

## Lufax Holding Ltd. (LU US/6623 HK)

### Maintain HOLD pending transformation outcome

- We are impressed by Lufax's decisive business transformation, though time is needed to determine if it will translate into financial gains
- Expect higher topline contribution from net interest income (NII)
- Dedication to pursuing quality over quantity may imply slow balance sheet growth
- Signs of asset quality improvement seen in 1Q24; expect mild improvement in coming quarters
- Maintain **HOLD** for Lufax-US and initiate with **HOLD** for Lufax-HK. US/HK TPs imply 0.15x/0.16x target FY24E P/B

**Take time to justify business transformation.** Lufax has undertaken bold and agile business transformation, adapting to market and policy changes. Specifically, the Group is broadening its business focus to small business owners (SBO) and consumer finance (CF) and has committed to a 100% guarantee model since FY23. Meanwhile, major de-risking and diversification actions were implemented to reduce the business risk profile. As a result of the business transformation, topline and PBT were down by 30.90% and 59.86% YoY in 1Q24. With a positive PBT at RMB 447mn in 1Q24, Lufax's reported net loss of RMB 870mn in 1Q24, which was mainly due to the tax expenses related to the proposed special dividend. Nevertheless, we believe it would take time for the transformation to be translated into financial gains, and to reflect in the next few quarters if the Group is on the right track. We slash our FY24E/25E topline and PBT forecasts by 53.44%/53.47% and 90.52%/76.31% before clear turning point can be seen. Our base case suggests Lufax's net loss to reduce from RMB870mn in 1Q24 to RMB 441mn in FY24E, and turning positive in FY25E.

**Business mix on the shift.** As a result of the business transformation, income mix changed; specifically, the contribution of NII increased from 33.2% in 1Q23 to 40.9% in 1Q24, while the proportion of technology platform-based income reduced from 49.7% in 1Q23 to 36.7% in 1Q24. On the expense side, sales and marketing expenses dropped from 33.8% of total expenses in 1Q23 to 23.3% in 1Q24, while credit impairment accounted for 43.9% of total expenses in 1Q24 vs. 34.9% in 1Q23. Assume gradual improvement in fundamentals, we expect topline to expand at 4.6% CAGR in FY24E-26E.

#### Results and Valuation

FY ended Dec 31	2022A	2023A	2024E	2025E	2026E
Revenue (RMB mn)	58,116	34,255	27,715	28,689	30,329
Chg (% YoY)	(6.0)	(41.1)	(19.1)	3.5	5.7
Net profit* (RMB mn)	8,699	887	(441)	1,853	3,331
Chg (% YoY)	(48.2)	(89.8)	(149.7)	(520.4)	79.8
ROAA (%)	2.45	0.30	(0.19)	0.77	1.28
ROAE (%)	9.34	0.96	(0.55)	2.66	4.63
P/E - US (x)	2.21	21.81	(46.91)	11.16	6.21
P/B - US(x)	0.22	0.22	0.30	0.29	0.28
P/E - HK (x)	2.32	22.90	(49.23)	11.71	6.52
P/B - HK(x)	0.23	0.24	0.32	0.31	0.30
Yield - US (%)	18.10	55.44	-	2.69	4.83
Yield - HK (%)	17.25	52.82	-	2.56	4.60

Note: USD/CNY = 7.24, HKD/CNY = 1.08

\*Net profit refers to net profit attributable to shareholders of the Company unless otherwise stated

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

## Company Report

### May 7, 2024

Rating (US): HOLD

Rating (HK): HOLD

TP (US): US\$ 2.31

TP (HK): HK\$ 9.63

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Cum-div price (US/HK)*	US\$4.64/ HK\$19.04
Est. ex-div sh price return (US/HK)	4.05%/ 0.94%
Est. dividend yield (US/HK)	na/ na
Est. total return (US/HK)	4.05%/ 0.94%
Last Rating & TP**	HOLD/NA; US\$6.96/ NA
Previous Report Date	Mar 14 2023

\* Being ex-div TPs with ex-date in Jun-2024; current price being cum-div

\*\* Adjusted based on 1 ADS represents 2 ordinary shares from Nov 23

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (US\$)	7.64/2.11
52Wk H/L (HK\$)	28.60/8.19
Total issued shares (mn)	2,285.8
Market cap (US\$ mn/HK\$mn)	5,371.6/ 42,744.5
3-mth ADT (US\$mn/HK\$mn)	19.3/ 1.4
Major shareholder(s) (%):	
Ping An Group	41.4
Tun Kung Company Limited	27.0

Source(s): Company, Bloomberg, ABCI Securities

**Exhibit 1: Key financial performance in 1Q24**

(RMB mn)	1Q23	1Q24	change (%)
Total technology platform-based income	5,010	2,553	(49.04)
Net interest income	3,349	2,845	(15.05)
Total income	10,078	6,964	(30.90)
Impairment losses	(3,132)	(2,861)	(8.63)
Total expenses	(5,832)	(3,655)	(37.33)
Profit before tax	1,114	447	(59.86)
Income tax expenses	(382)	(1,277)	234.48
Net profit attributable to equity holders	672	(870)	(229.54)
<b>Key indicators (%)</b>	<b>Dec-23</b>	<b>Mar-24</b>	<b>change (ppt)</b>
New loan with risk bore by Lufax	22.6	100.0	77.40
Loan balance with risk bore by Lufax	24.5	48.3	23.80
Retail credit take rate	7.3	9.0	1.70
	<b>Dec-23</b>	<b>Mar-24</b>	
DPD 30+ delinquency rate (ex-CF)	6.9	6.6	(0.30)
DPD 90+ delinquency rate (ex-CF)	4.1	4.4	0.30
Consumer finance (CF) NPL ratio	1.5	1.6	0.10

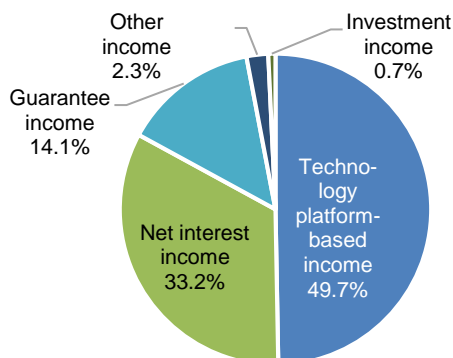
Source(s): Company, ABCI Securities

**Exhibit 2: Changes in forecasts**

(RMB mn)	2024E (old)	2024E (new)	change (%)	(RMB mn)	2025E (old)	2025E (new)	change (%)
Total income	59,522	27,715	(53.44)	Total income	61,662	28,689	(53.47)
Impairment losses	(17,407)	(11,208)	(35.61)	Impairment losses	(16,650)	(10,205)	(38.71)
Total expenses	(29,628)	(15,322)	(48.29)	Total expenses	(31,685)	(15,327)	(51.63)
Profit before tax	12,486	1,184	(90.52)	Profit before tax	13,327	3,157	(76.31)
Income tax expenses	(3,746)	(1,455)	(61.16)	Income tax expenses	(3,998)	(1,105)	(72.36)
Net profit attributable to equity holders	8,631	(441)	(105.11)	Net profit attributable to equity holders	9,198	1,853	(79.85)
<b>Key indicators (%)</b>			<b>change (ppt)</b>	<b>Key indicators (%)</b>			<b>change (ppt)</b>
Return on average assets	2.28	(0.19)	(2.47)	Return on average assets	2.27	0.77	(1.50)
Return on average equity	8.45	(0.55)	(9.00)	Return on average equity	8.47	2.66	(5.81)
Cost to income ratio	49.78	55.29	5.51	Cost to income ratio	51.39	53.43	2.04
Net margin	14.50	(1.59)	(16.09)	Net margin	14.92	35.57	20.65
Dividend payout	30.00	-	(30.00)	Dividend payout	30.00	30.00	-
DPD 30+ delinquency rate	4.95	6.40	1.45	DPD 30+ delinquency rate	5.00	6.20	1.20
DPD 90+ delinquency rate	3.15	4.70	1.55	DPD 90+ delinquency rate	3.25	4.60	1.35

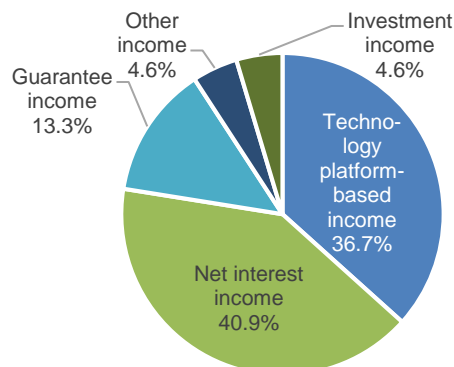
Source(s): Company, ABCI Securities estimates

**Exhibit 3: 1Q23 topline mix (%)**



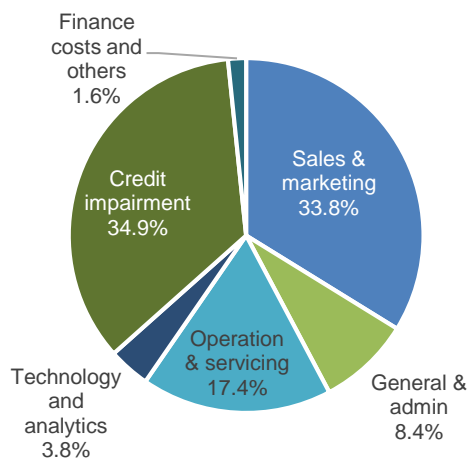
Source(s): Company, ABCI Securities

**Exhibit 4: 1Q24 topline mix (%)**



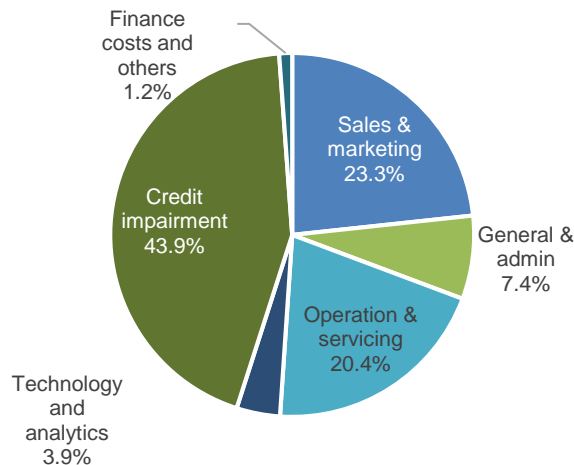
Source(s): Company, ABCI Securities

**Exhibit 5: 1Q23 expense mix (%)**



Source(s): Company, ABCI Securities

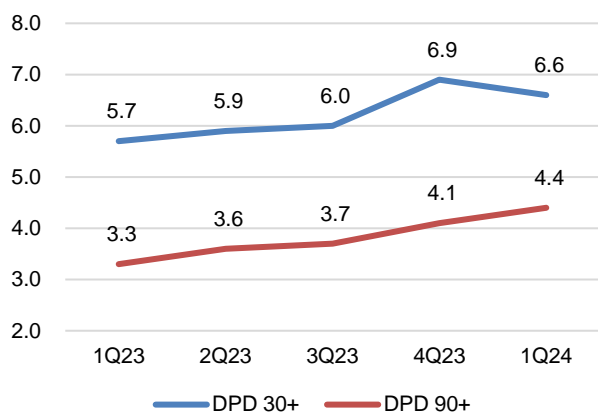
**Exhibit 6: 1Q24 expense mix (%)**



Source(s): Company, ABCI Securities

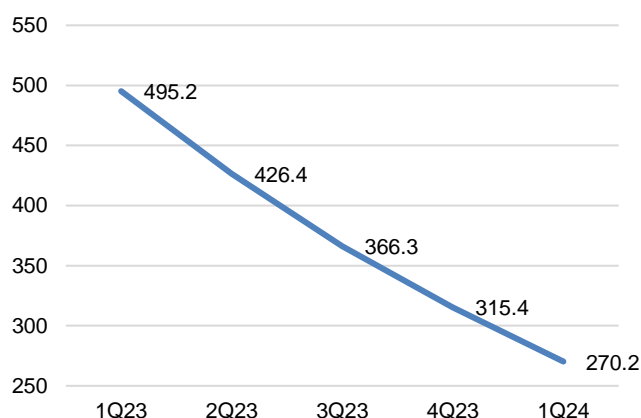
**Pursuing quality over quantity.** Lufax’s current focus on quality over quantity implies a slower total assets growth than in previous years. We project its total assets and total liabilities to grow at 4.7% and 11.2% CAGRs over FY23-26E. Although increased exposure to SBO and CF could mean higher quality clientele and a better take rate for Lufax, performance in these segments is closely tied to the macro environment. In view of the ~5% economic growth in China, gradual recovery in SBO/CF loan demand, and the interest rate down cycle in China, we remain cautious in predicting when the Group’s profitability will recover. In our base case, we factor in a 3.5% CAGR in loans to customers over FY23-26E. We attribute the YoY PBT reduction in 1Q24 mainly to the anemic growth in loan balance and the upfront provision made for the 100% guarantee model. Note that such upfront provision will initially reduce profitability, though these concessions will be compensated with a lower credit cost later on.

**Exhibit 7: DPD30+ and DPD90+ (%)**



Source(s): Company, ABCI Securities

**Exhibit 8: Outstanding loan balance (Rmbmn)**

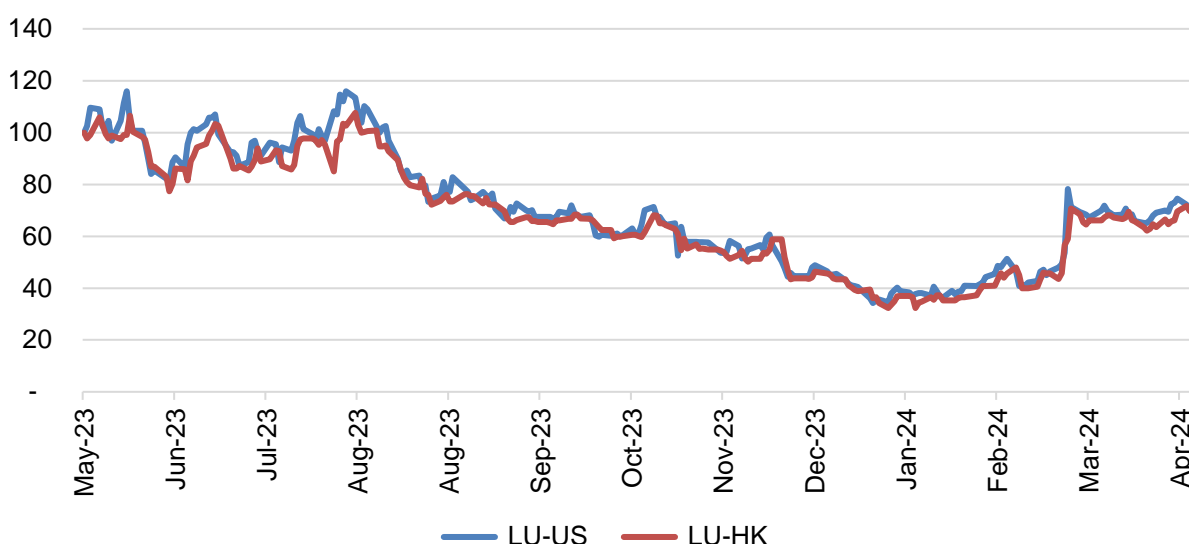


Source(s): Company, ABCI Securities

**Sign of improvement in delinquency rates.** Although Lufax DPD30+ and DPD90+ rose from 5.7% and 3.3% in 1Q23 to 6.9% and 4.1% in 4Q23, improvement started to show in 1Q24. Particularly, DPD30+ reduced by 30bps QoQ to 6.6% in end-Mar 2024, although DPD90+ remained on the rise to 4.4%. Given Lufax's adjusted business focus on high quality SBOs and CF customers, we expect asset quality to improve slightly. Projecting DPD30+/DPD90+ at 6.1% and 4.5% by end-FY26E, we anticipate a credit impairment CAGR of -9.7% over FY23-26E and net profit growth will resume positive in FY25E.

**Special dividend on the way.** To reward loyal investors, the Group announced a special dividend of US\$ 2.42 per ADS or US\$ 1.21 per ordinary share, which we expect will be settled in mid-FY24 upon shareholders' approval. Yet, we believe this is an exceptional arrangement, and Lufax's dividend payout ratio will likely remain at 20%-40% in FY25E-26E. Our base case therefore factors in a dividend payout ratio of 30% over FY25E-26E when net profit resumes.

#### Exhibit 9: Relative share price performance of LU-US and LU-HK



Source(s): Bloomberg, ABCI Securities

**Similar share price pattern in the US and HK.** The Group has the same class of ordinary shares trading in HK market and as ADS (1 ADS represents 2 ordinary shares) in the US markets, and the share price patterns in the two markets have been largely similar over the past year. There were short-term variations, which we believe can be linked to differences in trade liquidity between the two markets. In the longer run, we believe share prices in the two markets will move in the same direction.

**Initiate HOLD on Lufax-HK pending fundamental recovery.** Fundamental turnaround is necessary to revive investors' interest in the counter. Meanwhile, we see limited downside at its trough valuation at 0.30x/0.32x FY24E P/B for the US and HK markets. Although we slash our earnings forecasts, we assume profitability will gradually improve, yet remains at single digit level. Given its slow growth and reduced profitability, we maintain **HOLD** on Lufax-US and initiate our coverage on Lufax-HK with a **HOLD** rating. We roll over our calculation to FY24E BVPS in the Gordon Growth Model (GGM) and derives the US/HK TPs at US\$2.31/HK\$9.63, implying 0.15x/0.16x target FY24E P/B.

**Exhibit 10: Changes in GGM assumptions**

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	6.96	2.31	na	9.63	Roll over TP calculation to FY24E BVPS
Sustainable ROE (%)	8.00	5.50	na	5.50	Lower earnings forecast and expect gradual improvement in ROAE from business transformation
COE (%)	14.60	20.00	na	19.00	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	5.20	3.00	na	3.00	Reduce on sluggish balance sheet and earnings growth
Target 24E P/B (x)	0.28	0.15	na	0.16	

Source(s): Company, ABCI Securities estimates

**Risk Factors:** 1) Business transformation may not result in financial gains; 2) Sharp deterioration in asset quality; 3) Insufficient funds or high funding cost to grow its loan balance; 4) Management unable to provide earnings guidance for FY24E; 5) Low average daily turnover; 6) High reliance on major shareholder's support; 7) Suspension in FY24E dividend due to loss making; 8) Resignation and replacement of CFO; 9) Proposed special dividend weaken capital base and limit assets growth.



## Financial statements

### Consolidated income statement

FY Ended Dec 31 (RMB mn)	2022A	2023A	2024E	2025E	2026E
Total technology platform based income	29,218	15,326	11,494	12,299	13,283
Net interest income	18,981	12,348	9,648	9,606	9,992
Guarantee income	7,373	4,392	3,953	3,755	3,643
Other income	1,238	1,144	1,281	1,422	1,564
Investment income	1,306	1,050	1,345	1,613	1,856
Share of NP of equity accounting investments	(0)	(5)	(6)	(7)	(8)
<b>Total income</b>	58,116	34,255	27,715	28,689	30,329
Sales and marketing	(15,757)	(9,867)	(5,920)	(5,743)	(5,628)
G&A	(2,830)	(2,305)	(2,120)	(2,014)	(1,954)
Operating and servicing	(6,430)	(6,119)	(5,813)	(5,987)	(6,167)
Technology and analytics	(1,872)	(1,387)	(1,179)	(1,273)	(1,362)
Credit impairment	(16,550)	(12,697)	(11,174)	(10,168)	(9,355)
Asset impairment	(427)	(31)	(34)	(37)	(41)
Finance cost	(1,239)	(414)	(248)	(261)	(282)
Others	3	210	(42)	(49)	(55)
<b>Total expenses</b>	(45,102)	(32,610)	(26,530)	(25,532)	(24,843)
<b>PBT</b>	13,013	1,645	1,184	3,157	5,486
Tax	(4,238)	(611)	(1,455)	(1,105)	(1,920)
<b>Net profit</b>	8,775	1,034	(271)	2,052	3,566
Minority interests	76	148	170	199	234
<b>Net profit attributed to shareholders</b>	8,699	887	(441)	1,853	3,331
<b>Growth (%)</b>					
Total technology platform based income	(23.7)	(47.5)	(25.0)	7.0	8.0
Net interest income	33.9	(34.9)	(21.9)	(0.4)	4.0
Guarantee income	68.7	(40.4)	(10.0)	(5.0)	(3.0)
Other income	(68.1)	(7.6)	12.0	11.0	10.0
Investment income	13.4	(19.5)	28.0	20.0	15.0
Share of NP of equity accounting investments	(99.3)	2,384.4	15.0	15.0	15.0
<b>Total income</b>	(6.0)	(41.1)	(19.1)	3.5	5.7
Sales and marketing	(12.4)	(37.4)	(40.0)	(3.0)	(2.0)
G&A	(20.5)	(18.6)	(8.0)	(5.0)	(3.0)
Operating and servicing	(1.9)	(4.8)	(5.0)	3.0	3.0
Technology and analytics	(10.2)	(25.9)	(15.0)	8.0	7.0
Credit impairment	149.1	(23.3)	(12.0)	(9.0)	(8.0)
Asset impairment	(61.2)	(92.7)	8.0	10.0	10.0
Finance cost	24.5	(66.6)	(40.0)	5.0	8.0
Others	(99.3)	5,980.8	(120.0)	16.0	12.0
<b>Total expenses</b>	17.3	(27.7)	(18.6)	(3.8)	(2.7)
<b>PBT</b>	(44.4)	(87.4)	(28.0)	166.6	73.8
Tax	(36.7)	(85.6)	138.3	(24.1)	73.8
<b>Net profit</b>	(47.5)	(88.2)	(126.2)	(856.9)	73.8
Minority interests	(179.4)	95.1	15.0	17.0	18.0
<b>Net profit attributed to shareholders</b>	(48.2)	(89.8)	(149.7)	(520.4)	79.8

Notes: Individual items may not sum to total due to rounding differences 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)	2022A	2023A	2024E	2025E	2026E
Cash at bank	43,882	39,599	30,887	32,431	35,026
Restricted cash	26,509	11,146	16,161	20,202	24,242
Financial assets at FVTPL	29,089	28,893	34,671	40,219	45,447
Financial assets at amortized cost	4,716	3,012	2,771	2,688	2,714
Accounts, other receivables and contract assets	15,758	7,294	5,835	4,960	4,464
Loans to customers	211,447	129,694	123,209	133,066	143,711
Other assets	17,861	17,387	17,039	16,698	16,364
<b>Total assets</b>	<b>349,263</b>	<b>237,023</b>	<b>230,573</b>	<b>250,263</b>	<b>271,969</b>
Payable to platform investors	1,569	986	1,084	1,225	1,409
Borrowings	36,916	38,823	50,470	64,602	82,044
Account, other payables and contract liabilities	12,199	6,977	5,233	4,710	4,333
Payable to investors of consolidated structured entities	177,148	83,265	88,261	90,908	90,454
Financial guarantee liabilities	5,763	4,186	5,023	5,876	6,758
Convertible promissory note payable	5,164	5,650	6,215	6,837	7,521
Optionally convertible promissory notes	8,143	-	-	-	-
Other liabilities	5,431	3,453	3,936	3,845	4,347
<b>Total liabilities</b>	<b>254,476</b>	<b>143,339</b>	<b>160,222</b>	<b>178,003</b>	<b>196,865</b>
<b>Share capital and share premium</b>	<b>32,074</b>	<b>32,142</b>	<b>32,142</b>	<b>32,142</b>	<b>32,142</b>
Treasury shares	(5,643)	(5,643)	(5,643)	(5,643)	(5,643)
Other reserve	2,158	156	117	91	74
Retained earnings	64,600	65,487	42,117	43,970	46,745
<b>Total equity (excl MI)</b>	<b>93,190</b>	<b>92,142</b>	<b>68,733</b>	<b>70,561</b>	<b>73,319</b>
Minority interests	1,597	1,541	1,618	1,699	1,784
<b>Total equity</b>	<b>94,787</b>	<b>93,684</b>	<b>70,351</b>	<b>72,260</b>	<b>75,103</b>
<b>Growth (%)</b>					
Cash at bank	26.3	(9.8)	(22.0)	5.0	8.0
Restricted cash	(13.0)	(58.0)	45.0	25.0	20.0
Financial assets at FVTPL	(6.2)	(0.7)	20.0	16.0	13.0
Financial assets at amortized cost	24.6	(36.1)	(8.0)	(3.0)	1.0
Accounts, other receivables and contract assets	(29.5)	(53.7)	(20.0)	(15.0)	(10.0)
Loans to customers	(1.6)	(38.7)	(5.0)	8.0	8.0
Other assets	1.6	(2.7)	(2.0)	(2.0)	(2.0)
<b>Total assets</b>	<b>(3.1)</b>	<b>(32.1)</b>	<b>(2.7)</b>	<b>8.5</b>	<b>8.7</b>
Payable to platform investors	(42.9)	(37.2)	10.0	13.0	15.0
Borrowings	42.4	5.2	30.0	28.0	27.0
Account, other payables and contract liabilities	38.4	(42.8)	(25.0)	(10.0)	(8.0)
Payable to investors of consolidated structured entities	(9.4)	(53.0)	6.0	3.0	(0.5)
Financial guarantee liabilities	113.7	(27.4)	20.0	17.0	15.0
Convertible promissory note payable	(51.6)	9.4	10.0	10.0	10.0
Optionally convertible promissory notes	10.0	(100.0)	-	-	-
Other liabilities	(55.4)	(36.4)	14.0	(2.3)	13.1
<b>Total liabilities</b>	<b>(4.3)</b>	<b>(43.7)</b>	<b>11.8</b>	<b>11.1</b>	<b>10.6</b>
<b>Share capital and share premium</b>	<b>(3.9)</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>-</b>
Treasury shares	-	-	-	-	-
Other reserve	(76.8)	(92.8)	(25.0)	(22.0)	(19.0)
Retained earnings	15.5	1.4	(35.7)	4.4	6.3
<b>Total equity (excl MI)</b>	<b>0.1</b>	<b>(1.1)</b>	<b>(25.4)</b>	<b>2.7</b>	<b>3.9</b>
Minority interests	6.1	(3.5)	5.0	5.0	5.0
<b>Total equity</b>	<b>0.2</b>	<b>(1.2)</b>	<b>(24.9)</b>	<b>2.7</b>	<b>3.9</b>

Notes: Individual items may not sum to total due to rounding differences 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)	2022A	2023A	2024E	2025E	2026E
<b>Key ratios (%)</b>					
ROAA	2.45	0.30	(0.19)	0.77	1.28
ROAE	9.34	0.96	(0.55)	2.66	4.63
CIR (ex. credit and asset impairments)	48.39	58.04	55.29	53.43	50.93
Credit & asset impairments to topline	29.21	37.16	40.44	35.57	30.98
Net margin	14.97	3.00	(1.59)	6.46	10.98
Asset/equity	3.68	2.53	3.28	3.46	3.62
DPD 30+ delinquency rate	4.60	6.90	6.40	6.20	6.10
DPD 90+ delinquency rate	2.60	4.10	4.70	4.60	4.50
Effective tax rate	32.57	37.12	220.00	35.00	35.00
Dividend payout ratio	40.00	1,209.38	-	30.00	30.00
<b>Per share (RMB)</b>					
Basic EPS	7.60	0.77	(0.36)	1.51	2.71
BVPS	75.69	74.84	55.83	57.31	59.55
DPS	3.04	9.31	-	0.45	0.81
Of which: special DPS	-	8.76	-	-	-
<b>Per ADS (RMB)</b>					
Basic EPS	15.20	1.54	(0.72)	3.01	5.41
BVPS	151.39	149.69	111.66	114.63	119.11
DPS	6.08	18.62	-	0.90	1.62
Of which: special DPS	-	17.52	-	-	-
<b>Growth (%)</b>					
<b>Per share (RMB)</b>					
Basic EPS	(46.6)	(89.9)	(146.5)	(520.4)	79.8
BVPS	0.1	(1.1)	(25.4)	2.7	3.9
DPS	(29.3)	206.3	(100.0)	na	79.8
<b>Per ADS (RMB)</b>					
Basic EPS	(46.6)	(89.9)	(146.5)	(520.4)	79.8
BVPS	0.1	(1.1)	(25.4)	2.7	3.9
DPS	(29.3)	206.3	(100.0)	na	79.8

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

Source(s): Company, ABCI Securities estimates



## Disclosures

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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 7\%$ )
Hold	- Market return rate ( $\sim 7\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim 7\%$ )
Sell	Stock return $<$ - Market return ( $\sim 7\%$ )

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 2005 (For reference: HSI total return index 2005-23 averaged at 7.4%)

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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