price** **HK\$22.00**  
 (Previous TP **HK\$33.80**)  
**Up/Downside** **73.0%**  
**Current Price** **HK\$12.72**

### China Insurance

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### Stock Data

Mkt Cap (HK\$ bn)	18.7
Avg 3 mths t/o (HK\$ bn)	39.0
52w High/Low (HK\$)	26.55/11.50
Total Issued Shares (bn)	1.47

Source: FactSet

### Shareholding Structure

SoftBank Group Corp	15.3%
Ant Group Co., Ltd	10.7%

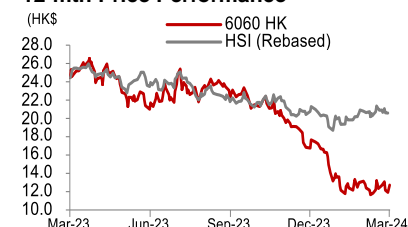
Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	-3.9%	-1.6%
3-mth	-24.1%	-23.0%
6-mth	-43.0%	-38.7%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Auditor: PwC

### Related report:

1. ZhongAn (6060 HK) – Strong investment and UW profits drive 1H23 earnings turnaround, Aug 28, 2023 ([link](#))

ZhongAn reported FY23 results with net profit attributable to shareholders turning positive to RMB4.1bn, from a net loss of RMB1.1bn in 2022. Excluding the one-off gain on disposal of ZA International at RMB3.78bn, the insurer recorded RMB 294mn net profit, in line with consensus. We see multiple highlights in the results: 1) domestic P&C growth momentum continued driven by digital lifestyle with premiums +33.1% YoY in 2H23 despite macro uncertainties; 2) revenue from domestic technology export rose 73% YoY to RMB504mn by riding the wave of Digital China; 3) ZA Bank breakeven was on track, with the bank's net revenue +42.9% YoY and NIM +10bps to 1.94% on the back of a lower loan-to-deposit ratio at 46% (vs 2022: 53%). Looking ahead, we are positive on the InsurTech gene and expect ZhongAn to open up new space for fin-tech and rebuild the digital finance landscape, to propel the growth in proprietary channels and ZA Bank.

■ **Domestic P&C driven by digital lifestyle ecosystem.** While the underwriting combined ratio (CoR) rose 1.0ppt to 95.2% in 2023, the insurer's underwriting profit (UWP) rose 1.7% YoY to RMB1.3bn, thanks to a higher insurance revenue by +24.2% YoY. Among four ecosystems, digital lifestyle comprised of e-commerce related cargo insurance, travel insurance and innovative products such as pet insurance saw insurance revenue +40% YoY, sustaining the solid growth to 2H23 (+37.8% YoY, vs 1H: +42.5% YoY). Health segment recorded gross premiums (GWP) of critical illness by +130.6% YoY to RMB1.3bn in 2023, translating into a 7.2x spike in 2H; and the outpatient and emergency insurance premium was up by 157.3% YoY in 2023, reflecting the insurer's intention on focusing medical diversification. As the No.1 domestic internet insurer, ZhongAn has the potential to achieve continued growth in GWP and underwriting profit of Health, Digital lifestyle and Auto ecosystems, but we remain conservative on consumer finance, for which we expect low-single digit premium growth in 1H24.

■ **Proprietary channels empower cross-ecosystem penetration.** Backed by digital infrastructure and centralized data platform, the insurer realized 31.0% YoY premium growth in proprietary channels to RMB7.6bn, c. 26% of total GWP. In Health ecosystem, GWP from proprietary channels grew 45.0% YoY to RMB4.4bn, representing 44.5% of total Health GWP. By end-2023, the insurer's enriched product mix in proprietary channels resulted in: 1) the number of paid customers +14.8% to 11.43mn, 2) premiums per user +14.4% YoY to RMB670, and 3) policy renewal rate +1.0ppt HoH to 88.3%.

■ **ZA Bank launched US-stock trading with net revenue +43%.** As the top-ranking virtual bank in Hong Kong, ZA Bank is long-awaited by market for its breakeven progress. The bank's net revenue rose 42.9% YoY to RMB366mn in 2023, underpinned by strong growth momentum in 2H23 (+76.2% YoY and +40.8% HoH). The NIM expanded 1.0ppt YoY to 1.94%, driven by more rapid growth in deposits (+27.4 YoY) versus loans and advances (+10.1% YoY). In Jan, the bank launched US-stock trading to cater to the tech-navvy customers' demands, which, in our view, is a good strategy for new customer acquisition and raising retention amid competition. Maintain BUY with new TP at HK\$22.0.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit (RMB mn)	-1,112	4,078	434	547	678
EPS (Reported)(RMB)	(0.76)	2.77	0.30	0.37	0.46
Consensus (RMB)	n.a	n.a	0.78	1.10	1.26
Combined ratio (%)	94.2	95.2	95.8	96.0	96.0
P/B (x)	1.28	1.01	0.91	0.88	0.84
ROE (%)	(6.8)	22.8	2.1	2.4	2.9

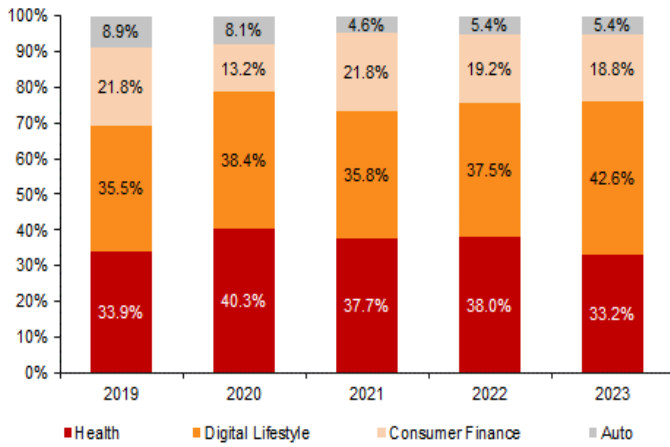
Source: Company data, Bloomberg, CMBIGM estimates

## Valuation

- **Rerated based on P/B instead of P/S.** ZhongAn (H) is now trading at FY24E 0.9x P/B and FY24E 0.5x P/S. The stock price was significantly down in 2023, in particular in 2H23, reflecting concerns about macro uncertainties. By excluding the one-off gain on disposal of ZA International at RMB3.78bn, we adjust the FY23 EPS to RMB 0.2 (vs reported: RMB 2.77), and the FY23 ROE to 1.6% (vs reported: 22.8%) accordingly. Considering investment volatilities and prolonged easing of market sentiment, we revise down the FY24-26E EPS to RMB0.30/RMB0.37/RMB0.46, with respective FY24-26E ROE at 2.1%/2.4%/2.9%. We previously value the stock on 1.25x FY23 P/S, considering: 1) an internet-based business nature poised for high growth; 2) unpromising financial performance in 2022, which ended up in RMB1.1bn of net loss after the HKFRS restatement.
- We see positive outlook on the company's growth trajectory, given a more mature P&C business model based on four ecosystems, and the expected breakeven in ZA Bank and technology export. We project the company's underwriting combined ratio (COR) in FY24-26 at 95.8%/96.0%/96.0%, corresponding to FY24-26E underwriting profits at RMB1.38bn/RMB1.56bn/RMB1.77bn. We intend to adopt a fair value FY24E P/B at 1.46x, based on assumptions of 1) 3% market risk-free rate; 2) 10% market required rate of return, implying 700bps of risk premiums; and 3) 1.4x beta, to derive the cost of equity at 12.8% on the basis of CAPM. For the sake of prudence, we do not incorporate value of ZA bank and Technology business yet. Our new price target is HK\$22.0, focusing on ZhongAn's domestic P&C insurance business, with an implied 20-year growth rate at 8%. Maintain BUY.

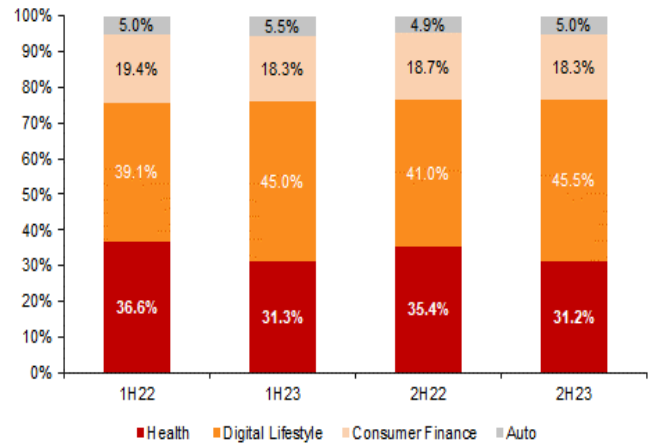
## Focus Charts

**Figure 1: Gross written premiums by ecosystem (%)**



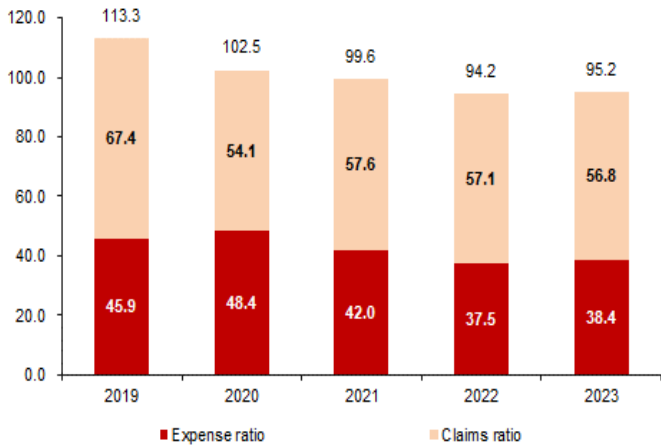
Source: Company data, CMBIGM

**Figure 2: Insurance revenue by ecosystem (%)**



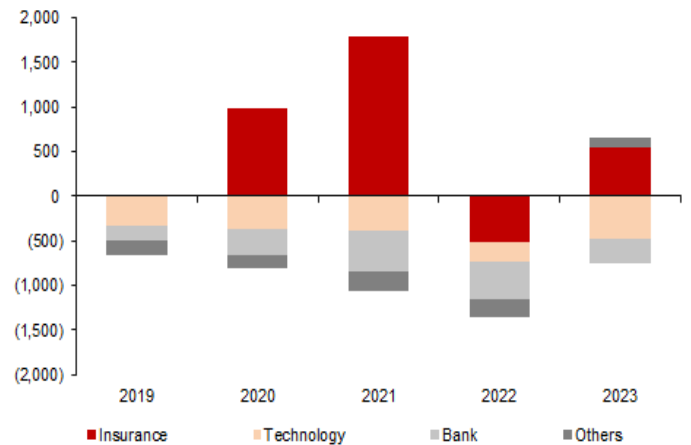
Source: Company data, CMBIGM

**Figure 3: Underwriting COR composition trend (%)**



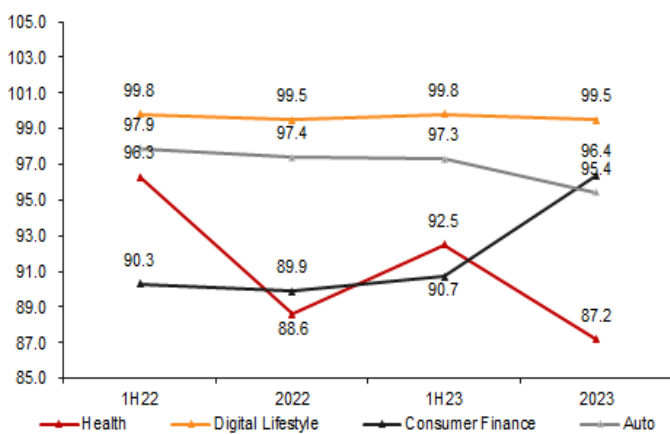
Source: Company data, CMBIGM

**Figure 4: Net profit to shareholders (RMB mn)**



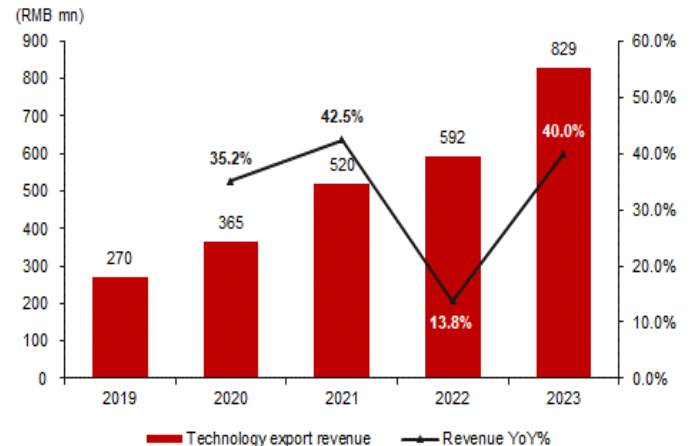
Source: Company data, CMBIGM

**Figure 5: Four ecosystems' underwriting COR (%)**



Source: Company data, CMBIGM

**Figure 6: Technology export revenue and YoY%**



Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
Insurance revenue		22,189	27,535	32,892	39,264	47,038
Insurance service expenses		(20,673)	(26,089)	(31,323)	(37,494)	(45,025)
Net expenses from reinsurance contracts held		(99)	(109)	(131)	(157)	(188)
Insurance service results		1,417	1,337	1,438	1,613	1,825
Net finance (expenses)/income from insurance contracts		(145)	(52)	(55)	(57)	(60)
Net finance (expenses)/income from reinsurance contracts		(10)	8	8	9	9
Net investment income		1,760	409	470	437	410
Other gains/(losses) from changes in fair value		(1,803)	768	761	777	793
Credit impairment losses		(72)	(57)	(60)	(63)	(66)
Net investment results		(270)	4,860	1,125	1,103	1,086
Other fee and commission income/(expenses)		(1,897)	(1,542)	(1,573)	(1,604)	(1,652)
Other income		1,129	1,135	1,158	1,181	1,217
Other expenses		(1,069)	(1,128)	(1,151)	(1,174)	(1,209)
Foreign exchange gains/losses		(549)	(95)	(96)	(98)	(101)
Other results		(2,814)	(2,094)	(2,136)	(2,179)	(2,244)
Profit before tax		(1,683)	4,010	427	538	667
Income taxes		298	(165)	(18)	(22)	(27)
Net profit		(1,384)	3,845	410	516	639
Net profit attributable to shareholders		(1,112)	4,078	434	547	678

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>ASSETS</b>						
Cash and amount due from banks and other financial institutions	4,302	3,526	1,576	1,734	1,907	2,098
Balances with central bank and statutory deposits	646	648	348	365	384	403
Intangible assets	481	662	527	554	581	611
Investments in associates and joint ventures	558	554	5,297	5,826	6,409	7,050
Property	62	60	55	58	61	64
Insurance contract assets	43	345	497	522	548	575
Reinsurance contract assets	261	250	264	278	292	306
Financial investments:	35,659	35,298	31,972	35,059	38,565	42,421
At amortized cost:	1,731	1,431	1,452	1,597	1,757	1,933
At fair value through other comprehensive income:	10,635	11,866	8,168	8,985	9,883	10,871
At fair value through profit or loss:	23,284	21,863	22,252	24,477	26,925	29,617
Loans and advances to customers	2,057	4,367	0	4,867	5,367	5,867
Deferred tax assets	0	182	33	34	36	38
Other assets	1,941	1,757	2,294	(4,907)	(8,178)	(11,823)
<b>Total assets</b>	<b>46,010</b>	<b>47,649</b>	<b>42,864</b>	<b>44,391</b>	<b>45,972</b>	<b>47,610</b>
<b>LIABILITIES</b>						
Customer deposits and payables to brokerage customers	5,700	8,184	0	8,184	7,775	7,386
Insurance contract liabilities	4,137	4,029	3,335	4,668	5,602	6,723
Borrowings	117	148	99	104	109	114
Obligations under repurchase agreements	5,553	6,992	8,491	9,340	10,274	11,302
Derivative financial instruments	0	64	0	0	0	0
Deferred tax liabilities	168	0	0	0	0	0
Current tax liabilities	0	0	27	30	33	36
Bonds payable	6,407	6,658	6,801	8,842	10,610	12,732
Lease liabilities	203	374	287	344	413	495
Other liabilities	4,267	3,570	3,750	(9,303)	(11,940)	(15,328)
<b>Total liabilities</b>	<b>26,552</b>	<b>30,034</b>	<b>22,790</b>	<b>22,210</b>	<b>22,876</b>	<b>23,461</b>
<b>EQUITIES</b>						
Share capital	1,470	1,470	1,470	1,470	1,470	1,470
Reserves	16,541	16,473	16,732	18,405	18,773	19,149
Retained profits	(964)	(2,176)	1,871	2,306	2,853	3,530
<b>Total shareholders' equity</b>	<b>17,046</b>	<b>15,766</b>	<b>20,073</b>	<b>22,181</b>	<b>23,096</b>	<b>24,149</b>
Non-controlling interests	2,412	1,849	0	0	0	0
<b>Total equity</b>	<b>19,458</b>	<b>17,615</b>	<b>20,073</b>	<b>22,181</b>	<b>23,096</b>	<b>24,149</b>
<b>Total liabilities &amp; equity</b>	<b>46,010</b>	<b>47,649</b>	<b>42,864</b>	<b>44,391</b>	<b>45,972</b>	<b>47,610</b>

<b>PER SHARE DATA</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
DPS	0.0	0.0	0.0	0.0	0.0	0.0
EPS (Reported)	0.79	(0.76)	2.77	0.30	0.37	0.46
Diluted EPS	0.79	(0.76)	2.77	0.30	0.37	0.46
No. of shares basic	1,470	1,470	1,470	1,470	1,470	1,470
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Return on equity (ROE)		(6.8%)	22.8%	2.1%	2.4%	2.9%
Return on asset (ROA)		(2.4%)	9.0%	1.0%	1.2%	1.4%
Combined ratio	99.6%	94.2%	95.2%	95.8%	96.0%	96.0%
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/B (x)	1.2x	1.3x	1.0x	0.9x	0.9x	0.8x

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

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