



## Company Report: ZhongAn Online (06060 HK)

公司报告: 众安在线 (06060 HK)

Wiley Huang 黄重钧

(852) 2509 5409

wiley.huang@gtjas.com.hk

6 July 2020

# 1H2020 Shareholders' Profit to Surge, Maintain "Accumulate"

2020年上半年股东净利预计大幅增长, 维持“收集”

- ZhongAn Online (06060 HK) estimated its 1H2020 shareholders' profit to increase no less than 100%.** The Company indicated that shareholders' profit surge was due to combined ratio improvement brought by quality premiums growth. We note that ZhongAn has reduced businesses with high combined ratio since 1H2019. The positive effects should be released in 1H2020.
- 1-5M2020 premiums growth decelerated to 16.6%, possibly due to reduction in consumer finance ecosystem premiums.** YTD premiums growth dropped from 33.7% in 1Q2020 to 16.6% in 1-5M2020, slightly below our expectations. Given increased demand triggered by the pandemic, health ecosystem should maintain robust premiums growth in 1H2020. Regarding consumer finance ecosystem, we think that credit insurance should see notable premiums decline in 1H2020. Credit insurance has been impacted by a sluggish economy since 2H2019. The increase in credit defaults has led to higher loss ratio. The COVID-19 pandemic has worsened the situation since businesses have been shut during February and March 2020. Hence, ZhongAn should actively reduce premiums scale in the consumer finance ecosystem in 1H2020.
- Raise TP to HK\$58.03 and maintain "Accumulate" rating.** Due to better investment sentiment for internet-related stocks, we raise 2020F P/S to 4.0x, equivalent to HK\$58.03. Considering underwriting improvement and establishment of ZA Bank and ZA Insure in Hong Kong, we maintain "Accumulate" investment rating.
- 众安在线 (06060 HK) 预计其 2020 年上半年的股东净利润将录得不低于 100% 的增长。** 公司表示, 股东净利的大幅增长是由于质量较好的保费增长所带来的综合成本率改善。我们注意到, 自 2019 年上半年以来, 众安减少了综合成本率较高的业务。积极的影响应在 2020 年上半年释放。
- 2020 年 1-5 月保费增长减速至 16.6%, 可能是由于消费金融生态保费下降所致。** 年累计保费增长从 2020 年第一季度的 33.7% 降至 2020 年 1-5 月的 16.6%, 略低于我们的预期。鉴于疫情所激发需求的增加, 健康生态应该在 2020 年上半年保持强劲的保费增长。消费金融生态方面, 我们认为信用险保费应该在 2020 年上半年大幅减少。自 2019 年下半年以来, 信用险一直受到经济不景气的影响。信用违约的增加导致了更高的赔付率。由于企业在 2 月和 3 月的停业, 疫情使情况更加恶化。因此, 众安应该在 2020 年上半年积极地减少了消费金融生态的保费规模。
- 上调目标价至 58.03 港元并维持“收集”评级。** 由于互联网相关股票的投资情绪转好, 我们将 2020 年市销率上调至 4.0 倍, 相当于 58.03 港元。考虑到承保活动的改善以及众安银行和众安人寿在香港的成立, 我们维持“收集”投资评级。

**Rating:**
**Accumulate**

Maintained

评级:

收集 (维持)

**6-18m TP 目标价:**
**HK\$58.03**

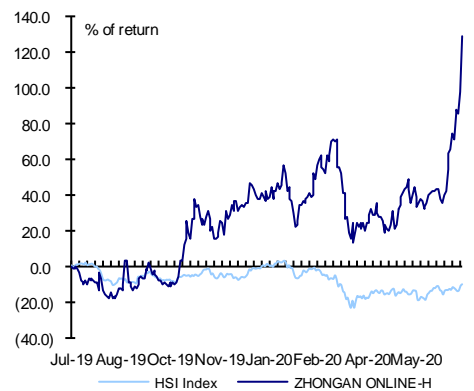
Revised from 原目标价:

HK\$30.66

**Share price 股价:**
**HK\$55.100**

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	88.7	107.9	158.1
Rel. % to HS Index 相对恒指变动 %	82.4	97.0	166.5
Avg. Share price(HK\$) 平均股价 (港元)	32.2	29.0	25.5

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	11,256	(1,744)	(1.190)	n.a.	(40.7)	10.499	4.6	0.000	0.0	(10.7)
2019A	14,630	(454)	(0.310)	n.a.	(158.9)	10.190	4.8	0.000	0.0	(3.0)
2020F	19,406	371	0.252	n.a.	199.0	10.443	4.8	0.000	0.0	2.4
2021F	28,559	317	0.216	(14.3)	232.1	10.658	4.7	0.000	0.0	2.0
2022F	41,449	887	0.604	179.6	83.0	11.262	4.5	0.000	0.0	5.5

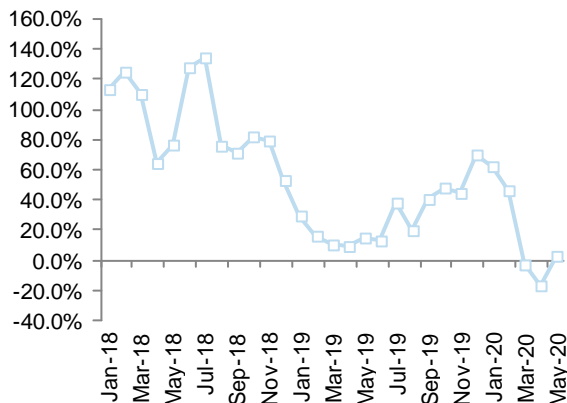
Shares in issue (m) 总股数 (m)	1,470.0	Major shareholder 大股东	Ant Financial 13.5%
Market cap. (HK\$ m) 市值 (HK\$ m)	80,997.0	Free float (%) 自由流通比率 (%)	86.5%
3 month average vol. 3 个月平均成交股数 ('000)	5,611.2	FY20 Target P/S (x) FY20 目标市销率 (x)	4.0
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	55.600 / 16.560	FY20 Target P/B (x) FY20 目标市净率 (x)	5.1

Source: the Company, Guotai Junan International.

**ZhongAn Online (06060 HK, "ZhongAn" or the "Company") released a positive profit alert on July 6, estimating its 1H2020 shareholders' profit is to increase no less 100%.** The Company indicated that shareholders' profit surge was due to combined ratio improvement brought by quality premiums growth. We note that ZhongAn has reduced businesses with high combined ratio since 1H2019. The positive effects should be released in 1H2020. Meanwhile, due to decline in traffic communication and travel during the COVID-19 pandemic period, loss ratio of auto ecosystem and travel ecosystem might record improvement in 1H2020.

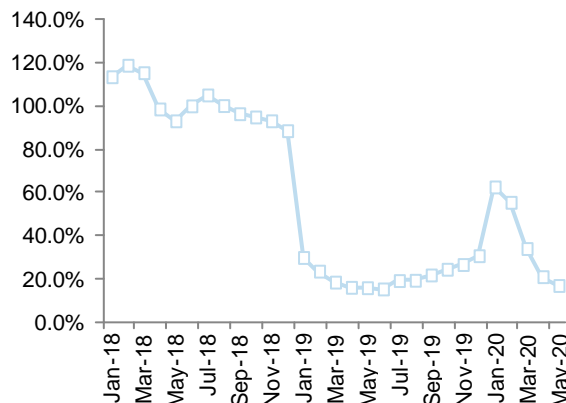
**ZhongAn's 1-5M2020 premiums growth decelerated to 16.6%, possibly due to reduction in consumer finance ecosystem premiums.** ZhongAn's accumulated premiums growth dropped from 33.7% in 1Q2020 to 16.6% in 1-5M2020, slightly below our expectations. Given demands triggered by the COVID-19 pandemic, health ecosystem should maintain robust premiums growth in 1H2020. In addition, lifestyle consumption ecosystem should also experience steady increase in premiums, leveraging cooperation with Ant Financial. However, travel ecosystem, auto ecosystem and consumer finance ecosystem should encounter difficulties in expansion in 1H2020. According to the Aviation Administration of China, 1-5M2020 flight passenger volume dropped 57.5%. Hence, ZhongAn's travel ecosystem will inevitably face premiums decline in 1H2020. Given fierce market competition, the auto ecosystem might record mild expansion. Regarding the consumer finance ecosystem, we think that credit insurance should see notable premiums decrease in 1H2020. Credit insurance has been impacted by the sluggish economy since 2H2019. The increase in credit defaults has led to higher loss ratio. The COVID-19 pandemic has worsened the situation since businesses have been shut during February and March 2020. Hence, ZhongAn should actively reduce premiums scale in the consumer finance ecosystem in 1H2020, which might be the reason for overall premiums growth slowdown.

**Figure-1: ZhongAn's Monthly Premiums Growth**



Source: the Company, Guotai Junan International.

**Figure-3: ZhongAn's YTD Premiums Growth**



Source: the Company, Guotai Junan International.

**ZA Bank commenced operations, while ZA Insure has been approved.** ZA Bank, a subsidiary of ZhongAn, is one of eight virtual banks approved by the Hong Kong Monetary Authority (HKMA). ZA Bank officially started operations in March, which is the first virtual bank to commence operation in 2020. Currently, the bank is offering deposits and lending services. According to our observations, ZA Bank is focusing on attracting new customers by offering incentives for new customers. Hence, we expect ZA Bank not to realize net profit in the short term. Except for ZA Bank, ZA Insure was also approved by the HKMA in May as a digital-only insurer in Hong Kong. ZA Insure is a JV between ZhongAn and Fubon Life with ZhongAn holding 65% share. According to its website, ZA Insure is currently offering some simple insurance products such as term insurance and critical illness insurance. Similar to ZA Bank, we think that the first priority of ZA Insure is to attract customers instead of making profit. Despite that ZA Bank and ZA Insure have expanded ZhongAn's business, they are not expected to bring profit. In the long term, they might bring some synergies to each other.

**Raise target price to HK\$58.03 and maintain "Accumulate" rating.** To reflect our expectation, we have reduced forecasted growth for consumer finance ecosystem in 2020. In addition, we also lower loss ratio forecast for consumer finance ecosystem as we believe that reduction in premiums scale might help to better control claims. Due to better investment sentiment for internet-related stocks, we have raised 2020F P/S to 4.0x, equivalent to target price of HK\$58.03. Considering underwriting improvement and establishment of ZA Bank and ZA Insure in Hong Kong, we maintain "Accumulate" investment rating.

**Table-1: Valuation of Selected Peers**

Company	Stock Code	Market Cap		P/S		
		HK\$ m	2020F	2021F	2022F	
<b>Online Insurance Company</b>						
Zhongan Online P&C Insuran-H	6060 HK	80,987	4.0	3.0	2.3	
<b>Online Lending Companies</b>						
Lexinfintech Holdings L-Adr	LX US	16,245	1.1	0.9	0.9	
360 Finance Inc -Adr	QFIN US	13,019	1.2	1.0	1.0	
Qudian Inc-Spon Adr	QD US	3,382	0.8	0.9	1.0	
Finvolution Group	FINV US	4,360	0.9	0.7	0.5	
Yiren Digital Ltd - Sps Adr	YRD US	2,819	0.4	0.4	0.4	
9F Inc - Adr	JFU US	5,143	0.7	0.6	n.a.	
Vcredit Holdings Ltd	2003 HK	2,213	0.5	0.4	0.4	
Puyi Inc - Adr	PUYI US	3,015	n.a.	n.a.	n.a.	
Simple Average			0.8	0.7	0.7	
Weighted Average			0.9	0.8	0.7	
<b>Online Brokerage Companies</b>						
Up Fintech Holding Ltd - Adr	TIGR US	4,524	n.a.	n.a.	n.a.	
Futu Holdings Ltd-Adr	FUTU US	25,921	16.2	11.6	8.9	
Yunfeng Financial Group Ltd	376 HK	11,572	n.a.	n.a.	n.a.	
Simple Average			16.2	11.6	8.9	
Weighted Average			10.0	7.2	5.5	
<b>Third-Party Payment Companies</b>						
Yeahka Ltd	9923 HK	12,104	3.7	2.9	2.3	
Huifu Payment Ltd	1806 HK	3,410	0.7	0.5	0.5	
Simple Average			2.2	1.7	1.4	
Weighted Average			3.0	2.4	1.9	
<b>SaaS Companies</b>						
Kingdee International Sftwr	268 HK	14.2	11.8	9.6	58,481	
Kingsoft Cloud Holdings-Adr	KC US	7.1	4.5	3.0	51,287	
Weimob Inc	2013 HK	11.0	8.0	6.3	25,070	
China Youzan Ltd	8083 HK	4.1	3.3	2.7	23,427	
Oneconnect Financial Techno	OCFT US	14.6	9.5	6.6	54,493	
Simple Average			10.2	7.4	5.6	
Weighted Average			11.1	8.1	6.1	

Source: Bloomberg, Guotai Junan International. Prices as at 6 July 2020.

**Financial Statements and Ratios**

Income Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Gross written premiums	11,256	14,630	19,406	28,559	41,449
Net premiums earned	8,800	12,801	17,219	24,786	35,908
Claims incurred	(5,268)	(8,625)	(10,520)	(15,036)	(21,833)
Underwriting expenses	(5,367)	(5,876)	(6,684)	(9,618)	(13,367)
Underwriting profit	(1,835)	(1,699)	15	133	708
Net investment income	774	1,776	1,041	975	1,027
Net FV changes through profit or loss	(154)	170	(25)	50	25
Other income	189	377	439	702	982
Non-underwriting expense	(792)	(1,191)	(1,150)	(1,519)	(1,791)
Share of profit of associates	7	(44)	(50)	(50)	(20)
Profit before tax	(1,810)	(611)	269	291	933
Income tax	13	(28)	(106)	(196)	(290)
profit after tax	(1,797)	(639)	163	95	642
Non-controlling Interest	(53)	(185)	(208)	(222)	(245)
Shareholders' profit / loss	(1,744)	(454)	371	317	887
Basic EPS	(1.190)	(0.310)	0.252	0.216	0.604
Diluted EPS	(1.190)	(0.310)	0.252	0.216	0.604

Cash Flow Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Operating activities					
Profit before tax	(1,810)	(611)	269	291	933
Net investment income	(774)	(1,776)	(1,041)	(975)	(1,027)
Net FV changes through profit or loss	154	(170)	25	(50)	(25)
Others	1,152	1,342	(302)	785	347
Cash from operating activities	(1,279)	(1,215)	(1,049)	50	228
Investing activities					
Purchases of PPE, IA and other assets	(328)	(286)	(329)	(378)	(435)
Purchases of investments, net	(4,982)	(1,864)	(1,993)	(3,088)	(3,219)
Acquisition of a subsidiary & other biz	(174)	(62)	0	0	0
Dividends and others received from inv.	546	1,879	1,856	1,843	1,928
Cash from investing activities	(4,938)	(361)	(466)	(1,623)	(1,726)
Financing activities					
Proceeds from investors	0	0	0	0	0
Securities sold under repo	2,374	1,408	1,479	1,553	1,630
Transaction cost payment	337	456	0	0	0
Others	674	167	0	0	0
Effect of exchange rate	(1)	33	0	0	0
Cash from financing activities	3,384	2,064	1,479	1,553	1,630
Net changes in cash	(2,833)	488	(36)	(20)	132
Cash at Beg of year	5,260	2,427	2,915	2,879	2,859
Cash at End of year	2,427	2,915	2,879	2,859	2,991

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Cash equivalents	2,427	2,915	2,879	2,859	2,991
Fixed income securities	11,613	8,450	8,346	8,288	8,670
Equity securities	2,602	4,713	4,655	4,622	4,836
Other investment assets	2,328	3,853	3,805	3,779	3,953
Total investment assets	18,970	19,931	19,685	19,548	20,450
Other assets	7,372	10,307	12,892	15,580	18,178
Total assets	26,341	30,238	32,577	35,129	38,628
Insurance contracts liabilities	5,327	7,543	8,690	10,949	13,685
Other liabilities	4,539	6,859	7,888	8,086	8,207
Total liabilities	9,866	14,402	16,578	19,034	21,892
Total shareholders' equity	15,432	14,978	15,349	15,666	16,553
Minority interest	1,043	858	650	429	184
Total equity	16,475	15,836	15,999	16,094	16,737

Financial Ratios					
	2018A	2019A	2020F	2021F	2022F
Ecosystem GWP growth (%)					
Health	138.2	67.6	75.9	60.0	50.0
Consumer finance	240.5	(12.2)	(25.6)	5.0	5.0
Auto	1,356.5	10.0	0.8	10.0	10.0
Lifestyle consumption	(9.6)	130.8	60.0	60.0	60.0
Travel	1.7	(10.8)	(28.5)	20.0	5.0
Total	89.0	30.0	32.6	47.2	45.1
Underwriting performance (%)					
Loss ratio	59.9	67.4	61.1	60.7	60.8
Expense ratio	61.0	45.9	38.8	38.8	37.2
Combined ratio	120.9	113.3	99.9	99.5	98.0
Investments performance (%)					
Net investment income growth	(2.5)	5.1	(1.2)	(0.7)	4.6
Investment assets growth	4.2	4.8	4.2	4.2	4.5
Net investment yield	2.6	9.3	4.5	4.2	4.4
Profitability (%)					
ROE	(10.7)	(3.0)	2.4	2.0	5.5
ROA	(7.3)	(1.6)	1.2	0.9	2.4
Per share data (RMB)					
BPS	10.5	10.2	10.4	10.7	11.3
Valuation metrics					
Current P/S (x)	6.3	4.9	3.8	2.6	1.8
Current P/BPS (x)	4.6	4.8	4.8	4.7	4.5
TP P/S (x)	6.7	5.2	4.0	2.7	1.9
TP P/BPS (x)	4.9	5.1	5.1	5.0	4.7

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

### DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for GUOTAI JUNAN I (01788 HK), JINSHANG BANK (02558 HK), ZHONGLIANG HLDG (02772 HK), BINHAI INVESTMENT (02886 HK), HAITIAN ANTENNA (08227 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

### DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2020 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.  
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.  
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793  
 Website: www.gtja.com.hk