

Lufax Holding Ltd. (LU US)

Policy and political uncertainties add risk

- Solid 2021 results showed strong adaptability to a changing business environment; yet, we remain cautious on sustainability of the Group's rapid growth
- Raise delinquency rate and provision forecasts following the higher actual delinquency rates in 2021
- Dual uncertainties from regulatory policies and Sino-US tension will continue to suppress near-term share price
- Lower TP by factoring in a higher equity risk premium (ERP). Maintain **BUY** on undemanding valuation. TP of US\$ 8.18 implies 1.17x FY22E P/B

Adaptability to environmental change. 2021 net profit was RMB 16,804mn, up 36% YoY or 7.55% above our forecast. Topline revenue was reported at RMB 61,835mn, up 18.8% YoY, or 1.3% above our projected figure. Given the rapidly changing regulatory environment in the sector, Lufax's growth demonstrated high adaptability and its strong relationship with regulators. Management expects better 2022 results and faster growth in 2H22, but we remain cautious on the sustainability of balance sheet growth for 2022E/23E and stay conservative in our base-case assumptions.

Delinquency rates are on the rise. As a result of the rapid loan growth of 79.4% YoY in 2021, Lufax's DPD30+ and DPD90+ delinquency rates were 2.2% and 1.2% as of Dec 2021, higher than we expected. While the current delinquency rates still reflect reasonable asset quality, we adjust up our DPD30+ /90+ delinquency forecasts to 2.3/1.3% in 2022E and 2.4%/1.4% in 2023E. These result in 110.6% and 145% YoY increases in our impairment losses assumptions for 2022E-23E.

Regulatory and political risks as primary concerns. Our base case projects revenue and net profit to grow at 12.8% and 15.1% CAGRs over 2021-23E, but non-fundamental factors may still pressure Lufax's share price. Specifically, regulatory uncertainty in the operating environment and Sino-US political tension still pose threats to the Group's listing status and trading flexibility. In our view, the regulatory and political overhangs would need to subside for the Internet finance sector to regain traction in the stock market.

Maintain BUY; TP reduced on higher ERP. We factor in a higher ERP on the policy and political risks and roll over our TP calculation based on FY22E BVPS in our Gordon Growth Model. We derive a TP at US\$ 8.18, implying 1.17x FY22E P/B. Maintain **BUY** on undemanding valuation. Note that short-term share-price volatility could remain high due to the risks mentioned.

Risk Factors: 1) Heavy-handed supervision and policies may result in drastic changes in business environment and growth sustainability; 2) Sharp deterioration in asset quality; 3) Major changes in business model due to new policy requirements; 4) Sino-US political uncertainty may affect Lufax's listing status and trading flexibility; 5) Resurgence or COVID-19; 6) Share price is distorted by the US\$ 500mn share repurchase program.

Results and Valuation

FY ended Dec 31	2019A	2020A	2021A	2022E	2023E
Revenue (RMB mn)	47,834	52,046	61,835	69,318	78,721
Chg (% YoY)	18.1	8.8	18.8	12.1	13.6
Net profit* (RMB mn)	13,332	12,354	16,804	18,984	22,255
Chg (% YoY)	(2.1)	(7.3)	36.0	13.0	17.2
EPS per ADS (RMB)	6.14	5.59	7.11	7.71	9.04
Chg (% YoY)	(3.0)	(8.8)	27.1	8.4	17.2
BVPS per ADS (RMB)	21.40	33.45	37.79	44.02	51.27
Chg (% YoY)	35.7	56.3	13.0	16.5	16.5
P/E (x)	5.77	6.33	4.98	4.59	3.92
P/B (x)	1.65	1.06	0.94	0.80	0.69
ROAE (%)	32.14	19.06	19.25	18.85	18.97
ROAA (%)	9.97	6.20	5.52	4.81	4.78
DPS per ADS (RMB)	-	-	2.15	2.31	2.71
Yield (%)	-	-	6.07	6.54	7.66

Note: USD/CNY=6.32

*Net profit = Net profit attributable to shareholders of the Company

Source(s): Company, Bloomberg, ABCI Securities estimates

Company Report

Mar 10, 2022

Rating: **BUY**

TP: US\$ 8.18

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Price (per ADS)	US\$ 5.61
Est. sh price return	45.81%
Est. dividend yield	6.54%
Est. total return	52.35%
Last Rating & TP	BUY; US\$21.45

Previous Report Date 8 Feb 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (US\$)	15.94/4.19
Total issued shares (mn)	2,462.3
Market cap (US\$ mn)	13,813.5
30-mth ADT (US\$ mn)	50.32
Major shareholder(s) (%):	
Ping An Group	39.46
Tun Kung Company Ltd	27.55

Source(s): Company, Bloomberg, ABCI Securities

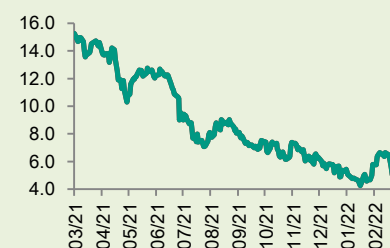
Share performance (%)

	Absolute	Relative*
1-mth	16.88	35.85
3-mth	(11.37)	9.26
6-mth	(32.73)	(9.96)

*Relative to MXCN

Source(s): Bloomberg, ABCI Securities

1-year Share performance (US\$)



Source(s): Bloomberg, ABCI Securities

Exhibit 1: Lufax's 2021 actual results vs. ABCI estimates

(RMB mn)	2021E	2021A	AvE (%)
Total technology platform based income	44,726	38,294	(14.38)
Total income	61,043	61,835	1.30
Impairment losses	(3,490)	(6,644)	90.37
Total expenses	(38,081)	(38,435)	0.93
Profit before tax	22,963	23,400	1.90
Income tax expenses	(7,233)	(6,691)	(7.49)
Net profit attributable to equity holders	15,624	16,804	7.55
Key indicators (%)			AvE (ppt)
Return on average assets	5.78	5.52	(0.26)
Return on average equity	17.86	19.25	1.39
Cost to income ratio	62.38	62.16	(0.22)
Net margin	25.60	27.00	1.40
Dividend payout	-	30.00	30.00
DPD 30+ delinquency rate	1.90	2.20	0.30
DPD 90+ delinquency rate	1.10	1.20	0.10

Source(s): Company, ABCI Securities estimates

Exhibit 2: Changes in 2022E and 2023E forecasts

(RMB mn)	2022E (old)	2022E (new)	change (%)	(RMB mn)	2023E (old)	2023E (new)	change (%)
Total technology platform based income	50,147	36,105	(28.00)	Total technology platform based income	56,079	37,909	(32.40)
Total income	69,958	69,318	(0.91)	Total income	78,894	78,721	(0.22)
Impairment losses	(3,944)	(8,305)	110.57	Impairment losses	(4,339)	(10,630)	144.99
Total expenses	(42,016)	(42,034)	0.04	Total expenses	(45,703)	(46,731)	2.25
Profit before tax	27,942	27,284	(2.35)	Profit before tax	33,191	31,989	(3.62)
Income tax expenses	(8,802)	(8,185)	(7.01)	Income tax expenses	(10,455)	(9,597)	(8.21)
Net profit attributable to equity holders	19,009	18,984	(0.13)	Net profit attributable to equity holders	22,578	22,255	(1.43)
Key indicators (%)			change (ppt)	Key indicators (%)			change (ppt)
Return on average assets	6.06	4.81	(1.25)	Return on average assets	6.33	4.78	(1.55)
Return on average equity	18.39	18.85	0.46	Return on average equity	18.05	18.97	0.92
Cost to income ratio	60.06	60.64	0.58	Cost to income ratio	57.93	59.36	1.43
Net margin	27.17	27.39	0.22	Net margin	28.62	28.27	(0.35)
Dividend payout	-	30.00	30.00	Dividend payout	-	30.00	30.00
DPD 30+ delinquency rate	1.80	2.30	0.50	DPD 30+ delinquency rate	1.70	2.40	0.70
DPD 90+ delinquency rate	0.90	1.30	0.40	DPD 90+ delinquency rate	0.80	1.40	0.60

Source(s): Company, ABCI Securities estimates

Exhibit 3: Changes in GGM assumptions

	old	new	Reason
TP (USD)	21.45	8.18	Factor in policy uncertainties and roll over to FY22E BVPS
Sustainable ROE (%)	16.90	18.00	
COE (%)	10.20	17.40	
Target 22E P/B (x)	3.47	1.17	
Rfr (%)	3.15	2.85	With reference to China 10Y government bond
Beta	0.82	1.12	With reference to Bloomberg
ERP (%)	8.60	13.00	Higher ERP on policy and political uncertainties
LT gr (%)	7.50	14.00	With reference to 2021-23E net profit CAGR of 15.1%

Source(s): Company, ABCI Securities estimates



Financial statements

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021A	2022E	2023E
RCF services	39,325	39,457	36,087	33,522	34,965
WM transaction and services	2,604	1,765	2,207	2,583	2,944
Total technology platform based income	41,929	41,222	38,294	36,105	37,909
NII	3,909	7,750	14,174	21,695	27,135
Guarantee income	465	602	4,370	5,463	6,610
Other income	879	1,517	3,875	4,767	5,625
Investment income	579	940	1,152	1,325	1,483
Share of NP of equity accounting investments	73	15	(31)	(36)	(41)
Total income	47,834	52,046	61,835	69,318	78,721
Sales and marketing	(14,931)	(17,814)	(17,993)	(18,443)	(19,273)
G&A	(2,853)	(2,976)	(3,559)	(4,093)	(4,707)
Operating and servicing	(5,471)	(6,031)	(6,558)	(7,017)	(7,438)
Technology and analytics	(1,952)	(1,792)	(2,084)	(2,355)	(2,638)
Credit impairment	(1,863)	(3,035)	(6,644)	(8,305)	(10,630)
Asset impairment	(135)	(7)	(1,101)	(1,321)	(1,546)
Finance cost	(1,520)	(2,866)	(996)	(1,075)	(1,161)
Others	325	384	499	574	660
Total expenses	(28,400)	(34,136)	(38,435)	(42,034)	(46,731)
PBT	19,434	17,910	23,400	27,284	31,989
Tax	(6,117)	(5,633)	(6,691)	(8,185)	(9,597)
Net profit	13,317	12,276	16,709	19,099	22,393
MI	(15)	(78)	(95)	(114)	(137)
Net profit attributed to shareholders	13,332	12,354	16,804	18,984	22,255
Growth (%)					
RCF services	33.0	0.3	(8.5)	(7.1)	4.3
WM transaction and services	(1.6)	(32.2)	25.1	17.0	14.0
Total technology platform based income	30.1	(1.7)	(7.1)	(5.7)	5.0
NII	(33.7)	98.3	82.9	53.1	25.1
Guarantee income	(42.9)	29.4	626.4	25.0	21.0
Other income	73.0	72.6	155.5	23.0	18.0
Investment income	(43.1)	62.3	22.5	15.0	12.0
Share of NP of equity accounting investments	58.7	(79.7)	(309.9)	15.0	15.0
Total income	18.1	8.8	18.8	12.1	13.6
Sales and marketing	38.7	19.3	1.0	2.5	4.5
G&A	2.0	4.3	19.6	15.0	15.0
Operating and servicing	25.3	10.2	8.7	7.0	6.0
Technology and analytics	17.7	(8.2)	16.3	13.0	12.0
Credit impairment	99.3	62.9	118.9	25.0	28.0
Asset impairment	1,828.6	(94.7)	15,258.3	20.0	17.0
Finance cost	68.9	88.5	(65.3)	8.0	8.0
Others	(177.5)	18.2	30.0	15.0	15.0
Total expenses	30.0	20.2	12.6	9.4	11.2
PBT	4.2	(7.8)	30.7	16.6	17.2
Tax	20.6	(7.9)	18.8	22.3	17.2
Net profit	(1.9)	(7.8)	36.1	14.3	17.2
MI	(65.3)	409.4	22.4	20.0	20.0
Net profit attributed to shareholders	(2.1)	(7.3)	36.0	13.0	17.2

Notes: Individual items may not sum to total due to rounding difference and may not equal to financial statements due to reclassification

Source(s): Company, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Lufax Holding Ltd. (LU US, BUY)

Internet Finance Sector

Mar 10, 2022

Consolidated balance sheet

As of Dec 31 (RMB mn)	2019A	2020A	2021A	2022E	2023E
Cash at bank	7,352	24,259	34,743	29,532	26,579
Restricted cash	24,603	23,030	30,454	38,371	46,813
Financial assets at FVTPL	18,583	34,424	31,023	27,921	25,129
Financial assets at amortized cost	8,623	6,564	3,785	3,028	2,574
Repo assets	-	700	5,527	6,356	7,310
Accounts, other receivables and contract assets	26,296	23,326	22,345	21,228	20,166
Loans to customers	47,499	119,826	214,972	283,763	354,704
Other assets	16,578	16,762	17,585	18,464	19,387
Total assets	149,534	248,890	360,433	428,663	502,661
Payable to platform investors	15,344	9,115	2,748	2,198	1,847
Borrowings	2,990	10,315	25,927	32,409	40,512
Account, other payables and contract liabilities	4,826	5,484	8,814	10,753	12,904
Payable to investors of consolidated structured entities	47,243	110,368	195,446	234,535	276,752
Financial guarantee liabilities	243	749	2,697	3,776	5,135
Convertible promissory note payable	10,014	10,117	10,669	11,203	11,763
Convertible redeemable preferred shares	10,259	-	-	-	-
Optionally convertible promissory notes	-	7,531	7,405	7,331	7,258
Other liabilities	10,469	12,061	12,167	16,637	18,893
Total liabilities	101,388	165,739	265,874	318,843	375,064
Share capital and share premium	14,113	33,214	33,366	33,366	33,366
Treasury shares	(0)	(0)	(5,560)	(5,560)	(5,560)
Other reserve	4,582	7,419	9,305	11,352	13,623
Retained earnings	29,346	40,928	55,943	69,232	84,811
Total equity (excl MI)	48,042	81,560	93,054	108,390	126,239
MI	104	1,592	1,506	1,430	1,359
Total equity	48,145	83,151	94,559	109,820	127,598
Growth (%)					
Cash at bank	(60.4)	230.0	43.2	(15.0)	(10.0)
Restricted cash	210.0	(6.4)	32.2	26.0	22.0
Financial assets at FVTPL	13.0	85.2	(9.9)	(10.0)	(10.0)
Financial assets at amortized cost	177.4	(23.9)	(42.3)	(20.0)	(15.0)
Repo assets	na	na	689.6	15.0	15.0
Accounts, other receivables and contract assets	30.9	(11.3)	(4.2)	(5.0)	(5.0)
Loans to customers	38.0	152.3	79.4	32.0	25.0
Other assets	(4.3)	1.1	4.9	5.0	5.0
Total assets	26.8	66.4	44.8	18.9	17.3
Payable to platform investors	56.3	(40.6)	(69.9)	(20.0)	(16.0)
Borrowings	(38.9)	245.0	151.3	25.0	25.0
Account, other payables and contract liabilities	(22.7)	13.6	60.7	22.0	20.0
Payable to investors of consolidated structured entities	48.5	133.6	77.1	20.0	18.0
Financial guarantee liabilities	(11.4)	208.4	260.3	40.0	36.0
Convertible promissory note payable	9.6	1.0	5.5	5.0	5.0
Convertible redeemable preferred shares	14.8	(100.0)	na	-	-
Optionally convertible promissory notes	na	na	(1.7)	(1.0)	(1.0)
Other liabilities	(9.5)	15.2	0.9	36.7	13.6
Total liabilities	22.2	63.5	60.4	19.9	17.6
Share capital and share premium	0.0	135.3	0.5	-	-
Treasury shares	100.0	-	-	-	-
Other reserve	0.1	61.9	25.4	22.0	20.0
Retained earnings	80.7	39.5	36.7	23.8	22.5
Total equity (excl MI)	37.5	69.8	14.1	16.5	16.5
MI	454.3	1,433.3	(5.4)	(5.0)	(5.0)
Total equity	37.8	72.7	13.7	16.1	16.2

Notes: Individual items may not sum to total due to rounding difference and may not equal to financial statements due to reclassification

Source(s): Company, ABCI Securities estimates



Other financial data

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021A	2022E	2023E
Key ratios (%)					
ROAA	9.97	6.20	5.52	4.81	4.78
ROAE	32.14	19.06	19.25	18.85	18.97
CIR	59.37	65.59	62.16	60.64	59.36
Net margin	27.80	23.60	27.00	27.39	28.27
Asset/equity	3.11	2.99	3.81	3.90	3.94
DPD 30+ delinquency rate	1.60	2.00	2.20	2.30	2.40
DPD 90+ delinquency rate	0.80	1.20	1.20	1.30	1.40
Effective tax rate	31.48	31.45	28.59	30.00	30.00
Dividend payout ratio	-	-	30.22	30.00	30.00
Per share (RMB)					
Basic EPS	12.27	11.19	14.22	15.42	18.08
BVPS	42.80	66.91	75.58	88.04	102.54
DPS	-	-	4.30	4.63	5.42
Per ADS (RMB)					
Basic EPS	6.14	5.59	7.11	7.71	9.04
BVPS	21.40	33.45	37.79	44.02	51.27
DPS	-	-	2.15	2.31	2.71
Growth (%)					
Per share (RMB)					
Basic EPS	(3.0)	(8.8)	27.1	8.4	17.2
BVPS	35.7	56.3	13.0	16.5	16.5
DPS	na	na	na	7.6	17.2
Per ADS (RMB)					
Basic EPS	(3.0)	(8.9)	27.2	8.4	17.2
BVPS	35.7	56.3	13.0	16.5	16.5
DPS	na	na	na	7.6	17.2

Notes: Individual items may not equal to financial statements due to reclassification

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($\sim +10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2009 (For reference: HSI total return index 2009-21 simple average at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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