

## Lufax Holding Ltd. (LU US)

### Fundamental recovery pending

- Business growth and asset quality outlook come in weaker than expected.
- Pace of economic recovery in China critical to Lufax's fundamental turnaround
- Asset quality deterioration hit harder than expected; high credit cost depresses earnings outlook
- Dual listing in HK could lessen share price overhang while solid fundamental turnaround a pre-requisite to revive investors' interest
- Limited downside at current valuation. Downgrade to **HOLD**, with TP of US\$ 1.74 implies 0.30x FY23E P/B

## Company Report

Mar 14, 2023

Rating: **HOLD**

TP: US\$ 1.74

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**Slash forecasts on declining topline.** In view of 4Q22 results, we slash our FY23E topline and earnings forecast by 26.35% and 62.57%, assuming a slower-than-expected turnaround in business growth and asset quality. As a result of slowed macro growth and tighter regulatory requirements, Lufax's FY22 topline dropped 6.0% YoY, and 4Q22 topline down 22.2% YoY. Mild growths were seen in NII and guarantee income, up 3.2% and 2.2% YoY in 4Q22, but core technology platform-based income was down 33.5% YoY. While we believe major regulatory restructuring of the sector is ending, economic recovery in China will be critical for a meaningful upturn in fundamentals. By factoring in an 8.0% CAGR in loans to customers and an average retail credit take rate at the range of 7.5%-8.5% for FY22-25E, we project NII to grow at 5.5% CAGR. NII, together with guarantee income, which we expect to grow at 17.3% CAGR in FY22-25E, would account for 55.4% of topline by FY25E vs. 45.4% in FY22. Our revised base case project Lufax's topline to steadily grow by 2.0% over FY22-25E.

**Rising delinquency rates remain a concern.** Despite Lufax's dedication to focus selectively on quality geographical areas and customers, asset quality in FY22 suffered under the macro headwinds in China. Specifically, Lufax's DPD30+ and DPD90+ delinquency rates were marked at 4.6%/2.6% as of Dec-22, up 100bps/50bps QoQ or 240bps/140bps YoY. Surging delinquency rates turned into higher credit cost and slashed earnings. Specifically, Lufax's credit and asset impairment losses spiked up 94.5% YoY in 4Q22 or 119.2% YoY for FY22, cutting down FY22 net profit by 48.2% YoY, with a net loss reported in 4Q22. Though recovery macro economy could help stabilize asset quality, we still anticipate its DPD30+ and DPD90+ to rise mildly by 5bps-30bps YoY over FY23E-25E, reaching 5.0% and 3.25% by end-FY25E. Our base case forecast credit impairment to drop at 1.1% CAGR over FY22-25E, with positive net profit growth to resume in FY24E.

#### Results and Valuation

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	61,835	58,116	57,977	59,522	61,662
Chg (% YoY)	18.8	(6.0)	(0.2)	2.7	3.6
Net profit* (RMB mn)	16,804	8,699	8,329	8,631	9,198
Chg (% YoY)	36.0	(48.2)	(4.3)	3.6	6.6
Basic EPS per ADS (RMB)	7.11	3.80	3.38	3.51	3.74
Chg (% YoY)	27.2	(46.6)	(11.0)	3.6	6.6
BVPS per ADS (RMB)	37.79	37.85	40.26	42.76	45.42
Chg (% YoY)	13.0	0.1	6.4	6.2	6.2
P/E (x)	1.85	3.46	3.89	3.75	3.52
P/B (x)	0.35	0.35	0.33	0.31	0.29
ROAA (%)	5.52	2.45	2.33	2.28	2.27
ROAE (%)	19.25	9.34	8.66	8.45	8.47
DPS per ADS (RMB)	2.15	1.52	1.01	1.05	1.12
Yield (%)	16.34	11.56	7.72	8.00	8.52

Note: USD/CNY=6.85

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

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

Price (per ADS)	US\$ 1.92
Est. sh price return	-9.38%
Est. dividend yield	7.72%
Est. total return	-1.66%
Last Rating & TP	BUY; US\$8.18

Previous Report Date 10 Mar 2022

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (US\$)	7.05/1.26
Total issued shares (mn)	2,285.8
Market cap (US\$ mn)	4,343.0
3-mth ADT (US\$mn)	41.11
Major shareholder(s) (%):	
Ping An Group	42.0
Tun Kung Company Limited	29.0

Source(s): Company, Bloomberg, ABCI Securities

**Dual listing to lessen US regulatory concerns.** Regulatory uncertainty over listing status in the US and weakening fundamentals have been the major reasons affecting Lufax's share price performance. With the Company kicking off its dual listing procedure in HK, we expect increased trading flexibility could partly lift investor concerns.

**Downgrade to HOLD; fundamental recovery pending.** All in all, a fundamental catalyst will be needed to revive investors' interest in the counter. Meanwhile, we see limited downside potential given its trough valuation at 0.33x FY23E P/B. By factoring in a net profit CAGR at 1.9% over FY22-25E and roll over our Gordon Growth Model TP calculation based on FY23E BVPS. We derive a TP at US\$1.74, implying 0.3x FY23E P/B; downgrade to **HOLD**.

**Risk Factors:** 1) Project ROAE to decline in FY23E-25E; 2) Sharp deterioration in asset quality; 3) Sino-US political uncertainty may affect Lufax's listing status and trading flexibility, 4) Management not able to provide guidance for FY23 given macro uncertainties in China, 5) Business reliance on major shareholder.

#### Exhibit 1: Lufax's 2022 actual results vs. ABCI estimates

(RMB mn)	2022E	2022A	AvE (%)
Total technology platform based income	36,105	29,218	(19.07)
Net interest income	21,695	18,981	(12.51)
Total income	69,318	58,116	(16.16)
Impairment losses	(9,626)	(16,978)	76.37
Total expenses	(42,034)	(45,102)	7.30
Profit before tax	27,284	13,013	(52.30)
Income tax expenses	(8,185)	(4,238)	(48.22)
Net profit attributable to equity holders	18,984	8,699	(54.18)
<b>Key indicators (%)</b>			<b>AvE (ppt)</b>
Return on average assets	4.81	2.45	(2.36)
Return on average equity	18.85	9.34	(9.51)
CIR (ex. credit and asset impairments)	46.75	48.39	1.64
Net margin	27.39	14.97	(12.42)
Dividend payout	30.00	40.00	10.00
DPD 30+ delinquency rate	2.30	4.60	2.30
DPD 90+ delinquency rate	1.30	2.60	1.30

Source(s): Company, ABCI Securities estimates

#### Exhibit 2: Changes in 2023E forecasts

(RMB mn)	2023E (old)	2023E (new)	change (%)
Total income	78,721	57,977	(26.35)
Impairment losses	(12,176)	(18,034)	48.11
Total expenses	(46,731)	(45,949)	(1.67)
Profit before tax	31,989	12,028	(62.40)
Income tax expenses	(9,597)	(3,608)	(62.40)
Net profit attributable to equity holders	22,255	8,329	(62.57)
<b>Key indicators (%)</b>			<b>change (ppt)</b>
Return on average assets	4.78	2.33	(2.45)
Return on average equity	18.97	8.66	(10.31)
CIR (ex. credit and asset impairments)	43.90	48.15	4.25
Net margin	28.27	14.37	(13.90)
Dividend payout	30.00	30.00	-
DPD 30+ delinquency rate	2.40	4.80	2.40
DPD 90+ delinquency rate	1.40	2.90	1.50

Source(s): Company, ABCI Securities estimates

#### Exhibit 3: Changes in GGM assumptions

	old	new	Reason
TP (USD)	8.18	1.74	Weaker-than-expected fundamentals
Sustainable ROE (%)	18.00	8.00	Factor in earnings cut in our base case
COE (%)	17.40	14.60	Lower beta with reference to Bloomberg
LT gr (%)	14.00	5.20	With reference to China's macro growth target
Target 23E P/B (x)	1.01	0.30	

Source(s): Company, ABCI Securities estimates



## Financial statements

### Consolidated income statement

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Total technology platform based income	38,294	29,218	27,173	25,814	24,524
Net interest income	14,174	18,981	19,368	20,638	22,264
Guarantee income	4,370	7,373	8,847	10,351	11,904
Other income	3,875	1,238	1,114	1,058	1,111
Investment income	1,152	1,306	1,475	1,660	1,859
Share of NP of equity accounting investments	(31)	(0)	(0)	(0)	(0)
<b>Total income</b>	61,835	58,116	57,977	59,522	61,662
Sales and marketing	(17,993)	(15,757)	(15,284)	(16,201)	(17,254)
G&A	(3,559)	(2,830)	(2,689)	(2,823)	(2,936)
Operating and servicing	(6,558)	(6,430)	(6,623)	(7,020)	(7,582)
Technology and analytics	(2,084)	(1,872)	(1,985)	(2,144)	(2,358)
Credit impairment	(6,644)	(16,550)	(17,543)	(16,842)	(16,000)
Asset impairment	(1,101)	(427)	(491)	(565)	(650)
Finance cost	(996)	(1,239)	(1,338)	(1,445)	(1,561)
Others	499	3	4	5	5
<b>Total expenses</b>	(38,435)	(45,102)	(45,949)	(47,035)	(48,335)
<b>PBT</b>	23,400	13,013	12,028	12,486	13,327
Tax	(6,691)	(4,238)	(3,608)	(3,746)	(3,998)
<b>Net profit</b>	16,709	8,775	8,420	8,740	9,329
MIIs	(95)	76	91	109	131
<b>Net profit attributed to shareholders</b>	16,804	8,699	8,329	8,631	9,198
<b>Growth (%)</b>					
Total technology platform based income	(7.1)	(23.7)	(7.0)	(5.0)	(5.0)
Net interest income	82.9	33.9	2.0	6.6	7.9
Guarantee income	626.4	68.7	20.0	17.0	15.0
Other income	155.5	(68.1)	(10.0)	(5.0)	5.0
Investment income	22.5	13.4	13.0	12.5	12.0
Share of NP of equity accounting investments	(309.9)	(99.3)	5.0	5.0	5.0
<b>Total income</b>	18.8	(6.0)	(0.2)	2.7	3.6
Sales and marketing	1.0	(12.4)	(3.0)	6.0	6.5
G&A	19.6	(20.5)	(5.0)	5.0	4.0
Operating and servicing	8.7	(1.9)	3.0	6.0	8.0
Technology and analytics	16.3	(10.2)	6.0	8.0	10.0
Credit impairment	118.9	149.1	6.0	(4.0)	(5.0)
Asset impairment	15,258.3	(61.2)	15.0	15.0	15.0
Finance cost	(65.3)	24.5	8.0	8.0	8.0
Others	30.0	(99.3)	15.0	15.0	15.0
<b>Total expenses</b>	12.6	17.3	1.9	2.4	2.8
<b>PBT</b>	30.7	(44.4)	(7.6)	3.8	6.7
Tax	18.8	(36.7)	(14.9)	3.8	6.7
<b>Net profit</b>	36.1	(47.5)	(4.0)	3.8	6.7
MIIs	22.4	(179.4)	20.0	20.0	20.0
<b>Net profit attributed to shareholders</b>	36.0	(48.2)	(4.3)	3.6	6.6

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



Consolidated balance sheet

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Cash at bank	34,743	43,882	49,148	54,554	60,010
Restricted cash	30,454	26,509	24,388	23,169	22,010
Financial assets at FVTPL	31,023	29,089	28,799	29,663	31,146
Financial assets at amortized cost	3,785	4,716	5,565	6,456	7,424
Repo assets	5,527	-	-	-	-
Accounts, other receivables and contract assets	22,345	15,758	14,182	13,190	12,530
Loans to customers	214,972	211,447	226,248	245,479	266,345
Other assets	17,585	17,861	18,397	19,317	20,476
<b>Total assets</b>	<b>360,433</b>	<b>349,263</b>	<b>366,727</b>	<b>391,827</b>	<b>419,941</b>
Payable to platform investors	2,748	1,569	1,475	1,401	1,345
Borrowings	25,927	36,916	46,144	55,373	63,679
Account, other payables and contract liabilities	8,814	12,199	15,858	19,981	24,977
Payable to investors of consolidated structured entities	195,446	177,148	173,605	175,341	180,601
Financial guarantee liabilities	2,697	5,763	7,377	9,221	11,066
Convertible promissory note payable	10,669	5,164	4,648	4,415	4,195
Optionally convertible promissory notes	7,405	8,143	8,957	9,853	10,838
Other liabilities	12,167	5,431	5,560	6,731	6,906
<b>Total liabilities</b>	<b>265,874</b>	<b>254,476</b>	<b>265,875</b>	<b>284,681</b>	<b>306,088</b>
<b>Share capital and share premium</b>	<b>33,366</b>	<b>32,074</b>	<b>32,074</b>	<b>32,074</b>	<b>32,074</b>
Treasury shares	(5,560)	(5,643)	(5,643)	(5,643)	(5,643)
Other reserve	9,305	2,158	2,266	2,380	2,499
Retained earnings	55,943	64,600	70,431	76,473	82,911
<b>Total equity (excl MI)</b>	<b>93,054</b>	<b>93,190</b>	<b>99,128</b>	<b>105,283</b>	<b>111,841</b>
MI	1,506	1,597	1,725	1,863	2,012
<b>Total equity</b>	<b>94,559</b>	<b>94,787</b>	<b>100,853</b>	<b>107,146</b>	<b>113,853</b>
<b>Growth (%)</b>					
Cash at bank	43.2	26.3	12.0	11.0	10.0
Restricted cash	32.2	(13.0)	(8.0)	(5.0)	(5.0)
Financial assets at FVTPL	(9.9)	(6.2)	(1.0)	3.0	5.0
Financial assets at amortized cost	(42.3)	24.6	18.0	16.0	15.0
Repo assets	689.6	(100.0)	-	-	-
Accounts, other receivables and contract assets	(4.2)	(29.5)	(10.0)	(7.0)	(5.0)
Loans to customers	79.4	(1.6)	7.0	8.5	8.5
Other assets	4.9	1.6	3.0	5.0	6.0
<b>Total assets</b>	<b>44.8</b>	<b>(3.1)</b>	<b>5.0</b>	<b>6.8</b>	<b>7.2</b>
Payable to platform investors	(69.9)	(42.9)	(6.0)	(5.0)	(4.0)
Borrowings	151.3	42.4	25.0	20.0	15.0
Account, other payables and contract liabilities	60.7	38.4	30.0	26.0	25.0
Payable to investors of consolidated structured entities	77.1	(9.4)	(2.0)	1.0	3.0
Financial guarantee liabilities	260.3	113.7	28.0	25.0	20.0
Convertible promissory note payable	5.5	(51.6)	(10.0)	(5.0)	(5.0)
Optionally convertible promissory notes	(1.7)	10.0	10.0	10.0	10.0
Other liabilities	0.9	(55.4)	2.4	21.1	2.6
<b>Total liabilities</b>	<b>60.4</b>	<b>(4.3)</b>	<b>4.5</b>	<b>7.1</b>	<b>7.5</b>
<b>Share capital and share premium</b>	<b>0.5</b>	<b>(3.9)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Treasury shares	-	-	-	-	-
Other reserve	25.4	(76.8)	5.0	5.0	5.0
Retained earnings	36.7	15.5	9.0	8.6	8.4
<b>Total equity (excl MI)</b>	<b>14.1</b>	<b>0.1</b>	<b>6.4</b>	<b>6.2</b>	<b>6.2</b>
MI	(5.4)	6.1	8.0	8.0	8.0
<b>Total equity</b>	<b>13.7</b>	<b>0.2</b>	<b>6.4</b>	<b>6.2</b>	<b>6.3</b>

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, HOLD)

Internet Finance Sector

Mar 14, 2023

Other financial data

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
<b>Key ratios (%)</b>					
ROAA	5.52	2.45	2.33	2.28	2.27
ROAE	19.25	9.34	8.66	8.45	8.47
CIR (ex. credit and asset impairments)	49.63	48.39	48.15	49.78	51.39
Credit & asset impairments to topline	12.52	29.21	31.11	29.24	27.00
Net margin	27.00	14.97	14.37	14.50	14.92
Asset/equity	3.81	3.68	3.64	3.66	3.69
DPD 30+ delinquency rate	2.20	4.60	4.80	4.95	5.00
DPD 90+ delinquency rate	1.20	2.60	2.90	3.15	3.25
Effective tax rate	28.59	32.57	30.00	30.00	30.00
Dividend payout ratio*	30.22	40.00	30.00	30.00	30.00
<b>Per share (RMB)</b>					
Basic EPS	14.22	7.60	6.77	7.01	7.47
BVPS	75.58	75.69	80.52	85.52	90.84
DPS	4.30	3.04	2.03	2.10	2.24
<b>Per ADS (RMB)</b>					
Basic EPS	7.11	3.80	3.38	3.51	3.74
BVPS	37.79	37.85	40.26	42.76	45.42
DPS	2.15	1.52	1.01	1.05	1.12
<b>Growth (%)</b>					
<b>Per share (RMB)</b>					
Basic EPS	27.1	(46.6)	(11.0)	3.6	6.6
BVPS	13.0	0.1	6.4	6.2	6.2
DPS	na	(29.3)	(33.2)	3.6	6.6
<b>Per ADS (RMB)</b>					
Basic EPS	27.2	(46.6)	(11.0)	3.6	6.6
BVPS	13.0	0.1	6.4	6.2	6.2
DPS	na	(29.3)	(33.2)	3.6	6.6

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

\*The Company revises its dividend payout policy to 20%-40% from 2023 onwards

Source(s): Company, ABCI Securities estimates

## Disclosures

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Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 9\%$ )
Hold	- Market return rate ( $\sim 9\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim 9\%$ )
Sell	Stock return $<$ - Market return ( $\sim 9\%$ )

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 2006 (For reference: HSI total return index 2006-22 averaged at 8.4%)

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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