

# ZhongAn Online (6060 HK)

## 1H21 UW profitable, Reiterate BUY

Zhong An 1H21 net profit grew by 54% YoY to RMB755mn, tracking 88% of FY21E market consensus. The strong earnings growth was driven by a 4.1ppt improvement in combined ratio and 45% premium growth (vs 1.7% industry growth). The online insurer turned underwriting profitable for the first time since its establishment, with a combined ratio of 99.4% in 1H21. The economies of scale emerge, as Zhong An continues to deliver strong growth in spite of the gloomy market environment. We revise up earnings forecast to reflect better underwriting performance than previously estimated, and raise TP by 4% to HK\$64, based on 3.5x P/S FY21E. Reiterate BUY.

- Turned underwriting profitable for the 1<sup>st</sup> time.** Zhong An improved its combined ratio by 4.1ppt YoY to 99.4% in 1H21, while the industry average combined ratio deteriorated to 99.6% amid comprehensive auto insurance reform. The online insurer turned underwriting profitable as the economies of scale emerge. Loss ratio declined by 7.2ppt YoY to 49.4%, as the loss experiences improved across all ecosystems except for auto business. Expense ratio increased by 3.1ppt YoY to 50%, owing to the rebound of high commission travel insurance business and higher customer acquisition costs of consumer finance business.
- Diversified growth drivers.** The average premium income per customer grew by 41% YoY to RMB23.8 in 1H21. The online insurer recorded strong premiums growth across all business lines except for auto and shipping return insurance. Digital lifestyle ecosystems delivered 52% premium growth in 1H21, driven by exponential momentum of innovative business as well as a recovery of travel insurance. Pet insurance premiums increased by over 60x YoY, and screen crack insurance grew over 37x YoY. Consumer finance business recorded 192% premiums growth, while the outstanding loan balance increased by only 30% YoY, as the reinsurance rate was up 14ppt YoY to 21.8% in 1H21. Health ecosystem also reported 29% revenue growth, as the number of paid users grew 10% YoY. The strong momentum sustained into 2H, as monthly premiums increased 100% YoY in July.
- Positive progress for technology business.** The revenue from technology export increased by 122% YoY to RMB266mn in 1H21, as the pandemic outbreak has necessitated digital transformation of traditional financial institutions and enlarged the addressable market. The online insurer also formed a partnership with AIA in Southeast Asia on digital marketing.

### Earnings Summary

(YE Dec 31)	FY19A	FY20E	FY21E	FY22E	FY23E
GWP (RMB mn)	14,630	16,709	22,307	26,554	32,683
YoY change (%)	30.0	14.2	33.5	19.0	23.1
Net profit (RMB mn)	(454)	554	975	1,185	1,866
EPS (RMB)	(0.3)	0.4	0.7	0.8	1.3
YoY growth (%)	N.A	N.A	76.0	21.5	57.4
Consensus EPS (RMB)	n.a	1.5	2.0	2.3	2.6
P/E(x)	(93.1)	76.3	43.4	35.7	22.7
P/B (x)	2.6	2.4	2.3	2.1	1.9
ROE (%)	(3.0)	3.6	6.0	6.8	9.8
ROA (%)	(1.6)	1.4	2.4	3.7	7.5
Combined ratio (%)	113.3	102.5	99.7	98.8	98.6

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$64.00
(Previous TP)	HK\$61.57)
Up/Downside	+66.2%
Current Price	HK\$38.50

### China Insurance Sector

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### Stock Data

Mkt Cap (HK\$ mn)	49,018
Avg 3 mths t/o (HK\$ mn)	282.30
52w High/Low (HK\$)	78.80/32.50
Total Issued Shares (mn)	1,420

Source: Bloomberg

### Shareholding Structure

Ant Group	13.54%
Tencent Computer System	10.21%
Ping An Insurance	10.21%

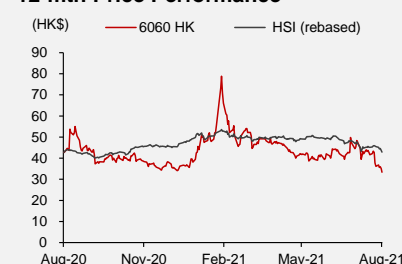
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-22.2%	-15.5%
3-mth	-16.7%	-5.9%
6-mth	-46.9%	-35.7%

Source: Bloomberg

### 12-mth Price Performance



### Auditor: PwC

### Related Reports

"Transfer of Coverage; 1H21 preview: Worst case already priced in" – 27 Jul 2021

**Figure 1. Zhong An: 1H21 Results Summary**

	1H20	1H21	YoY	2Q20	2Q21	YoY	1Q21	2Q21
Net profit attribute to shareholders	491	755	54.0%					
Insurance	622	1,029	65.4%					
Technology	(107)	(137)	28.7%					
Bank	(111)	(207)	85.5%					
Others	(55)	(84)	53.4%					
Revenue from Technology export	120	266	122.1%					
Combined ratio (%)	103.5	99.4	(4.1) ppt					
Expense ratio (%)	46.9	50.0	3.1 ppt					
Loss ratio (%)	56.6	49.4	(7.2) ppt					
Net investment yield (%)	1.9	1.2	(0.7) ppt					
Total investment yield (%)	3.6	3.4	(0.2) ppt					
Comprehensive investment yield (%)	7.7	4.9	(2.8) ppt					
Total investment assets	28,471	38,908	36.7%					
Total investment income	868	944	8.7%					
<b>Premium income breakdown by ecosystems:</b>								
Health	3,049	3,926	28.7%					
Digital lifestyle	2,197	3,345	52.3%					
Consumer finance	751	2,193	192.1%					
Auto	457	378	-17.4%					
Others	588	-	-100.0%					
Total	6,766	9,841	45.4%					
<b>Loss ratio by ecosystems:</b>								
Health	45.1	37.1	(8.0) ppt					
Digital lifestyle	62.7	62.1	(0.6) ppt					
Consumer finance	69.8	38.9	(30.9) ppt					
Auto	50.2	71.5	21.3 ppt					
Travel	7.2	-	(7.2) ppt					
Others	75.1	-	(75.1) ppt					
<b>Channel fees as a percentage of net written premiums(%):</b>								
Health	28.4	27.9	(0.5) ppt					
Digital lifestyle	30.1	35.4	5.3 ppt					
Consumer finance	9.4	16.2	6.8 ppt					
Auto	25.4	13.8	(11.6) ppt					
Travel	77.0	-	(77.0) ppt					
Others	17.0	-	(17.0) ppt					

Source: Company data, CMBIS

## Financial Summary

Income statement						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Gross written premium	14,630	16,709	22,307	26,554	32,683	<b>Growth (%)</b>					
Net premiums earned	12,801	16,215	19,796	23,851	29,506	GWP growth	30.0%	14.2%	33.5%	19.0%	23.1%
Investment income	1,946	1,502	997	1,012	1,069	Total income growth	57.4%	22.3%	15.8%	19.9%	23.3%
Other operating income	377	776	620	817	1,084	Net profit growth	N/A	N/A	76.0%	21.5%	57.4%
<b>Total income</b>	<b>15,124</b>	<b>18,493</b>	<b>21,413</b>	<b>25,680</b>	<b>31,658</b>	Investment assets growth	7.5%	63.4%	-10.8%	14.0%	0.0%
Insurance claims	(8,625)	(8,774)	(9,660)	(11,668)	(14,553)	<b>Investment yield (%)</b>					
Handling charges & commissions	(910)	(1,407)	(1,374)	(1,487)	(1,746)	Net investment yield	4.8%	3.0%	2.7%	3.0%	2.9%
Other operating expenses	(6,156)	(8,132)	(9,944)	(11,997)	(14,527)	Total investment yield	9.3%	5.3%	3.0%	2.9%	2.9%
<b>Total expenses</b>	<b>(15,691)</b>	<b>(18,313)</b>	<b>(20,978)</b>	<b>(25,151)</b>	<b>(30,826)</b>	<b>Underwriting (%)</b>					
Associates and JVs	(44)	(34)	(40)	(40)	(40)	Expense ratio	45.9%	48.4%	50.9%	49.9%	49.3%
Pre-tax profit	(611)	147	435	528	832	Loss ratio	67.4%	54.1%	48.8%	48.9%	49.3%
Income tax	(28)	108	13	16	25	Combined ratio	113.3%	102.5%	99.7%	98.8%	98.6%
Less: Minority interests	185	299	527	641	1,009	<b>Technology segment</b>					
<b>Net profit</b>	<b>(454)</b>	<b>554</b>	<b>975</b>	<b>1,185</b>	<b>1,866</b>	Tech revenue (RMB mn)	293	429	564	761	1,028
						Tech revenue growth (%)	194.1	46.2	31.5	25.0	25.0
						Tech net profit (RMB mn)	(334)	(368)	(347)	(226)	(44)
<b>Balance sheet</b>											
<b>YE 31 Dec (RMB mn)</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>	<b>Returns (%)</b>					
Investment assets	18,993	31,026	27,666	31,540	31,540	ROA	-1.6%	1.4%	2.4%	3.7%	7.5%
other assets	6,513	8,320	6,714	(2,524)	(10,885)	ROE	-3.0%	3.6%	6.0%	6.8%	9.8%
<b>Total assets</b>	<b>30,908</b>	<b>45,673</b>	<b>34,381</b>	<b>29,016</b>	<b>20,655</b>	<b>Solvency (%)</b>					
Insurance liabilities	7,543	8,547	2,425	(6,383)	(18,145)	Core solvency ratio	502%	502%	487%	473%	459%
Other liabilities	6,859	19,733	13,282	15,309	16,542	Comprehensive solvency ratio	502%	502%	487%	473%	459%
<b>Total liabilities</b>	<b>14,402</b>	<b>28,280</b>	<b>15,706</b>	<b>8,927</b>	<b>(1,602)</b>	<b>Per share (RMB)</b>					
<b>Shareholders' equity</b>	<b>14,912</b>	<b>15,705</b>	<b>16,862</b>	<b>18,139</b>	<b>20,097</b>	EPS	(0.3)	0.4	0.7	0.8	1.3
Minority interest	1,594	1,688	1,812	1,950	2,160	DPS	0	0	0	0	0
<b>Total equity</b>	<b>16,506</b>	<b>17,393</b>	<b>18,674</b>	<b>20,089</b>	<b>22,257</b>	BVPS	11.2	11.8	12.7	13.7	15.1

Source: Company data, CMBIS estimates

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